



Memo from: Judy Kahn

To: File 2-8-14

A handwritten signature in dark ink, appearing to be "JK", is written over the "To:" line.

Subject: FASB ROA assumption for 2010

Background

This assumption is a long-term assumption and as such should not be adjusted frequently. The assumption should be monitored annually and changed if the observed returns deviate significantly from the current assumption, or if certain conditions change. Such conditions that could give rise to a change in the assumption include: a change in the plan's overall asset allocation; a change in the nature of the plan's investments; a material change in the outlook for expected returns that would cause prospective returns to deviate significantly from historical realized returns (a condition that would be considered unusual).

The method that was initially used at adoption in 1993 to develop the assumption was based on analyzing historical median returns for a portfolio with an equity/bond asset mix similar to the fund, over long-periods (such as rolling 10- and 20-year periods). Over the years, different methodologies and data points have been brought into the evaluation process.

It has become an acceptable practice, when developing long-term (i.e. 10 year or greater) forecasts of expected returns, to assume no premium for int'l, mid- or small-caps, and let the investment case for these assets reside on the diversification benefits. In this vein, when examining historical returns to judge the appropriateness of the FASB ROA assumptions, it is reasonable to utilize the S&P 500 returns and US Core Bond Index (Barclays US Aggregate Bond Index) as they provide the longest historical data set -- and length of time is deemed more important for this purpose than 'over engineering' the process through incorporating sub asset classes. The allocation to equity/bonds is by far the more influential factor is determining returns.

Commencing in 2010, the data points examined in evaluating the assumption were modified in light of the merger of the plans' investment consultant (Ennis Knupp) and the plans' actuary (Hewitt).

To supplement the (1) historical rolling return analysis and the (2) distribution of return expectations under the plans' current asset allocation based on the combined Hewitt/EnnisKnupp entity's expected return assumptions for the various asset types the plans are invested in, an additional sources was used: (3) a 30-year, 1000 trial monte-carlo simulation using historical observations of risk, return and correlations and the Wilshire Associate's COMPASS software.

Pension

The Pension's currently has a 45/10/45 policy mix of stocks, convertibles, and bonds. However, the convertible bond allocation was split 50/50 between stocks and bonds when looking at historical returns.

Trust Fund Investments has updated the historical rolling return analysis to include returns from 1926 to 2009. Accordingly, summary results are:

- The median return over the 74 10-year periods (that is the 10-years ending 12/09, 10-years ending 12/08, etc.) is 8.2%.
- Looking at 20-year periods, the median of the 64 periods is 8.3%.
- Looking at 30-year periods the median of the 54 periods is 8.3%.
- Looking at 40-year periods the median of the 44 periods is 8.7%.

The Hewitt/EnnisKnupp model provided a return of 7.7% at the 50th percentile (based on CPI of 2.5%, consistent with underlying actuarial assumption) while the COMPASS monte-carlo simulation's 50th percentile return is 8.0%. We do not believe the differences in the observed median returns from the three sources compared to the current 7.75% assumption are meaningful enough to warrant revising the assumption.

Retiree Benefits

The RBP plan's currently has a 60/40 target policy mix of stocks and bonds.

Trust Fund Investments has updated the historical rolling return analysis to include returns from 1926 to 2009. Accordingly, summary results are:

- The median return over the 74 10-year periods (that is the 10-years ending 12/09, 10-years ending 12/08, etc.) is 9.0%.
- Looking at 20-year periods, the median of the 64 periods is 9.3%.
- Looking at 30-year periods the median of the 54 periods is 9.0%.
- Looking at 40-year periods the median of the 44 periods is 9.3%.

The Hewitt/EnnisKnupp model provided a return of 8.1% at the 50th percentile (based on CPI of 2.5%, consistent with underlying actuarial assumption) while the COMPASS monte-carlo simulation's 50th percentile return is 8.4%. We do not believe the differences in the observed median returns from the three sources compared to the current 8.00% assumption are meaningful enough to warrant revising the assumption.