ORIGINAL

Quarter Ended 9/30/09 Performance Meetings
& Annual Manager Reviews
December 16 & 17, 2009
Retirement Fund Conference Room

Thursday, December 17, 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
Mike Perez, Great West

Defined Benefit Plan:	Pages 1 to 33
Defined Contribution Plan:	Pages 34 to 44

Defined Benefit Plan

9:00am-9:45am Cornerstone – REITs

Dr. Leon Guerrero: For the record, I'd like to introduce Trustee Joe T. San Agustin, Trustee Wilfred Aflague and myself, Director Blas, Terry Dennison from Mercer, Controller Diana Bernardo and General Accounting Supervisor Rosalie Bordallo. You may say anything you want to in leading this discussion, but for our part, were interested in fulfilling our fiduciary responsibility, we want to know what your performance was like last year, what you expect this year, we want to know whether there are any major changes in your firm, personnel and whether any of the regulatory agencies have issues with you.

Rico Kanthatham: Let me answer your question with regards to changes to our organization because there have been some exciting things that have happened to Cornerstone since the last time we were here. As you know the last couple of years has been globally tough because of the economic crisis that many many nations have been facing. During this period of time, Cornerstone has taken a contrary stance in that rather than doing what a lot of other people are doing, which is to collapse the size of their firm, we have maintained our team, our people, in fact very recently have expanded our capabilities. Specifically one thing is we did create a global real estate securities team opening offices both in Hong Kong and Amsterdam and staffing those 2 offices with senior analysts. And I moved over to Hong Kong and I'm working there with Anna Zhong. In Amsterdam we have 2 senior guys formerly of Investments. With regards to the REITs management capability that we are engaged with you in, this global team has actually been critical and helpful in looking at the U.S. real estate market because the capital flows around these days are not just happening from the United States, but it's happening globally, you're getting money from other sources as well. A lot of the mandates these days are also getting comparisons between a U.S. company and companies on the other side of the world. I just wanted to highlight the fact that we now have a broad global team to help do what we already do.

The second thing is that Cornerstone, as you can see on page 3, has a sister company called Babson Capital and as of the announcement that was made about 3 weeks ago, Cornerstone will consolidate the real estate debt business of Babson Capital. Cornerstone it says here, we're about $9 billion of AUM, it's now a $30 billion AUM organization, capable of doing both equity and debt investment management business. Babson had been doing that on their own, but utilizing Cornerstone's research real estate resources and it just became a determination of our parent company that should be rationalized and condensed efficient organization.

The last thing that is also very exciting on the global front, we have acquired a global direct real estate investment management firm in Europe called Protego. So again following on the theme that despite this difficult time, instead of reducing our capabilities, we've moved forward and expanded our capabilities to a global front which then we believe has very positive implications for the U.S. investment function.

Scott Westphal: If you turn to page 6, I'll talk about what transpired over the last 12 to 15 months, because obviously it was a time that was extremely stressful for the global economy and the global capital markets. I think there were some things that went on there that were both rational and irrational and I think part of what went on particularly in the 4th quarter of 2008 and the 1st quarter of 2009 was somewhat irrational and that essentially what happened was the market came to believe doomsday, essentially they believe that the companies both in the broader equity markets and also in the U.S. REIT market, you are not going to refinance the debt they had on your balance sheet. The reason to us that this was viewed very much as a knee jerk reaction was these are companies that both in the public world and the private world that have existed for decades, some of these companies have existed since the 1950's and a number of these companies have never defaulted on any debt instrument during their existence. Because of that and because of the fact that they own quality properties and they have long term leases with credit worthy tenants, we were confident that the cash flows needed to service the debt that they have on their balance sheets would continue to be in place. But what happened was the stock prices fell dramatically because of the knee jerk reaction the market place had, and when you look at that or leverage that these companies had on their balance sheets, it was magnified by the fact that the equity fell by such a dramatic amount.

