



Your Horizons Retirement Plan

Simplified

Simplified or Advanced: Choose Your Route to Retirement

If you've been reading your Horizons newsletters lately, you've probably noticed our emphasis on keeping your Plan Simplified. This includes your investment choices. This is why the investment options are now identified under two categories—Simplified and Advanced.

An easy way to think about the two different investment categories available to you is to compare them to planning for a vacation. If you want vacation planning to be as simple as possible, you would use a travel agency that professionally packages vacations with a mix of adventure, sightseeing and relaxation tailored to your tastes. If you are a seasoned globe-trotter, you would likely research every detail of your vacation, allocating enough time to enjoy every highlight of your trip. Choosing the investment options available to you in the Horizons Plan is very similar to planning that perfect vacation.

Simplified Investing

Your Horizons Plan offers five Pre-Assembled Portfolios that are professionally managed, composed of a mix of current Horizons investment options, and range from conservative

to aggressive—you only need to select one to be diversified. It is the allocation of these underlying investments that gives each Pre-Assembled Portfolio its characteristic conservative to aggressive inclination. Each Pre-Assembled Portfolio is rebalanced automatically each quarter to maintain the professionally established investment option allocation. A Pre-Assembled Portfolio may be right for you if you don't have the time or interest to manage your own investment portfolio.

Two simple steps will get you started on the simplified investing route:

1) Complete the risk tolerance test¹ and 2) match your test score to the corresponding Pre-Assembled Portfolio. You will then have to make the decision to transfer your existing balance and/or have future contributions invested in that Pre-Assembled Portfolio.

Advanced Investing

If you want to build your own investment strategy and select your own investments, then you can take the advanced investing route. This route is for investors who want to be very involved in every step of investment review, investment selection and account monitoring.

At the minimum to get started as an advanced investor, you should develop a personalized investment policy/objective to guide your investment selection. It is a powerful tool that helps you to keep perspective during market fluctuations. Remember, one of the keys to successful investing is discipline.

¹ A copy of the risk tolerance test was provided in the Summer 2006 edition of the Horizons newsletter. You can review an electronic copy on the www.countyla.com Web site by selecting "Plan Information", then clicking "Newsletters and Special Notices".

A Quick Refresher: What Is an Investment Option?

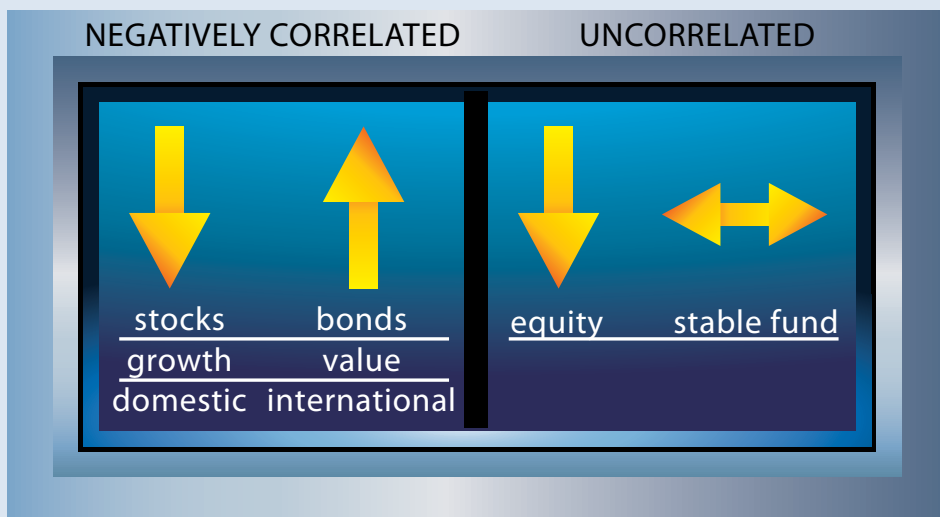
The investment options available to you are generally mutual funds or separately managed institutional accounts (which are similar to a mutual fund but only contain assets from participants in your Horizons Plan). These investment options have professional managers who purchase securities in multiple companies either in the form of stocks (ownership interest) or bonds (loan/debt certificates) based on the a specific investment strategy.



Asset Classes and Diversification: A Simple Rule of Thumb

In addition to “Simplified” and “Advanced” the Horizons investment options can be further categorized according to asset class: the size/location/valuation of a company, type of security or other unique characteristics. This additional categorization can help keep you from “putting all your eggs in one basket.”

