
QDIA Validation

Pacific Life Funds

PL Portfolio Optimization Funds

- Aggressive
- Moderate-Aggressive
- Moderate
- Moderate-Conservative
- Conservative

August 19, 2014



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QDIA Validation - Status as of August 19, 2014

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DALBAR APPROVED

VALIDATED for QDIA

DALBAR has evaluated the *PL Portfolio Optimization Funds* offered by *Pacific Life Funds (Manager)* to determine if it complies with the requirements to be used as a Qualified Default Investment Alternative (QDIA) as defined by the Employee Retirement Income Security Act of 1974, as amended [ERISA] Section 404(c)(5) and associated regulations.

PL Portfolio Optimization Funds is referred to as the *Investment* and is a group of registered investment companies that are reported to be in compliance with all applicable regulations.



The Investment

The *PL Portfolio Optimization Funds (Investment)*, was examined in relation to requirements for use as a Qualified Default Investment Alternative under ERISA Section 404(c)(5). The *Investment* consists of the following portfolios in the “A” and “R” share classes:

- Aggressive
- Moderate-Aggressive
- Moderate
- Moderate-Conservative
- Conservative

→ Evaluation of Prudence

Federal regulations and common sense require that responsible plan fiduciaries make a prudent choice of the investments that are used by participants in ERISA plans. In order to facilitate the prudent choice, DALBAR has examined the *Investment* and rated the prudence of using it. The following table summarizes DALBAR’s findings regarding the prudence of using the *Investment* in an ERISA plan:

Prudence Criteria	DALBAR Rating	Primary Basis for Prudence Rating
Benefit to Employees	Excellent	The ability to allocate assets so as to predictably optimize capital preservation in conservative funds and appreciation in aggressive funds represents the greatest strength of the <i>PL Portfolio Optimization Funds</i> . The range of portfolios, from aggressive to conservative, can be directly aligned with plan participants desire for appreciation and need for capital preservation.
Cost Effectiveness	Excellent	The use of the best available investment managers in their respective fields (regardless of company affiliation) is funded by expenses that are only modestly above average.
Specific ERISA Requirements	Good	Potential conflicts of interests and other ERISA prohibitions are avoided by the use of “arms length” arrangements with unaffiliated investment managers in their respective areas of expertise.
Good Business Practices	Fair	Communications effectively lays out the choices and the overarching considerations but also attempts to present the complexities of the investment that may not be meaningful to the average decision maker.
Avoidance of Litigation	Good	Choosing the entire set of five funds as a QDIA limits exposure to litigation regarding poor choices, excessive fees and fiduciary breaches. Additionally, in all cases expenses of the underlying investments are significantly lower than comparable funds.

→ Validation Grid

The following table summarizes the ways in which the *PL Portfolio Optimization Funds* qualifies as a QDIA.

In each case the *Investment* being validated may be applicable as the only one used (stand-alone) or may be used in conjunction with other investments (sleeve) in a model portfolio managed by an investment adviser that qualifies under ERISA section 3(38). The QDIA validation determines which QDIA alternative(s) apply and whether the *Investment* may be used stand-alone and/or as a sleeve in a portfolio.

APPROPRIATE USES OF PL PORTFOLIO OPTIMIZATION FUNDS			
QDIA Alternative		Stand Alone	Sleeve of portfolio
1	Age Based	No	Yes
2	Risk Based	Yes	Yes
3	Managed Account	No	Yes
4	Short Term	N/A	N/A
5	Grandfathered	N/A	N/A

→ Noteworthy Observations

- The *PL Portfolio Optimization Funds* have demonstrated consistency with the intrinsic principles of asset allocation and the emphasis of each fund during the most stressful periods in recent history. The group of funds performed well during the market decline of 2008, the recovery of 2009, the turbulence of 2011 and the most recent calendar year of 2013.

→ **Conclusion.**

The selection and use of *PL Portfolio Optimization Funds* have the distinct advantage of success during the most stressful periods of recent investment history.

In our opinion, a fiduciary that prudently identifies appropriate participants for the applicable *PL Portfolio Optimization Fund* has fully complied with the duty to act in the best interest of those plan participants.

Introduction

This report contains DALBAR's independent analysis of the *PL Portfolio Optimization Funds* and *Pacific Life Funds* and is intended to supplement the duty of fiduciaries to prudently select investments for use as a Qualified Default Investment Alternative. Since this is a supplement, the content of this report is intended facilitate and not to the evaluation required by regulations.

As an independent expert, DALBAR has no affiliation with the *PL Portfolio Optimization Funds* or *Pacific Life Funds* and has the training, experience and proficiency to conduct this analysis. DALBAR has a history of over 30-years and is generally recognized by industry and government as an independent third-party expert in the business of providing evaluations, ratings and due diligence. DALBAR certifications are recognized as marks of excellence in adviser services, communications, electronic and telephone services. DALBAR is the only ratings firm with an SEC no-action letter exempting certain of its evaluations from the testimonial rule.

