



IN THE SPOTLIGHT:

Taking a Walk Through Market Volatility
New Year, New Investment Lineup: An Update to the 2012 Fund Change Schedule
To Roth or Not to Roth: A Tax Time Reminder
Wanted: Communication Mavens for Focus Group Testing
Cyber Smarts Web Tip: How to Review Your Asset Allocation
Deferred Compensation Plan – New 2012 Contribution Limits

City of Los Angeles Quarterly Newsletter **January 2012**

TAKING A WALK THROUGH MARKET VOLATILITY¹

2011 was a year of exceptional investment market volatility. Wide and often dramatic swings in equity prices left many investors reeling.

In many ways these market fluctuations might not seem so surprising given some of the uncertainties that exist about the world economy and what the future might hold. The 2008 financial crisis and its aftermath have drawn attention to many challenging economic issues that have yet to be resolved, including questions about how the world's developed economies, including those of the United States and Europe, will address problems of debt, aging workforces, and high unemployment.

In an important way, markets measure our expectations about the future. Periods of market calm reflect an expectation that certain favorable conditions will continue indefinitely. Periods of market volatility reflect our collective uncertainty and doubt.

Although we cannot know what precisely the future will bring, we do know with certainty that change is inevitable. Volatile markets remind us that there are times when events, and particularly our expectations for the future, can change rapidly. This is why market volatility provides us with a unique opportunity—to redefine our relationship to risk.

Imagine that each day, for exercise, you take a walk from your home to the mailbox at the street corner. Your walk normally proceeds in the same way. You see the same trees and homes as you pass by. Perhaps some things change, like a tree losing its leaves, but those changes are mostly gradual. Your perception of your walk is that it's predictable and safe.

Then imagine that one day while walking you see a bus lose control and crash into the mailbox, just moments before you arrive. At this moment, your conception of the risks involved in your walk suddenly changes. The near-catastrophe heightens your awareness of potential danger.

This is exactly what happens when we experience unusual events in investing. Our awareness of risk is increased and we begin to consider certain possibilities we might not have thought of previously.

The challenge in thinking about risk is not to be simply reactive. For example, in our example of taking a walk, seeing the bus lose control might frighten you so much that you stop going on walks completely. A less emotional response might involve asking yourself a fundamental question—what is my objective and how much risk am I willing to take to meet it? If your objective is to improve your health, you might conclude this is reasonable but that

there are other alternatives to meeting it with less risk. Perhaps you decide to walk along a less busy street or at times when there is less traffic. Perhaps you pay more attention to the speed and direction of vehicles, or you draw up a mental escape plan if you were to see another vehicle losing control and heading your way.

Investing works the same way. When market volatility hits, the best strategy is to refocus on your objective and how much risk you're willing to take. This is a much better focus than wondering what will happen next in the market, or how long it will be until you make back your losses.

Market volatility, even that which results in investment losses, can still be positive if it helps you clarify your objectives and the risk level that's right for you. This is a lifelong task. It is something we should be continually assessing as our circumstances in life change and evolve. As with many things in life, where we've been matters much less than where we choose to go next.

¹ This article was prepared by your Plan Sponsor and is being provided to you at the request of your Plan Sponsor. For additional information concerning this material, please contact the City of Los Angeles Deferred Compensation Plan. The City of Los Angeles Deferred Compensation Plan is not affiliated with Great-West Life & Annuity Insurance Company or any of its subsidiaries or affiliates. Neither Great-West Life & Annuity Insurance Company nor any of its subsidiaries or affiliates have reviewed or approved this article or are responsible for providing updated information with respect to this article.

NEW YEAR, NEW INVESTMENT LINEUP

UPDATE TO THE 2012 FUND CHANGE SCHEDULE - REVISED IMPLEMENTATION DATE:
APRIL 20, 2012

In the third quarter 2011 issue of the newsletter, the City announced an upcoming change to the Plan's lineup of funds. The City's Plan will establish three new investment options: the **Deferred Compensation Plan (DCP) Large-Cap Fund**, the **DCP Mid-Cap Fund**, and the **DCP Bond Fund**. The changes will help to simplify the core investment menu and make it easier to understand the differences between options. These changes were originally slated for February 2012, but will now occur on **April 20, 2012**. The following table provides an overview of the changes.