Asset allocation is the process of strategically investing in funds with different characteristics. We have all been inundated with reminders that a mutual fund invests in many companies. Most people then logically conclude that diversification can be met by simply investing in one mutual fund. However, most mutual funds follow a specific investment strategy that leads them to invest in companies with similar characteristics that, in turn, are likely to react the same way to a market event. [See “A Piece of Cake” at right] There are two strategies that can be used to minimize this risk. The first is to invest in a “negatively correlated” asset class, one that has the opposite reaction to the market event. The other strategy is to invest in an “uncorrelated” asset class, one that is not affected by the market event.

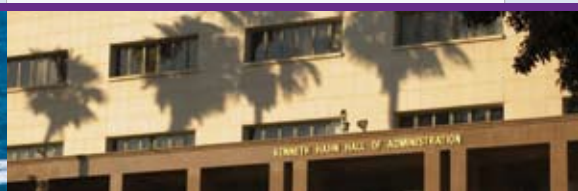


FOR ILLUSTRATION PURPOSES ONLY. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. This is not intended as financial planning or investment advice.

When using either strategy, you have to balance the risks with the potential return between the asset classes. In general, asset allocation can help you minimize the negative effect of poor performance in one asset class, while capitalizing on the potentially strong performance in another—without having to depend on any one type of investment to carry the load for your portfolio.

Correlation Strategies: A Piece of Cake

Example: A mutual fund has an investment strategy to invest in the best pie companies (apple, cherry, pumpkin). Unfortunately, the current market has people eating more cakes than pies, resulting in a poorly performing pie fund. Using a negative correlation strategy, you could invest in a cake fund to offset the pie fund’s performance. Otherwise, using the uncorrelated strategy, you could invest in a beverage fund; regardless of the dessert, everyone needs something to help it go down smoothly.



The Big Picture

How often do you think you should review your Horizons Plan account balance? Experts recommend doing so on a quarterly basis. Not coincidentally, that's precisely how often you receive your Horizons Plan statement, which makes it an ideal time to get up close and personal with your account and ask yourself the following questions:

- Have my investments lost or gained in relation to the other options in the Plan?
- Are the losses or gains tied to what the market is doing in general?
- What are experts forecasting the market to do?
- Am I well-diversified?
- Have my retirement goals changed?

Going through this routine on a quarterly basis helps ensure that you take a comprehensive approach to your investment strategy—don't just buy and sell because the market is fluctuating. A disciplined strategy gives you a greater chance of reaching your retirement goals. And just as you regularly review your account, the Horizons Plan Administrative Committee will regularly review all of the options available as part of the Plan to make sure they are performing to the standards we have set.

Remember: Before you make any investment changes, consider your risk tolerance, years until retirement and any recent life events.



Fast Facts: Plan Notifications

DB vs. DC Plans

Defined Benefit (DB) plans receive a monthly payroll contribution from both you and your employer. You are guaranteed a specified pension based on age, years of service, and final compensation; your DB pension is not dependent on the contributions made on your behalf. LACERA is your DB plan.

Defined Contribution (DC) plan receive a monthly payroll contribution from you and, as a County employee, up to a 4% matching contribution. Your DC plan is dependent on the performance of the investment options you select, and there are no guaranteed returns. Horizons is your DC plan.

One-Step Loans

In order to simplify the loan process, we have enhanced our system to accommodate one-step loans. It can all be done online at www.countyla.com.² If your loan is approved, a check along with a promissory note and loan policy will be mailed to you at your address

on record. By signing the back of the check you are agreeing to the terms of the promissory note and loan policy. You need not return any forms to Great-West Retirement Services®; your cashed check is your acknowledgement of the promissory note.

Additional Retirement Credit (ARC)

LACERA will now allow participants in the Horizons Plan who are still employed with the County of Los Angeles to roll their 457(b) funds to purchase additional retirement credit (commonly known as ARC) for all LACERA contributory plans. These participants can also use the 457(b) funds to enhance their LACERA plan by going from LACERA Plan E to Plan D or by going from General Member to Safety Member. This is effective as of President Bush signing the Pension Protection Act of 2006 in mid-August 2006. For additional details, please contact LACERA at (800) 786-6464.

