

SPRING 2014



# Retirement Report

CITY OF MESA  
DEFERRED COMPENSATION PLAN

## Reviewing 2013 and Looking Ahead to 2014



Participants will be happy to review their most recent retirement statements, as excellent performance in many investment asset classes over the past two years has rewarded diversified investors. 2013 was a particularly good year for the stock market. The broad U.S. stock market, measured by the S&P 500 Index, was up 32.39% last year. Smaller capitalization stocks did even better—the Russell 2000 Index gained 38.82% in 2013. High quality bonds were down slightly for the year, registering a 2.02% loss in the Barclays U.S. Aggregate Bond Index. In a diversified portfolio that included both stocks and bonds, investors experienced significant portfolio gains in 2013.

The stock market's rise last year was driven by several factors. First, the U.S. economy has continued to show improvement and growth. Over the past two years we have witnessed a consistent path of GDP growth, combined with improving consumer confidence and a better job market. Second, the U.S. Federal Reserve has been committed to providing extraordinary stimulus to the financial markets here at home. Short term interest rates remain close to zero, while longer term interest rates continue to remain low through the Federal

## Takeaways from 1st Quarter 2014

1. Participant contribution limits to qualified plans are the same in 2014 as in 2013. This year, participants are limited to a maximum contribution in their 401(k) of \$17,500 (or \$23,000 if participant is age 50 or older).

2. IRA contributions will also remain the same in 2014. The maximum IRA contribution this year is \$5,500. Those over the age of 50 can contribute an additional \$1,000.

3. The tax deduction for IRA contributions has been raised slightly. In 2014, married couples filing jointly will receive a tax deduction up to \$70,000 in modified adjusted gross income for those with an existing qualified plan through their employer.

4. There are slightly higher limits for Roth IRA contributions. In 2014, married couples filing jointly with AGI up to \$191,000 are eligible to contribute into a Roth IRA.

5. The limit for total participant and employee contributions is up slightly in 2014. Total contributions this year may not exceed 100% of employee compensation or \$52,000, up from \$51,000 in 2013.

## Reviewing 2013 and Looking Ahead to 2014

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Reserve's quantitative easing program. The stimulus has had a profound effect on risk assets like stocks, which have gained handsomely as a result of the increased liquidity in the system.

While 2013 was a great year for investment outcomes, challenges remain for the global economy and for the stock market. We are not likely to witness the same impressive performance from the markets in 2014 for a number of reasons. Still, a diversified portfolio of asset classes remains the best way to ensure long term growth of retirement assets.

The U.S. Federal Reserve has recently begun to taper its bond buying program, known as quantitative easing. If all goes according to plan, the Fed will cease this form of stimulus in late 2014. In the short term, the shutting off of monetary stimulus is probably detrimental to the stock market. Longer term, this is actually a positive development for the economy and the markets. The Fed is stopping the stimulus because it believes that our economy is sufficiently healthy to not require extraordinary measures.

The valuation of stocks is becoming more of a concern, though we are far from bubble territory in the broad U.S. stock market and the global markets. As a result of a year in which the U.S. market rose by over 32%, stocks are not quite so attractive as they were a few years ago. Still, the broad U.S. stock market is now trading roughly in line with its long term averages. Stocks are certainly not a bargain anymore, but they aren't terribly expensive like they were in the year 2000. As long term investors who prefer to "buy low" and "sell high," a more expensive stock market will lead to more modest future returns.

The economic recovery in the U.S. has been painfully slow coming out of the recession in 2008, though we are beginning to see a quickening pace of improvement. Most economists predict GDP growth for the U.S. to be close to 3% in 2014, well ahead of previous years. The unemployment rate continues to drop and the labor participation rate has risen in recent months. Housing and consumer spending have both provided a tailwind to growth here at home.



While we can't predict the short term future of financial markets, an improving U.S. economy will provide a long term boost to risk asset classes. As famous investor Warren Buffett once noted, "It has never paid to bet against America." Indeed, it appears that the U.S. economy is beginning to get back on its feet after a long period of stagnation. We anticipate more modest investment returns in 2014, though signs point to continued optimism for our economy and for our financial markets over the long term.