This analysis consists of *four* separate evaluations that are designed to validate if the *PL Portfolio Optimization Funds* and *Pacific Life Funds* meet the requirements of ERISA section 404(c)(5) and related regulations. These evaluations are:

- **Capital Preservation/Appreciation Analysis:** Compares ability of the *Investment* to preserve capital in a down market and realize appreciation in an up market.
- **Applicability as QDIA Alternative:** A determination of which class or classes of QDIA are appropriate uses of the *PL Portfolio Optimization Funds*.
- **Qualification Analysis:** An evaluation of the qualifications of *Pacific Life Funds* to meet the regulatory requirements for a QDIA manager.
- **Reasonableness as an Investment:** An assessment of whether *PL Portfolio Optimization Funds* meet the DALBAR standard of reasonableness.

For more information concerning this report, please contact DALBAR at:



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Capital Preservation/Appreciation Analysis

This analysis addresses the fundamental requirement of every asset allocation strategy to preserve capital while realizing appreciation.

The *PL Portfolio Optimization Funds* is compared to benchmarks of aggressive, moderate and conservative balanced funds in four critical periods to identify how responsive the *Investment* has been during these periods. The periods are:

- **Up Market (2009)**. Test of capital appreciation capability.
- **Down Market (2008)**. Test of capital preservation capability.
- **Turbulent Market (2011)**. Test of preservation and appreciation capability in volatile conditions.
- **Recent Market (2013)**. Test of performance consistency in the most recent year.

The benchmarks of balanced funds are used to illustrate the relative performance in each of these market conditions. When successful, more aggressive investments should be above the median in Up Markets and below in Down Markets. When successful, more conservative investments should be above the median in Down Markets and below in Up Markets.

PL Portfolio Optimization Funds Capital Preservation and Appreciation

Findings

The *PL Portfolio Optimization Funds* has demonstrated consistency with the stated goals and emphasis of each fund during the most stressful periods in recent history. The conservative fund[s] performed well during the market decline of 2008 and the turbulence of 2011. The aggressive funds were among the highest performers in the up years of 2009 and 2013.

Funds Emphasizing Capital Preservation

The Conservative and the Moderate-Conservative funds both ranked among the highest during 2008 where capital preservation was tested most.

Funds Emphasizing Appreciation

The Aggressive and the Moderate-Aggressive funds both ranked above normal in 2009 and 2013 when the capital appreciation opportunity was the greatest.

Fund Emphasizing Moderation

The Moderate fund demonstrated the ability to make a tradeoff between capital preservation and appreciation by remaining close to the median category through all years tested.

Outcomes for *PL Portfolio Optimization Funds*

Abbreviations used in the tables that follow:

- A** = Aggressive Benchmark (11 funds)
- M** = Moderate Benchmark (92 funds)
- C** = Conservative Benchmark (29 funds)

- Aggressive Portfolio (Referred to in table as AGG)

Return Range	Up Year Return % 2009		Down Year Return % 2008		Turbulent Year Return % 2011		Recent Year Return % 2013	
High	38.02	AGG 33.28	0.12		10.84		28.68	
Above Normal	M 23.97		C (19.90)		C 1.57		A 20.99	AGG 19.86
Median	C 20.80		A (24.32)		M 1.12		M 17.66	
Below Normal	A 18.67		M (26.60)		A (0.81)		C 9.67	
Low	10.17		(40.13)	AGG (40.02)	(5.20)	AGG (4.20)	(0.61)	

- Moderate-Aggressive Portfolio (Referred to in table as MA)

Return Range	Up Year Return % 2009		Down Year Return % 2008		Turbulent Year Return % 2011		Recent Year Return % 2013	
High	38.02	MA 30.40	0.12		10.84		28.68	
Above Normal	M 23.97		C (19.90)		C 1.57		A 20.99	MA 17.39
Median	C 20.80		A (24.32)		M 1.12		M 17.66	
Below Normal	A 18.67		M (26.60)		A (0.81)	MA (2.04)	C 9.67	
Low	10.17		(40.13)	MA (33.85)	(5.20)		(0.61)	

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- Moderate Portfolio (Referred to in table as MOD)

Return Range	Up Year Return % 2009		Down Year Return % 2008		Turbulent Year Return % 2011		Recent Year Return % 2013	
High	38.02		0.12		10.84		28.68	
Above Normal	M 23.97	MOD 27.07	C (19.90)		C 1.57		A 20.99	
Median	C 20.80		A (24.32)		M 1.12		M 17.66	
Below Normal	A 18.67		M (26.60)	MOD (26.73)	A (0.81)	MOD (0.20)	C 9.67	MOD 12.63
Low	10.17		(40.13)		(5.20)		(0.61)	

- Moderate-Conservative Portfolio (Referred to in table as MC)

Return Range	Up Year Return % 2009		Down Year Return % 2008		Turbulent Year Return % 2011		Recent Year Return % 2013	
High	38.02		0.12		10.84		28.68	
Above Normal	M 23.97	MC 22.28	C (19.90)	MC (18.76)	C 1.57		A 20.99	
Median	C 20.80		A (24.32)		M 1.12	MC 1.13	M 17.66	
Below Normal	A 18.67		M (26.60)		A (0.81)		C 9.67	MC 7.78
Low	10.17		(40.13)		(5.20)		(0.61)	