The thing that we focused on during this time period was the coverage level, in other words, how much cash flow did they have to cover the debt payments they had to make during this time period and we felt during this time period that they were going to continue to service the debt and so we weren't concerned about their existing debt. There wasn't a lot of concern about what would happen when their debt matured. What happened in this time period is there was a really major event that occurred back in March of 2009 where one of the large companies, Simon Property Group, came out and issued a billion dollars of, $500 million of equity and $500 million dollars debt, in one day. This was somewhat of a bell weather event for the U.S. securities market or the U.S. realty securities market and what it did was show the market place that despite all the doom and gloom that people thought was out there, there was really going to be a combinability for these companies to access the capital markets and to finance their business the way they needed to.

Basically we went from a period of doom and gloom, that the world was coming to an end, to a period where people say, wait a minute, these are quality companies that have quality management teams. They've been in existence for decades, they have the cash flow to service the debt, the world's not coming to an end. We had to really have faith in that when we were managing the portfolio in that type of environment, but to say that it was a stressful time is perhaps an understatement.

What is our outlook for the economy and the real estate market, from a macro perspective, we think we're going to get better recovery in 2010, we've already had some positive GDP reports in the recent 3rd quarter, we think we got more in the 4th quarter and we'll get more in the first half of 2010. We're not expecting a V shaped recovery in 2010 and the reason for that is we think a lot of what's going on in the U.S. economy right now is being driven by stimulus spending and also by what we call quantitative easing in the market place. What I mean by that is, the Federal Reserve is buying U.S. treasuries, 10 year treasuries and other treasuries and by doing that, they're keeping treasuries at lower rates than the price would be so they're creating sort of an artificial demand for treasury instruments. In addition, another thing that's going on in order to help the housing market in the U.S., there is an exercise going on for the Federal Reserve that's creating a mechanism where they buy mortgage backed securities and what that's doing is keeping mortgage rates down, rates lower from where they would otherwise be. One of the reason's why we're a little less bullish about the GDP growth in 2010 is that we see some of this temporary phenomena or temporary stimulus pulling away from the market a little bit. We think that at some point in 2010, the economy will start to grow on it's own again without the stimulus, but we're a little concerned that in the middle of 2010, it could have a little bit of a pull back because of the withdrawal of this stimulus and the quantitative easing that's going on. That's one of the reasons why our economic forecast for next year, we're fairly modest, growth and GDP 2% and we think we're going to have some job losses in 2010.

Globally, we think that Asia will lead the economy. We think that the U.S. will follow and we think Europe will be the latter. Within the U.S. we think the southwestern markets, like Texas, and also the markets that service technology, will lead the markets coming out. The markets that have been fairly reliant on the housing sector such as Florida, Arizona, Nevada, will lag because it's going to take them a while to work through the housing and the market place they're in.

If you go to page 7, obviously a lot of questions about the volatility in the market place and I know you as a firm had some concerns about it. We think that 2009 will be remembered as one of the most volatile years in the history of the equity and REIT markets as well. We think that was really a crisis of confidence and we think that was caused by what we talked about earlier, just feeling like these companies needed large amounts of debt to finance their balance sheets and the credit markets were essentially not functioning properly during that time period.

One of the things that we took advantage of in 2009 that we think helped our returns a lot was during the worst part of the down turn, people basically looked at sectors like the hotel sectors because it was obviously a sector where you didn't have long term leases, and the regional mall sector because it was a sector that had a little more than some of the other sectors, and there's also a sector that we buy to some degree, people's discretionary spending, the shopping centers, the malls that these companies own and also the shopping centers have experienced similar problems. The stronger sectors during the worst part of the crisis were the healthcare sector, and the healthcare sector just to give you a little understanding of what it's about, gives you housing to the elderly, so the people who are tenants to the healthcare sector tend to be tenants by necessity and not tenants by choice because they may be in skilled nursing homes, they may be in assisted living centers and because of the nature of their tenancy, the economy doesn't effect their demand for housing for the elderly all that much. The only thing that negatively affected demand for housing in the healthcare sector was the fact that some elderly people at times will sell their homes prior to entering into an elderly care housing arrangement, and because the housing was somewhat soft, there was somewhat difficulty selling their homes. But if they had the ability to sell their homes or didn't need to sell their homes, they could move into an elderly care center and live there.