### **Whom do I call for help?**

### **Investment Questions**

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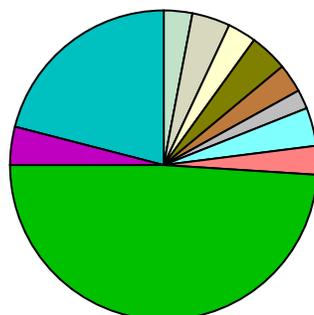
### **The Plan's Investment Consultant**

Innovest Portfolio Solutions  
4643 S. Ulster St., Suite 1040  
Denver, CO 80237  
303.694.1900 | [www.innovestinc.com](http://www.innovestinc.com)

## Who typically uses this portfolio?

<b>Current Age:</b>	over 60
<b>Risk Level:</b>	Low
<b>Expected Return:</b>	Low
<b>Time Horizon:</b>	
<b>Years to Age 65:</b>	under 5
<b>Years to Age 85:</b>	under 25
<b>Expense Ratio (%)</b>	0.69

## Portfolio Allocation (%)



Aston:M&C Growth;N (MCGFX)	3.0
MainStay:Lg Cap Gr;I (MLAIX)	4.0
Dodge & Cox Stock (DODGX)	3.0
Allianz:GI NFJ DV;Inst (NFJEX)	4.0
Artisan:Mid Cap;Inv (ARTMX)	3.0
Cambiar Small Cap;Inst (CAMZX)	2.0
Dodge & Cox Intl Stock (DODFX)	4.0
Artisan:Internatl;Inv (ARTIX)	3.0
PIMCO:Tot Rtn;Admn (PTRAX)	49.0
JPMorgan:High Yield;Sel (OHYFX)	4.0
Mesa/Great West Custom Stable Value	21.0

## Past Performance (%)\*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Conservative Portfolio	1.04	1.04	6.09	5.83	8.77	5.76

## Understanding Your Professionally-Managed Portfolios

### Who typically uses this portfolio?

**Current Age:** The age (today) of an average investor with time horizon, risk level, and return expectations of the Conservative Portfolio.

**Time Horizon:** Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

**Risk Level:** The amount of expected risk in the Conservative Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Conservative Portfolio, and is calculated via a statistical process consistent with 95% probability.

**Low:** 0% to -14%

**Expected Return:** The level of expected investment return from the Conservative Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

**Low:** 5% to 7%

## Past Performance

Investment performance results shown above represent past performance and are not indicative of future results. Please read the information contained in the applicable fund prospectuses carefully before investing money.

## How is the portfolio diversified?

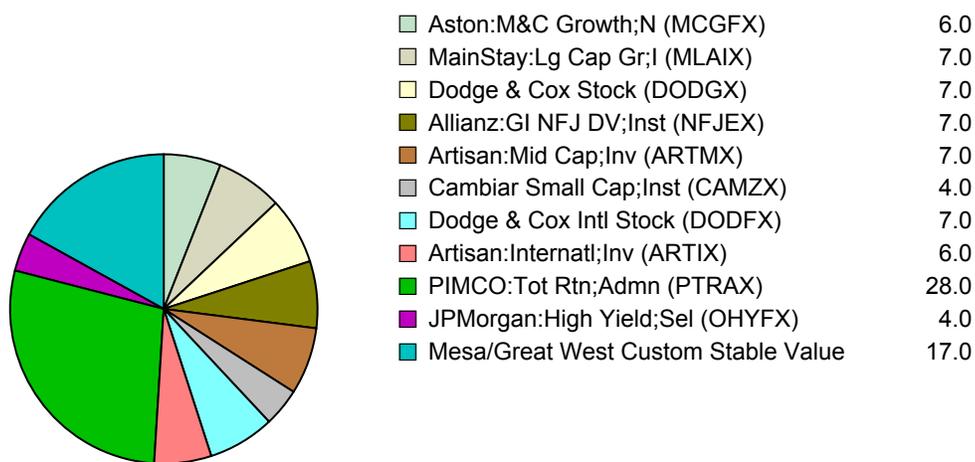
The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

\*Innovest relies on 3rd party data for these returns. Periods greater than one year are annualized.

## Who typically uses this portfolio?

<b>Current Age:</b>	40 - 60
<b>Risk Level:</b>	Moderate
<b>Expected Return:</b>	Moderate
<b><u>Time Horizon:</u></b>	
<b>Years to Age 65:</b>	5 - 25
<b>Years to Age 85:</b>	25 - 45
<b>Expense Ratio (%)</b>	0.75

## Portfolio Allocation (%)



## Past Performance (%)\*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Moderate Portfolio	1.01	1.01	11.58	7.88	13.04	6.87

## Understanding Your Professionally-Managed Portfolios

### Who typically uses this portfolio?

**Current Age:** : The age (today) of an average investor with time horizon, risk level, and return expectation of the Moderate Portfolio.

