ORIGINAL

Quarter Ended 9/30/09 Performance Meetings & Annual Manager Reviews

December 16 & 17, 2009
Retirement Fund Conference Room

Wednesday, December 16, 2009

Board of Trustees Present:
Joe T. San Agustin, Chairman, Board of Trustees
Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
Gerard A. Cruz, Member
Wilfred Aflague, Member
Antolina S. Leon Guerrero, Member
Katherine T.E. Taitano, Member

Staff Present:
Paula M. Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor

Other Present:
Terry Dennison, Mercer Investment Consulting

Defined Benefit Plan: Pages 1 to 28
Defined Contribution Plan: Page 29
Defined Benefit Plan: Pages 30 to 55

Defined Benefit Plan

10:00am-10:45am DB Plan – Quarterly Performance

(The investment performance for FY2009, the discussion of the DB Plan, page 4) Obviously the economy matters because if we look at investments, while the market sometimes seems to move seemingly in the opposite direction from what you'd expect, ultimately the economy does drive the market in the long run. We did have truly incredible performance after about March 7th when the market turned around for no apparent reason, nothing special happened that day, week or month, the market just decided it was going to go up and it has gone up at a striking rate. The market has recovered a significant portion of its losses and there was a lot of concern that the market had gotten way ahead of the real economy, that the real economy was still very weak, we still had a lot of de-leveraging and distress amongst individuals where they were feeling stressed because of their jobs, their houses were worth less than the mortgage, the sales were very low, house prices were falling, people were having their credit cut back and it seemed like the market was simply on some insane journey that was unrelated to the economy and to some degree it probably was, but what we're seeing now is the economy beginning to catch up.

The book we have is through 9/30, I have an update through last Monday, just some random facts, all of which are generally positive and that's good for the markets because eventually the markets would probably have given back some, not all were gains, but probably a significant portion of the gains if the real economy had not begun to improve, because ultimately, stock prices are worth a capitalized amount of earnings or a capitalized amount of dividends.

It's well known that there are 2 different timing differences between the markets and unemployment, the markets tend to be a leading indicator, they're a predictor of the future. As we have seen, the markets started to take off and rose strikingly 6 months before the real economy began to turn around. Conversely, unemployment is a lagging indicator, unemployment will continue to rise or certainly not fall at a very rapid rate even though the economy is better. If we think about non-Governmental employees, companies are reluctant to add employees, make new jobs until they're sure their sales and revenues continue to grow. That's why despite cash for clunkers and various kinds of stimulus programs, there hasn't been a tremendous upsurge in employment until very recently because of the sense that people weren't sure how much of this was just stimulus related or how much is temporary and how much of it was permanent.

A lot of the growth we saw in the 2nd and 3rd quarter in the economy was due to inventory pipeline filling, companies basically stopped making anything and shelves were running dry. In fact there was a concern that if the consumer felt a little bit more comfortable spending money during this holiday season, there wouldn't be anything to buy because the stores had really not bought very much because they were afraid they weren't going to be able to sell it. What we have started to see is a significant improvement in the US economy. If you look at the top of page 4, unemployment again is continuing to rise in fact it rose strikingly a month ago when it went from 9.8 to 10.2 and the concern was that was close to everybody's estimate of what the peak would be and I asked our economist whether or not we just got to the peak of unemployment early or did he think the unemployment rate would actually rise above 10.2. His sense at the time was we'd probably be looking at further unemployment as companies continue to reduce staff and actually this is the published unemployment, there's --- evidence that the real unemployment rate if you look at discouraged workers and people who dropped out of the work force, is almost 20% so it's certainly a very difficult time. Antolina Leon Guerrero: I thought I heard Obama say that unemployment went down to 10%. Terry Dennison: This is through 9/30, unemployment actually dropped so everyone was surprised, in fact, a much more sensitive indicator than employment rate is the weekly claims for unemployment which is kind of a leading indicator for unemployment rate and that has shown some very striking improvement. One of the problems with all these numbers is they're seasonally adjusted because there is a seasonality to hiring people, people hire extra staff at Christmas time, various sorts of businesses are in a reduction mode on a cyclical basis, particularly things like farms where they hire people for harvest and then let them go until the next harvest so it's very hard to discern whether or not this is all real or just difficulties or changes to the seasonal adjustment factor. There's also a sense that there are differences between a top down survey where they look at (and this takes more time) employment by asking employers and another unemployment survey which is calling up people and basically asking if they have a job. These numbers aren't the same, they will eventually converge, but they will often move in different directions and be at different levels so it's very hard to judge on a one month or one quarter or the new claims when employment comes out on a weekly basis, exactly what is going on because of the seasonal adjustment factor.

The S&P500 was up another 15% this quarter, up 34% for March and in fact 4th quarter is also extremely strong. The first 15 days of December, the S&P was up 7% which is the fastest growth rate since sometime in the 90s, so the market is continuing to roll along. GDP for 3rd quarter first estimate was 2.4%, this is subject to continuous refinement, this has also got a lot of adjustments built into it, none of these are exact direct numbers that you can simply go and count something.

Interest rates and this matters because of the earning potential of obviously your substantially financial fixed income portfolio, but also what's available to investors in the DC Plan and the more stable options, are very very low. We had one of those amusing periods about 2 weeks ago where the yield on the 91 day T bills was actually negative, you loaned money to the Government and they gave you back less than you gave them, that was due to some technical factors, interest rates continue to be extremely low, in fact the yield on most money market funds now is zero, they don't make any money at all. Even at that, the money market funds are significantly reducing their fees so that you don't owe them money.

Inflation expectations have moderated a little bit, at the end of the quarter they forecasted inflation about 1.75%, that's what the market thinks inflation is going to be going forward which is actually less than the average 5 year average of 2.18%. There's still a belief that all of the stimulus programs and all of the quantitative --- which is simply just printing money, is going to force inflation to be higher. Yet the reality is, the steps that were taken were probably a necessity to deal with the economic crisis that are going to have the effect to produce the value of the currency. In this book you'll see an interesting chart to give you a sense of how much the dollar has lost in value for over a period of time, it's stunning.

The consumer, which is part of the reason the economy has been so difficult, has gotten a little happier. Remember when we talked several years ago that the consumer was about two thirds of GDP, while the consumer had credit cards taken away or slammed their purses shut, the reality is that's caused a big crisis in the economy, but part of the concern is that consumer confidence has fallen dramatically, a real sense that the country is going the wrong way, things are getting very bad and even to the point of getting very scary. But, consumer confidence rose moderately during the quarter, it slipped back a little bit in September, but is now level where we're not looking at the apocalypse.

(Let's do the update, Louis Finny who is our economist wrote the text on this) If you look starting at the bottom, his comments are very positive, the trade deficit for October was stronger and retail sales were stronger than expected, he's forecasting that's going to have a positive effect on 4th quarter GDP. A significant thing is if you forget about petroleum oil, the trade balance is about zero, we're importing about what we export. That's a corny argument because if you say if you forget about food, you have no problem with expenses. The reality is we've reached a kind of equilibrium except for petroleum where we're importing and exporting the same amount, which is probably a pretty healthy thing. The Federal Reserve did a survey of household wealth that showed improvements for the last 2 quarters of $4.5trillion and partly that is savings and partly that is a little bit of rebuilding liquidity, people reducing their debt, in some cases walking away from their debt, but that's positive because what really drives consumer spending is not as much money in your pocket as how you feel about the future, if you think you're going to lose your job, if you think you're going to lose your house, you don't buy things or you buy very few things. So consumer confidence is driven by wealth more than income and consumer wealth is increasing.

Another interesting thing is what's called mortgage equity withdrawal; this is the balance of money between mortgage payments and withdrawals from refinancing. Part of the reason we got into this insane situation in 2005 and 2006 where we were spending about 9% more than we were making by borrowing on our houses, using our houses as ATMs, that's now become much healthier, people are actually, of course you really can't borrow on your house anymore, most houses are worth less than the mortgage and most people if they're able are frantically paying their mortgage back in order to reduce the amount of debt. But basically we're now seeing a very low or positive where we're no longer using our houses we're paying those mortgages back.

Let me take you to the editorial comment on page 2. This is our economist and his basic thinking is just about every economic indicator has improved dramatically in the last 6 months, which is important because that means the real economy is catching up with the market. The reality is it's likely it's not going to see a big decline in the market because the market got so far ahead of the economy. In fact, part of what's driving the market so strongly up in December is the sense that the economy is now improving so rapidly that you can justify even higher prices so instead of the sense that the market is very high and possibly heading down, now the sense is the market may not be too low but certainly would justify further increases. I think when we look at the numbers if nothing bad happens in the next 2 weeks, when we do the 4th quarter report at the end of February, I think you're going to see some pretty significant improvements in the position of the bench plan because the market got so strong.

Looking at some of the factors, consumption growth has rebounded back to normal levels, we're now spending again, we're not extravagantly spending, but we're spending at a little bit more normal basis. Exports and imports are rebounding, house prices have stabilized; household net worth has improved, oil prices are steady, unemployment, weekly claims for unemployment, they were running 500,000 new claims a week and some of these of course, people get jobs, but it's a measure, are now down to 200,000. Credit spreads which are a measure of the uncertainty that the market has that the financial system went down, earnings are better than expected, about 85% of the S&P500 reported earnings ahead of expectations, worrisome but perhaps maybe so, most of that is from cost reductions, not revenue growth, top line growth is still not as good as it should be. Lewis (economist) is suggesting here that you can make a case we're in the middle of a v-shaped recovery. Remember the various letters that were used to describe recovery, "l" meaning it never comes back, "w" you've got the double dip, "u" stays down for a long time. We may be actually in fairly sharp recovery and historically, and every economic cycle is different, but historically, the sharper the fall, the faster and more robust the rebound, all of that's very positive. He notes here that he saw his first plus 5 GDP growth rate forecast this weekend, the reality is again and you can get a little over enthusiastic here, but we've gone from a market dominated by fear to perhaps dominated by rebound or a market dominated by greed. There are still some negatives, commercial real estate is a horrible mess, it's going to take down a bunch of banks, probably a lot of small, the more regional banks that made a lot of loans to contractors, but people still aren't spending, office spaces are contracting, the thought was, as people were losing their homes, they would move into multi family housing, mostly they were moving in with their parents, so the reality is real estate is still troubled. The reality is outside of commercial real estate, which is truly a mess, our forecast from our real estate people is commercial real estate will probably lose another 40% of it's value and that will tip over a whole bunch of banks, but I don't think it's going to be the big banks, it's going to be the small banks.

If we go back to page 5, the TED spread which is the measure of the difference between the 3 months treasury bill and the LIBOR, the rate at which banks loan to each other, it's a measure of stress in the system, the LIBOR gets very high when nobody trusts they're going to get paid back and basically the TED spread is normally in a matter of 15 basis points. You can see here it got up to astronomical numbers, over 4% right around the Lehman failure, the beginning of 4th quarter of last year, but it's now settled down dramatically. So the sense in the market is we're no longer in danger because of systemic failure, this bank or that bank is going to fold, but as far as the whole financial system itself collapsing, we're past that.

On page 6 there's a measure of stock market volatility called VIX, this a measure of volatility of stock prices, it's actually something you can trade, if you think volatility is going to go up, you can actually buy the VIX index and it's a very closely watched measure of the volatility of the markets and you can see that it peaked again in the periods of peak financial distress. Bearsterns, Lehman, the problems with the banks in the UK, the Royal Bank of Scotland, it's now settled down, not to what it was in January of 2007, but very much back to a level that we don't think the world's going to come to an end.

Dr. Leon Guerrero: The points that you have here, I'm not seeing any discussion about the healthcare. Terry Dennison: We'll talk a little bit about the healthcare, that's really not an economic issue, it's a political issue and I suspect the market, there's an interesting website it's called Intrade.com and basically what Intrade allows you to do is actually buy and sell what amounts to a derivative on a future event and people are spending real money, this is not a game, you have an account and you can invest in any particular event happening or not happening and right now the price for, we will have a healthcare program with a Government option, is down to about 6%, nobody believes it's going to happen so my guess is it's a lot like people's expectations about the Copenhagen conference, that's very hard to have, there's no event there, but clearly it's a lot of talk, but nothing's going to happen.

Dr. Leon Guerrero: You don't see any major impact on the economy with this healthcare debate? Terry Dennison: They're just going to talk and talk and talk and then talk about something else. It's going no where. That's the view of the market. Dr. Leon Guerrero: One part of the debate is that it affects the small employers. Terry Dennison: None of the stocks you own, none of the stocks you buy are small companies. The smallest company in the S&P500 has a market cap of about a billion dollars. The smallest company in the micro cap range has a market cap of a hundred million dollars. Dr. Leon Guerrero: Looking at it in terms of the consumer buying in... Terry Dennison: Nobody knows what it will mean, at this point it's so speculative, there's no belief that anything's going to happen and there's no understanding of what it's going to look like, they will pass something, it's just not going to be very much. Dr. Leon Guerrero: If your unemployment rate remains, say at the 10%, how is that going to affect the economy? I think we're relating this healthcare issue with the...I see that this healthcare issue is causing unemployment to be high. Terry Dennison: The unemployment is high for a lot of reason, but principally the reduction in demand for final goods for things so nobody can sell anything so nobody needs to make anything, it's really that simple. The healthcare thing has been growing for decades, the healthcare cost the drain on the economy, it doesn't go from nothing to enormous in 2 years, it grows a couple of percent a year. So the reason we're looking at very high levels of unemployment, very low levels of consumer confidence, has very little to do with healthcare, all to do with the fact that nobody has any money so nobody is buying anything, so nobody is making anything, so nobody is hiring people to make more. The challenge for Government is to break that vicious cycle and it's not easy, ask the Japanese, the Japanese have been in this place for 10 years, they've lost an entire decade, they're GDP growth for 10 years is under 1% per year because they got into this deadly cycle of low growth meant high unemployment, high Government deficit, which meant they really couldn't get out of it. In fact the thing that frightened a lot of economists was the usual response which is what the Japanese did, what everyone else did, particularly the Americans have done, is to lower interest rates. Well, it's like a gun, you just shot all your bullets, how do you stimulate the economy when you've already got interest rates at zero, you can't lower interest rates below zero. It becomes a very dangerous situation and what you end up with is called a deflationary spiral which is very destructive, why buy today when the prices will be lower tomorrow, so nobody buys anything, so nobody makes anything, so nobody works. So this deflationary spiral, that was really the reason we went to this quantitative easing and one of the advantages of being a student of the depression, that's one learning from depression, the depression there was a sense that we have to raise taxes, they did all the wrong things. You can say quantitative easing is destroying the value of the currency, it's imposing huge costs on future generations, but it becomes about the only way to turn anything around because after you lower interest rates to zero, the only way to stimulate the economy basically is to print money. That's what they did, they printed a trillion dollars and went out and bought Government bonds with it. Now the problem is you start to get into, if other countries are doing it, a situation where the ability of the country to pay their debt down the road becomes a problem. That Government debt becomes so large and ultimately, you have to pay interest on it and you have to pay it back and what if you can't. The scariest number that's come out of the last 2 years is how much a credit default swap in U.S. treasuries, how expensive that's gotten, basically the premium on an insurance policy that the U.S. Government can't pay its debt, use to be nothing, nobody even thought about it and now it's actually gotten fairly expensive. Now it's much less expensive than a credit default swap on Greek Government debt or Irish Government debt or Italian Government debt but it's a lot higher than you would think, that's the market spending real money, people are spending real money to take these positions. The scary thing is the sense that we've built a hole for ourselves that we can't get out of. You're borrowing more and more to pay for last months borrowing and you just get a deadly cycle or eventually it all just falls apart.

