

**WESTERN CONFERENCE OF TEAMSTERS  
PENSION PLAN**

FINANCIAL STATEMENTS

DECEMBER 31, 2012

**WESTERN CONFERENCE OF TEAMSTERS  
PENSION PLAN**

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2012 AND 2011

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## **INDEPENDENT AUDITORS' REPORT**

To the Participants and Trustees of  
Western Conference of Teamsters Pension Plan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Western Conference of Teamsters Pension Plan (the Plan), which comprise the statements of net assets available for benefits as of December 31, 2012 and 2011; the related statements of changes in net assets available for benefits for the years then ended; and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, which includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

To the Participants and Trustees of  
Western Conference of Teamsters Pension Plan  
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the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding Western Conference of Teamsters Pension Plan's net assets available for benefits as of December 31, 2012, and changes therein for the year then ended and its financial status as of December 31, 2011, and changes therein for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Lindquist LLP*

September 11, 2013

**WESTERN CONFERENCE OF TEAMSTERS  
PENSION PLAN**

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>INVESTMENTS - at fair value</b>		
U.S. Government and Government Agency obligations	\$ 1,675,159,720	\$ 1,544,452,153
Corporate debt securities	2,206,187,935	2,208,606,832
Equity securities	1,935,480,549	1,526,895,068
Insurance company contracts	8,934,109,377	8,169,666,251
Common/commingled trusts	8,916,422,823	8,314,624,197
Real estate	920,226,506	1,117,909,223
Limited partnerships	3,370,935,530	2,565,010,423
Limited liability companies	448,565,391	149,436,533
103-12 investment entities	1,127,626,754	1,019,955,646
Foreign debt securities	167,200,205	207,926,093
Cash and cash equivalents	1,442,878,907	1,138,137,176
	<u>31,144,793,697</u>	<u>27,962,619,595</u>
<b>Securities on loan</b>		
U.S. Government and Government Agency obligations	299,168,808	682,021,032
Corporate debt securities	15,742,347	41,287,986
Equity securities	41,577,442	189,278,606
Insurance company contracts	2,554,772,342	2,457,442,756
	<u>2,911,260,939</u>	<u>3,370,030,380</u>
Fair value of collateral held for securities on loan	2,853,529,459	3,249,490,133
Total investments	<u>36,909,584,095</u>	<u>34,582,140,108</u>
<b>RECEIVABLES</b>		
Contributions due from employers - net	99,177,191	100,756,582
Accrued investment income	72,624,694	93,651,717
Swaps receivable from counterparties	473,007,776	409,661,854
Forward foreign currency contracts	5,889,643	83,428,846
Due from broker for securities sold	558,281,130	781,702,531
Total receivables	<u>1,208,980,434</u>	<u>1,469,201,530</u>
<b>OTHER ASSETS</b>		
	<u>9,191,417</u>	<u>11,528,928</u>
<b>CASH</b>		
Total assets	<u>38,132,784,186</u>	<u>36,068,788,690</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	29,233,029	15,604,794
Due to broker for securities purchased	990,805,048	1,122,336,019
Securities sold, not yet purchased	1,327,324,712	1,076,699,107
Swaps payable to counterparties	471,550,214	425,193,044
Forward foreign currency contracts	5,863,854	81,986,290
Liability to return collateral held for securities on loan	2,974,900,924	3,440,478,423
Total liabilities	<u>5,799,677,781</u>	<u>6,162,297,677</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u>\$ 32,333,106,405</u>	<u>\$ 29,906,491,013</u>

See accompanying notes to financial statements.

**WESTERN CONFERENCE OF TEAMSTERS  
PENSION PLAN**

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ADDITIONS</b>		
Investment income		
Interest, dividends and other investment income	\$ 766,269,577	\$ 750,499,725
Net appreciation in fair value of investments	2,827,881,149	1,166,759,039
Net appreciation (depreciation) in fair value of collateral for securities on loan	<u>69,616,825</u>	<u>(23,221,841)</u>
	3,663,767,551	1,894,036,923
Less investment expenses	<u>(154,900,899)</u>	<u>(110,395,202)</u>
Investment income - net	3,508,866,652	1,783,641,721
Employer contributions	1,367,269,396	1,322,549,210
Other income	<u>1,838,363</u>	<u>3,361,136</u>
Total additions	<u>4,877,974,411</u>	<u>3,109,552,067</u>
<b>DEDUCTIONS</b>		
Pension benefits	2,367,599,798	2,305,403,748
Administrative expenses	<u>83,759,221</u>	<u>83,756,845</u>
Total deductions	<u>2,451,359,019</u>	<u>2,389,160,593</u>
<b>NET CHANGE</b>	2,426,615,392	720,391,474
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
Beginning of year	<u>29,906,491,013</u>	<u>29,186,099,539</u>
End of year	<u>\$ 32,333,106,405</u>	<u>\$ 29,906,491,013</u>

See accompanying notes to financial statements.

**WESTERN CONFERENCE OF TEAMSTERS  
PENSION PLAN**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting** - The accompanying financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Investment Valuation, Transactions and Income Recognition -**

*General* - Investments are carried at fair value, which is determined, presented and disclosed in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 820, *Fair Value Measurements and Disclosures*. Under FASB ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

FASB ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Plan. Unobservable inputs reflect the Plan’s assumptions about inputs that market participants would use in pricing the investments developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels, based on the inputs, as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Plan has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active, quoted prices for similar investments in active markets or model-based valuations for which all significant assumptions are observable and can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs that are supported by little or no market activity and are significant to the overall fair value measurement. Values are determined using proprietary pricing models, discounted cash flow models that include the investment entities’ own judgments and estimations, or some other pricing method using unobservable inputs.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends FASB ASC 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. The primary provisions applicable to the Plan are (1) the application of the highest and best use and valuation premise concepts, (2) quantitative information required for certain fair value measurements categorized within Level 3, and (3) non-public entities are no longer required to disclose information about transfers between Level 1 and Level 2 of the fair value hierarchy. ASU 2011-04 is effective for annual reporting periods beginning after December 15, 2011. The Plan adopted the provisions of ASU 2011-04 on January 1, 2012. The adoption of ASU 2011-04 did not have a material impact on the financial statements.

*Inputs and Valuation Methods* - In determining fair value, FASB ASC 820 allows various valuation approaches. The specific methods used for each of the Plan's investment classes are presented below.

*U.S. Government and Government Agency obligations:* The fair value of U.S. Government and Government Agency obligations is generally based on quoted market prices in active markets (Level 1). When quoted prices are not available, valuation is determined using a market-based model in which valuation consideration is given to yield or price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices (Level 2).

*Corporate and foreign debt securities:* The fair value of corporate and foreign debt securities is generally determined based on a model that uses inputs such as interest-rate yield curves, which are similar to the valued obligations in terms of issuer, maturity and seniority (Level 2). The fair value of illiquid corporate debt securities is determined based on internally developed inputs (Level 3).

*Equity securities:* The fair value of common stock is generally based on quoted market prices in active markets (Level 1).

*Insurance company contracts:* The insurance company contracts consist of investments of various types, including U.S. Government and Government Agency obligations, corporate debt securities, cash and cash equivalents, real estate, pooled separate accounts, mortgages and unallocated insurance contracts. The insurance company contract investments in U.S. Government and Government Agency obligations and corporate debt securities are valued as described above.

*Unallocated insurance contracts:* Investments in the Prudential Fixed Dollar Account are stated at the principal amount invested plus income earned (Level 2).

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

*Pooled separate accounts (insurance company contracts):* Investments in the Temporary Investment Account are stated at the principal amount invested plus income earned (Level 2).

Investments in the Union Mortgage Account, which is composed primarily of mortgage loans on income-producing commercial properties, are valued at estimated fair value using Prudential's Asset Liability Pricing System (ALPS). The estimated fair value of the mortgages may be adjusted for such factors as contractual prepayment options or losses in the fair value of the underlying real estate. The credit quality ratings are reviewed annually and are monitored by the portfolio manager throughout the year for events that could affect the quality of the mortgages (Level 2).

The underlying investments in PRISA and PRISA II real estate accounts are valued at estimated fair value based upon property appraisals prepared by independent real estate appraisers. The investment debt on acquired real estate is reported at estimated fair value, which is determined using the discounted cash flow method (Level 3).

*Common/commingled trusts:* Common/commingled trusts hold investments in domestic and foreign equity securities, debt securities and units in other affiliated and unaffiliated commingled trusts. The underlying assets may be valued based on quoted market prices, independent pricing services or by dealers making a market for certain securities. The unit values of the common/commingled trusts are determined by dividing the underlying net asset values (assets less liabilities) by the outstanding number of units (Level 2).

*Real estate (insurance company contracts):* Investments in the Western Conference of Teamsters Separate Account (WCOT) are valued at the estimated fair value based upon property appraisals prepared by independent real estate appraisers. The investment debt on acquired real estate is reported at estimated fair value, which is determined using the discounted cash flow method (Level 3).

*Real estate (other):* Investments in real estate accounts are valued at estimated fair value based on appraisal reports prepared by independent real estate appraisers and/or the account's investment manager (Level 3).

*Limited partnerships (private equity) and limited liability companies:* Limited partnerships and limited liability companies are valued using net asset value, which approximates fair value. Net asset value of these funds is based on the underlying assets' fair values, which include a combination of quoted market prices and estimated fair values determined by the general partners and managers of the limited liability companies using the most recent net asset values or capital account information available, independent appraisals, significant judgments and various mathematical models and methodologies (Level 3).

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

*103-12 investment entities:* 103-12 investment entities are valued based on the net asset value and have been determined based on the unit values of the funds, which are determined by dividing the fund's net assets at fair value by its units outstanding at the valuation date (Level 2).

*Cash and cash equivalents:* The value of temporary cash held in short-term investment funds is based on quoted prices for similar assets in active markets (Level 2). Temporary cash held in banks is valued at cost, which approximates fair value (Level 1).

*Collateral held for securities on loan:* Cash collateral for securities on loan with the custodial bank has been reinvested in various types of debt securities for which values are determined using a model-based approach. Cash collateral for securities on loan through Prudential have been reinvested in the Prudential Core Investments Fund - Short-Term Bond Account (Level 2).