IF I'M INVESTED IN THE:	MY ASSET CLASS IS:	MY ASSETS IN THIS FUND WILL BE ² :	THE REPLACEMENT OR RENAMED FUND WILL BE CALLED:	THE REPLACEMENT OR RENAMED FUND IS MANAGED BY ³ :
Hartford Capital Appreciation Fund	Large Company Stocks	Transferred	DCP Large-Cap Fund	Vanguard Institutional Index Fund (100%)
Growth Fund of America		Transferred		
Investment Company of America		Transferred		
Vanguard Institutional Index Fund		Retained but Renamed		
Lazard Mid-Cap Fund	Mid-Cap ⁴ Stocks	Transferred	DCP Mid-Cap Fund	Vanguard Mid-Cap Index Fund (100%)
Vanguard Mid-Cap Index Fund		Retained but Renamed		
Vanguard Total Bond Market Index Fund	Bonds ⁵	Retained but Renamed	DCP Bond Fund	Vanguard Total Bond Market Index (50%) & PIMCO Total Return Fund (50%) ⁶
PIMCO Total Return Fund		Retained but Renamed		

In mid-March 2012, you'll receive a mailing with additional details about the changes. As indicated in our previous newsletter, this change is part of a broad overhaul of the Plan's roster of funds that began in 2008 in order to improve the investment menu and make it easier for you to create an investment strategy to help you meet your retirement planning goals.

Keep watching your mailbox and the Plan's website at www.cityofla457.com for more information (make sure to review our latest online News bulletin regarding this change).



TO ROTH OR NOT TO ROTH: A TAX TIME REMINDER

Tax season is just around the corner, which means it's a great time to consider whether you want to invest for retirement on a tax-deferred (traditional) or after-tax (Roth) basis. With pre-tax contributions, you defer taxes until distribution. With Roth contributions, you won't pay tax upon distribution so long as you meet the criteria for a qualified distribution.

You have the flexibility to choose between the traditional and Roth savings options—or you may opt for a mix of the two.

The Roth Analyzer tool under the Education tab at www.cityofla457.com⁷ can help you determine which combination of pre-tax and Roth contributions may be right for you. The tool will also allow you to do a "what if" analysis under different tax and rate of return assumptions. Local taxes, insurance and other benefit plan deductions are not included in this analysis.

2 The Hartford Capital Appreciation Fund, Growth Fund of America, Investment Company of America, and Lazard Mid-Cap Fund will be eliminated from the City's Deferred Compensation Plan investment menu. Assets in the Hartford Capital Appreciation Fund, Growth Fund of America and Investment Company of America will be transferred, or "mapped," into the Deferred Compensation Plan Large-Cap Stock Fund. Assets in the Lazard Mid-Cap Fund will be transferred, or "mapped," into the Deferred Compensation Plan Mid-Cap Stock Fund.

3 The underlying investment fund for the Deferred Compensation Plan Large-Cap Fund will be the Vanguard Institutional Index Fund (100%). The underlying investment fund for the Deferred Compensation Plan Mid-Cap Fund will be the Vanguard Mid-Cap Index Fund (100%). The underlying investment funds for the Deferred Compensation Plan Bond Fund will be the Vanguard Total Bond Market Index Fund (50%) and the PIMCO Total Return Fund (50%).

4 Equity securities of medium-sized companies may be more volatile than securities of larger, more established companies.

5 A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.

6 Assets in the Vanguard Total Bond Market Index Fund and the PIMCO Total Return Fund will be blended into the new Deferred Compensation Plan Bond Fund, with each investment manager holding 50% of the assets.

7 Access to KeyTalk® and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

WANTED

COMMUNICATION MAVENS FOR FOCUS GROUP TESTING

Is your favorite office supply a red pen? Do you love the "Track Changes" feature in Microsoft Word? Do you enjoy helping people understand complicated topics?