That's all happened in the last couple of years, to get back to the question of why isn't healthcare in here, because healthcare is not a factor that's driving all of this, healthcare is actually a side show. The real concern is the amount of debt at the Government level, at the corporate level, at the individual level. If you want to get really scared, all of these bad mortgages are still out there, all they do is move it around, they move it off of the banks' balance sheet onto the Feds balance sheet. Nobody's paid those back, they're eventually going to get written off, about a trillion dollars worth and that's going to reduce our national savings and force our tax increases to pay that off. None of these problems have actually been solved, they've been moved out of a visible place into a much less visible place, nobody looks at the Fed balance sheet, everybody looks at Citicorp's balance sheet. I'm certainly not criticizing the Government, they did what they had to do, basically it's scaring everybody to death that Citibank and Bank of America and JP Morgan Chase have got all of this bad debt on their balance sheet, that's scaring the economic system, let's get it out of their balance sheet and put it on the Feds balance sheet. They just bought all that stuff, about a trillion dollars worth, the Feds balance sheet went from abut $900million to something over 2 trillion dollars in a span of about 8 months. The bad debt's still there and the problem is, the only way to get rid of it really, you can't just make it go away, you will have to write it off, which means somebody's going to have to stump up the money, or you have to tax it away or earn it away and that's a lot of money. So long term, the country has a lot of problems, we have fewer problems than other countries have, but we have a lot of problems. If we keep going the way we're going, we're going to have sovereign debt, the debt of the Federal Government will be 100% of our GDP. That's a trigger point, most countries whose sovereign debt gets to be over 100% of their GDP which is where you are now in Greece, Ireland, Italy, you're heading that way in the UK, you're getting in that direction for the U.S., getting downgraded from Triple A. Imagine the affects of the market with the Federal Government no longer being Triple A, where basically GE has a better credit rating than the U.S. Government, people believe GE will pay their debts more than the Federal Government will pay its debts.

You can see if you go back to page 7, we're up to 115 bank failures in 2009. So far in the first month of the 4 quarter, we're at 20 which would be the highest quarter of the year if it continues at that rate. The FDIC reserve fund is now dramatically below what it's suppose to be, it's running out of money and of course this is the insurance company for depositors and if the insurance company for depositors goes broke, there's no where to go, basically the Government is going to have to put the money in. So it's getting a little bit creepy, the FDIC is going to keep paying off their depositors, but you have a sense of just how much that hole is. They have a hundred billion dollar credit line from the Treasury which they could tap if they needed to and of course if they needed more money, Congress would give it to them.

If you turn to page 8, this is a page that's gotten a little out of date in the last few months, the dollar which has been falling dramatically in light of the economy's difficulties, has actually reversed. In the last couple of weeks the dollar's risen about 3% versus the Euro, probably about 4% versus the Pound

Sterling. There are a lot of things that drove down the value of the dollar, the sense that the Government is spending at an impossibly unsustainable rate, that the Government didn't care how far the dollar fell. All Governments say, we believe in a strong U.S. dollar and behave in exactly the opposite fashion. The sense being that a weak dollar facilitates our exports, on one of our Monday calls, I asked Lewis, what exactly are we exporting because we don't make anything anymore, all we do is make paper and he thought about it for a while and said movies. So when you hear the phrase that you want the dollar to be weak because it helps U.S. exports, they're talking about movies because we don't make anything anymore. We make cars kind of, there's mostly foreign cars now, but we don't make computers, we don't make machines, we basically stopped being in the industrial system so exports aren't quite the factor. We do make airplanes but of course nobody is buying them right now. It does help U.S. stocks in a manner of speaking, because just like you invest outside the U.S. with your international portfolio and when the U.S. dollar declines, the value of your investments outside the U.S. rise. 40% of the profits of U.S. companies come from overseas. If you look at the quintessential American company McDonalds, while based in the U.S., makes most of its money outside the U.S. So when the dollar falls, the value actually increases. So when you hear about globalization and buy American, it sort of becomes slightly funny if you really understand how things work, because even quintessential American companies invest outside of the U.S.. Many of the things we buy in the U.S. are made by foreign companies, even though they have American sounding labels on them. We do still have and still have the affect particularly the Asian economy is wanting to have their currency be cheap to the dollar to facilitate their exports. A strategy developed in the 18th century by the British, they wanted to foster their exports, that's why you see this constant pushing and shoving about the value of currency that you are.

One of the things that's kind of interesting, as the dollar rises, something called the carry trade stops being profitable. The carry trade is a fascinating circumstance, if you think about being able to borrow in the U.S. for virtually zero interest rate, because interest rates are so low, in fact in real terms, the U.S. interest rates are negative. Because inflation is running 1%, you can borrow maybe half a percent, so actually by the end of the year, you owe 50 cents on interest, but the value of the dollar you're paying back with is followed by a dollar. So the practical fact is you can borrow in the U.S. for less than nothing, but you can take that money and invest it in stronger currencies, like the Australian dollar, or the New Zealand dollar where their interest rates are much higher and do absolutely nothing and make buckets of money and that's called the carry trade. Basically you borrow where it's cheap and invest where you can make a lot and despite you thinking that would be impossible, it works. People have been borrowing billions in the U.S. and investing it outside the U.S. on other things, not just Australian dollars or New Zealand dollars, but in gold, in oil, in minerals, in fact that's probably what's been pushing gold up so much. Just think about buying an asset that only goes up using borrowed money that costs you less and less than nothing to borrow. Now the trick is that all of a sudden the dollar starts to become more valuable, where instead of having a negative cost to borrow, it has a positive cost to borrow. These trades become unprofitable and nobody wants to stick with an unprofitable trade. So they reverse the trade, but in the process of reversing the trade, that makes the dollar more valuable, which causes more carry trades to become unprofitable, which causes them to reverse, which causes the dollar to rise even more and where previously you had the steady decline in the dollar, all of a sudden you have the dollar shoot up because as people unwind these carry trades, instead of borrowing dollars, they're buying dollars, pushing the money value up. So like most things in the world, it's not as simple as interest rates and capital flows, because these carry trades have become huge. This is a big party for the hedge funds, the hedge funds are making a lot of money. You can go out and borrow \$10billion in the U.S., pay negative interest rates in real terms, invest it in gold, get a 15% off your return for absolutely nothing. You don't have to be smart, you don't have to know anything, you just have to borrow \$10billion. Now that's not something you and I are going to do but its part of what's driving all this economic stuff. The interesting thing is we've seen carry trades between the Japanese Yen and the Australian dollar, there's lots of these carry trades out there. In fact if you look at software that currency traders use, there are a lot of individuals doing currency trading, a lot of them will be constantly looking at 40 or 50 pairs of currencies for carry trade opportunities. So a lot of people just sit at home online buying and selling carry trade currencies based on these valuation differences. There's been a lot of carry trades in the past and we saw one in the Japanese Yen, the Japanese interest rates are very low, Japanese currency was losing value, so again you had a negative cost to borrow and you could invest it in Australian dollars which were growing and paying 4% interest. You got a very good deal if you think about it, if you borrow money for less than nothing, invest in something that's growing in value and paying you a 4% yield. Every time this is reversed, there's a point where the trades become a little more wobbly and then all of a sudden they just tip over and you have this tremendous shoot up of the value of the currency. It could go up 10 or 15% very very quickly as these trades run. No one knows much about this unless you're in this business so people look at the newspaper, the Euro has gone from 53 to \$1.47 and all of a sudden it goes to \$1.37. What's going on? These people in the background behind the curtain that you never see, had been manipulating things and all of a sudden it becomes profitable to run it the other way. You can borrow pretty inexpensively in Europe, so all of a sudden, they're borrowing in Europe to buy U.S. dollars or U.S. stocks. So now all of a sudden you got the carry trades reversing, and the dollar and the stock market start to shoot up, while the Euro and the European stock markets decline, so it all gets to be very tricky.

On page 10, looking at GDP you can see just how bad the recession was, it was 4 quarters of negative growth, in fact very negative growth. But now we got GDP estimates 3rd quarter up 2.4. A lot of estimates for 2010 quarter are at 3 to 3.5, we think we need about a 3 to 3.25 GDP growth to get unemployment to go down. So we're not at a level of GDP growth where the unemployment's going to go down, but we're not that far away. We need about 3.2% GDP growth to cause a big reversal of unemployment. The rate will start to go down significantly and stay down. 4th quarter GDP estimates are about 3, Lewis was saying he was seeing numbers as high as 5. That would be for the U.S. economy, very very strong performance. In China their recession was from a 9% GDP growth to a 6% GDP growth, that was their version of a recession. We went from 5 to minus 6.

Inflation expectations, again we're looking at the spread between 10 year TIPS and 10 year nominal. You can see there was a period again around that crash where Lehman failed, where basically inflation spread was negative, people expected deflation, inflation expectations were for deflation. We're now seeing a spread of 1.75 less than normal for the trailing 5 years, but certainly no indication we're going to have runaway inflation probably for the next year or 2. Now if the economy improves at this 5% rate, where we're seeing a real v-shaped recovery, you could start to see inflation hit sooner. In fact I was watching CNBC this morning and there's a lot of talk about when the Feds could start to raise rates, because they can't let the economy actually get out of control. If you start to get growth above 5% that would become extremely inflationary. They've injected enormous liquidity in the market, there are enormous amounts of money in the market right now. You'd think if there's lots of money, why isn't there a lot of growth. Another factor, if you look at how money works, and this is sort of an economics theory, the amount of money, what's called velocity, the rate at which the money moves around, what's happened is while there's an enormous growth in the amount of money, the reason that's not producing inflation is velocity has dropped a lot, if you have money, you're holding onto it, you're not spending it. The concern is they can control the amount of money, now they've let it grow enormously. To take it out of the system would slow the economy dramatically and because we're heading into an election year, politically very difficult. So they're now scared to death that the factor they can't control which is velocity is going to pick up. If velocity increases, if all of a sudden you decide I have some money I'm going to spend it, and pretty soon the money is starting to flow around and you get what's called a money multiplier, and all of a sudden the effective amount of money in the economy is growing enormously beyond anybody's control. Nobody can control the velocity, we control the velocity. If we decide to start to spend and the people who we buy from decide, we better buy some more because it's flying off the shelf, nobody can control this. So there's 2 parts to this equation, one that they can control, in order to keep the system from collapsing, they've injected all this money, it will take years to get it out, to get the Fed balance sheet down from 1.2 trillion to 900 billion, which is a lot where they want it, it would take them years. The factor they can control is velocity and if all of us collectively decide, let's start to spend, let's have a Christmas blowout, you're going to see inflation go through the roof and it would be out of control, so they're going to want to raise interest rates as soon as they're pretty confident that they're not going to trigger another slide downward.

When you start to get 5% GDP growth, you're going to see pretty rapid rate rises, you're going to see rate rises 25 basis points every time they meet, because of a concern that all of a sudden you're going to have enormous inflation. Enormous inflation produces high interest rates because if money is losing its value, only a fool will lend it out without getting an interest that's enough to maintain your purchasing power. If interest rates shoot up out of control, who is the biggest debtor in the World, the U.S. Government, they're going to have to go up, but if they go up out of control, the proportion of the U.S. budget that's going to go to debt service is going to become astronomical. Right now if you look at the high level Federal budget, people say, we have to cut spending. If you take out debt service, which I think is about 40% of the Federal budget, because we've borrowed so much and entitlement programs, you're going to last through 25% of the budget. So if you want to save any money at all, no more NASA, no more support for Amtrak, you have to cut out whole things, because debt service is so large and the problem is they have to pay money on all this stuff they borrowed. If rates go up, you're going to see taxes shoot up and it won't be for people making over $250,000, it will be for everybody, you're going to see taxes go through the roof for everybody.

On page 11, just to show you the behavior of the unemployment rate, we have to go back all the way to 1980 in order to show 4 of them, but you can see that generally unemployment continued to increase after the recession statistically was over. So despite the fact the recession (Lewis says was probably over in June), we can see unemployment rise for another year because that would be the typical pattern.

The lower right hand is important because it gives you a sense of what's going on in the manufacturing economy. Where previously that line is the institute of supply managers, which is basically a group of purchasing agents for corporations and they ask once a week. "What's going on in your business" and basically this is a measure of, it's an index and 50% break even, there are no units to this. You can see that it fell hugely, it fell down to about 32, it's now above the 50% line which is break even for manufacturing which means manufacturing is growing and significantly above the red line which means the economy overall is growing very healthy. Antolina Leon Guerrero: Going back to your comment, what do we manufacture? Terry Dennison: This is a $14 trillion economy, we manufacture a lot of things, we just don't export a lot, we don't make steel anymore, we don't make a lot of things anymore, but manufacturing still is an important part of the economy.

Let's go to page 13. The Federal Reserve Act was signed by President Woodrow Wilson at the end of 1913, and look at what you could buy for $1 U.S. and look at the subsequent 97 years, that dollar's now worth 4 cents. Look at how much it's fallen since the beginning of 1971, which is a number we can all remember. You really have a sense of how much the dollar has declined and this is how inflation works and it's basically a gigantic tax, and that's the reason there is long term, a concern of what to do about inflation.

Page 14 is interesting, it's the relationship between the Dow Jones Industrial average and gold. And despite the fact that the Dow Jones average has risen dramatically from its low, gold which is now somewhere in the vicinity of $1,200 an ounce, has grown much more dramatically. The interesting question is, they were talking about this on CNBC this morning, you could see it go down to $1,000 simply because of the unwinding of the carry trades. Obviously there's a lot of speculation, a lot of ETFs, a lot of commodity funds, a lot of pension funds investing in commodity funds that have a lot of gold and if all of a sudden they become unprofitable, you can see it go down to $800, so it's not a store of value in the sense it always goes up, it's now a tradable commodity.

I talked a little bit earlier on page 15 about housing, and you can see at the very far right hand side from the graph, the astronomical levels that we saw before it all went really bad in 2006 and 2007. We're now starting to see a bit of an increase. Now it's very regional, if you look at certain regions of the economy, Las Vegas was a total disaster, house prices have fallen 31%, Phoenix 28%, but some of these year over year comparisons, and this is through June 30th, don't look half bad. If you own a house in Dallas or own a house in Cleveland, basically your house prices have declined very little and a couple more months of improvement and you can start to see house prices begin to rise on a year over year basis. That's going to matter because remember what I said about people's propensity to spend is driven at least as much or more by their perception of their wealth than their income. If they believe they're rich, they spend objectively differently than if they believe they're not. And if you think your house has appreciated in value, the only thing that's going to do is make some of these debt securities that had written off as being worthless, it's going to start to show some value. That's why you see a bit of interest in people buying distressed debt, buying some of these mortgage securities that you could basically buy for 10 cents on the dollar that are never going to be worth 100 cents on the dollar. But if you can buy them for 10 cents and they're really worth 20, that's 100% profit. So I think the fact that the house prices are turning around is going to be significant because I just don't see an economic rebound without stability or growth or construction and a better sense on the part of consumers that they're all not going to come to an end.

There's some negative stuff out there on page 16. 7.6% of U.S. homeowners are a few days or more late on their mortgage payments. That's up from 7.3% from July and up for the 4th straight month, so there's still a lot of distress out there. Foreclosure's diminished quite a little bit, part of this might be low modification, part of this might be things just getting a little bit better. If you look at the real estate loan delinquency, the bottom right hand graph, you could see that during the good years it was down below 2% and it's now up to 9%. That's not a very good number and realistically the direction's going to have to change before we start to see a big improvement in things.

Let's move from the economy to the markets (page 18). The markets again are leading indicators, they looked at their crystal ball and said, I think things are going to get better and it looks like they're now right. If you look in the upper left hand corner the returns for 3rd quarter in the teens are better, year to date returns, the lowest are in the high teens and there's a few there in the 30's including mid growth up 37% year to date, those are some pretty healthy numbers. You have a sense of how big a hole we dug. If you look at the 1 year returns, bear in mind, we're looking at 9/30, so the only difference between year to date and 1 year is 4th quarter of 2008. So, to give you a sense of how bad 4th quarter 2008 was by looking at the 1 year returns which were all negative, all the mid growth is only a little negative, but large value is still down 10.6%, so that 4th quarter was huge. Now when we do this report in February, we're going to look at 2009 returns which are going to be fantastic. And the 3 year numbers you can see just how much damage. It's going to take another year like 2009 to show some significant positive growth on a 3 year basis. The journey of a thousand miles starts with a single step and we've covered about 60% of our losses.

The bottom 2 charts are interesting, they're not hugely insignificant yet, but the trends are interesting. The left hand chart on the bottom is showing what happens if you subtract the Russell 2000 Index from the Russell 1000, so it's a measure of large cap stocks outperforming small cap stocks. We saw in the dotcom era, in the late 1990's, it was the large cap stocks that predominated. Then when the market fell it was the small cap stocks that did relatively better. Often relatively better meant losing less money. But now we're seeing large cap begin to dominate again, this is the rolling 3 years, if you look at it for short periods actually small cap has been doing better very very lately. Similarly on the right hand side, we're looking at growth versus value and while growth has outperformed value on a rolling 3 year basis for the quarter, value outperformed growth.