- Conservative Portfolio (Referred to in table as CON)

Return Range	Up Year Return % 2009		Down Year Return % 2008		Turbulent Year Return % 2011		Recent Year Return % 2013	
High	38.02		0.12	CON (10.26)	10.84		28.68	
Above Normal	M 23.97		C (19.90)		C 1.57	CON 2.61	A 20.99	
Median	C 20.80		A (24.32)		M 1.12		M 17.66	
Below Normal	A 18.67	CON 18.49	M (26.60)		A (0.81)		C 9.67	
Low	10.17		(40.13)		(5.20)		(0.61)	CON 2.96


Applicability as QDIA Alternative

There are five types of investments that are named as possible QDIA alternatives. In each case the *Investment* being validated may be applicable as the only one used (stand alone) or may be used in conjunction with other investments (sleeve). The alternatives are:

1. Age Based
2. Risk Based
3. Managed Account
4. Short Term (Omitted: Not suitable for this *Investment*)
5. Grandfathered (Omitted: Not suitable for this *Investment*)


The Applicability phase of the QDIA validation examines the *Investment* to determine which alternatives apply and whether it may be used stand-alone and/or as a sleeve.

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
1. Age Based - An investment fund product or model portfolio:			
a) ... that applies generally accepted investment theories,	N/A	Yes	<p>The <i>Investment</i> engages a diverse group of unaffiliated managers that are selected based on their skills in managing a particular asset class. This “arms length” arrangement allows <i>Pacific Life Funds</i> to seek and use the best managers, without the limitation of business or employment affiliation.</p> <p>The <i>Investment</i> aims to provide diversification across asset classes by investing primarily in underlying funds. The theory behind asset allocation is that diversification among asset classes can help reduce volatility over the long-term, which assumes that asset classes may not move in tandem and that positive returns in one or more classes will help offset negative returns in other asset classes.</p> <p>The fund advisor, <i>Pacific Life Fund Advisors LLC</i>, performs monthly, quarterly, and annual quantitative and a qualitative review of each portfolio to ensure it is competitive with its peers and true to its investment objectives. This diversified approach is considered to be a generally accepted theory.</p>

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
b) ... that is diversified so as to minimize the risk of large losses,	N/A	Yes	<i>Investment</i> is diversified across asset classes.
c) ... that is designed to provide varying degrees of long-term appreciation and capital preservation	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the appropriate blend of the portfolios of the <i>Investment</i> .
d) ...through a mix of equity and fixed income exposures	N/A	Yes	<i>Investment</i> contains both equities and fixed income securities.
e) ...based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan selects the degree of capital appreciation and capital preservation based on the participants' age but the <i>Investment</i> does not qualify by itself.
f) Such products and portfolios change their asset allocations and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan changes the risk levels over time with the objective of becoming more conservative.
 SUMMARY: The <i>PL Portfolio Optimization Funds</i> qualify to be used as part of a qualified model portfolio in conjunction with other investments but may NOT be used as an AGE-BASED QDIA.			

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
2. Risk Based - An investment fund product or model portfolio:			
a) ... that applies generally accepted investment theories	Yes	Yes	<p>The <i>Investment</i> engages a diverse group of unaffiliated managers that are selected based on their skills in managing a particular asset class. This “arms length” arrangement allows <i>Pacific Life Funds</i> to seek and use the best managers, without the limitation of business or employment affiliation.</p> <p>The <i>Investment</i> aims to provide diversification across asset classes by investing primarily in underlying funds. The theory behind asset allocation is that diversification among asset classes can help reduce volatility over the long-term, which assumes that asset classes may not move in tandem and that positive returns in one or more classes will help offset negative returns in other asset classes.</p> <p>The fund advisor, <i>Pacific Life Fund Advisors LLC</i>, performs monthly, quarterly, and annual quantitative and a qualitative review of each portfolio to ensure it is competitive with its peers and true to its investment objectives. This diversified approach is considered to be a generally accepted theory.</p>
b) ... that is diversified so as to minimize the risk of large losses	Yes	Yes	<i>Investment</i> is diversified across asset classes.
c) ... that is designed to provide long-term appreciation and capital preservation	Yes	Yes	<i>Investment</i> is designed to manage the risk of capital loss and produce appreciation that is consistent with capital preservation.
d) ...through a mix of equity and fixed income exposures	Yes	Yes	<i>Investment</i> contains both equities and fixed income securities.
e) ...consistent with a target level of risk appropriate for participants of the plan as a whole.	Yes	Yes	The exposure to risk is consistent with the goal of each portfolio of the <i>Investment</i> .
<p>➔ SUMMARY: The <i>PL Portfolio Optimization Funds</i> qualify as a RISK-BASED QDIA either as a standalone investment or when used as part of a qualified model portfolio in conjunction with other investments.</p>			