*Futures contracts and options:* Futures contracts and options that are publicly traded in active markets are valued at closing prices as of the last business day of the year (Level 1). Other futures contracts and options are valued at their fair value, as determined in good faith in accordance with the procedures adopted by the investment manager. Such procedures include obtaining quotes from pricing agents and utilizing pricing models based on available market data (Level 2).

*Swap agreements:* Swap agreements are recorded on the contract date. Amounts payable or receivable under the swap agreements are included on a net basis as a receivable from or payable to the swap counterparty on the statements of net assets available for benefits. Because no market quotations are readily available, swap agreements are valued at estimated fair value, as determined by the investment manager, utilizing pricing models based on available market data (Level 2).

*Valuation Methods, Consistency* - The valuation techniques used in the accompanying financial statements have been consistently applied.

*Transactions and Income Recognition* - Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Contributions Receivable** - Employer contributions due and not paid prior to the year-end are recorded as employer contributions receivable. Allowance for uncollectible accounts is considered unnecessary and is not provided. Contributions due as a result of payroll audits have been recorded net of an allowance equal to the amount due because collectability is uncertain. Therefore, delinquent contributions are recorded when received.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Withdrawal Contributions Income and Receivable** - Withdrawal contributions income is recognized when the withdrawal liability amount has been assessed and is included in employer contributions. An allowance for uncollectible accounts is deemed necessary because collectability is uncertain.

**Actuarial Present Value of Accumulated Plan Benefits** - Accumulated Plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service that participants have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of participants who have died, and (c) present active participants or their beneficiaries.

**Equipment and Other Fixed Assets** - The Plan's computer equipment and other fixed assets are recorded at cost. Furniture and computer equipment are depreciated using the straight-line method. Internally developed software is amortized using the straight-line method. Enhancements to internally developed software that result in additional functionality are capitalized.

Depreciation and amortization is calculated using the following estimated useful lives:

Furniture	7 years
Computer equipment	3 years
Internally developed software	10 years

Depreciation and amortization expense for the years ended December 31, 2012 and 2011, was \$3,277,828 and \$3,119,752, respectively.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Risks and Uncertainties** - The actuarial present value of accumulated Plan benefits is calculated based on certain assumptions pertaining to interest rates, participant demographics and other assumptions, all of which are subject to change. Due to the inherent uncertainty of the assumption process, it is at least reasonably possible that changes in these assumptions in the near term would be material to the disclosure to the financial statements of the actuarial present value of accumulated Plan benefits.

The Plan invests in equity securities, corporate debt securities, mortgages, commodities, real estate, futures, swaps, limited partnerships and other investment securities. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty with respect to

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of net assets available for benefits and the statements of changes in net assets available for benefits.

**Reclassifications** - Certain prior-year amounts have been reclassified based on updated information received from the investment manager pertaining to one security that was classified as a limited liability company and is now classified as a 103-12 investment entity.

**NOTE 2. DESCRIPTION OF THE PLAN**

The following description of the Western Conference of Teamsters Pension Plan (the Plan) is provided for general information purposes only. Participants should refer to the Summary Plan Description for complete information.

**General** - The Plan was established pursuant to the Western Conference of Teamsters Pension Agreement and Declaration of Trust dated April 26, 1955, to provide and maintain retirement, death and termination benefits for employees in collective bargaining units represented by local unions affiliated with the Western Conference of Teamsters. The Plan defines the retirement, death and termination benefits to be provided; the conditions of eligibility for those benefits; the terms of payment; and other necessary or appropriate items. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**Board of Trustees** - The Plan is administered by a Board of Trustees (the Trustees) composed of 13 union trustees and 13 employer trustees. The Trustees are selected from the various geographic areas served by the Plan.

**Plan Administration** - The Trustees have engaged a third-party administrator to perform administrative and managerial functions for the Plan and to implement the policies of the Trustees.

The Trustees have also contracted with the third-party administrator for services relating to the testing of contributing employers' records. The purpose of the testing is to determine that the proper amount of contributions has been remitted to the Plan. The fees for these services are included in the Administrative Offices expense.

**Insurance Company** - The Plan is party to two group annuity contracts with Prudential Insurance Company of America (Prudential): one is a participating annuity contract (GA-8216); the other is an investment-only contract (GA-8217) (see Note 12). Benefit payments and administrative services are provided under both contracts.

**Retirement Benefits** - The Plan's normal retirement benefits are determined using a two-step defined benefit formula.

**NOTE 2. DESCRIPTION OF THE PLAN (CONT'D)**

The first formula is the five-year-average benefit formula. This formula is used to determine an eligible participant's retirement benefits for service before 1987. Under this formula, monthly retirement benefits are based on the length of a participant's service and the rate of employer contributions payable for the participant's last five years of service. Although service after 1986 is not recognized for this formula, employer contribution rates payable on behalf of active participants through the end of 1991 are recognized in determining retirement benefits.

The second formula is the contribution-account benefit formula. This formula is used to determine an eligible participant's retirement benefits for contributory service after 1986 and, if the participant is first covered by the Plan after 1986, for non-contributory service when applicable. Under this formula, monthly retirement benefits are based on a percentage of total employer contributions payable for all of the participant's non-forfeited service after 1986.

Beginning in 2009, the benefit accrual rates were reduced to 1.20% for all participants, regardless of years of service. Benefits earned by a non-vested participant may be permanently forfeited under certain conditions. For participants who earned a year of vesting service after December 31, 1990, the vesting period was reduced from ten years to five years.

**Early Retirement Benefits** - The three conditions for early retirement benefits eligibility are that a participant:

1. be a vested participant,
2. has reached the earliest retirement date, and
3. has retired from employment.

The Plan allows certain eligible participants to retire early and receive a retirement benefit equal to 100% of the normal retirement benefit. The subsidized early retirement benefits provided under the Plan are subject to payment of increased contribution surcharges under the Program for Enhanced Early Retirement (PEER).

**Disability Retirement Benefits** - To be eligible for disability retirement benefits, a participant must:

1. be vested or an age pensioner,
2. meet the recent coverage requirement,
3. be receiving disability insurance benefits under the Federal Social Security Act,
4. be under age 65 when meeting the first three conditions, and
5. remain continuously disabled from the disability onset date to the date of meeting the first three conditions.

**NOTE 2. DESCRIPTION OF THE PLAN (CONT'D)**

Participants eligible for disability retirement benefits receive a benefit in the amount of the early retirement benefit, if eligible, but no less than 85% of their normal retirement benefit.

**Other Benefits** - Surviving spouses and children are entitled to monthly survivor benefits under certain conditions. Also, beneficiaries of retired and non-retired participants are entitled to death benefits under certain conditions, as determined under the Plan.

**NOTE 3. PRIORITIES UPON TERMINATION**

It is the intent of the Trustees to continue the Plan in full force and effect; however, the right to discontinue the Plan is reserved to the Trustees. Termination shall not permit any part of the Plan assets to be used for, or diverted to, purposes other than the exclusive benefit of the pensioners, beneficiaries and participants. In the event of termination, the net assets of the

Plan will be allocated to pay benefits in priorities as prescribed by ERISA and its related regulations. Whether or not a particular participant will receive full benefits should the Plan terminate at some future time will depend on the sufficiency of the Plan's net assets at that time and the priority of those benefits.

Certain benefits under the Plan are guaranteed by Prudential (see Note 12). In addition, certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the Plan terminates. Generally, the PBGC guarantees most vested normal-age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. The PBGC does not guarantee all types of benefits, and the amount of any individual participant's benefit protection is subject to certain limitations, particularly with respect to benefit increases as a result of Plan amendments in effect for less than five years. Some benefits may be fully or partially provided, while other benefits may not be provided at all.

**NOTE 4. TAX STATUS**

The Plan obtained its latest determination letter, dated February 19, 2013, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements under Section 401(a) of the Internal Revenue Code and was, therefore, exempt from federal income taxes under the provisions of Section 501(a). The Plan has been amended since receiving the determination letter. However, the Trustees and the Plan's counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**NOTE 4. TAX STATUS (CONT'D)**

Accounting principles generally accepted in the United States of America require management to evaluate the tax positions taken by the Plan and to recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Plan and has concluded that, as of December 31, 2012, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan believes it is no longer subject to income tax examinations for the years prior to 2009.

**NOTE 5. FUNDING POLICY**

The Trust Agreement provides that the Trustees shall establish and adjust the levels of prospective Plan benefits so that the employer contributions received by the Plan will always meet the minimum funding standards of Section 302 of ERISA and Section 412 of the Internal Revenue Code of 1986. The Trustees have established a funding policy that specifies funding targets that may result in more rapid funding than prescribed by the minimum funding standards and that provides for benefit adjustments based on specified funding targets.

Employer contributions are determined from employment hours reported by participating employers and the contractual employer contribution rates in effect.

The Plan's actuary has advised that the minimum funding requirements of ERISA are being met as of January 1, 2012 and 2011.

**NOTE 6. ACTUARIAL INFORMATION**

Actuarial valuations of the Plan were made by McGinn Actuaries Ltd. as of January 1, 2012 and 2011. Information in the reports included the following:

	<u>2012</u>	<u>January 1,</u> <u>2011</u>
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Participants currently receiving payments	\$ 20,386,683,000	\$ 19,747,735,000
Other participants	<u>14,606,883,000</u>	<u>14,081,375,000</u>
Total vested benefits	34,993,566,000	33,829,110,000
Non-vested benefits	<u>1,853,770,000</u>	<u>1,900,116,000</u>
Total actuarial present value of accumulated Plan benefits	<u>\$ 36,847,336,000</u>	<u>\$ 35,729,226,000</u>

As reported by the actuary, the changes in the present value of accumulated Plan benefits for the year ended January 1, 2012, were as follows:

Actuarial present value of accumulated Plan benefits at beginning of year		\$ 35,729,226,000
Increase (decrease) during the year attributable to:		
Change in actuarial assumptions	\$ 128,474,000	
Benefits accumulated	621,379,000	
Plan amendment	17,668,000	
Increase due to decrease in discount period	2,423,540,000	
Benefits paid	(2,305,404,000)	
Other experience	<u>232,453,000</u>	
Net change		<u>1,118,110,000</u>
Actuarial present value of accumulated Plan benefits at end of year		<u>\$ 36,847,336,000</u>

**NOTE 6. ACTUARIAL INFORMATION (CONT'D)**

The method used in the valuation was the entry-age actuarial cost method. The significant actuarial assumptions used are as follows:

Assumed rates of return on investments and the rates used to discount liabilities specially backed by dedicated asset investments:

Fixed Dollar Account:	6.8% for 2012, 6.9% for 2011, and decreasing gradually to 6.5% in 2015 and thereafter.
82/84 Annuity Account:	4.20% (2012), 4.51% (2011).
Strategic Bond Account:	5.43% (2012), 5.79% (2011).
Assumed rates of return on remaining investments and the rates used to discount remaining liabilities:	7.00% for 2011 and thereafter.
Expenses:	\$85 million per year.
Rates of age retirements:	Tables developed from Plan experience based on years of service, eligibility for PEER and other factors.
Rates of employee termination:	Tables developed from Plan experience based on separate rates for non-seasonal and seasonal employees.
Rates of mortality for retirements:	Tables developed from the RP-2000 mortality tables and adjustment factors modified to reflect recent Plan experience and projected using Scale AA for non-retired participants and age retirees and beneficiaries.
Rates of mortality for disability retirements:	Tables developed from Plan experience.
Survivor benefit cost:	Family composition tables from the 15th Actuarial Valuation published by the Railroad Retirement Board.