The sense from a strategic perspective here is that and the reason we now have a small cap allocation, is you can see on the left hand panel, while large cap tends to outperform longer and to a larger degree, the area under the graph is a measure of wealth created. You can see when it's above the line, it's above the line more often meaning large cap outperforms more often, when it out performs, it outperforms to a larger degree. It's still valuable sometimes to have small cap and similarly where we previously only had value stocks because of the dividend restrictions, it's valuable to have growth stocks although you can see here that we probably want to have a strategic tilt perhaps to value because tends to do better.

Page 19, looking at the performance on a year to date basis, as we saw the Russell Mid Cap Growth Index was up almost 40% on a year to date basis which also includes the relatively poor quarter we had up until March 7th.

Looking at page 20, if you look at some of these lines, like information technology, tech stocks are up nearly 50% on a year to date basis whether you're looking at core, growth, or value. In fact if you look at the value sector of technology on a year to date basis, it's over 50%, so this has been a good market for the tech stocks. Mid cap, top performing sectors were interesting discretionary, now you wouldn't think consumer discretionary stocks would do well. So the sense again is consumers are more willing to spend, financials are improving. Materials companies are interesting because they are probably the best leading indicator of future economic activity. Material stocks are things like cement, copper, stuff you make things from, and if the material stocks are growing rapidly, that means companies are beginning to gear up production. So if you want to forecast what's going on in the economy, if you think of the economy, it's a single factor, you don't look at what's going out, you look at what's going in. What we're seeing is the inputs into the economic process are showing a lot of growth. We haven't seen necessarily yet all the outputs, but somebody thinks it's worth buying inventory to make things and that's very positive.

Again, if you look at the small cap stocks on page 22, it's the consumer discretionary and information technology, here we're looking at stocks that are up over 50% on a year to date basis. Consumer discretionary is like, travel, leisure, high end retail, etc. Basically they divide the consumer sector into discretionary which is things you buy if you think you have a lot of money and stable which is what you buy if you're going to continue to stay alive. Food is considered to be a defensive or stable consumer, people tend to eat as long as they have any money at all, but they don't go to movies, they don't fly around, they don't go gambling, they don't spend money on any leisure activities unless they have superbelous money, they're going to be needing it. So it's a pretty sensitive measure of consumer psychology and the thing that's interesting, during this whole period, the consumer psychology was measured to be poor, it's only gotten good in the last couple of months, the stocks have been out performing the last couple of quarters. So what you see here is some ways of thinking about how the market behaves and how to interpret what's going on in the economy.

Turn to page 23 looking at 9 U.S. stocks, EAFE which is the index we use, it's Europe, Asia and the Far East, very solid performance with the small cap index and again we've got holdings in small cap international. The index is up almost 50% year to date. Before we all declare victory, remember that we're looking at last year, these were all ghastly negative numbers, we need these kinds of returns for 2 years to get back to where we were at the beginning of 2007.

Emerging markets on page 24, the numbers are mind blowing. It was a struggle and it took us some time to get our emerging markets positions. Remember the BRIC countries, Brazil, Russia, India, China. And actually China for all the focus on, actually laggered among the BRIC countries. If you read the notes (from Lewis), he's getting edgy, we're getting a little edgy about whether or not emerging markets have gotten just a little too fluffy. Now that having been said, the emerging markets have less debt, they're better managed financially than the developed world. People use to think of the emerging markets as the banana republics where the colonel of the week basically printed money to buy things for his girlfriend. Unfortunately the developed world is now a shambles. When I talked about BRIC, there's now an acronym called PIGS, which are Portugal, Italy or Ireland, Greece or Spain, which are probably going to go down the drain as countries, Greece almost certainly. They will probably default on debt, the countries are going down the drain. So, you now have the paradox that these so called emerging markets which were thought of as being fragile, immature, kind of child like, now run much more responsibly than the developed world. It's the developed world that's a wreck, it's the UK, it's France, it's Japan that are just a complete mess. Now having said that, I would not expect that you're going to see 100% returns and bear in mind this is for 9 months, 100% returns all the time, we've really been living large here. You're probably going to see some give back, not this quarter, some time along the way you'll see a bit of a pull back. We're clearly seeing the beginnings of property bubble in China, we did get a little wake up call with Dubai and Dubai is a problem of it's own, that's more the old modeled emerging market than the new model emerging markets, basically the whole economy is one giant bubble. They don't have any production like they have in China, no demand like you have in China, no resources like you have in Russia, Brazil. They have nothing, except they were good at borrowing money. Somebody once noted, lending money is easy, the hard part is getting it back. I don't think Dubai is particularly representative of what's going on in emerging markets, but I do think you have to face up to the paradox. In fact, we've had some discussion internally about how much we should be suggesting to our clients if they have emerging markets, where previously numbers with perhaps high single digits, we've had serious discussions of saying, have 25% of your assets in emerging markets, not just in emerging market equity, but emerging market debt, because a developed world, unfortunately including the U.S., is a mess especially compared to the emerging markets. If you look at these numbers and you'll see the effect of this when you look at the performance and also the fact that you've got an emerging market fund in the 401k Plan. Now there's less than a million dollars in that, and that's a shame because those people made a whole lot of money year to date.

Fixed income, despite the fact its yields are terrible, they're very very low, because credit spreads have narrowed where remember we saw things like the VIX 110.03, we saw the TED Spread, as people become less fearful about everybody in the world defaulting, the spreads that are required for non Triple A securities have narrowed causing the prices to go up and for those managers who are investing in bonds that were corporate instead of Government, they've gotten some very handsome returns. Now if you look at the Barclays high yield on page 25, up nearly 50% year to date, you can see the effect of the spreads. If you go back to the beginning of the year, most people thought that any high yield credit was going to default, they were zombies, they were walking dead.

What's happened is now all of a sudden instead of spreads being 1500 basis points off of treasuries, they're more like 300 basis points from treasuries. People don't believe these high yields are going to fail, they feel much more comfortable, spreads have narrowed and that's how you get a 50% return investing in bonds. Now just to make my regularly quarterly point here, you probably can't invest in high yield bonds because of the restrictions in your portfolio so you didn't get any of that, but even in the credit and the aggregate, Lehman aggregate up 3.7%, year to date up 5.7%, that's pretty good money for bonds.

Antolina Leon Guerrero: Could I ask as a side comment, back in June or July when the Government issued its bonds and talking earlier to the Chairman, the decision was not to buy the Government of Guam bonds, looking back now... Terry Dennison: I don't track individual securities, I can't tell you the answer to that. Paula Blas: They were rated below Triple B. Rosalie Bordallo: They were not investment grade bonds, that was the problem, as Terry stated, we couldn't get into high yields because of the law restrictions in place, that's the same thing with the Government Bonds, they just don't meet the criteria that is allowed for investment purposes by the Board, the Legislature would have to change that in order to buy these bonds.

If we go to page 26, one asset class when we look at the pension fund we'll see we have no money and it's an area where other pension funds do have money, is international fixed income where we're basically buying bonds, entities that are not U.S. and are not necessarily dollar denominated and in parallel, I've also had very good performance, the Citigroup non U.S. World Government bond index, 7.3%, these are mostly sovereign, these are not always corporates. There's a note here that the UK is at risk for losing its Triple A rating. The newspapers over there are just full of discussions about the likelihood of them falling out of the Triple A category. Antolina Leon Guerrero: How likely is that and what do you think the ramifications will be? Terry Dennison: In that case, they're not going to default, which is different from Greece and potentially Italy and maybe Ireland, they're not going to default but their borrowing costs are going to go up and you get into sort of a vicious cycle because their borrowing costs are going up, they have to raise taxes which reduces the level of the economic activity and it just leads to sort of a spiral downward. Greece was downgraded to Triple B so they're about to become downgraded. Antolina Leon Guerrero: What's your projection to when the U.S. might be? Terry Dennison: Well it depends a lot on what's done to deal with the accumulated debt and deficit. We're heading into a period now where the baby boomers are retiring. If you look at the fiscal condition of Medicare and to some degree, the fiscal condition of social security, we're heading into a very difficult period. There's a phrase made popular by Pimco, "new normal", where you're in a long term cycle of relatively slow growth. Now what we're seeing here, 5% GDP in 2010, that certainly wouldn't be low growth, that's huge, that is a recovery, we're not looking at what's going to happen in 2010, but what will the teens be like. The sense is where the 90's were bad, GDP average probably 3.5-4%, who might be looking at 2.5-3% simply because of accumulation of debt and remember, all the bad stuff is still there, they've moved it around, it's not visible, but it's all still there, but the sense is growth is going to be a lot slower, we're now going to have more people wanting things or producing things. In fact you start to look at the effective demographics. We don't have a demographic problem as some of them do in European countries. We still have, mostly due to immigration rather than birth right, a growing population, it's not strictly true, but in 2075 there won't be any Italians, the last of them would have died off because they're not even producing at a rate necessary to maintain a stable population. Long term I think there's some very strong demographic factors that are going to make it more difficult for investments. You're seeing now corporate pension plans going out of stocks and buying bonds. It's called liability directed investing. It may make sense economically for a corporate plan to just stop trying to make money in stocks, just own bonds because bonds match the liabilities of the pension plans. You're going to see people who instead of putting money into their 401k, are going to be taking money out of their 401k. So one of the factors long term we have to think about and of course the question is, the future is made up of a long series of short terms, is the secular demand for equity stocks going to decline. Remember stocks are simply a commodity. They go up when they're more buyers than sellers, they go down when they're more sellers than buyers. So the demand for stocks long term is very important. If people are spending money instead of saving money, withdrawing from their savings instead of adding to their savings, that's going to have the effect of reducing the demand for stocks. If you ask yourself, what is the principal creator of wealth for pension funds like this one in the post World War II period, it's stocks. Particularly developed market stocks and I've talked about developed markets looking less and less healthy. Assuming a reasonable level of economic, political and legal stability in the emerging world, you might see 20 years from now fairly small holdings in developed stocks and virtually all equity portion of portfolio in what we call today emerging markets because that's the only place where you can make any money. So I think there are very significant demographic factors. They're going to impact the demand for stocks and therefore the return you can get from stocks. If we are in a more high tax, low growth environment, what Pimco calls the "new normal", it's going to be difficult for pensions to make their actuarial assumptions. It's going to be difficult for entities to create the wealth they need to meet the promises they've made.

Again on page 26, this is something we ought to look at if it meets Legislative tests, one for the return potential and two for the diversification. Page 27 doesn't pertain particularly to you, that's a DC issue.

Page 33, there's a question for the house as there has been for the last several quarters about REITs because we only have REITs half way funded. Basically REITs are a fairly volatile asset class and we made a decision after we established REITs as a strategic asset class to hold off funding them and I'm not going to say we are going to dodge every bullet, but we haven't done badly.

So far we've held onto the money in our wallet, the rate returns are very bad and we put some money in the market and harvested some pretty good ones. There is a question which we'll talk about tomorrow about fully funding REITs. So the discussion here about the REITs is significant. REITs dividend have declined to under 5%. So for a pension fund that's got a big negative cash flow like you have, you need cash, you need wealth, but you also need cash because you're paying out a lot. REITs are very attractive because while the REITs yields have declined from their high, the prices have come back. They're like bond prices and bond yields, they behave inversely. The yield on REITs is still 4.9% which is a very solid contributor to our cash flow issue which is one of the reasons we talked about putting them in. The NAREIT Index which is an index of the REITs in the U.S., was up only 31.5% for the quarter but look at the 1 year, 3 year and 5 year numbers. The 1 year number which of course includes the quarter, was down 25%, so I'm not going to say that we're going to dodge every bullet. We're going to talk about a lengthy report, I'm sure you read it, it's in your packet, it talks about real estate and REITs and where we are in the cycle. Having talked about the commercial real estate market being a mess, with potential 40% declines in value, if the central theory of investing is to buy low and sell high, this may not be a bad time to put that last touch into the REIT market. It's a good diversifier. Another advantage is the money is parked in fixed income and that has actually been a drag. We're not going to get all these decisions right so don't beat anybody up about not getting everything exactly right, but it's a big of a lag, it's hurt performance. It is an important discussion (for) tomorrow because we're talking about 5% on a billion dollar fund, we're not talking about petty change.

Let's go to the pension plans, on page 38, we had another really good quarter. We outperformed the blended index which is a passive implementation of our strategic allocation, which meant our managers outperformed the benchmarks and we over weighted the places that did well and under weighted the places we did poorly. In fact we're going to look at something called a performance attribution chart and show you we did exactly that. We're in the top half of the public fund universe for all the funds we've looked at, and for 1 and 3 years we are in the middle or above the first quartile. The lowest we are in that period is 14%. If you look down on the right hand side, Exhibit 1, you can see there's a return for everyone except for AXA Rosenberg. The AXA Rosenberg is a mutual fund because of again, the limitations we have on what we can buy and it's no longer managed by AXA Rosenberg. Effective the 3rd of this month the management was taken over by Schwab and we don't have a very big deal of confidence in that. We've asked AXA what options we have and what I'd like to do is talk to staff about where we are in terms of Legislative position because if we have to go with another mutual fund, AXA doesn't have one. We have to look at options here because we're no longer comfortable with where this fund is going, we'd like to see you out of this one. We also have to look at where we're going with the small cap search, that's another decision item. We've processed the replies that you got from your RFP and gave you a discussion of managers who responded to the RFPs and the one's we suggested.

Looking at the asset allocation on page 39, we do have some now fairly significant differences from target, which we may want to deal with. The 2 at the bottom which look huge, aren't as real as they look because we have the 5% that's un-invested in REITs, presently parked in fixed income. So if we took the 5% out of fixed income and put it into real estate, those 2 would look a lot better and conversely we are underweighted in the small cap because we did not fully fund THB, that's the search issue. The market value at the end of the quarter was 1.7 million so we're now well again above a billion dollars. We increased the value of the fund $137 million dollars in the quarter which is pretty good.

One of the managers we're going to see today is INTECH which is a relatively new manager for us. There is a very lengthy discussion starting on page 45 and going through page 46 about INTECH. Although it was a fairly new manager, we've actually down graded them in terms of our thinking about them and it's a very large down grade, it's 3 steps all the way from A to B. If you read the discussion in here, it's very detailed. One of the issues I'll raise with them is something called product proliferation. It's a research based product, they need to have a lot of people and they have a lot of PHDs who think about how the market works and how to take advantage of their theory for adding value which is basically a billion index portfolio that optimizes response of volatility and there was a sense that they are now rapidly growing the number of products they have. They've very recently launched an international product and they worked 2 years to develop the theory that underlies that international product. And they've told us now that they expect to have a lot more products, they want to use the same philosophy into fixed income currency commodities or any area where relative volatility can be captured. The last sentence of the first paragraph on page 45, "we believe that as a result, the firm has started to lose its focus and is primarily engaged in asset gathering as opposed to staying committed to improving its existing product lineup." Asset gathering is sort of a code phrase, when used by a consultant, it's basically saying since they have asset based fees they're interested in simply growing the assets and they don't care about the clients anymore. The last line of the second paragraph, "we are concerned that the U.S. equity products will lack sufficient attention going forward." At this point we're not recommending doing anything but we need to see something happen with this, this issue of product proliferation, this issue of attention span.

Remember I took Fisher to task 2 years ago about getting distracted, they were starting a publications business. This is a business where you have to be looking at this stuff all the time, you really can't be focused on other things and it worries us a lot when you're focused on gathering assets which means you're in it for yourself rather than adding value for the people who have trusted you with their money. So this is a very negative commentary, the words are very well reasoned, we had other discussions internally and despite the fact this is a relatively new manager, its really pretty extraordinary to go from A to B, the signal there is pretty strong. Again all of these words should be savored.

