Building a bridge to your financial future.

Having the right tools and implementing a sound, practical investment strategy is important to being able to achieve your retirement goals.

When you invest in your financial future through the City of Austin Deferred Compensation Plan, you decide how to invest your money from the wide variety of options the Plan offers based on your personal investment goals, investment time horizon, and risk tolerance.

Over the years, your goals for the future may change. As they change, so may your financial strategy and how you choose to invest your money. You can be assured that your City of Austin Deferred Compensation Plan’s investment options have been designed to fit your needs now and into the future.

Review this *Investment Planning Guide* to learn about the following topics to help you create an investment strategy that is right for you:

- Basic types of investments
- Investment strategy considerations
- Investment risks
- Plan investment options
- ING Advisor Service
Basic Types of Investments

Basic Asset Classes

Choosing the right investment mix is an important step toward reaching your financial goals. By matching your personal savings strategy to the types of investments that you feel most comfortable with, you are creating an investing style that is all your own. The City of Austin Deferred Compensation Plan offers a number of investment types, also known as asset classes. Although past performance is not a guarantee of future results, here is a brief overview of what you might expect from the three major asset classes over the long term.

Stable Value/Money Market Investments

Stable value and money market investments are often referred to as “cash equivalents.” The objective is capital preservation. Money market funds include certificates of deposit, commercial paper, and other short-term securities.

Stable value investments seek to preserve principal and provide a steady return of interest. The portfolio may include securities with short- to intermediate-term maturities. While cash equivalents have a place in many portfolios, their returns are generally low and may not outpace inflation. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.

Bonds

By investing in bonds (also called “fixed-income investments”), you are actually lending money to an organization (such as a corporation or the government) in exchange for interest payments. Principal value may fluctuate up and down, sometimes widely, but ordinarily will not vary as much as stocks. Bond investment options may help offset the higher risk of stocks in a more aggressive investment portfolio and may help keep pace with inflation in a more conservative investment portfolio.

Stocks

By investing in stocks, you are actually buying shares of ownership in a corporation. Stocks have the highest potential for growth over the long term, but they also carry a higher degree of risk. Their unpredictable movement up and down in value is called volatility. Historically, over long stretches of time, stocks have had a greater rate of return than other types of investments.

Investment Strategy Considerations

When building your investment strategy, be sure to consider the following.

Your savings target is the amount of money you want to save and invest through the City of Austin Deferred Compensation Plan, as well as any other retirement plan or other assets you and your spouse or domestic partner might have. For example, if your goal is to accumulate a large amount of money and you have a long time to invest, you might consider riskier investments, which have the potential for higher returns over the long term.

Your time horizon is the number of years you have to invest in the City of Austin Deferred Compensation Plan before you start making withdrawals. If you are many years away from retirement, you may be willing to take more risk with your money and invest more aggressively. When you are closer to retirement, your investment strategy may lean more toward investments with less risk because they’ll have less time to recover should they fall in value.

The market goes up and down. Be sure that your investment allocation is appropriate to meet your short- and long-term goals. You may have many years in retirement, so consider the benefits of maintaining some assets in investments that are likely to outpace inflation and provide some growth.

Your risk tolerance is your comfort level with the ups and downs in the value of your investments. You don’t want to lose sleep if your account value declines. However, you’ll also need to earn a rate of return that is appropriate for your goals. You need to create an investment allocation that provides a balance between safety and growth that you are comfortable with and that will help you work toward your goals.
Investment Risks

There’s the risk of losing money if the market goes down, which it will from time to time. There’s the risk of playing it too safe and not beating inflation. And there’s the risk of not saving and investing at all—and not having enough money for the retirement you envision for yourself. There are many risks you should be aware of as you develop your investment strategy.

**Market risk** — The risk that the price of securities in a fund will rise or fall sometimes rapidly or unpredictably due to factors such as real or perceived adverse economic conditions, political developments, and/or investor sentiment generally. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously. Stocks generally have greater price volatility than bonds.

**Inflation risk** — The risk that your account will lose value because your returns are not outpacing the cost of living.

**Interest rate risk** — The risk that if interest rates rise, bonds will decline in value.

**Income risk** — The risk that a fund’s income will decline because of falling interest rates.

**Default (credit) risk** — The risk that an issuer fails to pay interest or principal when due or in a timely manner or that negative perceptions of an issuer’s ability to make such payments will cause the price of the security to decline.

**Business risk** — The risk that an investment will lose value because of a decline in a specific company or industry.

**Country risk** — The risk that domestic events, laws, and/or regulations will negatively impact a country’s securities markets.

**Currency risk** — The risk that the value of a foreign investment, measured in U.S. dollars, will negatively impact fund returns because of unfavorable changes in currency exchange rates.