If so, the Plan needs your help! We're looking for volunteers who value good communication and are willing to share their opinions. You can help us make our materials clear, compelling and engaging. No one is in a better position to let us know how we're doing than our participants, and that's why we need your help.

It's a chance for you to get away from your desk and spend a lively, interesting hour with fellow wordsmiths and message mongers. You'll also be treated to refreshments and receive a token thank-you gift for your participation.

If you're interested, visit the website at www.cityofla457.com. Scroll down to the "News" section and click on the link under *Communications Focus Groups* to sign up!

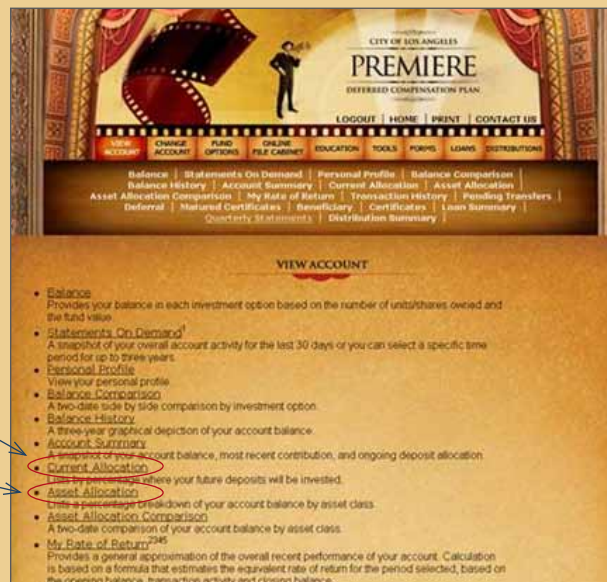
CYBER SMARTS WEB TIP:

HOW TO REVIEW YOUR ASSET ALLOCATION

Maintaining an asset allocation appropriate for your age and risk tolerance is an important retirement planning fundamental.⁸ For instance, if you are close to retirement and are investing aggressively, you might review your allocation to see if you still need that level of risk. Conversely, if you have many years until retirement and are only invested in conservative options, you might consider mixing in more aggressive options in order to maximize returns because you have time to ride out market fluctuations.

Take some time to review your asset allocation for your future contributions and your current account balance! It's easy to do online at www.cityofla457.com.

- Log in to your account.
- Click on *View Account* in the menu bar.
- Choose *Current Allocation* to see the asset allocation breakdown for future deposits.
- Choose *Asset Allocation* to see a percentage breakdown of your account balance by asset class.



⁸ Asset allocation does not ensure a profit and does not protect against loss in declining markets.



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Personnel Department

Robert Schoonover
Organized Labor Representative

HAVE QUESTIONS? NEED INFORMATION?

For information about the Plan and/or access to your account, contact Great-West Retirement Services® in any of the following ways:

Website: www.cityofla457.com⁷
KeyTalk®: (888) 457-9460⁷

CITY HALL

200 N. Spring Street, Room 867
Office hours: 8:00 a.m. to 4:00 p.m.

DWP

JFB Main Office Building
111 N. Hope Street, Level A area
Office hours: First and third Tuesday of each month, usually from 8:00 a.m. to 4:00 p.m.

For information about the Board, decisions made by the Plan, and investment selection, contact:

NATASHA GAMEROZ
(213) 978-1617

The Board's Website:
<http://www.lacity.org/per/deferredcomp/DeferredComp.htm>

ROTH HUDSON & DORIS DEFERRED: THEIR LOVE OF SAVING IS LIFTING US HIGHER¹ DEFERRED COMPENSATION PLAN – NEW 2012 CONTRIBUTION LIMITS