On page 50 there's a discussion about the AXA fund, the loudest group is apparently effectively dissolved and they've effectively sold the business to Schwab which is now responsible for the fund. We did talk with AXA and AXA no longer has anything really to do with the fund after December 3rd of this year. We need to look at what options there actually are. I talked with some people and while AXA has struggled lately, it's a quantitative model and quant models have had a bad couple of years. We still think there's a lot of value to it. Their small cap product, which you do have has done ok, but I do think we need to find some other way and we certainly don't want to give it to Fisher and not that Fisher is bad, it's just they have so much money now that we need another option. Because of the Legislation we do have the ETF safety valve where before if we hated someone there's nothing we could do because we couldn't get rid of them without having a hole in the portfolio, we could now dismiss them or in this case, redeem our mutual fund shares and go to an ETF while we thought about what our strategy should be. So that was again illustrating the advantage the ETF provisions we have.

Let's get into looking at the total fund performance on page 58. Again the portfolio continues to do extremely well, for the quarter we were up 12.4% that represented a growth net of contributions and withdrawals from pure investment performance over a $100 million dollars for the quarter that put us in the 39th percentile for the quarter. If you look at year to date we're in the 14th percentile up 21.6%. Now again this is really going to fit into the big hole we generated for the last half of 2007 and most of 2008, but there are a lot of people who have got returns that are no where as near like this, you'd be the envy of a lot of clients. On a 1 year basis you're up 7.5%, the blended index was up less than half that at 3.6%, you outperformed 91% of the public funds in the universe and you can see for 3 years, you're in the 13th percentile and for 5 years you're in the 31 percentile. Consider that for 3 years you're up 2.1%, the median fund lost money for that 3 year period, the median fund was down 40 basis points, so you've done very well. This is the worst 3 year period in the post World War II period.

Page 59 illustrates just how successful you've been. Obviously 2008 was poor, we knew that, we were down 24.7%, despite the fact we have more fixed income, this blended index is down only 18.7%, but you could see for 3 years, 5 years, 1 year, year to date and the quarter, we've solidly beaten our benchmark. In fact the only negative period relative to our benchmark, which is again a passive implementation of our strategic asset allocation, was at year 2008.

Going to page 60 looking at excess performance on the rolling 5 year basis, in the upper left hand panel you can see the green line which is the rolling 1 year return has become hugely positive, we had a tremendous rebound with 3 very very solid quarters coming out of the decline.

If we go to page 63, this is looking at asset allocation and this is my 21st visit to Guam so you probably heard me say 21 times that if you look at where you are positioned relative to other public funds, remember supposedly they're doing what's right for them and you're doing what's right for you, so there's no right or wrong here, this is not like performance where better is always better. You are in the 58th percentile of U.S. equities, so you're at 37.7% of U.S. equities where the median fund is 39.6, so the median fund has a little bit more in domestic equity than you do. You are hugely over weighted relative to the typical public fund in international. Non U.S. equity, you're 22.8% where the median is only 17.2%. Non U.S. fixed, this is not a typical allocation, the median fund's at 3.5%, again the argument here is not to add tremendous returns, but as a diversifier and remember one of the things we need to focus on is risk. We don't want to take foolish risk, we don't want to take excessive risk and we want to get paid for the risk we take, but you can think of risk as a kind of currency, there's a total amount of risk you want to take and let's call it "x" and "x" can be bigger or little. If you can find asset classes that provide diversification and therefore reduce the total risk. You can invest more in asset classes with more expected return and therefore more risk so that if you stay invested in international bonds, which produced returns like domestic bonds, they're not spectacular, they're not emerging market bonds, but if that reduces the overall risk because of diversifying effects, that allows you to increase your allocation to lower risky assets with higher expected returns without increasing the overall risk of the portfolio. So risk is a funny thing to think about because it doesn't behave the way things in our real lives behave. I'll use an example here, if you have 2 apples and you add 3 apples, you end up with 5 apples. The problem with risk is it doesn't end up that way, you can add a high risk, high return asset class to a portfolio and because of the effect of the diversification, end up with higher returns and less risk because risk doesn't combine the way apples combine. So we're always on the look out for non U.S. fixed and maybe that's the next generation, we'll talk about that. Rosalie Bordallo: When you say non U.S. fixed, does it matter and I think I've asked this question before, does it matter if it was bought in U.S. dollars if it's not a U.S. asset? Terry Dennison: Most non U.S. debt is not in U.S. dollars, there are a few countries that do U.S. dollar debt, typically they are low quality countries that can only issue debt in dollars because nobody wants to buy bonds in, the credit might be good but the currency is so lousy, they don't want to take the currency risk. Remember every time you buy a foreign investment you have 2 sources of risk and 2 sources of return. Rosalie Bordallo: Let's say you're buying Deutsche Bank bonds, what do you consider that? Deutsche is not a U.S. company, it's a foreign company. Terry Dennison: Right and the bonds are probably denominated in Euros, so you really have 2 investments, you have an investment in a global German based bank, it's denominated in Euros, so you have to evaluate whether or not you like the bank and even if you like the bank, do you like the Euros. Now there's a process called hedging, where you can say I like the stock but I hate the currency. You buy the stock and buy using derivatives, hedge away the currency risk, in effect selling as much currency as those bonds represent. You don't have any exposure to the currency, you just own the underlying security. But typically a non U.S. bond will be denominated in non U.S. dollar currency. Rosalie Bordallo: I think the question I'm trying to get answered, would you consider that type of a bond a non U.S. bond? Terry Dennison: Yes, absolutely. It's more a currency thing than a domicile thing. Typically they are non U.S. companies, the thing that's driving it really is the currency effect. Basically most businesses now are global, you can buy Royal Dutch Shell which is actually a company denominated in Euros, but they're going to behave much like Chevron Texaco, they're going to behave much like Exxon, because they're in the same business. Similarly Siemens, a German electrical company behaves a lot like GE, they're not as diversified as GE, but realistically it's the currency that matters because the world's become so global, but yes, typically they will be non-dollar and they will be domiciled outside the U.S.

Let me just take you quickly to page 65, (we'll be back) you can see how the fund has evolved. Back at the end of 2005, we basically had U.S. equities and U.S. fixed income and over time you can see that the portion of U.S. equities has shrunk, the portion of U.S. fixed has shrunk and a portion of things like international, small cap, international small cap, emerging markets, real estate have grown. This I think is healthy because what you've done now is diversified the risk of the portfolio away from 2 general factors, U.S. interest rates and the U.S. economy, to now a much broader range of factors including interest rates and economies around the world, real estate which has got totally different dynamics than anything else.

So to go back to page 63, the next time we re-visit asset allocation, we might want to take a look at U.S. fixed. Again the median fund is 3.5%, it's not a big allocation, but it's certainly worth looking at in terms of whether or not we want to add a further diversifier. Real estate right now we're low, but if we make the decision tomorrow to fully fund the REITs, that would put us actually probably a little bit ahead of the median fund. Now typically when pension funds talk about asset allocation, they think about it in 2 broad categories, traditional assets - bonds and stocks and alternatives, or non traditional assets. The alternatives are everything from hedge funds to private equity, real estate and there's some pretty exotic stuff floating around out there. You can see if you look at the sum of real estate and alternatives, look at the median, you can't actually add them, just pretend you can. Real estate median is 7.2%, alternative is 7.6%, basically what that's saying is 15% of the typical U.S. pension fund is invested in things other than bonds and stocks. We need to be conscious of what other people are doing, not because we want to follow what they're doing, but rather if there's something out there that we ought to think about, then we ought to think about it. I think you've done a good step by moving into real estate because that's now giving you some diversity away from bonds and stocks of various flavors.

Dr. Leon Guerrero: I'm surprised with the 3% in cash that the other funds have. Terry Dennison: I think what you saw there were a lot of people become extremely panicky about liquidity. If you look at the percentage of alternatives, the way most alternatives work, particularly things like private equity funds, because the way the fund works, it's not like buying 100 shares of Microsoft, if you invest in a private equity fund, basically you make a commitment, you say, over the next 5 years when you say I need money, I'll give you money up to 100 million dollars we'll say, because they don't know, when they raise the fund, when they organize the fund and gather the investors, they don't know what they're going to invest in, because you can't really know until you have money to invest. So you're making a commitment because if you're making what's called a cash call where they'll basically call you up and say, we need $15million from you, so a lot of these funds that invested in alternatives and if you look at that 5th percentile, 25% in alternatives, that's getting up there to like the Harvard Endowment, they made a lot of commitments and what happened in the crash of 2007 and 2008. A lot of pension funds had a liquidity crisis. They had discovered they had made commitments and their traditional portfolio lost 30% of its value. If you make a commitment to fund a private equity fund and they call up and say, we need $15million, you have to give them $15million and if you have to sell things that have lost half their value, this becomes very unpleasant. So we had a little conscious raising session, you're fund is a little bit more conservatively managed than most, you did not have a liquidity crisis. There were a lot of funds that had very high equity allocations, that had allocations to illiquid investments that what happened was everything that they held that was liquid lost so much in value that when they needed money, they had to sell huge portions of what was left. Everyone now all of a sudden where the old joke was cash was trash, discovered it was nice to have a little money in the bank. I think you had a lot of funds that say, we're not going there again, we're not going to be in a position where we can't pay our benefits because we've got $10billion in assets and can't find anything to sell. You can't pay benefits with pieces of paper, you need money and if you've got assets you can't sell because you're buying bond portfolios, there's no bid for your bond portfolio. There was a period where Lehman failed where you couldn't sell a bond. Your report said you had 40% of your assets in your bonds and that was worth $400million, if you tried to sell it at that point, maybe you could get $150million, but you had $400million of pieces of paper that nobody would buy for any amount of money. So that's the reason you're seeing that large allocation in cash because people got scared to death about liquidity.

Let's contrast what you do with more common practice which is to again have very little cash, often to have made commitments well in excess of your cash flow. If you are starting up a private equity allocation and you want to get to 10%, the problem is if you make commitments of 10% of the fund, you'll never get there because by the time the last dollar is called, you would have gotten returns coming back, so the only way you could average 10% is make commitments of 15 or 20%. So all of these funds that we're showing here that they had 7.6% of alternatives, they may have made commitments equal to 15% of total fund thinking all of them won't get called at the same time and we'll be getting some returns of capital from earlier programs, because the programs typically last 8 to 10 years. There's a period of about 3 years where you give them money and then you start to get money back earnings of return capital. What they ran into, there was no cash flow, just promises, that's how we get rich, we make promises, what happened was they had no money coming in and all of a sudden they had to satisfy these capital calls. So one of the things that came out of the last 2 years was cash flow matters and cash flow planning matters. So the Chairman is right with respect to this fund. Your cash requirements are pretty predictable, your actuarial can tell you within small percentages differences what you're going to pay not just next month or next year but hopefully for the next 2 years because you don't have any private equity commitments. A typical pension has no idea what they're cash flow is going to look like with any precision at all because if all of sudden these programs discover some interest investment opportunities, they pick up the phone and say send us money which you have contractually promised you would do. So you had a much easier time with it and a much more successful time with it than these funds that have made a lot of commitments to equity programs where all of a sudden they're at no liquidity or major demands for cash.

If we look at returns by asset class on page 64 you could see some of our returns, why our fund is so good. Remember for the trailing 3 years which reminder, was the worst 3 years in the post World War II period, again you were for 3 years up 2.1% putting you in the 13th percentile. The median fund lost money for the last 3 years. Your equities were in the 1st percentile, yes you lost money, you lost 10 basis points in equity. The median fund lost 4.7%, so literally, you beat 99% of the other public pension funds in U.S. equity. Non U.S. equity which you're over weighted significantly, you're in the 8th percentile. You were up 0.4% where the median fund was down 1.9%, fixed income, not as good a picture, you were 57th percentile, you were 5.5 and the median was about 5.8 so you were just about median. You didn't have any U.S. fixed and you didn't have real estate for a few years. So the reason you did so well is you had money in places that did well and the places that you had money, you did extraordinarily well.

Page 65 just shows the evolution of the fund, page 66 is looking at the asset allocation.

If you go to page 69, I promised you I'd talk about what's called attribution which is basically decomposing the return into the allocation in the manager, how much did you gain from the fact that you over weighted some asset classes and under weighted other asset classes and how much did the managers add. If you look in the upper right hand corner, the manager effect for total equity, 40 basis points, total fixed income, 40 basis points, real estate was zero. Asset allocation plus .5 plus .7, plus .5, basically every decision you could make worked out for you and you beat the benchmark by 2.4% because of the sum of all those positive effects. (Beta is the relationship between the return of your portfolio and the return of your index. The manager effect is the managers out performing the benchmark, the asset allocation is did you put money in asset classes that did well.) Dr. Leon Guerrero: How do you figure the asset allocation effect? Terry Dennison: What we do is we look at the return of the index times the difference in your weight versus the index weight. So if you over weight the index, you get positive points if the index went up and if you under weight the asset class and the index went down, you get positive points. So if you over weight stuff that did good, you get positive, if you under weight things that did bad, you get positive and the mirror image. Joe T. San Agustin: To what extent is the asset allocation different from the benchmark? Terry Dennison: The benchmark is a measure of the performance of your asset allocation. So basically if your asset allocation is 39% equities and 35% bonds and 10% real estate, to calculate the benchmark, we look at had you said, we're not going to fool with managers at all, we're going to invest everything in index funds. So that's the pure measure of the value added that your managers provide and the value added of the decision to tolerate being a little bit away from the strategic asset allocation. Remember I showed you that chart that showed you were over and under weighted? If we were absolutely on target, you would look exactly like the bench market. Your asset allocation was determined by looking at the risk return performance that's right for you. Your asset allocation is different from everybody else's asset allocation. You always want to exceed the bench mark because that means you're getting something for nothing. You're getting a return in excess of what you should have gotten for the level of risk taken.

On page 71 I mentioned this number already, for the quarter our managers produced $131,507,000 so that was good.

On page 72, we looked at the total fund return already, which is outstanding. Let's focus a little bit on the managers, what we've done here is we've broken down the managers into their asset class, for example, for total investment equity, the managers are Atalanta, Winslow, Intech, Robeco, Metropolitan West, we also have the IShares portfolio which is where some of the small cap is parked and the other small cap manager THB. Each one of the paragraphs says the portfolio market value the percentage represents, the total allocation, and then the returns and ranks for the manager, and the return and ranks for the index, and what the median actually was. If you look particularly at page 72, looking at the equity, the 3rd quarter for us wasn't as good as the longer periods. Managers tend to do the same thing all the time and what looks like a good manager is simply doing whatever is in favor at the time and a bad manager is doing something different than what's in favor at the time. One of the things that's noticeable here is where previous year to date, 1 year to date, 3 years to date, 5 years, they all look terrific, but 3rd quarter doesn't look as good because the market psychology begins to change in 3rd quarter. Obviously that's a very strong quarter if you look at the absolute numbers it's mid-teens.

For 2nd quarter the net investment change which is the dollars generated by the manager, was $128,594,000. So in the last 2 quarters, we've made a quarter of a billion dollars, the managers have made a quarter of a billion dollars for us. The point I was making on page 72 and a quarter doesn't mean a thing, I wouldn't pay any attention to what happens in a quarter, but if the market psychology is changing and let me explain a little bit about market psychology. During the early part of the rally and we're talking about a period that starts March 7 so it's not like it's years, what were rallied was what's called colloquially junk stocks. These are stocks that have bad balance sheets, typically have bad management, high debt to total capitalization ratios, poor stability of earnings, poor quality earnings from an accounting perspective. This is similar to what we saw in 2002 and 2003 when we saw the rebound from the decline after the dotcom bust and the joke at the time was these are the companies that use to sell for 100, fell to 2 then soared to 3. What typically we want to invest in and what our managers do invest in are more quality companies, companies with strong balance sheets, good research and development, good management, strong brands, good quality earnings. The managers are obviously trying to find the right niche to be in and I think what happened is the market changed from a dead cat bounce to a much more strong concerted rebound and I think a lot of our managers got wrong footed. If you look at the detail about some of the manager's attribution, a lot of them were under weighted in consumer discretionary, because they thought the recession or depression was going to get worse and all of a sudden it got better. I've gone over for more than an hour what's gone on in the economy. Frankly if you would have laid out 4 economic scenarios for me to pick, what is 3rd quarter going to look like or what's the last half of 2009 going to look like and you would have had depression, inflationary growth, ideal growth, I would not have picked what really happened, I think everybody was surprised at what happened. I don't think anybody expected the market to go up 60%, I don't think that anybody expected that the economy would rebound as quickly as it did. I mentioned that our economist is now seeing sensible people suggesting we could have 5% GDP growth next year. I think what you saw were a lot of managers got wrong footed, they thought that there would be a recovery but it would be slow. I don't think anybody thought we were going to have the stock market rebound or now economic follow through where basically you're seeing consumer confidence increase, you're seeing the institute of supply of purchasing managers index look positive, GDP is stronger than anybody expected, significant progress on weekly claims for unemployment, it's looking like as our economist said, midway through a V shaped recovery. I would not put a lot of attention to the fact that while it's hard to say for Metropolitan West, did badly because they were only up 14.3%, the index was up 18.2%, but that's still a pretty good number. So I think we're going fine, in fact I think we're doing exceptionally well.

