

SUMMER 2014



# Retirement Report

CITY OF MESA  
DEFERRED COMPENSATION PLAN

## Dividend Focused Funds: Looking Expensive



Interest rates have remained near record lows since the 2008 recession, reflected in the 10 Year U.S. Treasury bond yielding just over 2.5% in recent weeks. Accounting for an inflation rate of approximately 2% per year, high quality bonds are barely keeping their value in real dollar terms. These low bond yields have led investors to seek out creative strategies to replace the income stream in their portfolios. Not surprisingly, stocks with high dividend payouts have seen an increase in popularity as investors reach for yield.

Importantly, investors are taking on much greater risk by shifting their portfolios from high quality bonds into dividend paying stocks. The two asset classes are not interchangeable and have very different risk profiles. By way of example: a bad year for a high quality bond fund would be a loss of 5-7%, while a bad year for an equity fund (as witnessed in 2008) could be a loss of 30-40%.

Historically, U.S. stocks are approximately three times more volatile than high quality bonds. When investors reach for higher income via dividend paying stocks, they may not realize that their portfolios have taken on significantly more risk. In the good times like we have experienced over the past five years, investors may forget just how volatile stocks can be. As famous investor Warren Buffett once noted: "Only when the tide goes out do you discover who's been swimming naked."

High dividend paying stocks have traditionally traded at a discount to the broader U.S. stock market, as many of these stocks are considered "value" stocks with slower growth rates than their peers. On a relative valuation basis, high dividend paying stocks now look even less attractive. Because these stocks have performed so well in recent years, they are now actually more expensive than other stocks in the broad market.

Investment markets have a tendency to revert to the mean over the long term. Accordingly, the high dividend paying stocks that now trade at a premium to the broad stock market are not likely to trade at a premium forever. Investors who are over-allocated to this asset class may regret their risk profile when the markets inevitably correct.

Innovest continues to recommend to individuals saving for retirement that they maintain a diversified balanced portfolio or better yet a professionally managed portfolio, such as a target date fund or risk based model portfolio. Staying the course, and staying appropriately diversified, are the keys to long term success in investing.

### Whom do I call for help?

### Investment Questions

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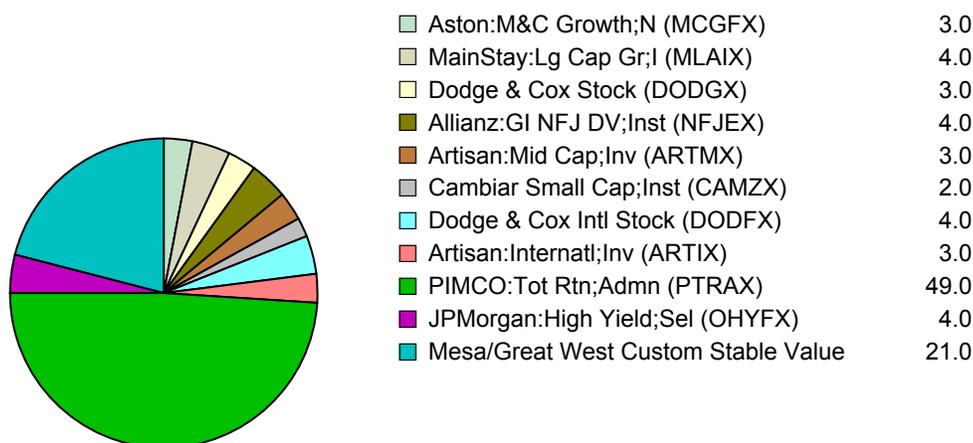
### The Plan's Investment Consultant

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><u>Time Horizon:</u></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 (%)



## Past Performance (%)\*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Conservative Portfolio	2.44	3.51	9.44	6.33	7.86	6.00

## 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?

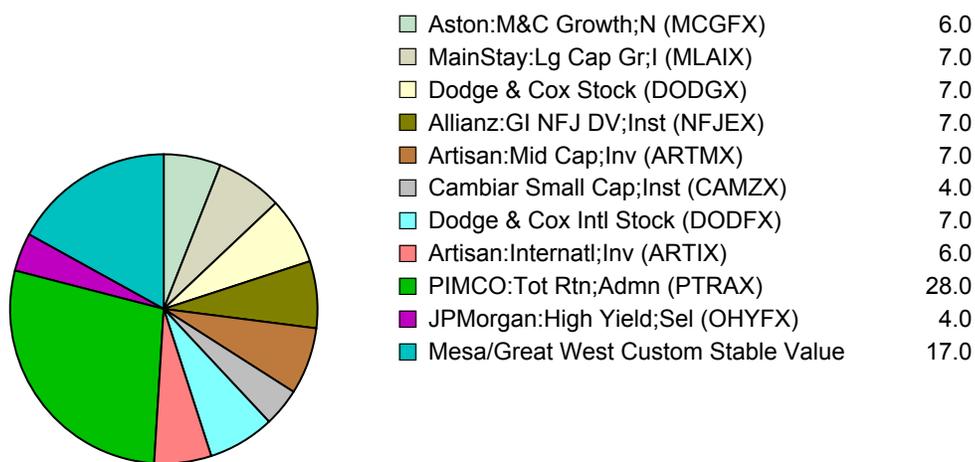
The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

\*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	2.95	3.98	14.65	8.75	11.16	7.15

## 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.

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

## Who typically uses this portfolio?

**Current Age:** 30 - 50

**Risk Level:** High

**Expected Return:** High

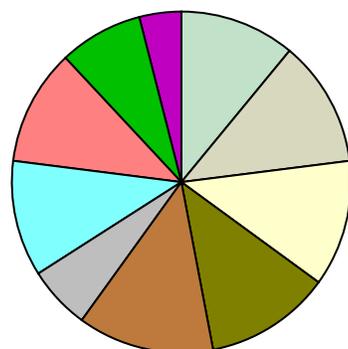
**Time Horizon:**

**Years to Age 65:** 15 - 35

**Years to Age 85:** 35 - 55

**Expense Ratio (%):** 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	3.93	4.95	22.60	12.36	15.79	8.30

## 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.

\*Innvest 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