



CITY COUNCIL PENSION SUBCOMMITTEE AGENDA

MONDAY, JULY 30, 2012

7:00 P.M. MEETING

PUBLIC SAFETY BUILDING TRAINING ROOM (401 EAST THIRD STREET)

Mission Statement

The City of Newberg serves its citizens, promotes safety, and maintains a healthy community.

Vision Statement

Newberg will cultivate a healthy, safe environment where citizens can work, play and grow in a friendly, dynamic and diverse community valuing partnerships and opportunity.

COUNCIL:

Councilor Denise Bacon, Chair
Councilor Ryan Howard, Member
Councilor Wade Witherspoon, Member
Mayor Bob Andrews (ex-officio)

STAFF:

Daniel Danicic, City Manager
Janelle Nordyke, Finance Director
Jenn Nelson, Deputy City Recorder

I. CALL MEETING TO ORDER

II. ROLL CALL

III. NEW BUSINESS

1. Principal Financial Advisors presentation on Asset Allocation Change
2. Review Investment Policy (in notebook)
3. Review Retirement Plan Booklet (in notebook)

IV. NEXT MEETING

V. ADJOURNMENT

ACCOMMODATION OF PHYSICAL IMPAIRMENTS: In order to accommodate persons with physical impairments, please notify the City Recorder's office of any special physical or language accommodations you may need as far in advance of the meeting as possible and no later than 48 hours prior to the meeting. To request these arrangements, please contact the City Recorder at (503) 537-1283. For TTY services please call 711.

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Principal Financial Advisors, Inc.

June 2012

CTD 07831

Personal & Confidential
Becky Green
Human Resource Manager
City of Newberg
P.O. Box 970
Newberg, OR 97132-0970

RE: Asset Allocation Change
City of Newberg
Contract Number: 447053

Dear Ms. Green,

As the ERISA 3(38) fiduciary to your retirement plan, Principal Financial Advisors, Inc. develops and implements customized asset allocation strategies based on the plan's unique situation. We closely monitor results on an ongoing basis and periodically make strategic allocation adjustments as we determine appropriate.

In addition, every year at about this time we conduct an in-depth, formal asset allocation review. The goal of this review is to identify any strategic changes that we believe will help optimize the risk/return profiles of our strategies for the benefit of your retirement plan's portfolio. Based on the results of our 2012 mid-year review, in June we will be making the four allocation changes described below:

1. Within the U.S. Equities segment, the LargeCap Value Separate Account (sub-advised by Principal Global Investors) will replace the LargeCap Value III Separate Account (co-sub-advised by Westwood Management and Barrow Hanley).
2. Also within the U.S. Equities segment, the LargeCap Growth Separate Account (sub-advised by Columbus Circle Investors, CCI) will be removed.
3. Within the International Equities segment, the percentage allocated to International Emerging Markets will be increased.
4. Within the Real Assets segment, the percentage allocated to the Diversified Real Asset Separate Account (managed by Principal Management Corporation) will be increased.¹

LargeCap Value replacing LargeCap Value III

In late 2011, Principal Life Insurance Company hired Barrow Hanley to replace AllianceBernstein as co-sub-advisor of the LargeCap Value III Separate Account. In Barrow Hanley, LargeCap Value III gained a sub-advisor focused on using dividends to help manage downside risk. For the purposes of Principal Financial Advisors, however, this sub-advisor addition reduced the diversification benefit that LargeCap Value III had brought to our Large Value allocation, as our strategies already contain a dividend-focused Separate Account — the Equity Income Separate Account (sub-advised by Edge). Therefore, to broaden diversification within our Large Value allocation, we are replacing LargeCap Value III with LargeCap Value; based on our analysis, we believe that LargeCap Value and Equity Income will prove to be complementary to one another.

LargeCap Growth being removed

While CCI encountered difficulty delivering competitive performance for LargeCap Growth in 2009 and early 2011, recent performance has improved substantially. Despite this improvement, we will be removing the LargeCap Growth Separate

¹ The Separate Account is available through the investment platform of Principal Life Insurance Company (Principal Life) and invests wholly in the Principal Diversified Real Asset Fund. The sub-advisors for this Fund were selected using the due diligence process of Principal Life. The premier sub-advisors and the respective real asset "sleeves" they manage include: Black Rock (Treasury Inflation Protected Securities); Principal Real Estate Investors (Real Estate Investment Trusts); Credit Suisse Asset Management (Commodities); Jennison Associates (Natural Resource Stocks); and Tortoise Capital Advisors (Master Limited Partnerships).

Account and using LargeCap Growth I (the other Separate Account within our Large Growth allocation) for the total Large Growth allocation within our strategies. We made this decision because the two sub-advisors of LargeCap Growth I — T. Rowe Price and Brown Advisory — have complemented one another well, providing strong diversification and competitive performance.

In International Equities, Emerging Markets weighting being increased

We strive to keep the composition of our International Equities segment aligned with the composition of the broad International Equities market. Similar to what we reported one year ago, the weighting of Emerging Market equities within the International Equities market continues to increase. To maintain alignment with the broad International Equities marketplace, we again are raising the percentage allocated to Emerging Markets within our International Equities segment.