**Time Horizon:** Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

**Risk Level:** The amount of expected risk in the Moderate Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Moderate Portfolio, and is calculated via a statistical process consistent with 95% probability.

**Moderate: -14% to -20%**

**Expected Return:** The level of expected investment return from the Moderate Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

**Moderate: 6% to 8%**

## Past Performance

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## How is the portfolio diversified?

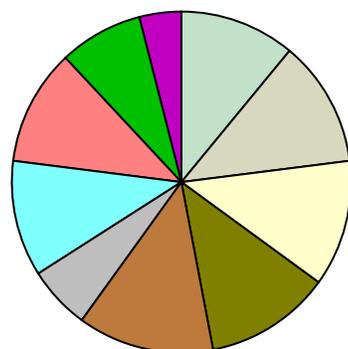
The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

\*Ininvest relies on 3rd party data for these returns. Periods greater than one year are annualized.

## Who typically uses this portfolio?

<b>Current Age:</b>	30 - 50
<b>Risk Level:</b>	High
<b>Expected Return:</b>	High
<b><u>Time Horizon:</u></b>	
<b>Years to Age 65:</b>	15 - 35
<b>Years to Age 85:</b>	35 - 55
<b>Expense Ratio (%)</b>	0.88

## Portfolio Allocation (%)



Aston:M&C Growth;N (MCGFX)	11.0
MainStay:Lg Cap Gr;I (MLAIX)	12.0
Dodge & Cox Stock (DODGX)	12.0
Allianz:GI NFJ DV;Inst (NFJEX)	12.0
Artisan:Mid Cap;Inv (ARTMX)	13.0
Cambiar Small Cap;Inst (CAMZX)	6.0
Dodge & Cox Intl Stock (DODFX)	11.0
Artisan:Internatl;Inv (ARTIX)	11.0
PIMCO:Tot Rtn;Admn (PTRAX)	8.0
JPMorgan:High Yield;Sel (OHYFX)	4.0

## Past Performance (%)\*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Aggressive Portfolio	0.98	0.98	19.41	10.87	19.00	7.96

## Understanding Your Professionally-Managed Portfolios

### Who typically uses this portfolio?

**Current Age :** The age (today) of an average investor with time horizon, risk level, and return expectation of the Aggressive Portfolio.

**Time Horizon:** Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

**Risk Level:** The amount of expected risk in the Aggressive Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Aggressive Portfolio, and is calculated via a statistical process consistent with 95% probability.

**High: -20% to -26%**

**Expected Return:** The level of expected investment return from the Aggressive Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

**High: 7% to 9%**

## Past Performance

Investment performance results shown above represent past performance and are not indicative of future results. Please read the information contained in the applicable fund prospectuses carefully before investing money.

## How is the portfolio diversified?

The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

\*Innovest relies on 3rd party data for these returns. Periods greater than one year are annualized.

City of Mesa

## Comparison of Plan Expenses for the City of Mesa 457 Retirement Plan

Plan Expenses - Expenses for your retirement plan include investment, record-keeping (accounting and reporting), customer service, participant education, trust and custody. The table below provides a comparison between annual plan expenses for the average 401(k) retirement plan (as a percentage of assets) and the actual expenses for the City of Mesa 457 Retirement Plan. Source: 401(k) Source Data.

Average 401(k) Plan Expenses	1.00%	City of Mesa 457 Plan Expense Estimate	0.55%
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Your retirement plan offers many different mutual fund investment options that cover a broad range of risk and investment opportunities. Each fund charges fees for management and operating expenses. These fees are referred to as the expense ratio. This is the percentage of fund assets paid for operating expenses and management fees. The expense ratio typically includes the following types of fees: accounting, administrator, advisor, auditor, board of directors, custodial, distribution (12b-1), legal, organizational, professional, registration, shareholder reporting, sub-advisor, and transfer agency. The table below provides a comparison between the median category expense ratio and the actual expense ratio of funds offered through the City of Mesa 457 Retirement Plan. Source: Innovest Portfolio Solutions LLC.