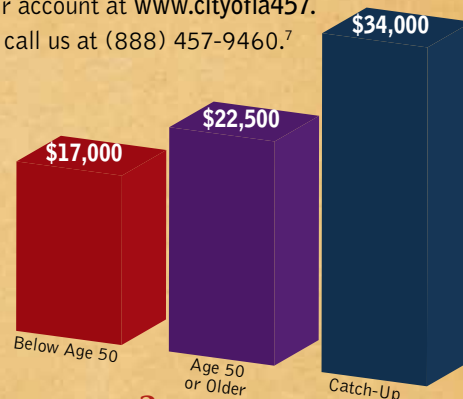
Annual contribution limits for the Deferred Compensation Plan are heading higher in 2012. You can take advantage of this by saving either more **pre-tax** dollars, **post-tax (Roth)** dollars, or both.

Important Notes:

- The combined total of pre-tax plus post-tax contributions cannot exceed your applicable annual limit.
- Pre-tax dollars are taxed at distribution, while post-tax dollars are not taxed at distribution if you meet certain requirements.

If you'd like to make a change to your contribution, log in to your account at www.cityofla457.com or call us at (888) 457-9460.⁷

Speak with a Great-West Retirement Services representative to determine how much to contribute biweekly to meet your desired annual contribution amount.⁹



NOT ENROLLED?

CALL US OR GO ONLINE - AND START SAVING TODAY!

¹ This article was prepared by your Plan Sponsor and is being provided to you at the request of your Plan Sponsor. For additional information concerning this material, please contact the City of Los Angeles Deferred Compensation Plan. The City of Los Angeles Deferred Compensation Plan is not affiliated with Great-West Life & Annuity Insurance Company or any of its subsidiaries or affiliates. Neither Great-West Life & Annuity Insurance Company nor any of its subsidiaries or affiliates have reviewed or approved this article or are responsible for providing updated information with respect to this article.

⁷ Access to KeyTalk® and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

⁹ Representatives of GWFS Equities, Inc. are not registered investment advisers, and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

CITY OF LOS ANGELES PREMIERE DEFERRED COMPENSATION PLAN

INVESTMENT OPTION RETURNS AS OF DECEMBER 31, 2011

Current performance may be lower or higher than performance data shown. Performance data quoted represents past performance and is not a guarantee or a prediction of future results. For performance data current to the most recent month-end, please visit www.cityofla457.com. The investment return and principal value of an investment will fluctuate so that, when redeemed, shares/units may be worth more or less than their original cost.

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain prospectuses for mutual funds, any applicable annuity contract and the annuity's underlying funds and/or disclosure documents from your registered representative. For prospectuses on Self-Directed Brokerage, contact Schwab PCRA at (888) 393-7272. Read them carefully before investing.