**NOTE 6. ACTUARIAL INFORMATION (CONT'D)**

The above actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits. Pension benefits in excess of the present assets of the Plan are dependent on contributions received under collective bargaining agreements with employers and on income from investments.

Since information on the accumulated Plan benefits at December 31, 2012, and the changes therein for the year then ended are not included above, these financial statements do not purport to present a complete presentation of the financial status of the Plan as of December 31, 2012, and the changes in its financial status for the year then ended, but only present the net assets available for benefits and the changes therein as of and for the year ended December 31, 2012. The complete financial status is presented as of December 31, 2011.

**NOTE 7. INVESTMENTS**

The following summary presents the fair value for each of the Plan's investment categories:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Investments at fair value, as determined by quoted market prices		
U.S. Government and Government		
Agency obligations	\$ 739,806,114	\$ 1,013,717,365
Equity securities	1,977,057,991	1,716,173,674
Foreign debt securities	10,406,052	7,722,515
Cash and cash equivalents	8,778,468	6,374,910
	<u>2,736,048,625</u>	<u>2,743,988,464</u>
Investments at estimated fair value, based on models, cash flow analyses or other observable inputs		
U.S. Government and Government		
Agency obligations	1,234,522,414	1,212,755,820
Corporate debt securities	2,201,459,217	2,249,894,818
Insurance company contracts		
U.S. Government and Government		
Agency obligations	4,432,065,405	4,085,011,740
Corporate debt securities	3,481,284,554	3,664,967,514
Cash and cash equivalents	315,686,824	293,522,482
Pooled separate accounts	762,719,093	446,623,690
Mortgages	56,328,711	58,115,317
Unallocated insurance contracts	128,891,280	136,901,677
Common/commingled trusts	8,916,422,823	8,314,624,197
Foreign debt securities	156,794,153	200,203,578
103-12 investment entities	1,127,626,754	1,019,955,646
Limited partnerships	366,740,720	344,872,090
Cash and cash equivalents	1,434,100,439	1,131,762,266
Securities lending collateral (see Note 10)	2,853,529,459	3,249,490,133
	<u>27,468,171,846</u>	<u>26,408,700,968</u>
Investments at estimated fair value, as determined by the investment manager or other unobservable inputs		
Insurance company contracts		
Real estate	1,212,526,538	960,827,717
Pooled separate accounts	1,099,379,314	981,138,870
Corporate debt securities	20,471,065	-
Real estate	920,226,506	1,117,909,223
Limited liability companies	448,565,391	149,436,533
Limited partnerships	3,004,194,810	2,220,138,333
	<u>6,705,363,624</u>	<u>5,429,450,676</u>
Total	<u>\$ 36,909,584,095</u>	<u>\$ 34,582,140,108</u>

**NOTE 7. INVESTMENTS (CONT'D)**

The following presents investments that represent 5% or more of the Plan's net assets available for benefits:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Investments at estimated fair value		
Insurance company contracts		
Prudential Insurance Company of America, Group Annuity Contract GA-8216	\$ 4,066,885,122	\$ 4,181,758,289
Prudential Insurance Company of America, Group Annuity Contract GA-8217	7,421,996,597	6,445,350,718
Common/commingled trusts		
Northern Trust Collective Daily S&P 500 Equity Index Fund	1,747,523,503	1,505,554,619
EB Daily Valued Stock Index Fund of The Bank of New York Mellon	2,252,508,098	2,566,844,953

**NOTE 7. INVESTMENTS (CONT'D)**

The Plan's investments, including investments bought, sold or held during the year, appreciated (depreciated) in value as follows:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Investments at fair value, as determined by quoted market prices		
U.S. Government and Government		
Agency obligations	\$ 5,487,577	\$ 94,900,995
Equity securities	211,311,167	30,817,638
Foreign debt securities	(69,325)	993,048
Futures and options contracts	224,976,344	40,714,373
Securities sold short	(125,047,363)	55,584,457
Forward foreign currency contracts	(1,350,308)	(10,367,553)
	<u>315,308,092</u>	<u>212,642,958</u>
Investments at estimated fair value, based on models, cash flow analyses or other observable inputs		
U.S. Government and Government		
Agency obligations	13,562,227	59,765,621
Corporate debt securities	204,985,305	(94,913,295)
Foreign debt securities	14,024,174	(3,513,644)
Insurance company contracts		
U.S. Government and Government		
Agency obligations	1,021,453	448,506,016
Corporate debt securities	182,509,888	125,681,875
Pooled separate accounts	(1,577,201)	4,915,737
Mortgages	83,037	1,631,073
Futures and options contracts	(7,725,310)	2,626,360
Swap agreements	(2,040,243)	1,151,104
Common/commingled trusts	1,314,589,941	(138,590,938)
Limited partnerships	1,452,739	(25,623,040)
103-12 investment entities	107,671,109	77,665,749
Swap agreements	22,235,067	(19,997,552)
	<u>1,850,792,186</u>	<u>439,305,066</u>
Investments at estimated fair value, as determined by the investment manager or other unobservable inputs		
Insurance company contracts		
Real estate	155,846,533	120,251,331
Pooled separate accounts	66,876,317	114,433,584
Real estate	47,191,668	64,451,226
Limited partnerships	367,487,798	201,059,158
Limited liability companies	24,378,555	14,615,716
	<u>661,780,871</u>	<u>514,811,015</u>
Total	<u>\$ 2,827,881,149</u>	<u>\$ 1,166,759,039</u>

**NOTE 7. INVESTMENTS (CONT'D)**

The Plan's invested securities lending collateral appreciated (depreciated) in value as follows:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Investments at estimated fair value		
Reinvested custodial bank securities	\$ 1,159,944	\$ 574,018
Insurance company contracts		
Prudential Core Investment		
Fund - Short Term	<u>68,456,881</u>	<u>(23,795,859)</u>
Total unrealized gains (losses)		
on reinvested collateral	<u>\$ 69,616,825</u>	<u>\$ (23,221,841)</u>

## NOTE 8. INVESTMENTS AT FAIR VALUE HIERARCHY

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2012, are as follows:

Description	December 31, 2012	Fair Value Measurements at Reporting Date using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and Government Agency obligations				
U.S. Treasury securities	\$ 739,806,114	\$ 739,806,114	\$ -	\$ -
Mortgage-backed securities	1,234,522,414	-	1,234,522,414	-
	<u>1,974,328,528</u>	<u>739,806,114</u>	<u>1,234,522,414</u>	<u>-</u>
Corporate debt securities				
Corporate debt securities	2,117,829,384	-	2,097,358,319	20,471,065
Asset-backed securities	104,100,898	-	104,100,898	-
	<u>2,221,930,282</u>	<u>-</u>	<u>2,201,459,217</u>	<u>20,471,065</u>
Foreign debt securities	<u>167,200,205</u>	<u>10,406,052</u>	<u>156,794,153</u>	<u>-</u>
Equity securities				
Communication	211,772,359	211,772,359	-	-
Consumer goods	269,286,665	269,286,665	-	-
Energy and utilities	282,587,582	282,587,582	-	-
Financial	241,624,717	241,624,717	-	-
Healthcare	220,745,353	220,745,353	-	-
Manufacturing	243,322,930	243,322,930	-	-
Technology	275,980,620	275,980,620	-	-
Other	231,737,765	231,737,765	-	-
	<u>1,977,057,991</u>	<u>1,977,057,991</u>	<u>-</u>	<u>-</u>
Insurance company contracts				
U.S. Government and Government Agency obligations				
U.S. Treasury securities	2,030,022,554	-	2,030,022,554	-
Mortgage-backed securities	1,049,635,867	-	1,049,635,867	-
Other government debt securities	1,352,406,984	-	1,352,406,984	-
Corporate debt securities				
Corporate debt securities	3,068,789,866	-	3,068,789,866	-
Asset-backed securities	412,494,688	-	412,494,688	-
Mortgages	56,328,711	-	56,328,711	-
Cash and cash equivalents	315,686,824	-	315,686,824	-
Pooled separate accounts	1,862,098,407	-	762,719,093	1,099,379,314
Unallocated insurance contracts	128,891,280	-	128,891,280	-
Real estate	1,212,526,538	-	-	1,212,526,538
	<u>11,488,881,719</u>	<u>-</u>	<u>9,176,975,867</u>	<u>2,311,905,852</u>
Common/commingled trusts	8,916,422,823	-	8,916,422,823	-
103-12 investment entities	1,127,626,754	-	1,127,626,754	-
Limited liability companies	448,565,391	-	-	448,565,391
Limited partnerships	3,370,935,530	-	366,740,720	3,004,194,810
Cash and cash equivalents	1,442,878,907	8,778,468	1,434,100,439	-
Real estate	920,226,506	-	-	920,226,506
Collateral for securities on loan	2,853,529,459	-	2,853,529,459	-
<b>Total</b>	<b>\$ 36,909,584,095</b>	<b>\$ 2,736,048,625</b>	<b>\$ 27,468,171,846</b>	<b>\$ 6,705,363,624</b>

**NOTE 8. INVESTMENTS AT FAIR VALUE HIERARCHY (CONT'D)**

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2011, are as follows:

Description	December 31, 2011	Fair Value Measurements at Reporting Date using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and Government Agency obligations				
U.S. Treasury securities	\$ 1,013,717,365	\$ 1,013,717,365	\$ -	\$ -
Mortgage-backed securities	1,103,382,321	-	1,103,382,321	-
Other government debt securities	109,373,499	-	109,373,499	-
	<u>2,226,473,185</u>	<u>1,013,717,365</u>	<u>1,212,755,820</u>	<u>-</u>
Corporate debt securities				
Corporate debt securities	1,934,487,235	-	1,934,487,235	-
Asset-backed securities	315,407,583	-	315,407,583	-
	<u>2,249,894,818</u>	<u>-</u>	<u>2,249,894,818</u>	<u>-</u>
Foreign debt securities	<u>207,926,093</u>	<u>7,722,515</u>	<u>200,203,578</u>	<u>-</u>
Equity securities				
Communication	131,733,828	131,733,828	-	-
Consumer goods	150,456,759	150,456,759	-	-
Consumer services	85,930,484	85,930,484	-	-
Energy and utilities	310,410,978	310,410,978	-	-
Financial	146,588,191	146,588,191	-	-
Healthcare	231,394,113	231,394,113	-	-
Manufacturing	183,982,683	183,982,683	-	-
Technology	242,363,862	242,363,862	-	-
Other	233,312,776	233,312,776	-	-
	<u>1,716,173,674</u>	<u>1,716,173,674</u>	<u>-</u>	<u>-</u>
Insurance company contracts				
U.S. Government and Government Agency obligations				
U.S. Treasury securities	1,622,190,923	-	1,622,190,923	-
Mortgage-backed securities	1,593,341,125	-	1,593,341,125	-
Other government debt securities	869,479,692	-	869,479,692	-
Corporate debt securities				
Corporate debt securities	3,286,792,960	-	3,286,792,960	-
Asset-backed securities	378,174,554	-	378,174,554	-
Mortgages	58,115,317	-	58,115,317	-
Cash and cash equivalents	293,522,482	-	293,522,482	-
Pooled separate accounts	1,427,762,560	-	446,623,690	981,138,870
Unallocated insurance contracts	136,901,677	-	136,901,677	-
Real estate	960,827,717	-	-	960,827,717
	<u>10,627,109,007</u>	<u>-</u>	<u>8,685,142,420</u>	<u>1,941,966,587</u>
Common/commingled trusts	8,314,624,197	-	8,314,624,197	-
103-12 investment entities	1,019,955,646	-	1,019,955,646	-
Limited liability companies	149,436,533	-	-	149,436,533
Limited partnerships	2,565,010,423	-	344,872,090	2,220,138,333
Cash and cash equivalents	1,138,137,176	6,374,910	1,131,762,266	-
Real estate	1,117,909,223	-	-	1,117,909,223
Collateral for securities on loan	3,249,490,133	-	3,249,490,133	-
<b>Total</b>	<u>\$ 34,582,140,108</u>	<u>\$ 2,743,988,464</u>	<u>\$ 26,408,700,968</u>	<u>\$ 5,429,450,676</u>

## NOTE 8. INVESTMENTS AT FAIR VALUE HIERARCHY (CONT'D)

A reconciliation of the activity from the beginning to the end of year for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2012 and 2011, follows. The amount of total gains or losses for the year included in the changes in net assets available for benefits attributed to the unrealized gains or losses of assets still held at year-end is also included.

Fair Value Measurements using Significant Unobservable Inputs (Level 3):							
December 31, 2012	Insurance Company Contracts		Real Estate	Limited Liability Companies	Limited Partnerships	Corporate Debt Securities	Total
	Real Estate	Pooled Separate Accounts					
Beginning balance	\$ 960,827,717	\$ 981,138,870	\$ 1,117,909,223	\$ 149,436,533	\$ 2,220,138,333	\$ -	\$ 5,429,450,676
Total realized/unrealized gains or losses included in changes in net assets	155,846,533	66,876,317	47,191,668	24,378,555	367,487,798	-	661,780,871
Purchases	42,000,000	-	26,200,000	275,071,187	673,822,483	20,471,065	1,037,564,735
Sales, withdrawals and distributions	-	-	(337,500,000)	(6,198,285)	(202,469,945)	-	(546,168,230)
Investment income (net of expenses)	53,852,288	51,364,127	66,425,615	5,877,401	(41,280,277)	-	136,239,154
Transfers in/out	-	-	-	-	(13,503,582) *	-	(13,503,582)
Ending balance	<u>\$ 1,212,526,538</u>	<u>\$ 1,099,379,314</u>	<u>\$ 920,226,506</u>	<u>\$ 448,565,391</u>	<u>\$ 3,004,194,810</u>	<u>\$ 20,471,065</u>	<u>\$ 6,705,363,624</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ 143,067,953</u>	<u>\$ 66,876,317</u>	<u>\$ 58,711,045</u>	<u>\$ 8,628,491</u>	<u>\$ 297,528,952</u>	<u>\$ -</u>	<u>\$ 574,812,758</u>

\* In May 2012, Yucaipa American Alliance Fund II, LP distributed shares of common stock held by the partnership to all of the partners on an in-kind basis. The Plan received the shares and transferred the value to Level 1 as the shares of common stock are traded in active markets.

Fair Value Measurements using Significant Unobservable Inputs (Level 3):						
December 31, 2011	Insurance Company Contracts		Real Estate	Limited Liability Companies	Limited Partnerships	Total
	Real Estate	Pooled Separate Accounts				
Beginning balance	\$ 797,015,653	\$ 818,267,721	\$ 960,650,326	\$ 16,168,149	\$ 1,572,479,320	\$ 4,164,581,169
Total realized/unrealized gains or losses included in changes in net assets	120,251,331	114,433,584	64,451,226	14,615,716	201,059,158	514,811,015
Purchases	30,000,000	-	51,500,000	125,632,271	551,972,944	759,105,215
Sales, withdrawals and distributions	(40,000,000)	-	(26,500,000)	(630,943)	(81,554,303)	(148,685,246)
Investment income (net of expenses)	53,560,733	48,437,565	67,807,671	(6,348,660)	(23,818,786)	139,638,523
Transfers in/out	-	-	-	-	-	-
Ending balance	<u>\$ 960,827,717</u>	<u>\$ 981,138,870</u>	<u>\$ 1,117,909,223</u>	<u>\$ 149,436,533</u>	<u>\$ 2,220,138,333</u>	<u>\$ 5,429,450,676</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ 89,484,411</u>	<u>\$ 114,433,584</u>	<u>\$ 64,502,944</u>	<u>\$ 10,729,383</u>	<u>\$ 166,027,387</u>	<u>\$ 445,177,709</u>

**NOTE 8. INVESTMENTS AT FAIR VALUE HIERARCHY (CONT'D)**

For fair value measurements categorized within Level 3 of the fair value hierarchy, the following table presents quantitative information about the significant unobservable inputs used. This table does not include investments valued at net asset value, or its equivalent; refer to Note 11 for the required disclosures for the investments valued at net asset value, or its equivalent.

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range of Significant Input Values</u>
Real estate	\$ 2,132,753,044	Appraisals and Discounted Cash Flows	Discount rates Capitalization rates Expense growth rates	6.50–10.75 5.00–8.75 3.0
Corporate debt securities	20,471,065	Fair Value Based on Internally Developed Inputs	Revenue Multiples EBITDA Multiples Discount Rate LTM Revenue Cash Recovery rate A/R Recovery Rate Inventory Recovery Rate Equipment Recovery Rate WACC EBITDA Exit Multiple EBITDA Multiples	0.62x - 2.4x 2.8x - 17.1x 10.0% – 35.0% 2.6x 50.0% - 100.0% 0.0% - 85.0% 0.0% -60.0% 42.5% - 50.0% 0.139 4x 1.5x - 4.6x

**NOTE 9. FINANCIAL INSTRUMENTS**

As part of the total investment strategy, and to meet the primary objectives established by the Trustees, several of the Plan’s investment managers utilize derivative financial instruments. Risks associated with derivatives vary widely, but generally may be categorized as market risk, credit risk and interest rate risk. Market risk is defined as that risk associated with fluctuations in market price. Credit risk is defined as that risk associated with an entity not paying. Interest rate risk is defined as risk associated with changes in general interest rates or yield curves that could adversely affect the fair value of an investment.

Some of the Plan’s investment managers enter into options, warrants and rights, futures, swaps and forward currency exchange contracts. The Plan uses futures, options and swaps for hedging purposes and not on a speculative basis, but the use of these instruments would be considered trading securities for purposes of reporting. The Plan uses futures, swaps and forwards for bona fide hedging purposes and to manage duration, yield curve, convexity, spread risk and credit risk with portfolios.

In addition, investment managers utilize currency forward transactions to protect or partially protect against fluctuations in exchange rates between countries when purchasing non-dollar issues for the portfolio. These instruments are helpful in eliminating volatility that may be experienced by the portfolio due to changes in exchange rates. By purchasing or selling the proper amount of these instruments, the investment manager is able to capture the underlying value of the foreign security without taking on the additional risk of currency.

## **NOTE 9. FINANCIAL INSTRUMENTS (CONT'D)**

An option is a contract that grants the right, but not the obligation, to exercise a specific purchase or sales transaction at a stated exercise price. Warrants and rights are investment instruments similar to options. A futures contract is a standardized agreement between two parties to buy and sell an asset at a set price on a future date. The Plan enters into financial futures contracts solely for the purpose of hedging its existing portfolio securities, or securities the Plan intends to purchase, against fluctuations in fair value caused by changes in prevailing interest rates or as substitutes for cash securities permitted under the relative account guidelines. Upon entering into a financial futures contract, the Plan is required to pledge to the broker an amount in cash, United States government securities or other assets equal to a certain percentage of the contract amounts (initial margin deposit).

Subsequent payments, known as “variation margin,” are made or received by the Plan each day, depending on the daily fluctuations in the fair value of the underlying security. The Plan recognizes an unrealized gain or loss equal to the daily variation margin. Should market conditions move unexpectedly, the Plan may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. When the contract is closed, the Plan recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates and the underlying hedged assets. The variation margin receivable/payable is included in accrued investment income on the statements of net assets available for benefits.