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
3. Managed Account - An investment management service:			
a) ... with respect to which a fiduciary that is either, <ul style="list-style-type: none"> I. an investment manager, within the meaning of section 3(38) of ERISA; II. a trustee of the plan that meets the requirements of section 3(38)(A), (B) and (C) of ERISA; or III. the plan sponsor who is a named fiduciary, within the meaning of section 402(a)(2) of ERISA, 	N/A	Yes	The <i>Investment</i> is not appropriate by itself as a managed account but may be included in a managed account by a qualified QDIA manager of the plan.
b) ...applying generally accepted investment theories,	N/A	Yes	<p>The <i>Investment</i> engages a diverse group of unaffiliated managers that are selected based on their skills in managing a particular asset class. This “arms length” arrangement allows <i>Pacific Life Funds</i> to seek and use the best managers, without the limitation of business or employment affiliation.</p> <p>The <i>Investment</i> aims to provide diversification across asset classes by investing primarily in underlying funds. The theory behind asset allocation is that diversification among asset classes can help reduce volatility over the long-term, which assumes that asset classes may not move in tandem and that positive returns in one or more classes will help offset negative returns in other asset classes.</p> <p>The fund advisor, <i>Pacific Life Fund Advisors LLC</i>, performs monthly, quarterly, and annual quantitative and a qualitative review of each portfolio to ensure it is competitive with its peers and true to its investment objectives.</p> <p>This diversified approach is considered to be a generally accepted theory.</p>

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
c) ...allocates the assets of a participant's individual account	N/A	Yes	The <i>Investment</i> is not appropriate by itself as a managed account but may be included in a managed account by a qualified QDIA manager of the plan.
d) ...to achieve varying degrees of long-term appreciation and capital preservation,	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through a blend of portfolios of the <i>Investment</i> or other investments.
e) ...through a mix of equity and fixed income exposures,	N/A	Yes	<i>Investment</i> contains both equities and fixed income securities.
f) ...offered through investment alternatives available under the plan,	N/A	Yes	The <i>Investment</i> is appropriate for inclusion in the plan and thus be made available to a qualified QDIA manager of the plan.
g) ...based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation based on the participant's age, target retirement date or life expectancy.
h) Such portfolios are diversified so as to minimize the risk of large losses and	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through a blend of <i>PL Portfolio Optimization Funds</i> or the use of other investments.
i) ...change their asset allocations and associated risk levels for an individual account over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through a blend of <i>PL Portfolio Optimization Funds</i> or the use of other investments for an individual account over time with the objective of becoming more conservative.
 SUMMARY: The <i>PL Portfolio Optimization Funds</i> do NOT qualify to be used in a MANAGED-ACCOUNT QDIA by itself but may be used as part of a qualified model portfolio in conjunction with other investments.			

Qualification Analysis

No violations of self-dealing prohibitions were found and The *PL Portfolio Optimization Funds* was found to meet the QDIA requirements for the alternatives shown in the Validation Grid section of this report. The analysis included the following findings:

B. QUALIFICATION ANALYSIS			
REGULATORY GUIDELINE	DALBAR EVALUATION	RESULT	COMMENTS
1. Self-dealing Prohibitions - A fiduciary with respect to a plan:			
a) ... shall not deal with the assets of the plan in his own interest or for his own account,	Does <i>Manager</i> have discretion to vary its compensation based on changing holdings within the <i>Investment</i> ?	Pass	<i>Manager's</i> compensation is unaffected by investment decisions made for the <i>Investment</i> .
b) ...in his individual or in any other capacity act in any transaction involving the plan on behalf of a party (or represent a party) whose interests are adverse to the interests of the plan or the interests of its participants or beneficiaries, or	Does <i>Manager</i> have interests that are adverse to those of participants?	Pass	<i>Manager's</i> interests are not adverse to participants' by virtue of the fact that <i>Manager's</i> compensation increases with growth in asset value in participants' accounts and decreases if assets decline.
c) ...receive any consideration for his own personal account from any party dealing with such plan in connection with a transaction involving the assets of the plan.	Does <i>Manager</i> receive compensation from another party for managing the <i>Investment</i> ?	Pass	<i>Pacific Life Fund Advisors LLC</i> has not reported any direct or indirect compensation from any other party that may be dealing with plans that are likely to use the <i>PL Portfolio Optimization Funds</i> .

B. QUALIFICATION ANALYSIS			
REGULATORY GUIDELINE	DALBAR EVALUATION	RESULT	COMMENTS
2. Conditions for QDIA Fiduciary Relief			
a) Consider investment fees and expenses in choosing a QDIA	Do expenses for this <u>Investment</u> fall within the normal range of other investments of this type?	Pass	Actual Expenses (Actual) <u>for PL Portfolio Optimization Funds</u> are within 15% of other funds for "A" and "R" share classes. Expenses reflect the cost of using the best available managers for each asset class and the process used to select, monitor and replace managers as appropriate. See Appendix E.
b) Material is provided to participant relating to his/her QDIA.	Is <u>Investment</u> material appropriate for plan participants?	Pass	Material contains description that can be extracted to be appropriate for participants with only minimal investment knowledge.
c) Notice must be written in a manner calculated to be understood by the average plan participant.	Is the information provided for inclusion in the required notice understandable to an average participant? <u>Note: Plan fiduciary must determine that the entire notice can be understood.</u>	Pass	Under most circumstances, the average plan participant will be able to understand the information extracted from the materials.
3. QDIA Requirements			
a) QDIA shall not permit employer securities except as investments within regulated investment companies or as employer match.	Does <u>Investment</u> permit use of employer securities outside of the QDIA exceptions?	Pass	<u>Investments</u> and underlying funds are registered investment companies and qualify under the exemption applicable to employer securities.