If you look at international which has been one of our high spots, AXA Rosenburg again effective December 3rd, that's now Schwab and we would like to see, once we find a suitable place for it to go, have the ETF option, we'd like to find some other place for that money to go. The place is not Fisher, Fisher has plenty of money, despite the fact they're doing well. We do not have a lot of visibility of what Schwab is doing so we would like to see you out of that fund. This is the one recommended action if you go back to that summary page, we'd like to see you move out of this and again if necessary, we could park the money in ETFs to maintain exposure to the asset class. What we don't want to do is to not have exposure to the asset class, but we have now the ETF option that we can use as an emergency. Again while AXA has not had stellar performance, we still have a high degree in confidence in the investment process, it's a quant fund, quant funds did very poorly over the last 2 years, but we still rate the AXA fund very highly.

If you turn to the fixed income on page 74, very very strong performance. Davis Hamilton which basically is a fixed income manager, they were awarded this mandate when we replaced them on the equity side, their performance in fixed has been outstanding while they were weak in equities. If you look at the performance in fixed income for the year they were up 16.3% putting them in the 17th percentile. IRM solidly above the benchmark. Franklin Templeton a little weaker on a relative basis but strong performance relative to the benchmark. The real estate, some of the numbers here are just outstanding. Cornerstone was up 34.3% for the quarter, they missed the benchmark but only by a couple of basis points. Security Capital for the 3 months up 33.7%, very strong performance in the REITs.

That's all I was going to do in the DB Plan. There's lots of stuff here we can talk about but you now know what I think you need to know.
(End of Discussion of DB Plan Quarterly Performance)

DC / pages 31

Defined Contribution Plan

11:00am-11:45am DC Plan – Quarterly Performance

Under tab 2, go to page 16. The Hartford fund replaced another fund so forget about anything for the last quarter. Just to remind you of some recent activities, the American Fund, Bond Fund of America returns were mapped to the Hartford total returns so basically this is a case where the history was bad but the current performance which is what your fund owns is excellent, 5.8% for the quarter versus 3.7. Forget about the longer term performance you weren't there when that happened. Surprisingly really and quite curious because you have an international bond fund in the DC Plan but not in the DB Plan, again very very positive returns, quarter huge returns versus the benchmark, low relative to the median, longer periods just truly outstanding performance, for one year the International Bond Fund up 18.2% versus the benchmark of 4.2. Dodge and Cox which was one of the sick puppies remember, which is still on watch, has turned around dramatically and this is not an uncommon phenomenon where a good process is out of favor and it's very easy to dump them and discover you dump them just about the time they turn around and the firm you hired is the one, when the psychology changes, because they had good recent performance, the people who stuck this out for the quarter got a 16%. Windsor II very strong performance for the long history, again a little bit weaker quarter but only a little behind the benchmark and only a little bit behind in the median. American Funds, AMCAP 31% year to date versus the benchmark of 27.1. Look at the absolute returns American and Franklin, 31% and 33.8% respectively year to date and there are pretty substantial assets in those, participants who invested in that did extremely well. Similar phenomenon we saw for DB managers for Baron down a little bit for the quarter, but year to date and longer periods, very strong. Champlain, weak quarter but it's only half a percent of the Fund, it's a new fund, forget about all the other periods, you didn't have it. Thornburg historically has been outstanding but had a very poor quarter but still was up 15.4%, the Pioneer Emerging markets again for the half a percent of the Fund with $940,885, year to date up 62.4% so the absolute returns for emerging markets are just shooting out the lights.

(End of Discussion of DC Plan Quarterly Performance)

Defined Benefit Plan

1:00pm-1:45pm Winslow Capital Management- US Domestic Large Cap Growth

John Maschoff: First let me say we appreciate being able to be of service to you and the beneficiaries of the plan, we are thrilled to have this opportunity. I'm just going to make some opening comments and review a little bit of performance. Dr. Leon Guerrero: Let me tell you what our expectations are. We're looking at your performance, we want to know if there are any changes in your personnel and we want to know if any of the regulatory agencies have issues with you. We have 2 that are investing in the category that you're in and what is your universe because it seems there are 39 stocks that you are overlapping? John Maschoff: Yes there is some overlap there. Our universe and that's part of the process, we take the entire, for the first step in the stock selection process is a quantitative screen and there we're looking for financial metrics that give us an indication that that particular company is a growth company that would meet our minimum criteria of 12% growth. We look at the entire universe of the Russell 1000, not only the growth segment but also the value segment because we know that some of the value stocks can become growth stocks if they change their business, things of that nature. We also look at companies that are not in the Russell 1000 but come from a universe in a database called Fax---,3.50 for example, we bought MasterCard and VISA, 2 financial stocks that are in your portfolio today, we bought them on the initial public offering, they were previously offered by the banks but they issued stock to the general public. We bought those because they were growth companies, they had financial history with the documents we can see the growth that they were experiencing and we look at that to gather opportunities and that number is typically about 700 companies and they're all large cap growth stocks. We will buy stocks that are newer industries, more rapid growth, might be a 4 or 5 day market cap stock, but that's a smaller percent of our portfolio. So that's the universe we begin with and they are U.S. companies, we do buy some non U.S. companies, but they are all traded in U.S. dollars and they are all in the U.S. exchanges or the ADRs. Dr. Leon Guerrero: You own 700? John Maschoff: We do a screen of 700, we are actively researching and gathering data ourselves from non data base sources, that universe is about 300 companies.

From a personnel standpoint there have been no changes in the investment team whatsoever since you hired us, in fact it's the same portfolio management team of Clark, Bart and Justin have been together now for nearly 11 years with the same investment process. We added a couple of securities analysts prior to you hiring us but that was Roger Mendell who's our industrial and materials analyst and Steve Hamill who focuses on healthcare, those are sectors Clark and Justin used to cover prior to bringing them onto to the team. So Clark functions as the Chief Investment Officer and he's in charge of making sure we keep the investment process, the integrity of that in place and acts as devils advocate to the portfolio managers and analysts and also brings somewhat of a macro view from his experience on what's going on. Bart, Justin and Roger are the people that are actually doing the work that I spoke about earlier where they're getting their hands dirty doing the proprietary research, gathering the information and coming up with a recommendation to include the stock in the portfolio. The final decision makers on what companies go into the portfolios, that's Bart and Justin, so they're principals of the firm and portfolio managers, they're the final accountability for making that particular decision. So there have been no changes there, now in terms of support staff we have now added, there are now 20 employees of Winslow Capital, so in late 2008 we added 2 CPAs and we hired a new compliance officer, all experienced people and in the Spring we hired an individual who supports our business in working in the mutual funds side of the business. I'm involved in working with our institutional clients and I have counterparts who clear who also does that who basically split the U.S. east and west Mississippi, he's east and I'm west.

So again we continue to add to staff ahead of our growth to make sure we have focal point at Winslow, outward client facing for everything we do, but to have that support so the investment routine is focused on what they do best and what's the best for you and that's pick good stocks and make good decisions and generate positive performance both relative and absolute.

Regulatory issues, you asked about that, the SEC was in early 2008 and there were no issues whatsoever, in fact they said be prepared for 2 weeks, they were in and out in 4 days, said one of the best audit examinations they've every done.

One change that you should be aware of and I know Paula is aware of this, Winslow Capital when you hired us was owned by Clark, Bart, Justin and Jean Ballion, they sold 100% of their stock to Nuveen Investments, out of Chicago, they've been around for over 100 years and we basically made that decision so that because of our growth, we can outsource the back office in terms of information technology, human resources, some issues of compliance and such to allow us to maintain a focus on just large cap U.S. growth stocks. So again, they run about $140 billion over all, their other investments affiliates such as ours, --- such as NWQ, Trade Wind Symphony, Santa Barbara, names like that, so that's the relationship.

Bart, Clark, Justin and Jean serve as the operating committee, they make all the decisions about what business we accept, what business we're going to be in, what clients we accept and also control over people such as myself, hiring and firing individuals, so I work at their will not at the will of someone in Chicago at Nuveen. They've all signed 5 year employment contracts and 7 year non-compete contracts. Also Steve Hamill our healthcare analyst signed those contracts as well, we did not ask Roger to do that because he really hasn't been with the firm long enough to make that sort of commitment, but he's definitely part of the team.

Any questions organizationally before I get into performance? Joe T. San Agustin: Nuveen Investments, is that a holding company? John Maschoff: It does function as a holding company. Nuveen Investments, the largest asset class they have happens to be fixed income both taxable and municipal securities, they manage that for institutional clients, pension funds and endowment foundations, but a vast majority would be in closed-end funds and mutual funds for individuals who want to invest in tax free assets, that business is head quartered in Chicago. Again they have NWQ in Los Angeles which is also a value manager, they have Trade Winds which is in Los Angeles and that's an international stock manager, they have Symphony which is a hedge fund manager, they also have a small cap product manager in San Francisco, they have High Park in Chicago which is an alternatives manager and they operate as separate businesses, but they're all owned by Nuveen so they're semi-autonomous businesses. Joe T. San Austin: Some of those companies are probably competitive? John Maschoff: No they're not because they're all managing different asset classes, so we're not really competing against each other. I can send you the product line, the diagram; I can send that to Paula.

Joe T. San Agustin: Several of our investment managers are buying the same stocks, we don't want a repeat of anything. John Maschoff: You bring up a good point because one of the tools we use in managing the portfolio is we have a list of 40 large cap growth managers that we monitor continuously, these are managers that also manage mutual funds, so we run a matrix every month once those holdings are released, to see what we own, what they own, where the overlap is and what we own that they don't own and again, that's part of our risk control process. We know today that out of those 43 managers, 39 of them own Apple Computer and some of those positions that those other managers own are like 6, 7, 8% rates, it's also one of the largest weights in your portfolio, Apple Computer. So again we know that's a different risk profile for owning that stock than we originally bought it, now that stock is trading at $200 a share, so we have actually been reducing our weight and monitoring that because we know that the exposure with other managers is great. So we're constantly aware of that and controlling our weights in our portfolio given the risk profile that other managers have, but it also helps us identify opportunities where we see that one or two managers are beginning to own a stock, we may have passed on that purchase to begin with, we'll go back and look and say, they're a lot of smart managers out there and people, what did they find with this company that led them to buy it that we may have missed. And again, when we begin to see people selling a stock that will make us go back and take a look again. We're aware of where those overlaps are in our portfolio, but again we own those stocks of the value we see in them and the growth opportunities and what's new and what's different about that company and not because someone else owns it. It is our decision, we don't own a stock just because it's in the index or that 30 other managers own it and what have you, that's not part of the process. Joe T. San Agustin: There are sister corporations that are buying the same stock and selling it to each other. Dr. Leon Guerrero: Can you give me a number in your holdings? 14.33Typically we own about 55 to 60 stocks in the portfolio. Everyone has the big book and on tap 5 after the biographies they're listed and this is the portfolio as of September. There have been some changes there, we're not afraid to sell a stock, in fact we do sell a stock, that's why we generate the performance we do, that's part of our risk control process, if we believe that a stock is going to miss one of the components or reasons why we own it to begin with, we sell the stock early, so again, all those warning signals that are being by people like Enron, Worldcom, things of that nature, we're early sellers of stock, we're not going to wait around for several quarters to miss and management to continue to give us expectations of lower growth and say, you know what, maybe this isn't a good stock in the portfolio. So we will sell a stock early on, let management heal the situation if they can do it and go back in if it meets our criteria down the road. Our portfolio turn over averages about 75% on an annualized basis, but I would say half of that or maybe a third of the portfolio would be new names in the portfolio, the rest would be trims and adds as we're managing our position weights in the portfolio again to control risk or to add to opportunity where we see that and want to increase the weight in the portfolio, so we're active in managing the portfolio from a trading stand point and we utilize electronic crossing and networks, dark pools, things of that nature to keep our transaction costs low in addition to traditional brokerage trades.

Gerry Cruz: How much of your holdings are ADRs? John Maschoff: Right now it's probably about 14% of the portfolio, the high we got up to 18% at one point and maybe down as low as 8%, so it runs in that sort of range. But again, we have a guideline, we're not going to do greater than 20% ADRs in our holdings, so that would be the maximum.

On the little supplemental handout that came with the book, we'll just cover some performance and then a little bit of the attribution and then I'd like to bring Clark in via telephone. If you open to the first page, we talked a little bit about the organizational update, we'll tell you what the growth in your portfolio through capital appreciation, also that and our other clients, we've been successful in winning new business and our existing client base, adding to their allocation to large cap growth and putting new money into our existing portfolio. As of last Friday our total asset fund under management was $8.3 billion, that's all large cap growth, that's the only thing we do and we continue to see people put us in searches so we're a growing firm, we have not experienced what other companies had where they had to lay off people or cut back on expenses, our business is doing very very well thanks to folks such as yourself. Your portfolio as of the 14th, the last data that I have was valued at $84.5 million that we're managing for you and you can see your performance on the page there, for the 3rd quarter, 14.8%, a little bit ahead of the Russell 1000, the October number, slightly under performed in October and November we were ahead of the benchmark and we're kind of pretty much even here in December. I will tell you from the inception of your portfolio through the 14th, the portfolio was up 38.47%, that versus the index being up 36.16% so you're 2.31 ahead of the benchmark since the inception of your portfolio versus the Russell 1000 Growth.

Again looking there you can see the performance of the various sectors, consumer discretionary, information technology there in the 3rd quarter were best performing sectors; however year to date, if you look on a whole year through the end of November, technology tends to be the leading sector there, financial stocks however and consumer discretion are still the top 3 performing sectors in your portfolio on a year to date basis. What have been the biggest distracters or underperformance has been our healthcare stocks and our material stocks and again that's a result of a few names there. In the materials area that's been influenced by some of the commodity prices and metals and gold and things of that nature, those sort of companies typically wouldn't fall in our portfolio given our stock selection process. What we see throughout the year is that the Governments stimulus has contributed to what's going on as well as what's going on with the Fed and the actions there so we believe that we have passed through the recessionary and are now in a growth phase, we saw that in the 3rd quarter and we're seeing it here in the 4th quarter, we think that will continue and Clark will talk a little bit more about that.

On the next page you can see the purchases we made in the 3rd quarter, Amazon has been a very good stock in the portfolio that we've purchased and we were one of the initial owners of Amazon and now everyone is buying Amazon and that's continued to push up the price a little bit, we're very cognizant of that. Target again they're coming back, that's competing with Walmart, they're doing a good job in their business, O'Riley Automotive, auto repair given what's going on, people are keeping their cars longer despite the cash for clunkers and doing their own repairs, First Solar an alternative energy space, Peabody Energy, a coal producer and we have another coal producer in the portfolio we just bought Cliffs Natural Resources has been a good stock and for technology the consulting firm, Accenture, IBM again because of the global IT spending, Linear Technology, a chip maker and other things which we believe are going to be very very helpful. Names we've purchased in the 4th quarter in addition to Cliffs Natural Resources that I mentioned, we bought some Costco, Freeport McMoRan, a materials company, Lan Research, a chip maker on the technology side, from an investment management standpoint, Invesco, that's a money management firm and again they're buying the mutual fund business from Morgan Stanley, we think that's going to be a positive overall for them, the risk there, again the flows into their portfolio, that's a risk for all money managers, we've added Expedia to the portfolio because we believe they're following in the footsteps of Priceline which has been a very strong performer in your portfolio and Occidental Petroleum, so those are some new names that have come in here in the 4th quarter. You can see we sold Transocean, they made some decisions and acquisitions that we didn't were in the best interest of shareholders so we sold that company. We did buy Morgan Stanley in the 1st quarter along with Goldman Sachs and JPMorgan, Bart covers financials for us and just thought that given what's going on in that industry that he'd rather have his bet with JPMorgan rather than Morgan Stanley so we sold that again given higher expectations for Goldman Sachs and JPMorgan. We sold Precision Castparts given some of the down turn we've seen in the aviation industry and the cancellation of the joint strike force fighter, things of that nature, we sold Dolby Laboratories, they were licensed in their audio technology to the computer word, Justin was on a call with Dell Computer they were talking about their next generation of laptops and desktop computers and told the audience that they would not be licensing the sound technology from Dolby, we put a sell order on the stock within moments of that phone call because our reasons for owning the stock changed. We also sold Baidu, it's an ADR, it's the Chinese version of Google, we sold it because of the way they were monetizing their advertising, we felt that we were just unsure of the accounting effect of that so we just stepped aside, we want to watch that and get more visibility on that. Rudford International, an oil service company made some decisions we didn't like, CVS Caremart, they had some problems renewing some of the contracts in some of their pharmaceutical benefit management areas, we also own Medco Healthcare in your portfolio, they were there and we think that CVS kind of fell off the curve we expected them to be on, we sold that, we sold American Mobil, a cell phone company because we think their business peaked. That's just some of the examples of the changes we made in your portfolio in recent weeks and such.