Financial Glossary: Types of Asset Classes

By type of security:

- **Fixed/Stable Value** – Short-term securities that pay interest, such as stable value investments and U.S. Treasury bills.³ Their objective is capital preservation.
- **Bonds** (also called fixed-income investments) – A certificate representing creditorship; the issuer pays interest on specific dates and redeems by paying the principal at maturity.
- **Stocks** – Shares of a public corporation. Owners are often entitled to receive dividends and vote on important company matters.

Stock (Equity) Asset Classes

By size:

- **Small Capitalization**⁶ – Funds comprised of relatively small publicly traded corporations with a total market value, or capitalization, of less than \$500 million.
- **Mid Capitalization** – Issued by a corporation whose market capitalization is between \$500 million and \$5 billion.
- **Large Capitalization** – The stocks of companies with market capitalizations of \$5 billion or more.

By location:

- **Domestic** – Funds that invest in stocks issued by companies within the United States.
- **International**⁸ – Funds that invest in stocks issued by companies outside of the United States.

By valuation:

- **Value** – Fund manager buys primarily undervalued stocks for the fund's portfolio with the expectation that the stocks will increase in value.
- **Growth** – Fund manager buys stocks of primarily up-and-coming new companies or companies on the cutting edge of new technologies with the potential for growth.

Committee in Action: Selecting Investment Options

Horizons Plan Administrative Committee Members

David E. Janssen, *Chair*

Daniel Cohen

J. Tyler McCauley

William Pryor

Ramon Rubalcava

Michael J. Henry

Mark Saladino

Carolyn Lawson

Steven Remige



The Horizons Plan Administrative Committee (PAC) is responsible for selecting and monitoring the investment options that are available to you. The PAC has developed a comprehensive Investment Policy that contains guidelines on and criteria for the types of investments offered. In addition, an independent, qualified investment consulting firm is hired to provide quarterly performance reports on the existing investment options and lead the search for new funds (as needed).

The PAC has identified a core set of asset classes and selected corresponding funds that meet the Investment Policy criteria, which include:

- Lifestyle Funds – Pre-Assembled Portfolios A, B, C, D and E
- International (core) – Capital Guardian International (Non US)
- International (value) – Causeway International Value Equity Fund
- Small Capitalization (value) – Small Cap Equity Managed by Brandywine
- Mid Capitalization (growth) – DIA Medium Size Company Fund
- Mid Capitalization (growth) – Artisan Mid Cap Fund
- Large Capitalization Index – SSGA S&P 500 Flagship Series Fund C
- Balanced – Dodge & Cox Balanced Fund
- High Yield Bond – PIMCO High Yield Fund - Institutional
- Stable Income – LA County Stable Income Fund

• Bank Depository – Washington Mutual Bank Fund

During the selection process and with the consultant's help, the universe of funds is filtered to meet the Horizons criteria, qualified candidates are identified and, usually, the top three finalists are invited to interview with the PAC. All finalists are well-qualified and have proven performance track records. The interview process is not just a formality, but rather helps to reinforce what the records reflect: Is the firm competent? Are its employees dedicated? Does its team have resources and depth? Does it have a comprehensive investment process and governance? Does management have integrity? And is there chemistry with the

PAC, which can be a valuable indicator of its responsiveness to concerns. The finalist that earns the PAC's confidence is then selected as an investment option offered through the Horizons Plan.

In our next newsletter, we will discuss the PAC's monitoring responsibilities.

² Access to the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/ maintenance or other reasons.

³ Government bonds and T-bills are guaranteed as to the timely payment of principal and interest if held to maturity. Fund shares are neither issued nor guaranteed by the US Government.

Great-West Retirement Services® is a registered service marks of Great-West Life & Annuity Insurance Company. All rights reserved. Form# CB1004-01 (10/20/2006)

Customer Service On-Site Locations

Martin Luther King/Drew Medical Center

12021 S. Wilmington Ave., Los Angeles
First and third Monday every month in main lobby

LAC/USC Main Hospital

1200 N. State St., Los Angeles
Second and fourth Friday of each month in cafeteria

Kenneth Hahn Hall of Administration

500 W. Temple St., Los Angeles
Third Thursday of each month, second floor lobby entrance from mall

Public Works

900 S. Fremont Ave., Alhambra
Third Wednesday of each month in cafeteria

Olive View Medical Center

14445 Olive View Dr., Sylmar
Second Wednesday of each month in cafeteria

Rancho Los Amigos Rehabilitation Center

7601 E. Imperial Hwy., Downey
Second Thursday each month in Café Los Amigos cafeteria

Harbor/UCLA Medical Center

1000 W. Carson St., Torrance
Second Thursday of each month in elevator lobby

Note: On rare occasions a representative may not be available. They also follow the normal holiday schedule.