Credit default swaps (CDS) entered into by the Plan typically represent the exchange by a counterparty with the Plan of a commitment to provide credit protection for a commitment to receive interest at a fixed rate based on the potential risk of default of the relevant underlying issuer. Receiving credit protection from a counterparty tends to decrease the Plan’s exposure to the underlying instrument held by the Plan. Such contracts may have a term of one to seven years, but typically require periodic interim settlement in cash. Credit default swaps are marked to market daily based on prices obtained from independent broker/dealers, and changes in value, as well as the accrual of the periodic coupon income, are recorded as unrealized appreciation or depreciation. Gains and losses on CDS agreements are realized upon termination of the swap contract and the periodic payments.

A credit default swap index (CDX) is a credit derivative used to hedge credit risk or to take a position on a group of credit entities. A CDX may be more liquid and trade at a smaller bid-offer spread. This means that it can be cheaper to hedge a portfolio of credit default swaps or bonds with a CDS index than it would be to buy many CDS to achieve a similar effect. Credit default swap indexes are benchmarks for protecting the Plan’s investments in bonds against default.

The Plan has entered into interest rate swap agreements. Through such transactions, the parties agree to pay, on specific dates, either a fixed or floating rate of interest on the

**NOTE 9. FINANCIAL INSTRUMENTS (CONT'D)**

contract amount. Risks in these transactions involve both the risk of counterparty nonperformance under the terms of the contract and the risk associated with changes in the market value of the swaps.

The Plan has also entered into foreign currency forward contracts to protect its investments in foreign securities from price declines caused by changes in currency exchange rates. A foreign currency forward contract is a commitment to purchase or sell a foreign currency on a future date at a negotiated forward rate. The gain or loss arising from the difference between the value of the original contracts and the value upon closing such contracts is included in net realized gain or loss on foreign currency transactions. Fluctuations in the value of open foreign currency forward contracts are recorded as unrealized gains and losses.

The Plan may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Plan sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which the short sale was made. A gain, limited to the price at which the Plan sold the security short, or a loss, unlimited in size, will be recognized upon termination of the short sale.

**NOTE 9. FINANCIAL INSTRUMENTS (CONT'D)**

Total open contracts and unrealized gain (loss) by category at December 31, 2012, consisted of the following:

<u>Type</u>	<u>Position</u>	<u>Notional/ Contractual Amount</u>	<u>Unrealized Gain (Loss)</u>
<b>Futures</b>			
S&P 500 Stock Index Futures	Long	\$ 1,728,971,750	\$ 2,015,347
U.S. Treasury Bond Futures	Long	717,714,395	(2,380,576)
U.S. Treasury Bond Futures	Short	(207,857,250)	2,787,710
Euro Dollar Futures	Short	(4,735,750)	(31,971)
International Bond Futures	Long	8,118,787	45,985
Total futures		<u>\$ 2,242,211,932</u>	<u>\$ 2,436,495</u>
<b>Swaps</b>			
Credit Default Swaps	Long	\$ 5,125,000	\$ 5,146,820
Credit Default Swaps	Short	(5,125,000)	(4,847,726)
Credit Default Index Swaps	Long	148,025,000	148,466,264
Credit Default Index Swaps	Short	(148,025,000)	(147,924,361)
Interest Rate Swaps	Long	534,870,000	319,565,282
Interest Rate Swaps	Short	(616,960,000)	(318,106,269)
Total swaps		<u>\$ (82,090,000)</u>	<u>\$ 2,300,010</u>
<b>Options</b>			
Interest Rate Swap Call Options	Long	\$ 58,200,000	\$ 804,589
Interest Rate Swap Call Options	Short	(103,300,000)	(4,984,326)
Interest Rate Swap Put Options	Long	138,000,000	(2,121,893)
Interest Rate Swap Put Options	Short	(116,900,000)	2,197,751
Total options		<u>\$ (24,000,000)</u>	<u>\$ (4,103,879)</u>
<b>Forward Contracts Foreign Currency</b>			
Pay CDA/Rec USD			\$ 26,726
Pay EUR/Rec USD			(937)
Total forward contracts foreign currency			<u>\$ 25,789</u>

**NOTE 9. FINANCIAL INSTRUMENTS (CONT'D)**

Total open contracts and unrealized gain (loss) by category at December 31, 2011, consisted of the following:

<u>Type</u>	<u>Position</u>	<u>Notional/ Contractual Amount</u>	<u>Unrealized Gain (Loss)</u>
<b>Futures</b>			
S&P 500 Stock Index Futures	Long	\$ 1,442,682,050	\$ 13,028,374
U.S. Treasury Bond Futures	Long	571,688,498	2,516,607
U.S. Treasury Bond Futures	Short	(497,978,265)	(2,843,631)
Euro Dollar Futures	Long	-	(6,648)
Euro Dollar Futures	Short	(4,714,375)	(10,596)
International Bond Futures	Long	10,288,202	271,041
Total futures		<u>\$ 1,521,966,110</u>	<u>\$ 12,955,147</u>
<b>Swaps</b>			
Credit Default Swaps	Long	\$ 5,125,000	\$ 4,855,151
Credit Default Swaps	Short	(5,125,000)	(4,847,726)
Credit Default Index Swaps	Long	230,975,000	229,218,373
Credit Default Index Swaps	Short	(230,975,000)	(229,066,954)
Interest Rate Swaps	Long	426,000,000	166,402,343
Interest Rate Swaps	Short	(426,000,000)	(165,907,918)
Total swaps		<u>\$ -</u>	<u>\$ 653,269</u>
<b>Options</b>			
Interest Rate Swap Call Options	Long	\$ 81,000,000	\$ 3,398,373
Interest Rate Swap Call Options	Short	(175,900,000)	(15,403,002)
Interest Rate Swap Put Options	Long	245,800,000	(1,888,707)
Interest Rate Swap Put Options	Short	(164,100,000)	4,570,909
Common Stock Call Options	Long	43,856	(63,057)
Common Stock Call Options	Short	(3,185)	3,605
Common Stock Put Options	Long	84,428	(86,397)
Total options		<u>\$ (13,074,901)</u>	<u>\$ (9,468,276)</u>
<b>Forward Contracts Foreign Currency</b>			
Pay AUD/Rec USD			\$ (78,955)
Pay CDA/Rec USD			6,322
Pay EUR/Rec USD			1,622,354
Pay GBP/Rec USD			169,059
Pay USD/Rec AUD			46,075
Pay USD/Rec EUR			(184,328)
Pay USD/Rec GBP			(137,971)
Total forward contracts foreign currency			<u>\$ 1,442,556</u>

**NOTE 9. FINANCIAL INSTRUMENTS (CONT'D)**

The accompanying financial statements reflect these unrealized gains and losses, not the gross value or notional amount of the underlying securities. At December 31, 2012 and 2011, approximately \$91,906,000 and \$102,252,000, respectively, had been pledged against the futures contracts to cover the initial margin and collateral requirements.

**NOTE 10. SECURITIES LENDING**

The Trustees authorized the Plan to enter into securities lending agreements with a custodial bank and Prudential (the Lending Agents) to lend securities to third parties. The Lending Agents must obtain collateral from the borrowers in the form of cash or securities issued or guaranteed by the United States Government or its agencies equal to at least 102% (105% for foreign loans) of the market value of the loaned securities plus accrued income. The market value of the collateral is marked to market daily. Except as noted below, if the market value of the collateral is less than the minimum percentage (100%), the Lending Agents require that additional collateral be delivered the following day to meet the required percentage of the market value of the loaned securities, plus accrued interest. During the time the securities are on loan, the Plan will continue to receive the interest and dividends, or amounts equivalent thereto, on the loaned securities. The right to terminate the loan is given to both the lenders and the borrowers, subject to appropriate notice. Upon termination of the loan, the borrowers will return to the lenders securities identical to the loaned securities and the collateral held by lenders will be returned to the borrowers.

The fair value of the securities on loan is as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Securities on loan, at fair value		
Custodial bank	\$ 356,488,597	\$ 912,587,624
Prudential	<u>2,554,772,342</u>	<u>2,457,442,756</u>
Total securities on loan	<u>\$ 2,911,260,939</u>	<u>\$ 3,370,030,380</u>

The Lending Agents are authorized to invest and reinvest any and all cash collateral. Cash collateral may be invested or reinvested in accordance with the investment guidelines set forth in the securities lending agreements. Prudential invested a portion of the cash collateral in the Prudential Core Investment Fund - Short-Term Bond Series Account (Prudential Bond Account), formerly the Dryden Core Short-Term Bond Account (in 2011), an approved vehicle for reinvested cash collateral. The custodial bank reinvested the cash collateral in a pool of approved securities.

**NOTE 10. SECURITIES LENDING (CONT'D)**

The liability to return securities lending collateral, unrealized losses and fair value of collateral are as follows:

<u>As of December 31, 2012</u>	<u>Liability to Return Collateral</u>	<u>Unrealized Losses</u>	<u>Fair Value of Collateral</u>
Collateral for securities on loan			
Custodial bank	\$ 366,536,526	\$ (2,566,942)	\$ 363,969,584
Prudential Bond Account	2,608,364,398	(118,804,523)	2,489,559,875
Total	<u>\$ 2,974,900,924</u>	<u>\$ (121,371,465)</u>	<u>\$ 2,853,529,459</u>

<u>As of December 31, 2011</u>	<u>Liability to Return Collateral</u>	<u>Unrealized Losses</u>	<u>Fair Value of Collateral</u>
Collateral for securities on loan			
Custodial bank	\$ 935,527,008	\$ (3,726,886)	\$ 931,800,122
Dryden Bond Account	2,504,951,415	(187,261,404)	2,317,690,011
Total	<u>\$ 3,440,478,423</u>	<u>\$ (190,988,290)</u>	<u>\$ 3,249,490,133</u>

As shown on the statements of changes in net assets available for benefits, the unrealized gains (losses) on the reinvested collateral for the years ended December 31, 2012 and 2011, were \$69,616,825 and \$(23,221,841), respectively.

Although the Plan's securities lending activities are collateralized as described above, they involve both market and credit risk. In this context, market risk refers to the possibility that the borrowers of securities will be unable to collateralize their loan upon a sudden material change in the fair value of the loaned securities or collateral. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts. To minimize risk, the Plan restricts counterparties to the highest quality firms. If a loan of securities is terminated and such securities are returned, the Plan could sustain realized losses on the collateral if it were necessary to liquidate collateral invested in the Prudential Bond Account.