In Real Assets, Diversified Real Asset Separate Account target weight being increased

Last year, we added the Diversified Real Asset Separate Account to our Real Assets segment to provide exposure to a diverse mix of real assets, and we set its initial target weight at 40 percent of the allocation to the Real Assets segment (as compared to a 60 percent target weight to the U.S. Property Separate Account, sub-advised by Principal Real Estate Investors). However, our long-term strategic goal for the Real Assets segment is a 50 percent Diversified Real Asset Separate Account/50 percent U.S. Property Separate Account target weighting, which we will be moving to in June. The table below illustrates this upcoming change.

Real Assets segment target weights		
Separate Account	Previous target weights (%)	New target weights (%)
Diversified Real Asset	40	50
U.S. Property	60	50

Your Target Allocation

We believe the allocation decisions described above will better position us to help you achieve the investment goals for your plan while maintaining a broadly diversified allocation. Your new target allocation is as follows:

Investment Advisor	Investment Option	Previous Target	New Target
Fixed Income			
<i>Principal Global Investors</i>	Bond and Mortgage Separate Account	22.50%	22.50%
<i>PIMCO</i>	Core Plus Bond I Separate Account	22.50%	22.50%
<i>JP Morgan/Neuberger Berman</i>	High Yield I Separate Account	5.00%	5.00%
Total Fixed Income Accounts		50.00%	50.00%
U.S. Equity			
<i>Westwood/Barrow Hanley</i>	LargeCap Value III Separate Account	4.90%	0.00%
<i>Principal Global Investors</i>	LargeCap Value Separate Account	0.00%	4.90%
<i>Edge Asset Management, Inc.</i>	Equity Income Separate Account	4.90%	4.90%
<i>Principal Global Investors</i>	LargeCap S&P 500 Index Separate Account	4.40%	4.40%
<i>Columbus Circle Investors</i>	LargeCap Growth Separate Account	4.90%	0.00%
<i>T. Rowe Price Associates, Inc/Brown Advisory</i>	LargeCap Growth I Separate Account	4.90%	9.80%
<i>Principal Global Investors/Barrow Hanley</i>	MidCap Value III Separate Account	1.50%	1.50%
<i>Turner/Jacobs Levy</i>	MidCap Growth III Separate Account	1.50%	1.50%
<i>Dimensional/Vaughan Nelson/LA Capital</i>	SmallCap Value II Separate Account	1.50%	1.50%
<i>AllianceBernstein/Columbus Circle Investors/Brown Advisory</i>	SmallCap Growth I Separate Account	1.50%	1.50%
Total U.S. Equity Accounts		30.00%	30.00%

International Equity			
<i>Fidelity (Pyramis Global Adv.)/Schroders</i>	International I Separate Account	3.40%	3.00%
<i>Causeway/Barrow Hanley</i>	Overseas Separate Account	5.10%	5.00%
<i>Principal Global Investors</i>	International Emerging Markets Separate Account	1.50%	2.00%
Total International Equity Accounts		10.00%	10.00%
Real Asset			
<i>Multiple Sub-Advisors</i>	Diversified Real Asset Separate Account	4.00%	5.00%
<i>Principal Real Estate Investors</i>	US Property Separate Account	6.00%	5.00%
Total Real Asset Accounts		10.00%	10.00%
Total Allocation		100.00%	100.00%

If applicable, we will review the Investment Policy Statement (IPS) that we have on file before implementing the changes described above. If you feel your IPS does not allow for this change, please notify us immediately. Principal Financial Advisors may not have a copy of your most recent IPS and when possible, we would like to accommodate any written policies that you have in place. If you don't have a written IPS but would like a sample to review, please contact us.

For 25 years, Principal Financial Advisors Inc., a registered investment adviser, has been providing asset allocations for clients and assisting them with their fiduciary responsibilities. You can rely with confidence on our team of more than 20 skilled professionals, who take great care to prudently manage your retirement plan's assets.

Please contact us at any time if you have questions regarding changes to your plan's allocation or general questions regarding the services we provide. We are committed to helping your retirement plan achieve its goals.

Sincerely,

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CC: Dawn Ohara - Portland
 William Heestand

Principal Financial Advisors, Inc. acknowledges its status as a registered investment adviser. Principal Financial Advisors has fiduciary responsibility for investment decisions it makes for your retirement plan as a result of providing you the Investment Advisory Services described in the Principal Financial Advisors Investment Advisory Agreement and Part II of the Form ADV.

Principal Financial Advisors, Inc. is a registered investment adviser and member company of the Principal Financial Group®.

Insurance products, plan administrative services, and separate accounts which are available through a group annuity contract, are provided by Principal Life Insurance Company, a member of the Principal Financial Group® (The Principal®), Des Moines, IA 50392. Certain Separate Accounts may not be available in all states or U.S. Commonwealths.

Asset allocation strategies are developed using Separate Accounts available through a group annuity contract of Principal Life Insurance Company.

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

High yield investment options are subject to greater credit risk associated with high yield bonds.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. or any other government entity. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. Investing in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An MLP that invests in a particular industry (e.g., oil and gas) will be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

The U.S. Property Separate Account is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Payment of principal and earnings may be delayed.

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