Investment Option Returns for the Period Ending September 30, 2006

(Investment option returns are published based on the best available data and may be subject to revision.)

| VARIABLE INVESTMENT OPTIONS | AVERAGE ANNUAL RETURN AS OF SEPTEMBER 30, 2006 | | | | | | CALENDAR YEAR | | | | | FUND OPERATING EXPENSES | INCEPTION DATE OF FUND |
|---|--|--------|---------|---------|----------|------------------------------|--|--------|--------|---------|---------|-------------------------|------------------------|
| | YTD | 1 YEAR | 3 YEARS | 5 YEARS | 10 YEARS | SINCE INCEPTION ⁴ | 2005 | 2004 | 2003 | 2002 | 2001 | | |
| SIMPLIFIED INVESTMENT MENU^{5,7,11} | | | | | | | | | | | | | |
| Pre-Assembled Portfolio A | 5.04% | 6.89% | 7.65% | 7.03% | N/A | 6.08% | 5.43% | 7.53% | 13.85% | -1.88% | 2.76% | 0.12% | 05/18/98 |
| Pre-Assembled Portfolio B | 5.65% | 7.91% | 8.83% | 7.67% | N/A | 6.05% | 6.22% | 8.38% | 16.66% | -4.30% | 0.64% | 0.15% | 05/18/98 |
| Pre-Assembled Portfolio C | 6.25% | 8.94% | 10.01% | 8.29% | N/A | 5.99% | 7.00% | 9.23% | 19.49% | -6.70% | -1.51% | 0.17% | 05/18/98 |
| Pre-Assembled Portfolio D | 6.68% | 9.36% | 10.97% | 9.00% | N/A | 6.41% | 6.88% | 10.46% | 22.56% | -8.49% | -1.46% | 0.20% | 05/18/98 |
| Pre-Assembled Portfolio E | 7.05% | 10.30% | 12.16% | 9.79% | N/A | 6.53% | 7.78% | 11.46% | 25.82% | -10.86% | -3.40% | 0.27% | 05/18/98 |
| ADVANCED INVESTMENT MENU⁷ | | | | | | | | | | | | | |
| PIMCO High Yield Fund – Institutional ¹⁰ | 5.51% | 6.80% | 8.42% | 8.98% | 7.18% | 8.68% | 4.62% | 9.32% | 23.70% | -0.85% | 4.98% | 0.50% | 12/15/92 |
| Dodge & Cox Balanced Fund | 8.52% | 10.78% | 12.93% | 11.38% | 11.98% | N/A | 6.59% | 13.30% | 24.44% | -2.89% | 10.05% | 0.53% | 06/26/31 |
| SSGA S&P 500 Flagship Series Fund C ⁵ | 8.50% | 10.74% | 12.25% | 6.94% | 8.50% | 8.50% | 4.88% | 10.84% | 28.60% | -22.08% | -11.91% | 0.05% | 10/01/96 |
| Artisan Mid Cap Fund | 2.75% | 7.42% | 12.75% | 10.09% | N/A | 16.99% | 9.11% | 14.66% | 31.80% | -24.16% | -3.05% | 1.18% | 06/27/97 |
| DIA Medium Size Company Fund ⁵ | 5.02% | 10.08% | 11.57% | 12.53% | N/A | 8.16% | 5.68% | 13.65% | 41.89% | -17.71% | -9.93% | 0.45% | 12/31/97 |
| Small Cap Equity Managed by Brandywine ^{5,6} | 7.40% | 7.25% | 15.97% | 16.67% | N/A | 14.17% | 2.01% | 22.89% | 41.24% | -3.63% | 27.67% | 0.51% | 11/10/99 |
| Capital Guardian International Equity Fund ^{5,8} | 10.84% | 19.77% | 20.60% | 14.65% | N/A | 6.79% | 20.15% | 14.53% | 36.48% | -15.35% | -16.99% | 0.47% | 12/01/00 |
| Causeway International Value Equity Fund ^{8,9} | 16.56% | 20.23% | N/A | N/A | N/A | 15.87% | N/A | N/A | N/A | N/A | N/A | 0.62% | 02/01/05 |
| FIXED INVESTMENT OPTIONS⁵ | | | | | | | | | | | | | |
| LA County Stable Income Fund | Fourth Quarter Crediting Rate is 4.89% | | | | | | Third Quarter Crediting Rate Was 4.77% | | | | | | 11/30/90 |
| Washington Mutual Bank Fund | Fourth Quarter Crediting Rate is 5.34% | | | | | | Third Quarter Crediting Rate Was 5.35% | | | | | | 11/30/90 |
| <p><i>Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain mutual fund prospectuses and/or disclosure documents from your registered representative. Read them carefully before investing.</i></p> <p><i>Current performance may be lower or higher than performance data shown. Performance data quoted represents past performance and is not a guarantee or prediction of future results. For performance data current to the most recent month end, please visit www.countyla.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.</i></p> | | | | | | | | | | | | | |