The Plan earned securities lending income (net of fees) totaling approximately \$17,319,000 and \$17,299,000, respectively, for the years ended December 31, 2012 and 2011. These amounts are included in investment income on the statements of changes in net assets available for benefits.

## NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE

The Plan utilizes net asset value (NAV) per share (or its equivalent), as a practical expedient, to measure fair value when the investment does not have a readily determinable fair value and the net asset value is calculated in a manner consistent with investment company accounting. The fair value of the following investments was measured using NAV (or its equivalent).

Investment Type/Name	Fair Value at December 31,			Redemption Frequency (if currently eligible)	Redemption Notice Period
	2012	2011			
Common/collective trusts					
Northern Trust common/collective funds	\$ 2,717,555,115	\$ 2,326,157,771	{a}	Daily	1 day
The Bank of New York Mellon					
The Bank of New York Mellon common/collective funds	3,052,392,597	3,401,826,391	{b}	Daily	1–2 days
EB International Equity Alpha Plus Fund of The Bank of New York Mellon	1,482,193,605	1,267,037,517	{c}	Twice monthly	2–3 days
EB DV ACWI ex-U.S. Fund of The Bank of New York Mellon	798,277,388	680,910,236	{d}	Daily	1–2 days
Pooled Employee Daily Liquidity Fund	321,538,597	149,331,320	{e}	Daily	None required
Invesco					
Invesco Balanced-Risk Commodity Trust	99,271,137	92,492,711	{f}	Daily	1–4 days
Invesco Balanced-Risk Allocation Trust	445,194,384	396,868,251	{g}	Daily	1–5 days
Limited partnerships					
Akina Funds	37,805,218	15,449,146	{h}	Not permitted	N/A
BlackRock Vesey Street Fund IV (ERISA), L.P.	65,287,501	56,013,665	{i}	Not permitted	N/A
Centerbridge Capital Partners II	51,115,496	27,043,538	{j}	Not permitted	N/A
Crescent Mezzanine Partners VIB, L.P.	11,276,869	-	{k}	Not permitted	N/A
EIG Energy Fund XV-A, L.P.	97,057,740	57,544,699	{l}	Not permitted	N/A
EnCap Energy Capital Fund VIII, L.P.	66,492,176	22,906,440	{m}	Not permitted	N/A
EnerVest Energy Institutional Fund XII-C, L.P.	51,557,658	27,510,130	{n}	Not permitted	N/A
EnTrust WCTPT Fund, L.P.	20,000,000	-	{o}	Quarterly	90 days
Genstar Capital Partners VI, L.P.	8,301,220	-	{p}	Not permitted	N/A
Goldpoint Funds	59,054,584	35,195,961	{q}	Not permitted	N/A
Hamilton Lane Capital Opportunities Fund L.P.	50,857,593	45,681,642	{r}	Not permitted	N/A
HarbourVest Funds	100,327,437	100,295,280	{s}	Not permitted	N/A
IFM Global Infrastructure (US) Fund L.P.	428,115,077	384,231,266	{t}	Quarterly	90 days
JPMorgan IIF ERISA L.P.	614,970,502	554,800,168	{u}	Semi-annually	90 days - See {u}
Landmark Funds	82,281,556	66,425,040	{v}	Not permitted	N/A
Lone Star Fund VII (U.S.), L.P.	127,021,984	48,419,066	{w}	Not permitted	N/A
Monarch Funds	133,230,997	67,933,542	{x}	see {x}	see {x}
Oaktree Enhanced Income Fund (Parallel), L.P.	20,200,217	-	{y}	Not permitted	N/A
Pantheon Funds	106,818,788	68,563,706	{z}	Not permitted	N/A
Partners Funds	99,740,029	81,861,013	{aa}	Not permitted	N/A
Perella Weinberg Partners ABV Opportunity Offshore Fund III	100,320,445	-	{bb}	Not permitted	N/A
Pomona Funds	90,801,726	59,681,128	{cc}	Not permitted	N/A
Schroder Commodity Portfolio	346,540,503	344,872,090	{dd}	Monthly	30 days
Selene Residential Mortgage Opportunity Fund II L.P.	50,654,067	28,740,033	{ee}	Not permitted	N/A
Trilantic Capital Partners Fund V (North America), L.P.	178,843	-	{ff}	Not permitted	N/A
UBS International Infrastructure (U.S. Tax Exempt) Fund L.P.	310,021,807	287,818,674	{gg}	Not permitted	N/A
WP Global Funds	70,043,412	53,235,287	{hh}	Not permitted	N/A
Yucaipa Funds	150,331,063	130,788,909	{ii}	Not permitted	N/A

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE (CONT'D)**

<u>Investment Type/Name</u>	<u>Fair Value at December 31,</u>			<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
	<u>2012</u>	<u>2011</u>			
Pooled separate accounts					
PRISA	\$ 531,904,606	\$ 485,006,646	{jj}	Quarterly	90 days
PRISA II	567,474,708	496,132,224	{kk}	Quarterly	90 days
PRIVEST	302,540,831	-	{ll}	Monthly	30 days
Union Mortgage Account	121,576,248	119,829,758	{mm}	Quarterly	90 days
Temporary Investment Account	338,602,014	326,793,932	{nn}	Daily	15 days
103-12 investment entities					
Bridgewater Associates All Weather Portfolio Limited	822,114,333	713,320,624	{oo}	Monthly	5 days
Gresham DJF Commodity Builder Fund, LLC	305,512,421	306,635,022	{pp}	Daily	2 days
Limited liability companies					
Audax Senior Debt (WCTPT), LLC	65,317,155	-	{qq}	Daily	90 days
JPMorgan Private Equity Funds	49,130,173	36,743,245	{rr}	Not permitted	N/A
New Growth LLC	143,670,028	-	{ss}	Not permitted	N/A
Waterfall Victoria ERISA Fund, Ltd.	123,527,215	98,354,783	{tt}	Annually	180 days
Western Farmland LLC	64,212,025	14,338,505	{uu}	Quarterly	N/A

- {a} The Northern Trust common/collective funds are composed of equities and a combination of other collective funds that together are designed to track the performance of either the S&P 500 Index or the Dow Jones U.S. Completion Total Stock Market Index. The Plan's investment in the funds is weighted to approximate as closely as practicable the entire U.S. equity market.
- {b} The Bank of New York Mellon common/collective funds are composed of equities and a combination of other collective funds that together are designed to track the performance of either the S&P 500 Index or the Dow Jones U.S. Completion Total Stock Market Index. The Plan's investment in the funds is weighted to approximate as closely as practicable the entire U.S. equity market.
- {c} The EB International Equity Alpha Plus Fund of The Bank of New York Mellon common/collective fund follows an active, global, tactical asset-allocation strategy and targets an average return of 5% above the MSCI EAFE Index. The fund invests in affiliated collective funds that primarily hold foreign equities.
- {d} The EB DV ACWI ex-U.S. Fund of The Bank of New York Mellon is a common/collective fund with the objective of tracking the performance of the MSCI All Country World Index ex-U.S. The fund invests in affiliated collective funds that primarily hold foreign equities.
- {e} The Pooled Employee Daily Liquidity Fund is a pooled cash common/collective fund utilized by the custodian for managing cash transactions and settling trades for the Plan's actively managed equity and debt portfolios.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE (CONT'D)**

- {f} The objective of the Invesco Balanced-Risk Commodity Trust is to outperform the Dow Jones-UBS Commodity Index over a rolling three- to five-year investment horizon. The fund strives to achieve this objective with a proprietary risk premium capture strategy that targets lower portfolio volatility than the index and seeks to minimize the risk of large drawdowns with a risk-balanced investment process.
- {g} The objective of the Invesco Balanced-Risk Allocation Trust (formerly Invesco Premia Plus Trust) common/collective fund is to outperform the Citigroup 3-Month Treasury Bill Index by 6% over a rolling three- to five-year investment horizon. The fund strives to achieve this objective with a proprietary risk premium capture strategy that targets 8% portfolio risk and seeks to minimize the risk of large drawdowns with a risk-balanced investment process. The fund is intended to target equity-like returns with bond-like risk.
- {h} The Akina Funds' objectives are to purchase, hold and dispose of investments in private equity funds with above-average growth potential. The terms of the funds are ten years, or until January 15, 2020, for Akina WCTPT Choice L.P. and March 20, 2022, for Akina WCTPT Choice II L.P. The terms of the funds are subject to extensions with approval by the general partner and limited partner.
- {i} The BlackRock Vesey Street Fund IV (ERISA), L.P.'s objective is to seek superior capital appreciation through investments in private equity, while reducing risk through portfolio construction and diversification. The fund will dissolve no later than one year after the later of the termination or disposition of the last underlying fund and the sale of the last direct investment.
- {j} Centerbridge Capital Partners II invests in private equity and distressed investments with the primary purpose of obtaining control or influence in portfolio companies. The fund is scheduled to terminate on December 31, 2021. The fund is subject to extensions at the discretion of the general partner.
- {k} The objective of the Crescent Mezzanine Partners VIB, L.P., is to provide current income and long-term capital appreciation by investing in a diversified portfolio of mezzanine securities. The fund will continue in full force until March 30, 2022, unless terminated earlier in accordance with the provisions of the partnership agreement.
- {l} EIG Energy Fund XV-A, L.P.'s objective is to establish a diversified investment portfolio in energy and energy-related infrastructure projects and companies globally. The term of the fund is ten years from closing, or June 7, 2020. The fund is subject to extensions at the discretion of the general partner.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE  
(CONT'D)**