B. QUALIFICATION ANALYSIS			
REGULATORY GUIDELINE	DALBAR EVALUATION	RESULT	COMMENTS
b) QDIA may not impose financial penalties or restrict the ability of a participant to transfer.	Are there restrictions or fees to transfer out of <u>Investment</u> which are prohibited under QDIA regulations?	Pass	<u>Pacific Life Fund Advisors LLC</u> reports that the underlying investments, which may have restrictions, are not available for QDIA investment. When <u>PL Portfolio Optimization Funds</u> are used as QDIAs, there are no restrictions or fees to transfer out of a portfolio within a specific time period.
c) QDIA is either managed by an investment manager, as defined in section 3(38) of ERISA, or plan trustee, or plan sponsor who is a named fiduciary or is a registered investment company or a stable value fund under State or federal regulation.	Does the <u>Manager</u> meet the criteria appropriate for the type of QDIA being validated?	Pass	<u>Investments</u> are registered investment companies.

Reasonableness as an Investment

QDIA regulations require that investments be reasonable, which DALBAR has further defined as falling within a normal range of comparable investments. The Reasonableness Analysis presented reflects this standard.

Plan fiduciaries are responsible for reviewing current investment information and making the determination that the *PL Portfolio Optimization Funds* is a reasonable investment for the plan. Plan fiduciaries, including plan sponsors, are encouraged to seek independent expert advice in making the selection and monitoring of investments.

In order to assist in the determination DALBAR provides the following observations based on information available at the time of this evaluation.

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C. REASONABLENESS INVESTMENT ANALYSIS	
DALBAR INVESTMENT CRITERIA	OBSERVATIONS
1. Minimum track record	
The average history for each underlying asset class investment strategy should be at least three years.	The history of underlying asset classes is well over three years. See Appendix C.
2. Stability of the organization	
The average tenure of the portfolio management team for each underlying asset class investment strategy should be at least two years.	Tenure of management of each underlying asset class investment strategy exceeds the threshold. Note that there were three replacements and two additions of unaffiliated managers in the last 12 months. See Appendix B.
3. Assets in the product	
The average underlying asset class investment strategy should have at least \$75 million under management (can include assets in other funds with the same strategy).	The assets under management of the <i>Investment</i> and each underlying asset class exceed the threshold.
4. Holdings consistent with style	
a) The allocation to equities is evaluated against the peer group – highest allocation to least - the screening threshold being set at the bottom quartile;	The equity target allocations of the <i>PL Portfolio Optimization Funds</i> are within the norm for comparable funds.

C. REASONABLENESS INVESTMENT ANALYSIS	
DALBAR INVESTMENT CRITERIA	OBSERVATIONS
b) The allocation to fixed income is evaluated against the peer group – highest allocation to least - the screening threshold being set at the bottom quartile.	The fixed income target allocations of the <i>PL Portfolio Optimization Funds</i> are within the norm for comparable funds.
5. Correlation to style or peer group	
The number of asset classes that make up the QDIA are evaluated against the peer group - most asset classes to least - the screening threshold being set at the peer group median.	The underlying funds of the <i>PL Portfolio Optimization Funds</i> are diversified with respect to asset classes.
6. Expense ratios/fees	
a) The wrapper expense is evaluated against the peer group – cheapest to most expensive - the screening threshold being set at the bottom quartile.	The wrapper expenses ranks in the third quartile of the peer group reflecting the cost of using the best available managers for each asset class and the process used to select, monitor and replace managers as appropriate. See Appendix E.
b) The average expense ratio of each underlying asset class investment strategy is evaluated against the peer group - cheapest to most expensive - the screening threshold being set at the bottom quartile.	In all cases expenses of the underlying investments are significantly lower than comparable benchmarks, ranging from 27 to 74 with an average of 46 basis points lower. See Appendix D.
7. Performance relative to assumed risk	
This analysis evaluates historical performance within the context of overall risk. It examines the number of positive and negative annual returns, the average of the positive and negative annual returns, and the best and worst annual returns, for a minimum of three years (max: 10 years).	Over the ten years evaluated, the investments had positive returns 84% of years and negative in 16%. Average positive return: +11.45% Average negative return: -16.51% Average best annual return: +26.30% Average worst annual return: -25.92% See Appendix C.