**Sector risk** — The risk that the stocks of many of the companies in one sector (like health care or technology) will fall in price at the same time because of an event that affects the entire industry.

Not investing has its own level of risk and that is that you won’t have enough retirement income to do the things you need or want to do. You can help reduce your risk of not meeting your retirement income objectives by investing in the Plan on a consistent basis over the long term.

Tools for Managing Risk

As you formulate your personal investment strategy, keep in mind the following general tips for managing investment risk. Allocate your assets and diversify. The process of determining your investment mix is known as **asset allocation**. Putting your money into a number of different types of investment options that include various asset classes can help reduce risk. Generally speaking, if your dollars are invested in materially different types of investments and market conditions negatively impact one of your investments, not all of your money will be affected.

**Invest for the long term.**

The market will have ups and downs, but if you invest wisely and leave your investments to grow, you’ll have a better chance of reaching your long-term investment goals.

**Beware of inflation.**

Just as you should be aware of investing too aggressively, you should also be aware of being too cautious. When you’re ready to retire, you’ll most likely be living in a much more expensive world than today. If you invest all your contributions in a conservative investment option that earns a 6% annual return and inflation is 3%, inflation will erode much of your investment gains.

**Rebalance regularly.**

Your financial situation changes at different stages of your life. Be sure to review your investment allocation and long-term goals on a regular basis and make changes only when necessary.

Rebalancing your account does not ensure a profit and does not protect against loss in declining markets.

Diversification of an investment portfolio does not assure a profit and does not protect against loss in declining markets.
Plan Investment Options

The investment options are organized into five tiers representing different investment approaches. A tiered approach is used so you can easily identify those options that offer a pre-mixed combination of stocks and bonds and those that are passively and actively managed.

You can mix and match investment options within each tier or across tiers to help you meet your objectives, risk tolerance, and overall investing style.

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<th>Tier 1 – Asset Allocation Funds</th>
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<td>One Choice Portfolio®: Very Conservative</td>
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<tr>
<td>One Choice Portfolio®: Conservative</td>
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<td>One Choice Portfolio®: Moderate</td>
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<td>One Choice Portfolio®: Aggressive</td>
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<td>One Choice Portfolio®: Very Aggressive</td>
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<th>Tier 2 – Managed Account</th>
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<td>Your account is managed by ING Advisor Service for a fee. See next page for details on the service.</td>
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<th>Tier 3 – Passively-Managed (Index) Funds</th>
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<td>SSgA Total Stock Index Fund</td>
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<td>SSgA ACWI ex-US Index Fund</td>
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<td>SSgA Passive Bond Market Index Fund</td>
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<tr>
<th>Tier 4 – Actively-Managed Funds</th>
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<tr>
<td>Columbia Acorn Fund Z (ACRNX)</td>
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<td>American Beacon Small Cap Value Fund (AVPAX)</td>
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<td>Harbor International Fund (HIINX)</td>
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<td>American Century International Growth Fund (TWIEX)</td>
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<td>Dodge &amp; Cox International Fund (DODFX)</td>
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<td>Oppenheimer Developing Markets Fund (ODMAX)</td>
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<td>Cohen &amp; Steers Reality Fund (CSRSX)</td>
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<td>PIMCO Commodity Real Return Fund (PCRRX)</td>
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<td>PIMCO Total Return Fund (PTRAX)</td>
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<td>MFS High Income Fund (MHITX)</td>
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<tr>
<td>ING Global Bond Fund (IGBIX)</td>
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<td>ING Stabilizer (Austin Fixed Fund)</td>
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<td>Velocity Credit Union</td>
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<th>Tier 5 – Self-Directed Brokerage Account</th>
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<td>Charles Schwab Personal Choice Retirement Account® (PCRA)</td>
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For more information about the Plan’s investment options, including risks, fees, and investment objectives, go to www.dcaustin.com or call 1-877-66-AUSTIN.
ING Advisor Service

You probably have questions about retirement planning. For example: Which investment options should I choose? How much should I save? How much might my account be worth at retirement? How much investment risk am I taking?

To help you answer these important questions, the Plan has partnered with ING Investment Advisors to offer personalized, professional, and objective investment advice.

What is the ING Advisor Service?

This service provides investment advice and planning to help you meet your retirement savings goals. It delivers advisory services in two ways, to complement almost any type of investor. Use of the service is completely optional. Review each option’s details below to decide which service might be right for you.

Personal Online Advisor: This is a free web-based service for the investor seeking advice to help make his or her own decisions. You access this service from the Plan’s website at www.dcaustin.com. After connecting to the Personal Online Advisor, you can follow the simple instructions at your own pace. Based on your input, Personal Online Advisor will display:

- A retirement forecast of your current choices
- Investment and savings recommendations

You can use the interactive tools to see how changes to investment risk, contributions, or retirement age can affect your financial outlook. Once you receive your advice, you will need to take action yourself. The service is available to use whenever you need to review or change your savings and investment strategies.