The net returns shown above reflect fund operating expenses, but do not include current administrative fees of \$6.94 per month per account. For example, if you had a balance of \$10,000 in any one fund and the administrative fee was deducted entirely from that one fund, the performance return for that fund would be reduced on an annualized basis by 0.821%. The impact of this fee decreases as the account grows. For more information on how these administrative fees are assessed to your account, please refer to the Schedule of Participant Fees in the *Fund Data Booklet* in your Horizons Enrollment Kit.

⁴ **Since Inception** is not applicable for funds more than 10 years old.

⁵ **Registration** with the Securities and Exchange Commission is not required for these investment options.

⁶ **Equity securities** of companies with relatively small market capitalization may be more volatile than securities of larger, more established companies.

⁷ **Transfer Restrictions**

Transfers of \$10,000 or more into an investment option on a single day must remain invested in that option for a minimum of 10 business days. The last assets transferred into an investment option will be the first assets transferred out of the investment option. After any transfer of assets out of an investment option, no assets may be transferred into that investment option for 30 calendar days. Non-compliant transactions may result in the restriction of a participant's ability to make transfers. Additional information is available on the Horizons Web site (www.countyla.com).

⁸ **Foreign investments** involve special risks, including currency fluctuations and political developments.

⁹ **About Separately Managed Funds/Accounts**

Because this is a separately managed fund/account for Horizons Plan participants only, performance data is based only on Horizons assets.

¹⁰ **About the High Yield Fund**

Investments in debt instruments, such as notes and bonds, are subject to credit risk, which is the possibility that the issuers of the instruments will be unable to meet interest payments or repay principal. Funds that invest a significant portion of their assets in "high yield" bonds (bonds rated below investment grade) have the potential for a higher rate of return than funds holding primarily government or investment grade corporate bonds, but are also subject to significantly greater credit risk and experience greater volatility.

¹¹ **About the Pre-Assembled Portfolios**

Account balances in the Pre-Assembled Portfolios will be automatically rebalanced quarterly to reflect the established portfolio model percentages. Please request a *Fund Data Booklet* for the composition of the Pre-Assembled Portfolios by contacting the Horizons Participant Service Center at (800) 947-0845.

About the Investment Options

Investment options have been selected by the Plan Administrative Committee and are a combination of mutual funds and separately managed Institutional accounts. Securities are offered through GWFS Equities, Inc., a Great-West Company and NASD member firm.

Funds may impose redemption fees, and/or transfer restrictions, on certain transfers, redemptions or exchanges if assets are held for less than the period stated in the funds' prospectuses or other disclosure documents. For more information, please refer to the funds' prospectuses and/or disclosure documents.

TRANSFER INFORMATION

A transfer fee equal to 5% of the transferred amount will be deducted from your Horizons account when the following transfers take place.

| 5% TRANSFER CHARGE WHEN YOU | |
|--|-----------------------------|
| TRANSFER FROM: | TRANSFER TO: |
| LA County Stable Income Fund | Washington Mutual Bank Fund |
| PIMCO High Yield Fund – Institutional | |
| Dodge & Cox Balanced Fund | |
| SSGA S&P 500 Flagship Series Fund C | |
| Artisan Mid Cap Fund | |
| DIA Medium Size Company Fund ⁵ | |
| Small Cap Equity Managed by Brandywine | |
| Capital Guardian International Equity Fund | |
| Causeway International Value Equity Fund | |
| Pre-Assembled Portfolios | |