C. REASONABLENESS INVESTMENT ANALYSIS	
DALBAR INVESTMENT CRITERIA	OBSERVATIONS
8. Performance relative to a peer group	
The average 1-, 3-, and 5-year performance of each asset class investment strategy is evaluated against the peer group's median.	The standard measures of performance (Cumulative for 1, 3, 5 and 10 years) indicate that the <i>Investment's</i> funds are comparable to respective peer groups. As indicated in Appendix D, results are highly consistent with the overarching goals of capital preservation and appreciation.

Appendices

- A. Asset Allocators
- B. Portfolio Managers –Underlying Investments
- C. Risk/Return Analysis
 - 1. Investment
 - 2. Underlying Investments
- D. Performance Analysis
 - 1. Investment
 - 2. Underlying Investments
- E. Expense Analysis
 - 1. Investment
 - 2. Underlying Investments

A. Asset Allocators

INVESTMENT	ALLOCATOR	TOTAL YEARS EXPERIENCE	YEARS WITH FUND
<i>PL Portfolio Optimization Funds</i>	Howard Hirakawa	23	11
	Carlton Muench	14	8

B. Portfolio Managers –Underlying Investments

UNDERLYING INVESTMENT	PORTFOLIO MANAGER	TOTAL YEARS EXPERIENCE	YEARS WITH FUND
PL Comstock P - INVESCO	Kevin C. Holt	24	11
	Jason S. Leder	24	11
	Devin E. Armstrong	15	6
	James N. Warwick	21	6
	Matthew W. Seinsheimer	21	6
PL Currency Strategies P** - UBS	Jonathan Davies	22	9*
	Jon Adams	12	7*
- MCG -Macro Currency Group (UBS) ⁽¹⁾	Mark Farrington	27	3
	Ivan Petej	12	3
PL Emerging Markets Debt P - Ashmore (Fidelity)	Mark Coombs	32	3
	Ricardo Xavier	21	3
	Herbert Saller	25	3
	Robin Forrest	20	3
PL Emerging Markets P - Oppenheimer	Justin Leverenz	21	10
PI Floating Rate Income P - Pacific Asset Management	Jason R. Rosiak	18	7*
	J.P. Leasure	15	17*
	Michael Marzouk	14	7*
PL Floating Rate Loan P - Eaton Vance	Scott H. Page	31	3
	Craig P. Russ	28	3
	Andrew N. Sveen	19	3
PL Global Absolute Return P - Eaton Vance	John R. Baur	10	6*
	Michael A. Cirami	14	9*
	Eric A. Stein	12	6*
PL Growth P - MFS	Eric B. Fischman	15	12*
PL Inflation Managed P - PIMCO	Mihir P. Worah	13	6
PL International Large-Cap P - MFS	Daniel Ling	15	5
	Marcus L. Smith	18	10

UNDERLYING INVESTMENT	PORTFOLIO MANAGER	TOTAL YEARS EXPERIENCE	YEARS WITH FUND
PL International Value P - JP Morgan	Gerd Woort-Menker	27	13
PL Large-Cap Growth P - BlackRock	Lawrence G. Kemp	27	2
PL Large-Cap Value P - Clearbridge (Legg Mason)	Robert Feitler, Jr.	20	10
	Dmitry Khaykin	18	7
PL Main Street Core P - Oppenheimer	Manind V. Govil	21	5
	Benjamin E. Ram	17	5
PL Managed Bond P** - PIMCO	William H. Gross	44	32
- WAMCO (Western Asset Management Company) ⁽²⁾	S. Kenneth Leech	37	13
	Michael C. Buchanan	24	9
	Carl L. Eichstaedt	24	16
	Keith J. Gardner	31	16
	Mark S. Lindbloom	36	8
PL Mid-Cap Equity P - Scout (UMB Financial)	G. Patrick Dunkerley	20	7
	Derek M. Smashey	10	7
	John A. Indellicate II	9	3
PL Mid-Cap Growth P** - Ivy Investment Management ⁽³⁾	Kimberly A. Scott	27	13
PL Precious Metals P - WellsCap (Wells Fargo)	Michael P. Bradshaw	19	6
	Oleg A. Makhorine	19	9*
PL Real Estate P - Morgan Stanley	Theodore R. Bigman	26	10
PL Short Duration Bond P - T Rowe Price	Edward A. Wiese	30	19
PL Small-Cap Growth P** - Lord, Abbett ⁽⁴⁾	F. Thomas O'Halloran	27	13
	Arthur K. Weise	21	7
PL Small-Cap Value P** - AllianceBernstein L.P. ⁽⁵⁾	James MacGregor	21	16
	Shri Singhvi	10	6
* Indicates tenure with the firm			
** Indicates recent change in fund management			

UNDERLYING INVESTMENT	PORTFOLIO MANAGER	TOTAL YEARS EXPERIENCE	YEARS WITH FUND
(1) MCG -Macro Currency Group (UBS) added (2) WAMCO (Western Asset Management Company) added (3) Morgan Stanley replaced by Ivy Investment Management (4) Fred Alger Management replaced by Lord, Abbett (5) NFJ (Allianz) replaced by AllianceBernstein L.P.			