Average Annualized Returns as of December 31, 2011¹

Variable Investment Options	YTD	1 Year	3 Years	5 Years	10 Yrs/Since Inception	Expense Ratio ²	Inception Date
FDIC-Insured Savings Option							
FDIC-Insured Savings Account	0.41%	0.41%	N/A	N/A	0.42%	N/A	9/28/09
Stable Value Option							
Deferred Compensation Stable Value Fund ^{3,4}	3.21%	3.21%	3.69%	4.15%	4.41%	0.09%	9/1/85
Profile Portfolios^{5,6}							
Ultra-Conservative	4.42%	4.42%	6.76%	N/A	4.57%	0.09%	1/8/08
Conservative	2.92%	2.92%	8.48%	3.75%	5.04%	0.11%	5/1/02
Moderate	0.86%	0.86%	10.58%	2.24%	4.88%	0.12%	5/1/02
Aggressive	-1.06%	-1.06%	11.72%	0.62%	4.53%	0.14%	5/1/02
Ultra-Aggressive	-3.02%	-3.02%	12.76%	N/A	-1.28%	0.17%	1/8/08
Bond: Active⁷							
PIMCO Total Return Fund ⁸	4.16%	4.16%	8.87%	8.09%	6.80%	0.46%	5/11/87
Benchmark Index: Barclays Capital Aggregate Bond ⁹	7.84%	7.84%	6.77%	6.50%	5.78%	N/A	
Bond: Index⁷							
Vanguard Total Bond Market Index Inst. Plus ^{3,8}	7.76%	7.76%	6.75%	6.44%	5.52%	0.05%	2/5/10
Benchmark Index: Barclays Capital Aggregate Bond ⁹	7.84%	7.84%	6.77%	6.50%	5.78%	N/A	
Large-Cap Stock: Active							
Hartford Capital Appreciation HLS - CI IA ⁸	-11.41%	-11.41%	14.56%	-0.90%	5.80%	0.67%	4/2/84
Benchmark Index: S&P 500 ⁹	2.11%	2.11%	14.11%	-0.25%	2.92%	N/A	
American Funds Investment Company of Amer R6 ⁸	-1.45%	-1.45%	11.77%	-0.70%	3.56%	0.30%	5/1/09
Benchmark Index: Russell 1000 ⁹ Value ⁹	0.39%	0.39%	11.55%	-2.64%	3.89%	N/A	
American Funds Growth Fund of America R6 ⁸	-4.53%	-4.53%	13.17%	-0.41%	3.72%	0.34%	5/1/09
Benchmark Index: Russell 1000 ⁹ Growth ⁹	2.64%	2.64%	18.02%	2.50%	2.60%	N/A	
Large-Cap Stock: Index							
Vanguard Institutional Index Plus Fund ⁸	2.12%	2.12%	14.18%	-0.20%	2.97%	0.02%	7/7/97
Benchmark Index: S&P 500 ⁹	2.11%	2.11%	14.11%	-0.25%	2.92%	N/A	
Mid-Cap Stock: Active¹⁰							
Lazard Mid Cap Institutional ⁸	-5.58%	-5.58%	17.30%	-0.69%	5.24%	0.91%	11/3/97
Benchmark Index: Russell Mid Cap ⁹	-1.55%	-1.55%	20.17%	1.41%	6.99%	N/A	
Mid-Cap Stock: Index¹⁰							
Vanguard Mid Cap Index Institutional ⁸	-1.96%	-1.96%	20.07%	1.38%	6.76%	0.08%	5/21/98
Benchmark Index: MSCI ⁹ US Mid Cap 450 ⁹	-1.91%	-1.91%	20.10%	1.37%	6.86%	N/A	
Small-Cap Stock: Index¹¹							
SSgA Russell Small Cap Index NL Fund - S ⁹	-4.17%	-4.17%	15.39%	-0.04%	5.27%	0.06%	8/1/99
Benchmark Index: Russell 2000 ⁹	-4.18%	-4.18%	15.63%	0.15%	5.62%	N/A	
International Stock: Active¹²							
Fidelity Diversified International Fund ⁸	-13.78%	-13.78%	7.60%	-4.55%	5.79%	0.98%	12/27/91
Benchmark Index: MSCI ⁹ EAFE ⁹	-12.14%	-12.14%	7.65%	-4.72%	4.67%	N/A	
International Stock: Index¹²							
DWS EAFE Equity Index Institutional Fund ^{8,9}	-12.39%	-12.39%	6.83%	-4.93%	4.18%	0.51%	1/24/96
Benchmark Index: MSCI ⁹ EAFE ⁹	-12.14%	-12.14%	7.65%	-4.72%	4.67%	N/A	
Self-Directed Brokerage Option¹³							
Schwab Personal Choice Retirement Account [®] (PCRA) Self-Directed Brokerage Option							