- {m} EnCap Energy Capital Fund VIII, L.P.'s objective is to provide an opportunity for investors to participate in privately negotiated equity and equity-related investments. The partnership will be dissolved upon the expiration of a ten-year period ending October 7, 2020. The fund is subject to extensions in accordance with the partnership agreement.
- {n} EnerVest Energy Institutional Fund XII-C, L.P., seeks properties that possess significant development potential. Investments are made in known, energy-producing, on-shore regions in North America. The term of the fund is ten years from closing, or April 28, 2020. The fund is subject to extensions at the election of the general partner.
- {o} EnTrust Activist Managers LP seeks above-average rates of returns and long-term capital growth by diversification and maximizing total return through manager and co-investment selection. The partnership will continue indefinitely unless the partnership is terminated under the partnership agreement.
- {p} The objective of the Genstar Capital Partners VI, L.P., is to seek long-term appreciation by acquiring, holding, and disposing of primarily equity and equity-related securities. The partnership will continue until December 31, 2021, unless extended or terminated sooner in accordance with the terms of the partnership agreement.
- {q} The GoldPoint Funds' objectives are to provide investors with current income and long-term capital appreciation by investing in a diversified portfolio of mezzanine securities and private-equity funds. The funds are scheduled to terminate on April 16, 2020 (GoldPoint [NYLCAP] Mezzanine Partners II Parallel Fund, LP) and January 17, 2025 (GoldPoint [NYLCAP] Select Manager Fund II, L.P.). The funds are subject to extensions at the discretion of the general partner.
- {r} The Hamilton Lane Capital Opportunities Fund LP's investment objective is to achieve top-quartile private-equity risk-adjusted returns through investment in a diversified portfolio. The partnership will continue until July 25, 2017. The fund is subject to extensions at the discretion of the general partner.
- {s} The HarbourVest Funds' objectives are to invest in a diversified global portfolio of secondary investments in venture capital, leveraged buyout and other private-equity funds. The partnerships will continue until December 31, 2017 (HarbourVest Dover Street VII L.P.) and December 31, 2022 (HarbourVest Dover Street VIII L.P.), unless the funds are dissolved sooner in accordance with the provisions of the partnership agreement. The partnerships may extend the terms in accordance with the partnership agreements.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE (CONT'D)**

- {t} The investment objective of the IFM Global Infrastructure (US) Fund L.P. is to acquire and maintain, through a master fund, a diversified portfolio of global infrastructure investments in the target sub-sectors such that the fund will achieve net returns of 10% per annum over rolling three-year periods. The fund may impose withdrawal restrictions of up to 2.5% of the account balance each quarter during the first two years following the drawdown of the Plan's commitment.
- {u} The JPMorgan IIF ERISA L.P.'s objective is to invest in a broad range of infrastructure and infrastructure-related assets. The determination as to whether a redemption request will be satisfied shall be made by the fund's investment advisor in its absolute discretion, taking into consideration the best interest of the fund. Generally, redemption requests made prior to the fourth anniversary of the drawdown of the last portion of the Plan's relevant commitment shall be subject to a 6% redemption discount, with two-thirds of such discount retained by the holding company. The fund has quarterly calendar closings in perpetuity.
- {v} The Landmark Funds were formed to achieve a diversified private-equity portfolio, with a maximum amount of 10% of capital commitments allocated to primary transactions. The funds will dissolve and terminate upon the later to occur of (a) the date that is ten years from the end of the investment period (four years after final closing), and (b) one year after the date by which all of the fund's investments have been liquidated and its obligations have been terminated, unless the terms are extended by the general partners under the partnership agreements.
- {w} Lone Star Fund VII (U.S.), L.P.'s objective is to achieve significant yields and capital gains from its partners over a projected two- to five-year holding period for each investment. The term of the fund is six years with the possibility of extensions at the election of the general partner.
- {x} The Monarch Funds, through master-feeder fund structures, will seek to provide superior risk-adjusted rates of return by investing primarily in the debt of distressed or financially troubled companies. The term of the Monarch Capital Partners II Offshore L.P. is four years from the end of the commitment period, which is March 31, 2014. The term can be extended based on the partnership agreement. The Plan may request a partial or total withdrawal from its capital account in the Monarch Opportunities Fund L.P. as of the first year-end date that is more than two years after the contribution date and as of every second year thereafter, or at such other times as determined by the general partner in its sole discretion based on the partnership agreement.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE (CONT'D)**

- {y} The objective of the Oaktree Enhanced Income (Parallel) Fund is to invest primarily in a diversified portfolio of U.S.-dollar-denominated bank loans and other senior debt instruments. The one-year liquidation period will begin September 4, 2015. During the liquidation period, the general partners will commence an orderly liquidation of the fund's investments. The term can be extended based on the partnership agreement.
- {z} The Pantheon Funds' objectives are to achieve long-term capital appreciation by investing in a diversified portfolio of private equity investment partnerships. The Pantheon USA Fund VIII, L.P., is scheduled to terminate December 3, 2020. The term of the fund can be extended by the general partner for up to three additional one-year periods and further provides that the term of the fund can be extended upon election by the general partner with the consent of a majority interest of limited partners. The Pantheon Global Secondary Fund IV, L.P., is scheduled to terminate December 31, 2022. The term can be extended based on the partnership agreement.
- {aa} The Partners Funds invests in the global private-equity secondary market to acquire secondary investments at an attractive discount to their intrinsic value and in a diversified portfolio of private market investments. The term of the investment is 12 years from December 31, 2009, for the Partners Funds Group Secondary 2008, L.P. and 12 years from May 28, 2010, for the Partners Group Emerging Markets 2011, L.P. The terms of the funds can be extended based on the partnership agreements.
- {bb} Perella Weinberg Partners ABV Opportunity Offshore Fund III A seeks to achieve best-risk adjusted returns with investments in real estate, energy assets, equipment, infrastructure and physical commodities, commercial-related assets and various intellectual property assets. The term of the investment is expected to end February 15, 2014. The term can be extended based on the partnership agreement.
- {cc} The Pomona Funds were formed for the purpose of building diversified portfolios of investments to seek long-term capital appreciation. The terms of the funds are ten years from the initial closing, or November 20, 2017, for Pomona Capital VII, L.P., and October 26, 2022, for Pomona Capital VIII, L.P. The terms of the funds can be extended based on the partnership agreements.
- {dd} The Schroder Commodity Portfolio's objective is to outperform a simple average of the following four major commodities indices: S&P Goldman Sachs Commodity Total Return Index, DJ UBS Commodity Total Return Index, Reuters/Jefferies Commodity Research Bureau's Total Return Index and Rogers International Commodity Total Return Index. The fund will continue for an indefinite term or until the general partner elects to terminate the fund.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE (CONT'D)**

- {ee} The Selene Residential Mortgage Opportunity Fund II L.P. will seek to acquire distressed residential real estate mortgage loans and will actively market and dispose of such real estate to obtain a high rate of return. The term of the fund is seven years. The terms of the fund can be extended based on the partnership agreement.
- {ff} The investment objective of the Trilantic Capital Partners Fund V (North America), L.P., is to achieve appropriate risk-adjusted returns through equity and equity-oriented investments primarily in middle-market companies. The fund will continue through June 8, 2022. The terms of the fund can be extended based on the partnership agreement.
- {gg} The UBS International Infrastructure (U.S. Tax Exempt) Fund L.P. is a closed-end fund that invests in stabilized infrastructure assets in OECD countries with selected value-added opportunities. The term of the fund is 15 years from the first closing date and ends September 28, 2022. The terms of the fund can be extended based on the partnership agreement.
- {hh} The WP Global Funds' investment strategies are to make long-term equity investments in pooled investment vehicles by investing across a spectrum of industries and business stages. The term of the WP Global Partners COREalpha Private Equity Partners II, L.P., is ten years from initial closing, or July 20, 2017. The term of the WP Global Partners COREalpha Private Equity Partners III, L.P., is ten years from the initial closing, or May 24, 2020. The terms of the funds can be extended based on the partnership agreements.
- {ii} The Yucaipa Funds' objective is to earn superior risk-adjusted returns. The term of the funds is ten years from the final closing date (YAAF I, July 31, 2005; YAAF II, March 9, 2009). The terms of the funds can be extended based on the partnership agreements.
- {jj} PRISA is a commingled, broadly diversified equity real estate portfolio that invests primarily in completed, income-producing properties with strong cash flows that are expected to increase over time and thereby provide the potential of capital appreciation. The fund targets returns similar to the NFI-ODCE Index.
- {kk} PRISA II is a commingled fund that seeks to structure investments to enhance risk-adjusted returns by focusing on investments in property types including office, residential, retail, hotel and self-storage properties. The fund targets returns similar to the NFI-ODCE Index.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE  
(CONT'D)**

- {ll} PRIVEST is a commingled fund that seeks to achieve a long-term total return greater than public bond portfolios of comparable credit quality and duration by primarily investing in privately placed corporate debt securities, with credit qualities ranging from A+ to BBB-.
- {mm} Union Mortgage Account is an open-end, commingled fund that invests in mortgages on properties constructed with union labor and with fixed maturities.
- {nn} Temporary Investment Account is a commingled money market account that tends to have a slightly longer average maturity and, over time, has produced slightly better returns than comparable funds. The fund targets returns similar to the Citigroup Treasury Bill 3-Month Index.
- {oo} The investment objective of Bridgewater Associates All Weather Portfolio is to hold investments in different asset classes, which have different biases to economic conditions. The long-term annual targeted return of the portfolio is expected to be approximately 5% to 7% above cash (90-day Treasury Bills), and the targeted risk is expected to be approximately 10%.
- {pp} The investment objective of the Gresham DJF Commodity Builder L.L.C. is to provide a partial inflation hedge, with an attractive risk/return profile as compared to other products, using a commodity index or pool of commodities. This objective is achieved by investing in accordance with proprietary commodity futures term-structure monetization trading strategies of long-only, unleveraged, diversified U.S.-dollar-denominated futures and forward contracts in tangible commodities on U.S. and non-U.S. exchanges.
- {qq} The investment objective of the Audax Senior Debt (WCTPT) LLC is to generate income and capital appreciation by investing primarily in debt of leveraged, non-investment grade middle-market companies. The fund will continue until dissolution occurs at the election of the investment manager with the Plan's consent or the election with 30 days' written notice of the Plan.
- {rr} The JPMorgan Private Equity Funds' objectives are to generate capital returns through investing in limited partnerships, other pooled and direct investment vehicles, and equity-oriented investments in venture capital companies. The terms of the JPMorgan funds are the earlier of (a) the 10th anniversary of the last commitment in the funds' pooled subsidiary, or (b) the 13th anniversary of commencement of operations. The terms of the funds can be extended based on the agreements.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE  
(CONT'D)**

- {ss} New Growth, LLC, was created for the purpose of obtaining long-term returns through timber-producing real estate and related assets. The term of the LLC is indefinite until it is decided to be dissolved.
  
- {tt} The objective of the Waterfall Victoria ERISA Fund, Ltd., is to achieve attractive risk-adjusted returns through a combination of current income and capital appreciation while minimizing the risk of loss of principal as determined by the investment manager in its sole discretion.
  