C. Risk/Return Analysis

1. Investment

→ Risk/Returns Analysis at 12/31/2013

INVESTMENT	NUMBER OF YEARS	UP YEARS	DOWN YEARS	AVG. % UP YEARS	AVG. % DOWN YEARS	BEST YEAR %	WORST YEAR %
<i>PL Portfolio Optimization Funds –Class A</i>							
- Aggressive	10	8	2	15.82	-22.11	33.28	-40.02
- Moderate-Aggressive	10	8	2	14.17	-17.95	30.40	-33.85
- Moderate	10	8	2	12.17	-13.47	27.07	-26.73
- Moderate-Conservative	10	9	1	8.50	-18.76	22.28	-18.76
- Conservative	10	9	1	6.61	-10.26	18.49	-10.26
Summary		84%	16%	11.45	-16.51	26.30	-25.92

2. Underlying Investments

→ Risk/Returns Analysis at 12/31/2013

UNDERLYING INVESTMENT	No. YEARS	UP YEARS	DOWN YEARS	AVG. % UP YEARS	AVG. % DOWN YEARS	BEST YEAR %	WORST YEAR %
PL Comstock	9	6	3	19.75	-14.50	35.10	-37.50
PL Currency Strategies	1	1		3.10		3.10	
PL Emerging Market Debt	1		1		-6.40		-6.40
PL Emerging Markets	7	5	2	31.08	-33.05	83.20	-48.00
PL Floating Rate Loan	4	4		11.78		32.40	
PL Global Absolute Return	1		1		-1.50		-1.50
PL Growth	9	7	2	17.74	-23.20	35.70	-40.90
PL Inflation Managed	9	6	3	9.02	-4.37	14.80	-9.40
PL International Large-Cap	9	7	2	19.36	-22.50	31.90	-34.80
PL International Value	9	7	2	17.09	-30.15	27.40	-47.60
PL Large-Cap Growth	9	7	2	17.26	-27.65	37.40	-50.60
PL Large-Cap Value	9	8	1	13.41	-34.50	31.80	-34.50
PL Main Street Core	7	5	1	18.82	-38.70	31.70	-38.70

	UNDERLYING INVESTMENT	No. YEARS	UP YEARS	DOWN YEARS	AVG. % UP YEARS	AVG. % DOWN YEARS	BEST YEAR %	WORST YEAR %
	PL Managed Bond	9	8	1	5.88	-1.40	15.90	-1.40
	PL Mid-Cap Equity	8	5	3	20.78	-15.77	37.50	-38.60
	PL Mid-Cap Growth	9	7	2	23.79	-27.45	57.90	-46.90
	PL Precious Metals	1		1		-47.80		-47.80
	PL Real Estate	8	6	2	17.46	-27.90	36.00	-38.60
	PL Short Duration Bond	9	8	1	2.60	-0.10	6.20	-0.10
	PL Small-Cap Growth	9	7	2	17.84	-24.35	45.20	-46.50
	PL Small-Cap Value	5	4	1	17.60	-28.20	32.30	-28.20
	Summary		77%	23%	15.80	(21.55)	33.08	(31.47)

D. Performance Analysis

1. Investment

→ Annualized Returns vs. Peer Group at 06/30/2014

This comparison presents only one share class since other classes are derivative and peer group comparisons would therefore be repetitive and provide no additional insights other than that they exist.

Note: Items in **BOLD** indicate at or better than average peer group results.

Investment –Class A	1 Year	3 Year	5 Year	10 Year	Expense
Peer Group –Class A					
<i>PL Portfolio Optimization Funds</i>					
- Aggressive	17.94	9.34	14.27	5.26	1.45
- Moderate-Aggressive	16.24	9.76	12.68	6.45	1.42
Aggressive Allocation Peer Group	18.73	9.96	13.95	5.66	1.46
- Moderate	12.82	8.47	10.28	6.80	1.38
Moderate Allocation Peer Group	15.33	8.90	11.86	5.28	1.29
- Moderate-Conservative	10.00	6.37	9.19	5.59	1.34
- Conservative	6.55	4.80	7.09	4.98	1.29
Conservative Allocation Peer Group	10.99	6.54	9.72	5.58	1.29

2. Underlying Investments

→ Historical Returns vs. Peer Group during Critical Markets

Note: Items in **BOLD** indicate at or better than average peer group results.