CITY OF LOS ANGELES PREMIERE DEFERRED COMPENSATION PLAN

Benchmark Indices

Barclays Capital Aggregate Bond	An unmanaged index considered indicative of the broad fixed income market in general (formerly the Lehman Brothers Aggregate Bond Index).
MSCI® EAFE®	The MSCI® EAFE® Index is a trademark of Morgan Stanley Capital International Inc., and is an unmanaged index considered indicative of foreign equity markets in general.
MSCI® US Mid Cap 450	The MSCI® US Mid Cap 450 Index represents the universe of medium-capitalization companies in the U.S. equity market. MSCI® is a trademark of Morgan Stanley Capital International Inc.
Russell 2000®	The Russell 2000® is a trademark of the Frank Russell Company and measures the performance of the smallest 2,000 companies in the Russell 3000 Index (the 3,000 largest U.S. companies by market capitalization), representing about 7% of the Russell 3000 total market capitalization.
Russell Mid Cap®	The Russell Mid Cap® is a trademark of the Frank Russell Company and measures the performance of approximately 800 of the smallest securities in the Russell 1000® Index. The Russell Mid Cap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies.
Russell 1000® Value	The Russell 1000® Value Index is a trademark of the Frank Russell Company and is considered indicative of the domestic large-cap equity value market.
Russell 1000® Growth	The Russell 1000® Growth Index is a trademark of the Frank Russell Company and is considered indicative of the domestic large-cap equity growth market.
Standard & Poor's 500®	S&P 500® Index is a registered trademark of Standard & Poor's Financial Services LLC, and consists of 500 stocks chosen for market size, liquidity and industry group representation. It is one of the most widely used benchmarks of U.S. equity performance, and is considered indicative of the domestic large-cap equity market.

DISCLOSURES

¹The average annual and calendar year returns for the funds reflect actual total returns for each fund, net of fund operating expenses. Any administrative fees or expenses charged will reduce the overall rate of return. If returns are shown prior to the inception date of the current share class, they are hypothetical, and based on the initial share class (adjusted to reflect the fees and charges associated with the current share class).

²Actual fund expense ratio may be less if the fund currently offers a waiver or reimbursement of a portion of this expense.

³Transfer restrictions may apply. Check the Fund Fact Sheet for further information.

⁴Formerly the Galliard Stable Value Fund.

⁵The Profiles include investment options directly available to your Plan. For more information about the Profiles, including the eligible underlying portfolios, review the Fund Data Sheets or contact your registered representative.

⁶Asset allocation funds may be subject to a fund operating expense at the fund level, as well as prorated fund operating expenses of each underlying fund in which they invest.

⁷A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.

⁸Mutual fund investment option.

⁹A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of a fund will generally be less than its benchmark index. You cannot invest directly in a benchmark index.

¹⁰Equity securities of medium-sized companies may be more volatile than securities of larger, more established companies.

¹¹Equity securities of small-sized companies may be more volatile than securities of larger, more established companies.

¹²Foreign investments involve special risks, including currency fluctuations and political developments.

¹³Participants choosing the Schwab PCRA Self-Directed Account will be charged an additional annual administrative fee of \$50. These securities are not offered through GWFS Equities, Inc.

Transfer Restrictions

Transfers out of the Deferred Compensation Stable Value Fund must be invested in a variable investment option for a minimum of 90 days prior to investing any funds in the FDIC-Insured Savings Account. Transfers may not be made directly from the Deferred Compensation Stable Value Fund to the FDIC-Insured Savings Account.

Securities (except Schwab PCRA), when offered, are offered through GWFS Equities, Inc., a wholly owned subsidiary of Great-West Life & Annuity Insurance Company.

Great-West Retirement Services® refers to products and services provided by Great-West Life & Annuity Insurance Company and its subsidiaries and affiliates. Core investment options are through separately managed accounts and mutual funds. GWFS Equities, Inc., or one or more of its affiliates, may receive a fee from the investment option provider for providing certain recordkeeping, distribution and administrative services. Securities available through Schwab Personal Choice Retirement Account® (PCRA) are offered through Charles Schwab & Co., Inc. (Member SIPC), a registered broker-dealer. Additional information can be obtained by calling (888) 393-7272. Charles Schwab & Co., Inc. and GWFS Equities, Inc. are separate and unaffiliated. Great-West Retirement Services® and KeyTalk® are registered trademarks of Great-West Life & Annuity Insurance Company. Not intended for plan sponsors whose situs is in New York. ©2012 Great-West Life & Annuity Insurance Company. All rights reserved. Form# CB1003N (01/12) PT139869