If you look at the next page you can see the individual winners and losers in the 3rd quarter. You can see our consumer discretionary stocks, our return versus the Russell was very good plus we were over weight there so we had very positive attributions. Dr. Leon Guerrero: I'm having trouble following this, under Sectors, your total? John Maschoff: For example let's look at technology stocks, in the 3rd quarter, our technology stocks had a return of 17%, in the Russell 1000, the return was 16%, a slight excess performance but as you can see we had a higher weight in technology than the index did. Dr. Leon Guerrero: What is the figure on the bottom, the total: John Maschoff: That would be the performance of these sectors in our portfolio for 3rd quarter, the overall portfolio return for the quarter was 14.7% which was about 70 basis points ahead of the Russell.

As of November, just to give you a more recent number, the year to date, our portfolio had a return of 36.9% and the Russell was 33.09%. So again, leading sectors, technology, financials, consumer discretionary and as I said earlier, what hurt us was healthcare and materials.

Clark Winslow via conference call: I'm sure John has brought you up to date with the consistency in our portfolio, we're up over 38% this year. So what is the outlook for next year, I presume the conversation has talked about how we repositioned our portfolio over the last 7 or 8 months or so to be over weight in technology and over weight in energy, repositioning financials to participate in better capital markets and better stock markets and better economy and taking money from our healthcare and our consumer staple areas. I think the main thing is this is a good outlook for next year because we think the surprise, so to speak in the economy and the stock market for next year is going to be corporate profit. Starting in October a year ago, businesses pulled back very sharply for financial safety and survival and they sharply cut employees and production and inventory and capital expenditures and so forth. So right now as the economy is beginning to get a bit better and we can see capacity utilization has crept up now from a low of about 69% which was a historic low to 71%, we're beginning to see a rise 3 months in a row in the increased hiring of temporary workers to see hours booked going up. I think as demand stabilizes and --- begin to grow a little bit, businesses having sharply cut inventories for over 5 quarters are going to find they need to increase production or they'll miss sales and this will lead to part of the --- circle in the economy, increasing employment, increasing income, increasing spending and reinforcing growth and as this begins to take place, I think the surprise will be in corporate profits because as businesses have revenues that meet or exceed the expectation on a still very tight cost structure, earnings will be better than expected, revenues have been a bit disappointing, but we actually met some cases that slightly exceeded the earnings that people were actually looking for. I think while this will not be a V shaped recovery, we're still in the secular deleveraging, we're sure we're playing the bottom in housing but we've seen prices go up and see the unemployment rate go down but that's the last thing that shows up in an economic recovery that while we're being very careful about these things, we think we will see the economy grow next year where again the upside supplies will be a profit and the portfolio is oriented where those high quality companies with good balance sheets that can take advantage not only in the U.S. but in international markets where you're talking about a company like Cisco or Microsoft of Visa to take advantage of the opportunities. So that really is the key thing of how the portfolio is positioned and why and I'll be glad to take any questions if anyone has some.

John Maschoff: So again, thanks for your time and I hope I gave you the information you were looking for, if not I will follow up with Paula and Diana.

(End of Presentation by Winslow Capital)

2:00pm-2:45pm INTECH/JANUS – US Domestic Large Cap Growth

Dr. Leon Guerrero: We thank you for coming. For the record those present are the Trustees Joe T. San Agustin, Gerry Cruz; Wilfred Aflague and Paula Blas (Director), Diana Bernardo (Controller), Rosalie Bordallo (GAS), and Terry Dennison, Mercer Consulting. We'd like you to lead the discussion and what we're looking for is what you did last year in your performance, if you're expecting any changes in the new coming year, if there are any changes in personnel with your firm and whether any of the regulatory agencies have issues with you.

Jack Lin: First of all I'd like to thank everyone for allowing us this opportunity to come and meet with you today. I'm based in Hong Kong, I run the regional business development team for Janus Capital Group. I'm very happy to have my colleague David Schofield come out from London representing Intech which is your manager for this account to update you on recent developments and where we stand today. David Schofield: I have a dual function at Intech, I am responsible for all of Intech's business outside of the United States, which is a business we began when we became a part of the Janus Capital Group in 2002, that business now represents about 15% of our total assets. As of the end of September which is the last point of in which assets have been announced on a quarterly basis, in conjunction with our parent companies, a public company, we manage a little over $47 billion and for the non U.S. business, the clients outside, that represents about $6 billion. That business continues to grow and the non U.S. business continues to grow and we have experienced some outflow in the United States and this year our business outside the U.S. continues to grow, there's obviously been some quiet in the usual market conditions, in the last couple of years and we will talk a little bit about that. That unfortunately and I'm sure you are aware, has resulted in some underperformance for the first months for the life of this account and the account is just now over 10 months old so it's still very early days and we want to keep that into perspective. We don't want to disappoint you starting out with a little bit of under performance so we want to talk a little bit about that and why that's been the case.

Intech's process generally speaking is a process that is designed to be able to navigate through a wide variety of market conditions. In terms of the organization since we last met, there have been very few changes, the intake remains and we are a compact organization, about 85 people that are a part of the Janus Capital which is a larger organization which provides us with a lot of services including local presence in various different locations around the world which we operate and have clients and this allows Intech to focus on the investment management. That's another part of my role, I am a member of the investment management team. We don't have portfolio managers in the traditional sense so there's nobody we can bring and sit down and say, this is the portfolio manager, so obviously Intech's process is a mathematical process and the portfolios are constructed according to a mathematical model. We have a team of portfolio specialists in which I am one, who represent that investment process to our clients and consultants, so I am a member of that team and I have a business role as head of the non U.S. business and an investment role as a portfolio specialist. In terms of the organization, very little change, we have had 2 people leave the organization during the period in question, one of whom was a member of research team based in Florida and another one was a member of the research team in Princeton, our research team head office is in Princeton where the mathematical team is based. Both of those gentlemen left for similar reasons, one left for personal reasons due to a family situation that he unfortunately, regrettably left Intech to have to deal with that was Dr. McGuire and Dr. Green left the Florida team again as a result of a personal reason, he was an academic who uprooted his family to come to Florida and unfortunately the call of academia was too strong and he felt he wanted to return to that, he actually remains as a consultant to Intech. So the 2 departures to report to you, none of them really material to the investment process, the gentleman at Princeton was a mathematical researcher, however there was no particular individual we can point to and say if this person leaves, the process is going to change and we need to do something because the process exists already. None of these departures is being viewed as material to the organization but we felt we should report those to you.

In terms of any regulatory issues that we raised, we have actually had one regulatory issue during this period in question which I think was communicated to you at the time, with regard to proxy voting, the SEC felt that our proxy voting guidelines had not been adequately disclosed to our clients. It was felt that there was a potential conflict of interest with our proxy voting guidelines which had not been adequately disclosed. We sent out a number of communications about this at the time and we've resolved the issue with the SEC and the matter is closed.

To give you a brief review of the investment process, Intech's view is that an index portfolio, capitalization weighted portfolio such as the Russell 1000 or the S&P 500 or the Russell 1000 Growth in the case of your portfolio is not an efficient portfolio. In other words, such a portfolio that is constructed purely by construction in terms of the proportions of the market caps of the stocks is not the most efficient way to construct an equity portfolio. Based on mathematical work done by our founder who's the chief investment officer, who's a mathematician from Princeton University originally, it's possible to construct an equity portfolio in our view, that is more efficient than a cap weighted index and by adjusting the weights of the stocks, based simply on the volatilities and the correlations of the stocks in question without any fundamental analysis of the companies at all. So what Intech essentially does is attempt to construct a more efficient portfolio than the benchmark which at the same level of risk targets higher long term return. Each of our portfolios has a specific target for the excess return, for the long run, we have a 3-5 year investment horizon. In the case of this portfolio, we're targeting 3-4% on average fees above the Russell 1000 Growth Index and we attempt to do that with controlled risk, we attempt to do that by controlling the tracking error to about 4-5%, the tracking error being a measure of the volatility of that excess return. Ideally of course you want that excess return to be as consistent as possible, but in practical terms, as soon as you deviate from a benchmark in terms of buying stocks in different proportions to the benchmark as we do, then there's bound to be some kind of variability of the return and we try to keep that as small as possible in the context of the excess return that we targeted. So 3-4% is the target with the expected tracking error of 4 and 5 over the long run. Again very important to bear in mind over the long run as these portfolios are not designed to respond to short term noise in the market, these portfolios are tuned to a longer term horizon and the vast majority of our investors are long term investors such as yourselves, pension funds with long term investment horizons and are able to take that.

That is essentially what Intech does, we over weight and under weight stocks, not based on their fundamentals, but based on the volatilities and correlations of the stocks. By doing such analysis, it's possible to compute a precise portion from each stock in the index which will vary typically from the benchmark proportion but the combination will result in a more efficient combination, in other words, in our case the same sort of risk levels of the benchmark should over the long run deliver a higher long term return. So that's the basis and it's important to bear those principles in mind because when we talk about performance analysis, that becomes a rather different question because if we're not attempting to forecast which stocks will over perform or under perform. We are over weighting stocks for different reasons so there will be times for example, where the stocks we over weighted for reasons of favorable volatility or correlation from time to time will under perform, from time to time they will out perform. We don't expect either of those things to exist for very long but there will be times they do.

Dr. Leon Guerrero: Your selection is based on a mathematical model? David Schofield: That's correct and it's actually a mathematical proof. Dr. --- an academic mathematician actually proved mathematically that you can construct a portfolio which if you fill certain criteria, you can construct it. In other words, by looking at the volatility and correlations you can construct it in a certain way so in the long run has a higher probability of outperforming a cap weighted index. The beauty of it is, it does not involve fundamental analysis of the stocks. Now this is obviously a different approach to equity investment, because most equity managers, I would imagine the vast majority are building portfolios based on analysis of the companies, which companies are likely to do well. That's a difficult job, stock picking is a notoriously difficult thing to do. One of the beauties of Intech's process is it removes the need to identify which companies are going to out perform, which companies are going to under perform over the long run. Of course over the shorter run, there will be periods when stocks that we over weight by reasons of our process, those companies will under perform or they may out perform, but that doesn't mean to say that the portfolio will necessarily do the same thing, it's how the portfolio behaves as a whole is the important thing to bear in mind. The portfolio analysis that we included in this booklet attempts to illustrate that.

What we look at simply is 4 years of historical data and the historical data that we need is simply the price data because from the price data we can compute volatilities and correlations and we attempt to forecast them 3 months into the future. Based on this 4 years of historical data, we have a methodology by which we interpret those 4 years of historical data as the inputs into a forecast model which will forecast those 3 months into the future. We are updating that so that is the optimization process, that is the process by which we calculate the portfolio weights, the weights of each stock. Dr. Leon Guerrero: The factor that you use is the price of the ...? David Schofield: We're looking at volatilities and correlations, the input that we look at is price because you can calculate the volatility from the price and the correlations of the prices to one another. You can think about it in this way, in the same way that for example of the overall pension fund level, you may look at different asset classes. When you put together different asset classes, the allocation between equities, bonds, you may have some cash and some other alternative asset classes perhaps, when you look at how these asset classes behave and to come up with an asset allocation, how much you allocate to an asset class, one of the considerations of course is the expected returns of the asset classes, one of the other considerations is how those asset classes behave relative to one another, the overall pension level you want obviously in return is to be smooth. We do the same sort of thing at the individual stock level, but the major difference is that we don't consider the returns of the stocks, it's not necessary, the mathematics didn't require it, so it's simply the correlations of the stocks and the volatility is the one input into this. Wilfred Aflague: At what time intervals do you update new data? David Schofield: We do it on weekly intervals. Wilfred Aflague: And you only do particular time frames? David Schofield: 3 months in terms of the optimization and that's something we've always done, we've now been applying this model since 1987 and of course the nature of a mathematical process such as this means you can test these things, you can test the frequency at which do you these things to see what impact it has on the portfolio. The frequency at which you do is a trade off because the idea is we are trying to construct a more efficient portfolio and at the point in time where we calculate that, we optimize say this week, but then of course market movements step in and the portfolio begins to move away due to market action, away from the optimal portfolio. So at some point we want to bring it back, rebalance, now if you do that too frequently of course, you eat up potential return in transaction costs. If you don't do it frequently enough, then you're allowing the portfolio to get too far away from the optimal. So applying a mathematical theory to the real world, you have to have these real world considerations and what we have elected to do is on a 6 business day cycle, as a reasonable tradeoff, it wont really matter if it's 5 or 7, but we don't want to do it any more frequently than once a week really, we don't' want to do it every 2 weeks for example, but we've elected to do it every 6 business days and that means that for example your particular portfolio would be optimized, rebalanced on a different business day of the week just to in case there was any obscure calendar effect or some advantage or disadvantage for trading on a particular day of the week, that would and that could be randomized. Gerry Cruz: Do you have advantages of transaction costs that other managers don't? David Schofield: We believe that we execute our transactions very efficiently so our transaction costs are the lowest in the industry. We have data which we haven't actually looked at yet but we tend to be in the third or more often in the 4th quarter of comparable manages for transaction costs and this is verified by a 3rd party we use ITG which is a transaction cost consultant and --- better known as, they changed, we have a chart in here which demonstrates that. We're amongst the lowest trading cost managers in the market and we believe this is due to the very efficient way in which we execute and the way in which we judge our brokers, we have a very well established and well understood relationship with the brokers. We have a --- table of brokers and we construct the --- table based on the total transaction cost which is execution cost plus marketed --- and the --- flow that any particular broker gets from us in a month is based on the historical transaction cost that they've managed to achieve over the previous 6 months and we keep that constantly being updated. Jack Lin: And we never use soft dollar, it's all about the efficiency of the transaction because the more it drives our cost down, that makes it helpful for our clients, that's why the focus on efficiency. So we keep our brokers on their toes. David Schofield: And we have very low error rates as well and that's very important to us. Very low error rates in terms of trades being put through mistakenly or brokers that have executed the wrong trades and in our entire history since 1987, I think there's been fewer than 30 and we do millions of trades a year and we've been doing them for 22 years, but the error rate is extremely low.