Underlying Investment (Class "A" and "P") *	Recent Market	Turbulent Market	Up Market	Down Market	Expenses
	2014**	2011	2009	2008	
Peer Group	2014**	2011	2009	2008	
PL Comstock	22.89	-2.08	28.05	-37.51	0.89
Large Value –Class A	22.50	0.04	24.43	-35.91	1.16
PL Currency Strategies	-10.62				0.88
Multicurrency –Class A	0.01	-2.38	9.24	-2.21	1.34
PL Emerging Markets	19.42	-18.18	83.27	-48.02	0.95
Diversified Emerging Mkts –Class A	14.16	-19.96	75.87	-53.82	1.69
PL Emerging Markets Debt	7.04				0.94
Emerging Markets Bond –Class A	6.59	1.10	31.10	(15.39)	1.25
PL Floating Rate Income	5.41				0.81
Bank Loan –Class A	5.32	1.91	41.58	-28.64	1.09
PL Floating Rate Loan	3.81	2.23	32.43		0.80
Bank Loan –Class A	5.32	1.91	41.58	-28.64	1.09
PL Global Absolute Return	0.58	-5.51			1.09
Nontraditional Bond –Class A	3.75	0.81	27.16	-14.33	1.37
PL Growth LT	26.03	-5.51	35.73	-40.92	0.70
Large Growth –Class A	26.30	-1.76	36.47	-39.95	1.25
PL Inflation Managed	5.11	11.69	14.87	-3.36	0.58
Inflation-Protected Bond –Class A	3.72	10.42	10.42	-3.09	1.24
PL International Large-Cap	19.80	-10.22	31.97	-34.83	1.00
Foreign Large Growth –Class A	19.74	-11.08	36.70	-43.75	1.47
PL International Value	20.43	-12.77	27.41	-47.64	0.80
Foreign Large Value –Class A	22.67	-12.29	30.68	-43.09	1.43
PL Large-Cap Growth	24.43	1.14	37.14	-50.67	0.86
Large Growth –Class A	26.30	-1.76	36.47	-39.95	1.25

Underlying Investment (Class "A" and "P")*	Recent Market	Turbulent Market	Up Market	Down Market	Expenses
Peer Group	2014**	2011	2009	2008	
PL Large-Cap Value	22.36	4.44	21.81	-34.51	0.80
Large Value –Class A	22.50	0.04	24.43	-35.91	1.16
PL Main Street Core	25.83	0.05	27.68	-38.77	0.60
Large Blend –Class A	23.69	-0.74	28.57	37.36	1.22
PL Managed Bond	4.36	2.58	15.97	2.86	0.56
Intermediate-Term Bond –Class A	5.17	6.17	13.39	-3.29	0.91
PL Mid-Cap Equity	26.10	-5.46	37.59	-38.69	0.80
Mid-Cap Blend –Class A	24.43	-3.89	37.11	-40.23	1.42
PL Mid-Cap Growth	20.12	-8.07	57.99	-46.92	0.80
Mid-Cap Growth –Class A	24.10	-3.04	40.23	-42.37	1.40
PL Precious Metals	20.78				0.89
Equity Precious Metals –Class A	20.90	-19.77	52.64	-28.30	1.28
PL Real Estate	13.07	5.36	29.83	-38.61	1.05
Real Estate –Class A	12.88	7.42	32.90	-39.27	1.33
PL Short Duration Bond	1.84	0.71	5.15	2.61	0.55
Short-Term Bond–Class A	2.48	1.95	10.29	-2.53	0.86
PL Small-Cap Growth	16.03	-2.22	45.27	-46.57	0.75
Small Growth –Class A	22.50	-2.08	36.08	-40.20	1.42
PL Small-Cap Value	22.50	2.41	24.77	-28.22	0.90
Small Value –Class A	23.70	-5.01	35.59	-32.49	1.40
<p>* On 7/1/2010, Class A shares of PL funds were converted to Class P shares. "2014" and "2011" columns for PL funds show Class P share results, "2009" and "2008" columns show Class A share results. "Expense" column shows expenses for Class P shares for PL funds and Class A shares for Peer Groups.</p> <p>** For 12 months ended 6/30/2014.</p>					

E. Expense Analysis

1. Investment

→ Fees and Expenses vs. Peer Group at 06/30/2014

Note: Items in **BOLD** indicate at or lower than average peer group expenses.

Investment (Share Class)	12b-1 Fee	Front Load	Deferred Load	Expense Ratio*
<i>PL Portfolio Optimization Funds</i>				
- Aggressive (A)	0.25	5.5		1.45
Aggressive Allocation Peer Group (A)	0.25	5.5		1.46
- Aggressive (R)	0.50			1.70
Aggressive Allocation Peer Group (R)	0.52			1.49
- Moderate-Aggressive (A)	0.25	5.5		1.42
Aggressive Allocation Peer Group (A)	0.25	5.5		1.46
- Moderate-Aggressive (R)	0.50			1.67
Aggressive Allocation Peer Group (R)	0.52			1.49
- Moderate Fund (A)	0.25	5.5		1.38
Moderate Allocation Peer Group (A)	0.25	5.4		1.29
- Moderate Fund (R)	0.50			1.63
Moderate Allocation Peer Group (R)	0.52			1.42
- Moderate-Conservative Fund (A)	0.25	5.5		1.34
Conservative Allocation Peer Group (A)	0.25	5.2		1.29
- Moderate-Conservative Fund (R)	0.50			1.59
Conservative Allocation Peer Group (R)	0.50			1.39
- Conservative Fund (A)	0.25	5.5		1.29
Conservative Allocation Peer Group (A)	0.25	5.2		1.29
- Conservative Fund (R)	0.50			1.54
Conservative Allocation Peer Group (R)	0.50			1.39

* The expenses of the funds reflect the added cost of the prudent selection, monitoring, replacement and compensation of unaffiliated investment managers that are considered to be the best at managing specific asset classes.

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