- {uu} Western Farmland LLC was organized for the purpose of owning and managing real estate property devoted to agricultural use for the benefit of its member. The term of the LLC is indefinite until it is decided to be dissolved.

**NOTE 11. INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE  
(CONT'D)**

The Plan has the following commitments to fund investments:

	Year of Commitment	Total Commitment	Remaining Commitment	
			December 31, 2012	2011
Private-equity investments				
Landmark Partners XIII, L.P.	2006	50,000,000	\$ 3,600,000	\$ 4,500,000
BlackRock Vesey Street Fund IV (ERISA), L.P.	2007	75,000,000	19,500,000	21,800,000
Hamilton Lane Capital Opportunities Fund L.P.	2007	75,000,000	21,600,000	29,200,000
WP Global Partners COREalpha Private Equity Partners II, L.P.	2007	75,000,000	24,400,000	32,100,000
Yucaipa American Alliance Fund II, L.P.	2007	100,000,000	8,700,000	33,600,000
HarbourVest Dover Street VII L.P.	2008	100,000,000	9,800,000	17,300,000
Landmark Equity Partners XIV, L.P.	2008	100,000,000	39,600,000	67,700,000
Pantheon USA Fund VIII, L.P.	2008	100,000,000	40,000,000	57,500,000
UBS International Infrastructure Fund L.P.	2008	300,000,000	29,400,000	29,400,000
JPMorgan U.S. Corporate Finance Institutional Investors IV LLC	2009	85,000,000	45,100,000	59,400,000
JPMorgan Venture Capital Institutional Investors IV LLC	2009	15,000,000	7,800,000	10,200,000
Pantheon PGSF IV (Secondary)	2009	100,000,000	57,000,000	80,500,000
Partners Group Secondary 2008, L.P.	2009	100,000,000	12,400,000	18,100,000
Pomona Capital VII, L.P.	2009	100,000,000	24,500,000	36,000,000
WP Global Partners COREalpha Private Equity Partners III, L.P.	2009	60,000,000	36,300,000	49,400,000
EIG Energy Fund XV-A, L.P.	2010	150,000,000	16,000,000	101,300,000
EnCap Energy Capital Fund VIII, L.P.	2010	175,000,000	112,600,000	152,500,000
EnerVest Energy Institutional Fund XII-C, L.P.	2010	60,000,000	7,400,000	31,200,000
New Growth LLC	2010	200,000,000	58,600,000	200,000,000
Western Farmland LLC	2010	200,000,000	121,400,000	85,600,000
Lone Star Fund VII (U.S.), L.P.	2010	150,000,000	28,800,000	102,900,000
Selene Residential Mortgage Opportunity Fund II L.P.	2010	100,000,000	56,500,000	62,800,000
Waterfall Victoria ERISA Fund, Ltd.	2010	100,000,000	-	6,400,000
Akina WCTPT Choice L.P.	2010	140,000,000	93,200,000	108,800,000
Akina Europe WCTPT Choice II (Primary)	2011	100,000,000	91,400,000	100,000,000
Audax Senior Debt (WCTPT)	2011	100,000,000	38,000,000	100,000,000
Centerbridge Capital Partners II	2011	120,000,000	72,500,000	91,000,000
Crescent Mezzanine Partners VI	2011	75,000,000	64,300,000	75,000,000
Genstar Capital Partners VI	2011	75,000,000	66,400,000	75,000,000
Monarch Capital Partners II Offshore L.P.	2011	9,000,000	600,000	5,400,000
Monarch Opportunities Fund L.P.	2011	116,000,000	-	116,000,000
Goldpoint (NYLCAP) Mezzanine Partners III Parallel Fund, LP	2011	100,000,000	57,600,000	65,200,000
Goldpoint (NYLCAP) Select Manager Fund II	2011	50,000,000	36,300,000	50,000,000
Partners Group Emerging Markets 2011	2011	100,000,000	86,500,000	100,000,000
Perella Weinberg Asset-Based Value Opportunity Fund III	2011	200,000,000	104,100,000	200,000,000
EnCap Energy Capital IX	2012	150,000,000	150,000,000	-
EnerVest Energy Institutional Fund XIII	2012	100,000,000	100,000,000	-
EnTrust Activist Managers Fund	2012	200,000,000	180,000,000	-
HarbourVest Dover Street VIII	2012	100,000,000	99,600,000	-
Oaktree Enhanced Income Fund	2012	100,000,000	80,000,000	-
Pomona Capital VIII, L.P.	2012	100,000,000	48,300,000	-
Trilantic Capital Partners Fund V, L.P.	2012	100,000,000	98,000,000	-
Insurance company contracts - real estate				
Western Conference of Teamsters (WCOT)	2006	500,000,000	161,500,000	189,300,000
Total unfunded commitments			<u>\$ 2,409,300,000</u>	<u>\$ 2,565,100,000</u>

**NOTE 12. NET ASSETS AVAILABLE FOR BENEFITS**

The Plan allocates net assets available for benefits between Retired and Survivor Guaranteed Annuities, certain Non-Guaranteed Benefits for Retirees and Survivors, and Non-Guaranteed Benefits for Future Retirees and Survivors. Effective January 1, 1998, the Plan entered into two insurance company group annuity contracts with Prudential, which superseded the group annuity contract in effect since 1955. Under one contract, Prudential guarantees retirement benefits to a closed group of annuitants and their beneficiaries (Retired and Survivor Guaranteed Annuities). The initial contribution to this contract was \$7.46 billion, representing an amount equal to 105% of the Contract Liability Amount as of the effective date of the contract. This contract will remain in full force and effect until such date that there are no further annuity or other guaranteed payments payable under the contract. The contract will terminate at that time, and the remaining assets held under the contract, if any, less any expenses or other fees, would be transferred back to the general Plan assets. Non-Guaranteed Benefits are covered by the remaining Plan assets, including a second contract that consists of separate investment accounts that are managed by Prudential. The net assets available for benefits allocated between the Retired and Survivor Guaranteed Annuities, Non-Guaranteed Benefits for Retirees and Survivors, and Non-Guaranteed Benefits for Future Retirees and Survivors are summarized as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Retired and Survivor		
Guaranteed Annuities	\$ 2,870,763,208	\$ 3,166,115,042
Non-Guaranteed Benefits		
for Retirees and Survivors	18,869,746,000	18,003,336,000
Non-Guaranteed Benefits for		
Future Retirees and Survivors	<u>10,592,597,197</u>	<u>8,737,039,971</u>
Net Assets Available for Benefits	<u>\$ 32,333,106,405</u>	<u>\$ 29,906,491,013</u>

**NOTE 13. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	<u>2012</u>	<u>December 31,</u> <u>2011</u>
Net assets available for benefits per the financial statements	\$ 32,333,106,405	\$ 29,906,491,013
Benefit obligations currently payable	<u>(12,552,304)</u>	<u>(10,460,556)</u>
Net assets available for benefits per the Form 5500	<u>\$ 32,320,554,101</u>	<u>\$ 29,896,030,457</u>

The following is a reconciliation of benefits paid to or for participants per the financial statements to the Form 5500 for the year ended December 31, 2012:

Benefits paid to or for participants per the financial statements	\$ 2,367,599,798
Add - amounts currently payable at end of year	12,552,304
Less - amounts currently payable at beginning of year	<u>(10,460,556)</u>
Benefits paid to or for participants per the Form 5500	<u>\$ 2,369,691,546</u>

**NOTE 14. EMPLOYER WITHDRAWAL LIABILITY**

The Plan complies with the provisions of the Multiemployer Pension Plan Amendment Act of 1980 (MPPAA), which requires imposition of withdrawal liability on a contributing employer that partially or totally withdraws from the Plan. Under the provisions of the MPPAA, a portion of the Plan's unfunded vested liability would be allocated to a withdrawing employer. The Plan's actuary has advised the Plan that, as of December 31, 2011 and 2010, the Plan has an estimated unfunded vested liability of \$5.142 billion and \$3.542 billion, respectively.

For the years ended December 31, 2012 and 2011, employers who have withdrawn from the Plan have been assessed a withdrawal liability of approximately \$44,663,000 and \$12,187,000, respectively. These amounts have been recorded net of an allowance equal to the total amount assessed because collectability is uncertain.

**NOTE 15. MAJOR EMPLOYER**

During the years ended December 31, 2012 and 2011, approximately 38% and 37% of contributions, respectively, were received from one employer.

**NOTE 16. SUBSEQUENT EVENTS**

Subsequent events were evaluated through the date on which the financial statements were available to be issued. This date is approximately the same as the independent auditors' report date.

## **ADDITIONAL INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

To the Participants and Trustees of  
Western Conference of Teamsters Pension Plan

We have audited the financial statements of Western Conference of Teamsters Pension Plan (the Plan) for the years ended December 31, 2012 and 2011, and have issued our report thereon dated September 11, 2013, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information included on page 45, Schedule G - Financial Transaction Schedules (IRS Form 5500) and Schedule H - Financial Schedules (IRS Form 5500) is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is additional information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Lindquist LLP*

September 11, 2013

**WESTERN CONFERENCE OF TEAMSTERS  
PENSION PLAN**

**SCHEDULES OF ADMINISTRATIVE EXPENSES**

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Accounting and auditing	\$ 279,787	\$ 308,750
Actuarial fees	1,816,943	1,708,134
Administrative offices	49,317,828	49,263,608
Banking	97,026	96,838
Chairman/Co-Chairman	817,503	761,749
Consultants' fees	72,378	81,980
Data-processing-related expenses		
IT support and operations	4,036,268	4,054,347
TRACS operations (Prudential)	2,956	3,246
Communications	350,214	290,521
Depreciation and amortization	3,277,828	3,119,752
Maintenance and supplies	592,031	805,085
Delinquency collection fees	381,274	384,849
Insurance	911,041	918,864
Interest	7,003	1,442
Legal fees	3,269,993	3,254,552
Pension Benefit Guaranty Corporation premiums	4,773,708	4,814,042
Printing and postage	774,632	937,008
Prudential administrative fees	11,687,058	11,521,271
State premium taxes (Prudential)	939,977	1,005,693
Trustees' travel and meetings	353,773	425,114
Total	<u>\$ 83,759,221</u>	<u>\$ 83,756,845</u>