Joe T. San Agustin: Based on the model you're using, based on correlation and bearings, would that be considered too conservative? David Shofield: This is a risk controlled process by design. This portfolio from our point of view is targeting a return of 3-4% with a tracking error of 4-5. Joe T. San Agustin: So you target at fixed, is that your maximum? David Shofield: It's not our maximum, but that's the target so I would expect in the long run to be average. Joe T. San Agustin: Is that the market ---? Or is that target only because of your conservative policy? David Shofield: That target is by design, this product has been designed to deliver that sort of excess return. That is a policy that we believe is appreciated because from our point of view, more than half of the secret of success is avoiding the down side. Joe T. San Agustin: You're very high on the risk control to the point where you might lose some opportunity. David Shofield: Yes, but we hope to control the down side also. So we believe 3-4% is the sort of excess return target that would be welcomed by many institutional investors over the long run, but avoiding that big down side. Joe T. San Agustin: Is that 3% competitive, above the market? David Shofield: 3% above the market. If we achieve 3-4% above the market consistently over the long run, that's likely to keep us above the median I would think for this particular space. There will be times of course where traditional managers, fundamental growth managers for example, with concentrated portfolios, over the short term, may do much better than the 3-4%. This is a clearly articulated target from our point of view, we're not trying to maximize it but we're trying to target a specific return, but within a risk controlled frame. So that's what Intech is all about. Joe T. San Agustin: And the risk control is not on the high side? David Shofield: No, we would expect to keep the tracking error between about 4-5%. In other words, if the target return is 3-4%, lets say 3.5% the middle range, the tracking error is around 4-5% on either side of that. So from our point of view even though this is a risk controlled process, this is one of our more aggressive portfolios, we have much less aggressive portfolios than this, this is one of our most aggressive ones with the highest return targets that we have.

Now you can see the chart we have (page 18) on the right hand side shows the very very best and the very worst excess returns in the history of this product which has had a history since November 1, 2000 from different lengths of time. If you look at the green line for example, it says that the very best excess return than any one year period during this 9 year history, was actually an excess return of 11.38%. This is our best rolling 12 month period within that history. If you go out you see the worst was -4.99%. The very worst possible period was possible to find in this 9 year history and as you can see the longer period you go, these lines come together. We don't have very long history for this period to demonstrate that but if you look at over the page on a product where we have a 22 year history, this is all been a less aggressive product, this is targeting a return of around 2%, you can see the same chart, you can see a wider disbursement amongst the shorter period from the very best to the very worst. As the holding period goes up, the measurement period increases and remember, we're about long term investment here, 3, 5, 10 years, you see these lines converge somewhere around the target, but there is disbursement around the target. Over a period of time we would expect to be able to hit 3-4% above the market. Joe T. San Agustin: I'm just trying to get your philosophy here. David Schofield: What we're trying to do, the philosophy of Intech is to try and beat the market a little bit consistently, so the advantage of that being, the key thing being if you avoid the down side, you've got that positive compounding working in your favor as frequently as possible, that's our idea. The way we look at it is you perhaps sacrifice occasional big upside.
So as we have said, looking at the performance on page 5, let's go straight to that because obviously it's been disappointing for the first few months for this account, it's disappointing from our point of view, more disappointing from your point of view and since inception the account has underperformed as of October by 3.5%. Obviously the market has been strongly up since that period, since February 5, 2009, the market has risen strongly and however this portfolio has lagged the market by 3.5%. This sort of thing is certainly possible to happen as we've seen it's going to happen again, it's happened before, we do get this from time to time. The magnitude of this underperformance is unusual, it's greater than you would expect however it's not outside the realms of things we've seen before, the chart we looked at previously demonstrated that. It's an unlikely event but not impossible, what we want to do is look at some of the reasons for that.

If you look at page 6, this shows you the historical performance of this particular portfolio, this product in which your portfolio is invested going back to it's inception to the individual calendar years and you will see actually over the last 4 years, this particular product has underperformed. This has had 4 consecutive years of underperformance which is actually extremely unusual but again it's not something that has not been seen before. What we're going to look at is some of the reasons this could happen and also some of the probabilities that it's possible to see this sort of thing happening and in an investment process that is actually continuing to work normally.

On page 8, we would just like to introduce you to a type of performance process that you probably have not seen before and this is sort of the performance analysis that we do because it's more relevant to our process. A traditional portfolio manager will come in and talk to you about either underperformance or outperformance in terms of perhaps stock picks, how successful the manager had been and selecting stocks that outperformed and finding good companies. In Intech's case we don't expect the stocks that we overweight or underweight, to outperform because we're not analyzing them for performance, we're analyzing them for volatilities and correlations. Over the long run we expect that correlation to deliver a portfolio that outperforms. Over the short run and it is often the case, almost always the case, that varying proportions of stocks outperform or underperform. What we've set out here is simply the batting averages of the stock picks. So we've simply calculated the percentage of the stocks that we've overweighted that outperformed. Now a traditional manager would expect that to be quite a higher percentage if they're trying to identify good companies, whereas Intech's case over the long run, we expect that to be about 50%, that's not what you would expect an equity manager to say, but in our case, that is the case; however in the short run on any particular month, it's highly unlikely that only 50% of our overweighted stocks are likely to outperform, sometimes it's going to be more, sometimes it's going to be less. We have marked that percentage with a plus symbol here on a monthly basis, a plus symbol, a percentage of over weightedstocks that have underperformed. Now we've also calculated the percentage of the underweighted stocks that have out performed and we've marked that with a negative symbol and again over the long run we expect that to be about 50%. In the short term it diverges from 50% almost all the time. If more of our overweighted stocks out perform, we cover that by in any particular month, green and if it happens to be the other way around, if more of our underweighted stocks out perform, we color that bar red. This is a measure we've developed, it's a measure of trending, the extent to which over the short term, the stocks we are overweighting either happen to outperform or underperform. Over the long run we don't expect, those percentages use to be about 50/50, over the short term, it's almost never 50/50. Where it's a positive trending period, we tend to get above target returns and when it's a negative trending period, then it tends to be below target return and in some cases under performance. That is what we have seen recently in the most recent months are colored red. This is an unusual run of negative trending months and as you can see over the entire history of this strategy since 2000, we have a reasonably easily distributed, a number of green and red bars, these are the monthly periods where we've had positive or negative trending. In fact over the entire history of the strategy, the portfolio has out performed 2.7% per year so almost actually on target including this recent period of negative trending. There's been unusual negative trending in recent months, which has been manifested in your portfolio this year since February and has resulted in some of this underperformance. As you can see over the long run, you see this bar on the extreme right hand side, this shows that the plus symbol and the minus symbol are almost exactly on top of each other and also very close to that 50%. This is also an indication of would we would expect in the long run. Half the time the stocks outperform and half the time they underperform and during those periods, that's when we would expect to have on target performance for the portfolio. However during short periods when we get deviations from that, the trending can be either positive or negative and in this case recently it happens to be negative.

Now what are the reasons for that. It would of course be possible for us to come in and say this trending manifested itself in a large outperformance of a particular sector or a particular style of stock, growth or value or momentum or energy or healthcare and talking those sort of fundamental terms, most people are more familiar with talking about equity portfolios but that wouldn't be particularly helpful in this case because we're not taking any of those fundamental parts into consideration when building the portfolio because it wouldn't be particularly relevant to talk about those factors.

So that's the sort of thing we look at, are we seeing trending in the portfolio and are we seeing sort of completed cycles. At the moment we're seeing a period of negative trending. We don't expect it to go on for an extended period, but it's obviously gone on for quite a while already. Terry Dennison: What about October November? David Schofield: October we underperformed by 14 basis points. In November there was also a slight underperformance in that case 45 basis points. The portfolio was up 5.96% and the index was up 6.14%. What has happened is the magnitude of the relative returns even though they are still negative, has moderated. One of the things I want to talk to you about is the reason why we've seen this period of underperformance. What happens is when we calculate these more optimal weights it is based as I mentioned on volatilities and correlations. When the volatility in the market is high, the weights in the stocks tend to be smaller and when the volatility is low, the weights of the stocks tend to be bigger as a rule, that's a risk control. When the volatility goes up, that's an extra source of risk, when that volatility is spread amongst more holdings and gotten smaller weights. Now when you get an abrupt shift from one sort of volatility regime to another over a short period, that could be a source of tracking error. So what happens is, say we go from a very high volatility environment where the stock weights are perhaps small to a low volatility environment in a short period then the stock weights by design do not immediately react to that volatility shift. What we saw during 2009 and the majority of the underperformance that we've seen since the inception of your portfolio actually occurred during the second quarter and particularly in the month of April 2009 there was an abrupt shift in volatility up so a period of low volatility to a period of much higher volatility. During a period of lower volatility we would tend to have larger portfolio weights in the stocks and that all of a sudden we found ourselves in a higher volatility regime with those bigger weights. Now that doesn't necessarily mean that we're going to have a period of underperformance because it depends on how that plays out, it depends on what particular stock volatility manifests itself, whether we have underweights or overweights in those stocks; however what it means the portfolio is not tuned yet to the new volatility environment and that is by design. We have a --- built in because we don't want the portfolio responding to short term noise because all of sudden it will be getting all over the place and transaction costs will explode. We want to make sure the portfolio adjusts over time in the volatility regime. What we don't want is for it to go from one day to the next cause then what happens is the next day it might switch back because the volatility is a fickle creature and we're not trying to tune the portfolio to short term volatility shifts, we're tuning it to sort of longer term volatility. So we do get these shifts, there's a potential for the impact on the portfolio return, not always negative, but unfortunately in this case, the shift in volatility regime was a negative impact on performance. We have seen previous volatility shifts that we highlighted on page 9 where we see the market volatility shifting during these various different periods like the nifty fifty period in the 1970s, the bursting of the tech bubble at the end of the 20th century and the global financial crisis in 2008 and 2009. These are all major shifts in volatility environment and in some cases, those have had a beneficial effect on our portfolios. In this particular case, this time around, it had a negative impact.

Gerry Cruz: Do you know if it's going to be beneficial, do you see the shifts coming? David Shofield: No, because they tend to be short term and abrupt, so forecasting very short term volatility is not something that's easy, it's not something we try to do. Gerry Cruz: How long do they last? David Shofield: It varies all the time. What we want our process to be is to adapt to it and there's a question of how adaptive do you want to make it. Now we can make the process respond more quickly to these changes but that has detrimental effects on longer term trends, it's sort of longer term trends and it's really longer term trends that we're trying to capture here. Gerry Cruz: The adaptive nature of your process, is it stag or does it depend on your feeling? David Shofield: It doesn't depend on feeling but it's not stagnant either, it is actually built into the model so that's the nature of it. Gerry Cruz: So this recent one in April, has the model shifted to adapt to that? David Shofield: Well it hasn't been shifted but it will adapt itself to take into account the current market volatility environment in responding to that. So what happens, if you look over the page, what this shows is, the red bar shows the changing volatility levels and when we talk volatility levels, we have to emphasize the fact we're referring to relative volatility not absolute volatility of the market. You can see it goes up there in the late 1990s, 2000s very high it peaked and then it came down and then it was really quite low during 2003 through 2007 and it went up in 2008 and obviously through 2009 and then begins to come down again and these are quarterly numbers. The black lines you see superimposed above is a measure of how active the weights are in the portfolio, total overweights in this case. The relative line from your portfolios point of view is the top dotted on which is represents one of our more aggressive portfolios in this case large cap core portfolio which has the same target returns as the large cap growth portfolios. You can see as volatility goes up, the dotted line comes down, the active weights are reduced. This is not a subject of decision by anybody, this is the process adapting to the changing volatility environment and reducing those active weights. Again by design there is a delay built into that and the extent of that delay, how adaptive that is again is a trade off, if you want to try to respond to very short term trends, then you give up the longer term benefits. We're looking for long term risk controls, but we don't want it to adapt too quickly. So that is the essence of it and again the volatility shifts tend to be very randomly distributed. Gerry Cruz: So you see volatility come down now and even as we go forward? David Shofield: Yes. Gerry Cruz: So we should see this down the line start to trend back up. David Shofield: Yes, but also what we should tend to see is monthly rate of returns become more stable. During high volatility they do tend to get a high monthly variance on the monthly return. We can see that in the last couple of months, monthly returns in the order of say 20 or 50 basis are much more normal rather than monthly returns of 1-2% that we have seen.

What we want to do is we want to ensure that the target returns that we have for the portfolio are not dependant on the changing volatility in the market because we don't have any control over that. We don't want our relative success or failure to be dependant on... Dr. Leon Guerrero: It looks like that's what's happening here. David Shofield: All this means is, how aggressive is the portfolio, so when volatility is lower, in order to maintain the same excess return time, we need to have bigger active weights. So when volatility is higher, we don't need to have the same aggressiveness because we want to maintain the same rate of return of all different market conditions, so we don't want the returns to be subject to changing levels of volatility. Gerry Cruz: A higher volatility you pull money, you want the returns to be stable. David Shofield: Exactly. Gerry Cruz: So lower volatility you put more money on the table, you make bigger bets and still maintain that same level of return? David Shofield: Yes.

Terry Dennison: If we look on page 9 and just look at the period 2003-2007 and that's a very benign period where the bars are fairly stable, but now go back to page 6 and look at the relative performance for 2003-2007, it's all over. David Shofield. Yes, it has been negative. Terry Dennison: Not that it's been negative, it's been all over the place. It's been virtually zero, very positive, moderately positive, moderately negative, slightly negative in a period of stable volatility. David Shofield: I think the characterization of that being all over the place, I would perhaps challenge that in that, so the mean relative return is 3.5% target with a tracking error of 4-5%. So what that means is 2/3 of the time obviously you would expect the relative return to be within --- deviation of the average which is plus 7.5 to minus 1 which is pretty much what we've seen here. Terry Dennison: The point is not the magnitude of it, it's the fact that the range of positive and negative regardless of the stability of the volatility, no regime shift in that period, so that argument doesn't seem to hold any water.

David Shofield: I would say that these returns for those particular years in question are actually and reasonably stable with the exception of one outsized year in 2004. We had one year which was pretty much exactly on target and a couple of other years where there were sort of minor small amounts of underperformance. Certainly this is one of our more aggressive portfolios and the annualized tracking error is 4-5%, these are the sort of annual shifts, these are calendar years, you can look at the rolling 12 month periods as well and if you like, I can send you those. I think more relevant would be the rolling 3 year returns, those are the sort of things we look at, relative returns. This sort of pattern is a fairly normal pattern that you would expect to see, I would say with a tracking error of 4-5%.

So the portfolio does adapt, but obviously when we get these abrupt shifts it can be a source of tracking error, a source of risk, it can have a negative impact as it has had in this case. Transaction costs on page 11 did go down in 2008 and during that heightened volatility but normalized back down to the normal levels that we would expect to see, total trading costs 2009 quarter 3 back down to 23 basis points having peaked around 48 basis points in the fourth quarter of last year. So that last liquid market that we've experienced, things have returned to normal.

We have seen, looking at page 13, periods of underperformance like this before, key being as long as it's controlled, it is possible to recover from those periods. Back in the mid 1990s we had a similar 3-4 year period in our flag ship and our plus product and similar order of magnitude that we experienced in the large cap growth product that you're invested in. That's what the charts on page 13 are highlighting; however the key being maintaining those risk controls and maintaining the sort of robust nature of the investment process.

Going back to your question, what would we expect the portfolio to produce going forward, we have unchanged expectations of what this portfolio should do over the long run. So our expectation is over the long run this portfolio will deliver 3-4% that's the target, above the benchmark on a rolling 3-5 year basis. You see on page 14 that portfolio that we are comparing this to the enhanced plus, did half that period of underperformance that you see in the white area on the left, as you can see in the long run gradually returned back to its long term targets and we would have no expectation that this portfolio should behave any differently and the key being long term.

On page 15 what we have is a chart that demonstrates the varying experiences of Intech's investors. Depending on their inception date, the key point here is your short term experience can be very much affected by the point in time which you happen to start investing. What you see here is various different colored lines, representing various different investors, and clients of ours who experience this particular product that we have running over 22 years. You can see some of these clients the ones where we put in yellow triangles actually did terminate Intech as a manager at those points in time after a period of underperformance and you see what subsequently would have happened the dotted lines that we've shown following on from those yellow lines, how the performance of those portfolio converged towards the long term target over time. This particular investment process is designed to deliver results over time and it's important to be patient to allow time for this philosophy to work out.

It's still early days, it's only been 9 months, we're disappointed, we don't like to get off on the wrong foot with a new relationship, with a new portfolio, with a new client in terms of relative return. It's our expectation as it's been our historical experience as it's been our clients historical experience that we would expect this situation to normalize in the long run.

Wilfred Aflague: Is this stock selection process unique to Intech? David Shofield: To our knowledge there is nobody else doing what we do with this objective. There are a couple of other managers who apply similar principals, in other words, not looking at fundamental analysis but looking at volatility correlations to build stock portfolios but with different objectives. Some try to create circle minimum variance portfolios, in other words to minimize the absolute volatility of the portfolio with expectation in the long run that will outperform. There are others who were doing similar things but without regard to the benchmark, so they're not trying to control risk diversity of the benchmark, but they're trying to achieve a maximum diversification. It's a similar principal but those are relatively recent phenomenon and we don't think that anybody is doing what we're doing.