Professional Account Manager: This service is designed for the investor who wants an investment professional to proactively manage his or her Plan account.

With the Professional Account Manager program, you benefit from:

- Ongoing assessments of your progress
- Periodic account optimization
- Automatic updates to keep you on target
- Personalized profile
- Regular Progress Reports

Professional Account Manager program fees are no more than 0.45 percent of your account balance per year. That’s about $3.75 per month for each $10,000 in your account, and that fee is reduced for balances above $50,000.

To learn more or to enroll, go to www.dcaustin.com and select “ING Advisor Service” after you log in, or call 1-877-66-AUSTIN to speak with an Investment Advisor Representative. You will receive a retirement assessment and specific savings and investment recommendations designed to help you meet your financial goals.

There is no charge for your initial advice consultation. You can decide whether to use the advice you receive and can have an Investment Advisor Representative enroll you in the program. If you enroll, you can start or stop the service at any time.
Glossary of Financial Terms

**Assets** — Anything owned that has monetary value or can be exchanged for monetary value (for example, a house or car).

**Capital** — Money available for investment purposes.

**Capital Gain (or Loss)** — An increase (or decrease) in value (of a stock or mutual fund, for example) resulting from favorable (or unfavorable) investment performance. This may sometimes be expressed as appreciation or depreciation.

**Diversification** — Spreading your money among different types of investments, such as stocks, bonds, or cash equivalents.

**Dividend** — A payment to shareholders that represents their share of a fund’s or a company’s earnings available for distribution.

**Earnings** — A company’s or fund’s profit after paying all costs, expenses, and taxes.

**Expense Ratio** — A ratio for comparing an investment option’s efficiency by dividing its expenses by its net assets.

**Income** — Interest or dividends earned from an investment. Income is automatically reinvested in a participant’s Plan account.

**Index** — An investment or financial benchmark against which financial or economic performance may be measured, such as the S&P 500® or the Consumer Price Index.

**Interest** — Money credited to a fixed investment account. Money a borrower pays to a lender as the cost of using money, expressed as a percentage per period of time; period of time is usually one year, in which case it is called an “annual rate of interest.”

**Investment Objective/Goal** — A statement of the goals an investment option seeks to achieve through its investments. Generally, investors match their financial objectives with investment options that have similar goals, balanced with their risk tolerance.

**Liquidity** — A market is liquid when it has a high level of trading activity, allowing buying and selling with minimum price disturbance. A liquid asset is easily turned into cash.

**Market Capitalization (Market Cap)** — The current value or price of a stock multiplied by the number of shares outstanding. For example, if a company has one million shares available and the price is $10 per share, market cap is $10 million.

**Mutual Fund** — A form of collective investment that pools money from many investors and invests the money in stocks, bonds, short-term money market instruments, or other securities.

**Price-to-Book (P/B) Ratio** — The ratio of stock price to per-share stockholder equity.

**Price-to-Earnings (P/E) Ratio** — The most common measure of how expensive a stock is. Equal to the stock’s price divided by its after-tax earnings per share over a 12-month period.

**Principal** — The original amount of money invested, not including interest or dividends on that amount. Principal value may fluctuate.

**Prospectus** — The printed statement describing a particular mutual fund to prospective investors. It explains overall investment goals, investment strategy, fund expenses, and the potential risk and reward of investing in the fund.

**Security** — Proof of ownership of an investment. Registered securities refer to general equities that, when purchased, are recorded in the holder’s name by a registrar.

**Total Return** — The profit or loss on an investment over a specific period of time. Total return includes income and share price appreciation and depreciation, and assumes that all dividends and capital gains paid during the period are reinvested to buy additional shares.

**Volatility** — A measure of price or interest rate fluctuations over a given period of time.

Want to know more? For additional information on investing and investment terms, check out financial glossaries at the resources below:

- www.CNNmoney.com
- www.investorwords.com
- www.marketwatch.com
- www.reuters.com/glossary
For more information

For questions about your account
Online: www.dcaustin.com
By phone: Call 1-877-66-AUSTIN (1-877-662-8784)
- Press 1 for a Service Representative, weekdays 7 a.m. to 7 p.m. Central Time
- Press 2 for a local ING Representative, weekdays 8:30 a.m. to 5 p.m. Central Time

For investment advice
Online: www.dcaustin.com
By phone: Call 1-877-66-AUSTIN (1-877-662-8784), option 1, weekdays 7 a.m. to 7 p.m. Central Time, to speak with an ING Advisor Representative.