City of Mesa 457 Plan Fund Name	Fund Objective/Category	Ticker	Category Median Expense Ratio	Category Annual Expense For Each \$1,000	Mutual Fund Expense Ratio	Mutual Fund Annual Expense For Each \$1,000
Fidelity Contrafund	Lg Cap Growth	FCNTX	1.33%	\$ 13.30	0.74%	\$ 7.40
Vanguard Institutional Index Instl	Lg Cap Broad	VINIX	0.63%	\$ 6.30	0.04%	\$ 0.40
Aston/Montag & Caldwell Growth	Lg Cap Growth	MCGFX	1.33%	\$ 13.30	1.06%	\$ 10.60
MainStay Large Cap Growth I	Lg Cap Growth	MLAIX	1.33%	\$ 13.30	0.81%	\$ 8.10
Dodge & Cox Stock	Lg Cap Value	DODGX	1.25%	\$ 12.50	0.52%	\$ 5.20
Allianz NFJ Dividend Value Instl	Lg Cap Value	NFJEX	1.25%	\$ 12.50	0.71%	\$ 7.10
Vanguard Mid Capitalization Index Signal	Mid Cap Broad	VMISX	1.32%	\$ 13.20	0.12%	\$ 1.20
Artisan Mid Cap Inv	Mid Cap Growth	ARTMX	1.41%	\$ 14.10	1.22%	\$ 12.20
JH Disciplined Mid Cap Value	Mid Cap Value	JVMIX	1.35%	\$ 13.50	0.98%	\$ 9.80
Vanguard Small Cap Index Signal	Sm Cap Broad	VSISX	1.39%	\$ 13.90	0.17%	\$ 1.70
Kalmar Growth-with-Value Small Cap	Sm Cap Growth	KGSCX	1.55%	\$ 15.50	1.48%	\$ 14.80
Cambiar Small Cap	Sm Cap Value	CAMZX	1.53%	\$ 15.30	1.08%	\$ 10.80
Oppenheimer Global A	Intl Eq Non US	OPPAX	1.48%	\$ 14.80	1.16%	\$ 11.60
American Funds EuroPacific Gr R5	International Lg Cap Core	RERFX	1.46%	\$ 14.60	0.55%	\$ 5.50
Artisan International Inv	International Lg Cap Growth	ARTIX	1.46%	\$ 14.60	1.19%	\$ 11.90
Dodge & Cox International Stock	International Lg Cap Value	DODFX	1.30%	\$ 13.00	0.64%	\$ 6.40
ING Global Real Estate A	Real Estate	IGLAX	1.45%	\$ 14.50	1.31%	\$ 13.10
PIMCO Total Return Admin	Core Bond	PTRAX	0.92%	\$ 9.20	0.72%	\$ 7.20
JPMorgan High Yield Select	High Yield	OHYFX	1.21%	\$ 12.10	0.86%	\$ 8.60
Great West Fixed Portfolio	Fixed Income		0.50%	\$ 5.00	0.47%	\$ 4.70
T. Rowe Price Retirement 2010	Target Date	TRRAX	0.58%	\$ 5.80	0.61%	\$ 6.10
T. Rowe Price Retirement 2015	Target Date	TRRGX	0.88%	\$ 8.80	0.65%	\$ 6.50
T. Rowe Price Retirement 2020	Target Date	TRRBX	0.81%	\$ 8.10	0.69%	\$ 6.90
T. Rowe Price Retirement 2025	Target Date	TRRHX	0.88%	\$ 8.80	0.72%	\$ 7.20
T. Rowe Price Retirement 2030	Target Date	TRRCX	0.82%	\$ 8.20	0.74%	\$ 7.40
T. Rowe Price Retirement 2035	Target Date	TRRJX	0.91%	\$ 9.10	0.76%	\$ 7.60
T. Rowe Price Retirement 2040	Target Date	TRRDY	0.86%	\$ 8.60	0.76%	\$ 7.60
T. Rowe Price Retirement 2045	Target Date	TRRKX	0.93%	\$ 9.30	0.76%	\$ 7.60
T. Rowe Price Retirement 2050	Target Date	TRRMX	0.82%	\$ 8.20	0.76%	\$ 7.60
T. Rowe Price Retirement Income	Target Date	TRRIX	0.63%	\$ 6.30	0.56%	\$ 5.60