(End of Presentation by INTECH/JANUS)

3:00pm-3:45pm Atalanta Sosnoff Capital Corporation – Domestic Large Cap Core

Dr. Leon Guerrero: We thank you for coming and filling our fiduciary responsibility. For the record those present are the Trustees Joe T. San Agustin, Gerry Cruz; Wilfred Aflague and Paula Blas (Director), Diana Bernardo (Controller), Rosalie Bordallo (GAS), and Terry Dennison, Mercer Consulting. We'd like you to lead the discussion and we'd like to ask you, by filling our obligation, you can say anything you want to but we'd like to know about the performance for last year, what to expect for this year, changes in personnel in your firm, and whether any of the regulatory agencies have issues with you.

James Staub: Thank you for having us and it's always a pleasure to be back. Robert Ruland: I'll talk about the performance on a quarterly basis, annual basis and inception to date, then I'll go over our outlook from a GDP perspective and then from a stock market perspective and then I'll try to overlay that to our portfolio and try to give you an understanding of how our portfolio is positioned based on that outlook and if there are any questions, please don't hesitate to interrupt me.

On page 1, this is our 12 month performance versus the S&P 500 you can see we were up 3.5% versus the S&P down about 7% (-6.95). Page 2 we broke this out on a quarterly basis, you can see here out greatest outperformance was actually in the 1st quarter and that was we were down 4.8% versus the S&P down 11%. Part of it was holding some cash and a very volatile time and second was putting that cash to work in the back half of that quarter where we saw some very good risk reward opportunities in financials namely one of them. As we go through the following quarters you can see how we performed, year to date 2009 we're up about 30.8% versus the S&P up 24.6%.

Page 3 our cumulative performance over the last 1, 3, 5 and 10 years, you can look at that at your leisure. Page 4 is the last 2 months how we've done since September 30. October down 1.6% versus the market down 1.9% and up 5.5% versus 6% for November, so we've held our lead. Inception to date you can see here April 4, 1986, we're up on a cumulative basis 786.1% versus the composite up 606.5%.

If you remember last year at this time we were talking about preservation of capital because the markets were very uncertain and what we were looking for was a stabilization in the credit markets and to get more positive on the economy, we were looking for the leading economic indicators to start to show stabilization and a turn up and we did see that in the 1st quarter of last year. In 2010 what we see is a GDP for the U.S. economy in the 2.5-3% range, we think unemployment is going to get better, it has already stabilized for the last data point, it's going to get better but we're probably going to stay high for longer, we're not going to have one of those snap backs in employment, we're probably around 10% now, we'll probably go in the 8.5, 9% range. On page 5 you can see the unemployment rate about 10%, if you go to page 6 look what's happened, you've seen inflection points in terms of unemployment rates and actually the last data point where expectations were a loss of about 125,000 jobs, there was actually a loss of 11,000 jobs and you can see here the circled areas are the end of recession so essentially we're we think we're probably at the end or a quarter into the end of the recession which we think is good news.

Page 7, what has this done to the consumer, obviously the consumer with unemployment increasing pretty dramatically last year, the consumer pulled back and that's what you saw in terms of the GDP, consumer 70% of the economy and I think it's normal, it's what consumers should do, but I do think consumers are getting their balance sheets in order, they're feeling better about their own balance sheets. You can see page 8, because they feel pretty good, retail sales are actually starting to go up, in the last data point, retail sales were up about 1.4% so one, you saw a stabilization in retail sales and we're starting to see it go up.

Page 9 starting to talk about housing, this chart I thought was pretty interesting, the blue line in the middle is essentially the demographic demand, what you need in housing increases demographics, population growth and when housing, you have to tear down a house and put up a house, it's about 1.4 million homes a year. The green line shows you how far we went down, we were only building about 400,000 homes, so the housing industry actually reduced pretty dramatically, pretty fast here, you can see here in about 12 months to 18 months. So housing markets from new homes coming in, much better from the supply, demand of the housing industry.

Let's take it to page 10, this is U.S. existing houses for sale, spiked up pretty dramatically, but now it's coming down, it's still high but it's come down, that's the beginning of what you need for a better housing market. We still have a ways to go, our thinking is a normal inventory of existing home sales is probably in the 2 million range at any given point in time. Right now, we're probably in the 3 million range, so we still have to work down about a million homes out there, so we don't think housing prices are really going to appreciate dramatically, I think it's a ways to go before we see housing prices start to get dramatically better.

On page 11, this is the housing price index by Case-Shiller you can see this is the month over month's decline, pretty dramatic from 2007-2009. We just started to see and this is on a national basis, we just started to see an uptake in terms of housing prices. I'm not sure if it stays up 1%, I think the good news is it's stabilized, that will give you a better market. One of the reasons why you're starting to see prices go up or at least stabilization is the 30 year fixed income mortgage rate and it's hovering around 5%, a little bit below 5%.

Page 13 is the housing affordability index that's one of the reasons why it's really important to keep mortgage rates low. Housing prices have declined so you can see a huge uptake in housing affordability. Housing affordability tries to measure, based on your income, how much you can buy in terms of average house prices in any geography, so since 1980, we haven't seen it any higher. So it's giving people the opportunity to buy houses at reasonable prices, at reasonable rates.

Page 14 what we think is going to help the economy next year, we don't think it's sustainable but we think it will help in terms of the numbers and that's inventories. You can see we're at a pretty low rate relative to history and even if it just stops going down, I think it's going to be helpful for the economy.

Page 15, auto production, these are just some examples, you can see how low we got that first quarter of 2009. It's starting to ramp up and actually last week we had a couple of the auto manufacturers increase production for the 1st quarter. The last data point for auto production was 10.9 million vehicles and remember it's still down from about 16.9 million in 2007, but we've hit the bottom and now we're starting to slowly come out of this.

Page 16 I touched on the payroll employment, this is graphically showing where we came from and where we're going to. It's not positive yet, but I think we're getting there and the reason why we think we're getting there is if you go to page 17, the bottom chart is U.S. Temp Employment, that's usually a leading indicator for regular employment and you can see it's already gotten positive for the last 4 months, temp employment has gotten positive. So we're not sure if it's next month or 6 months from now but we do believe that employment will get better. I was talking to Jim (Staub) about this, some research we saw, there's a company out there that actually does a regression of how much jobs should have been lost based on the decline in GDP and they do a regression of the last 5 or 6 down turns and what companies did in the 4th quarter of last year and the 1st quarter of this year, to some extent was a panic and they really cut jobs dramatically, so they kind of over cut, so even just getting back to a normalized number, jobs should be added. That's one reason why you see on page 18, productivity so high. You're starting to get a stabilization and the overall economy, the market, jobs are low so productivity is increasing dramatically. Real cut backs, again this goes back to 1977 though it hasn't been low in terms of year to year decline, that is starting to pick up and in the reports we've seen, in the companies we're talking to, everybody's starting to talk about spending again. One of our analysts was in California this past week and Hewlett Packard said that they're starting to see what is called a budget flush, which is essentially you have a budget of technology spending in any given year and at the end of the year, you actually just spend it to get out of the budget. Last year they didn't spend it, they held it, this year they're starting to spend it which is a positive, from a confident standpoint, it's positive.

Now let's take this to the market. I would say we've stabilized from an economic standpoint, certain parts of the economy are getting better, when you translate that into the stock market, we'll go to page 20 and the first thing is what is the price earnings ratio should the market be trading at. Right now it's around a little less than 14 times our estimate for 2010. If you go back the history, these 2 charts, the left chart goes back to 1950, where as the price ratio to earnings multiple is based on inflation rates. You can see here 0-2% CPI, the price earnings multiple is about 18 times going back for the past 56 years. The right hand chart, a similar answer, below 2.16%, about a 20 multiple. I don't think we're going to get to these multiples because of what happened, we're still coming out of this, because there's a lot of confidence that's been hit and from a Government standpoint, there's still healthcare issues that we have to deal with, there's still the tax we have to deal with.

If you go to page 21, we have a little table here, if we use a 15 multiple, which is considerably lower than history and we use what is probably $75-78 in earnings, we think we can get to about a 1,200 S&P sometime in 2010. It's about an 8-9% return from where we are today, we think that's a reasonable estimation. I would tell you there is risk to the upside here because if the economy starts to expand faster than we expect and we think a slow expansion as we get through the year if it does expand faster, I think confidence will come back, both CEO confidence and consumer confidence and I think the economy could grow faster than our 2.5 to 3% thinking right now.

Page 22 like I said, the companies in the 1st quarter really cut expenses dramatically whether it was jobs or even SG&A, they essentially cut that on a S&P basis down 10%. They have never cut SG&A 10 % in the last 35 years, so what's going to happen is after we stabilize, because expenses have been cut so much, we think earnings are going to really expand dramatically.

You can see on page 22, 1st quarter earnings revisions are expanding pretty dramatically also.

Another positive about the market is U.S. money market funds, people got pretty risk adverse, tremendous amount of money sitting on the sidelines we think would trickle back into the stock market through 2010.

And finally, we think this is a stock pickers market what this graph shows you is the correlation of stocks, you can see back in the throws of it last year, the correlations of stocks was about .8, which is essentially saying it didn't matter what stock you owned if it was the market telling you should you be in stocks or should you be in cash. That has come down dramatically to essentially where the average is, that's a great environment for our firm, we consider ourselves stock pickers, we're not closet indexers, it's a great environment for us so I thought that was a positive for us.

In terms of the portfolio, we are overweight in information technology, we think corporate spending is going to pick up, that's one of the reasons, second reason, they have a lot of international operations, contributions from international, we think international is going to go faster than U.S. and the dollar has been helping and should continue to help, maybe at a lesser degree but it should continue to help. We are market weight financials right now, I believe last year we were very much underweight financials, like I said we got back into financials in the March time frame so we're sticking with financials here and we are underweight energy and consumer staples. Energy from a fundamental standpoint and from a supply and demand standpoint, we think on both a U.S. and global basis there is a lot of supply of oil out there, what we think has been helping the oil price is the dollar, there's been a big trade on where firms are shorting the dollar and taking that money and putting it into commodities, so you see a switch from short end dollar to commodities and we think that's helped the commodities sector.

Terry Dennison: Can you go down one layer on healthcare and financials, insurance, big banks, regional banks, insurance companies? Robert Ruland: That's on the next page. Financials, our largest positions, one is JPMorgan Chase, second similar is Goldman Sachs, I would call that larger cap, capital markets kind of leveraged, both JPMorgan, Bank of America and Goldman Sachs. We also have Visa in there which interesting enough, it's a financial, but does not have losses, it's essentially a network, so if you spend more, they make money. Capital One which I would call our consumer focus finance company, credit cards and banks. We purchased these names just to give you a sense, JPMorgan, Bank America, Capital One back in the March/April time frame. I would say JPMorgan is a double one, Capital One is a double, JPMOrgan is probably up 60-70%. We were lucky get back into the financials at that time, but we just thought the risk reward was just too compelling.

In healthcare, part of it is a pharmaceuticals and most of it is a health care services, Express Scripts and Medco Health and they're going to benefit from generics and they're taking market share so they're going to have their earnings probably in the 15% plus rate and in the beginning of the year, they were probably trading in the 12-13 times and we've had these names for a while but we did add to them throughout the year. With the administration and healthcare question marks, these guys are the least exposed. From a pharmaceuticals standpoint, both Merk and Pfizer the big question mark of why they were trading at such a low multiple was because they had this patent cliff, essentially 3 years out, their big drugs, billion dollar drugs go generic and when it goes generic, you can use 60-70% of your revenues, so the big question for these 2 names was what are they going to do, earnings are going to decline pretty dramatically. Well what both companies did was they purchased companies that don't have a patent cliff and have pretty good patent outlook, so what they did was they offset their cliff with drugs in the next 3 or 4 years. So instead the companies that valued that they were going to grow earnings probably were flat or down and now we think they're going to grow earnings probably in the 4-5% range, so these were companies that were trading at 7 times, we think they can grow to probably 9-10 times. That's the story on that, they're very cheap and the companies are trying to do things to keep things growing, they're going to cut cost and all of that and that's the genesis of those 2 names in the portfolio.

Terry Dennison: On Visa, it looks like Congress has declared war on interchange fees, is there some exposure there? Robert Ruland: Visa did get hit probably in October because Senator Dodd made a lot of noise about interchange. In November, there was a study that came out from the Government saying that interchange should not be regulated and so that issued died. It comes up every once in a while, but at the end of the day, I don't think it's going to be an issue.

Dr. Leon Guerrero: Do you usually have this much cash, 4.6%? Robert Ruland: We average probably in the 3-4% range. Jim Staub: It's higher this reading just because we sold some stocks. Dr. Leon Guerrero: Potentially there's 2 of you that could be buying the same stock and I know there's a limit as to how much we can hold in our portfolio. Rosalie Bordallo: There's different percentages and for this it would be 1% of the total fund. Paula Blas: It's 5% for one single issue, which is a security or stock because we knew that there isn't a single manager that would put, 5% of $1.2 million is.... Jim Staub: The only way we would know is by indication of the Board. Terry Dennison: I think we figured it's all physically impossible to happen. Gerry Cruz: The IPS is constructed so that it's not possible because if everybody did 5% of their mandate, they wouldn't be 5% of their portfolio. Jim Staub: I don't think we have more than 8 stocks that are over 5%, between that 4 and 5%. Gerry Cruz: That's a good question, but I think the question should be, why is a value manager holding the same issue that a growth manager is holding. Those would be the kinds of questions I would ask. Terry Dennison: There are often circumstances. For example, Motorola was the leading cell phone company, the value managers held them because it was cheap relative to it's history at the time but it was also a leading player, it was seen as a growth industry. A reminder, very few companies are one thing or the other and the way that Russell constructs the index there are some that are 100% growth, there are some that are 100% value, but most of them are mixed so those companies, they make multiple things, some of them are rapidly growing, some of them aren't. Valuation is a very transitory thing, if it's cheap, it could be a very rapidly growing company for cheap, so it's not something that's so peculiar that you should point it out.

Terry Dennison: Could you go over page 28-30 because we discussed this morning our views on the economy and the markets and I made the statement that, frankly not just for economic reasons, but also politically and Government reasons, we've seen an aversion, the good safe place to invest now is emerging markets and to go into developed markets is unsafe. Robert Ruland: From a regulatory standpoint I would agree with you and what you're seeing in this chart on page 28, what it shows you is the difference in growth rates and GDP developing versus advanced economies and if you want to see growth, you want to go to the developed economies, that's where the growth is. If you go to page 29, the left hand chart shows you the percentage, the red line is the percentage of total GDP and the emerging economies contribution and you can see the dramatic upturn in contributions versus developing economies. China, India, what they call the BRICK companies, Brazil, they've grown dramatically, the consumer is doing well and they're buying. Look at China retail sales on page 30, annual change of 16, 17%. I showed you this presentation, I was happy that the U.S. grew 1.4% and these guys are growing 16, 17%. There's a mound of tremendous opportunity in emerging markets. Gerry Cruz: At what point does China no longer become or be classified as an emerging market? Terry Dennison: It's kind of an elastic definition, Malaysia's been in and out of the index. If you look at average income, to some degree, this is what defines an emerging market, the slope of this line. There's no developed market in the world that could produce a line like this. The emerging markets have emerging markets characteristics, it becomes self referential, you don't define emerging markets, you define them by sorts of these characteristics. Gerry Cruz: At what point does China eclipse....? Robert Ruland: I can tell you they're selling more cars right now than the U.S., they've already surpassed on a monthly basis with their car sales. I think on a per capita basis they're still very low.

Rosalie Bordallo: Are there any regulatory issues that you might be involved in? Robert Ruland: We don't have any regulatory issues, we didn't lay anyone off last year when a lot of financial firms were laying people off, we didn't.

Thank you very much.

(End of Presentation by Atalanta Sosnoff)

Respectfully submitted,

STEPHANIE A. HERRERA
Recording Secretary

Affirmed:

____

Wilfred P. Leon Guerrero, Chairman