In the later part of the year what happened was the fundamentals for these sectors turned around and the hotels began to perform quite strongly as did the regional malls. In fact the regional malls were really one of the best performing sectors coming out of recovery and it was largely because people look at them as being dependant on discretionary spending, they also looked at them as being as being a little bit more highly. And all the issues, all the concerns about this were starting to dissipate from the market place and that caused the regional mall sector to do pretty well, so we were able to take advantage of that and create some alpha for the fund.

If you go to page 8 I think this is a very interesting chart, these are cap rates and I just want to make sure that people understand what a cap rate is. A cap rate is an amount of cash flow on a percentage basis that a property generates. For instance if you buy a property for $10 million and it generates a million dollars of cash flow per year, that's a 10% cap rate and so the higher the cap rate, the higher the cash flow that you would get in a property. As you can see in the first column, this is the crisis level which we've identified as the period prior to 2008. Cap rates go to be very low in a number of property types especially when you look at them compared to where debt levels were and then at the market bottom where we identify as the first part of 2009. March of 2009, cap rates got to be extremely high both on an absolute basis and a relative basis in the debt markets and the equity markets. What we've seen is a recovery in cap rates, we're still not at pre-crisis levels and to be honest with you, we don't expect to go to pre-crisis levels, because what happened during the pre-crisis levels there was a tremendous amount of debt available in the market place that allows property places to be bet on, so what we considered to be extremely aggressive levels. Because of that we think that some of these cap rates that were in pre-crisis levels will not be returned to, which we think in a way is a good thing because it's allowing you to buy more properties at more attractive cash yields, and allowing you to get that basic return that's supported by a long term lease. It supports the dividend payment that's part of the REIT return and I know that the dividend payment is an important component to the Government of Guam's returns here because of the fact that we fund it on a monthly basis for you.

So as you can see at the current level, they're still very attractive cap rates here on a number of property types and I think one of the ones that we still find attractive is in the regional malls. Even the highest quality regional malls in the United States which previously traded at 5.25% cap rates are now trading in the 7, 7.5% cap rate, which we think given the strength of these properties and the strength of their tenant base, is a pretty attractive cap rate and a pretty attractive cash flow for the REIT companies. Dr. Leon Guerrero: I'm sorry, I don't understand this. These percentages that we're looking at, you say this is the cash flow that the property generates, what is it the percentage of? Scott Westphal: It's a percentage of the value of the property. What I explained in the beginning, if you have property that was $10 million and it generated $1 million in cash flow, that would be considered property that had a 10% cap rate. Terry Dennison: You might explain what happens when the market declines, because I think that's what we're missing. When the market goes down, but the income stays the same, the cap rate goes up. I would illustrate what happens if your $10 million building which is generating $1 million a year loses value down to $8 million but you're still getting your $1 million a year, so now you're getting a 12% cap rate. Scott Westphal: Right and that's essentially what happened, that's what we're explaining here in these 3 columns here is the values of the properties came down... Dr. Leon Guerrero: It's confusing because it seems like you have a down market and it should come down as well. Rico Kanthatham: The cap rate is a function of 2 components that both the asset value and... Scott Westphal: And that's one of the benefits of owning real estate in the sense that cash flow for the majority of the properties is being supported by long term leases, so even if you have a down turn in the economy, assuming that you don't have a bankruptcy situation, the companies will continue to pay the lease payment and even though the value of the property has declined, the cash flow remains constant as what was indicated here, essentially the cap rate goes up by that... Joe T. San Agustin: The market environment goes down so everybody goes bankrupt or maybe want to re-negotiate their lease... Scott Westphal: They might, but I think the important thing to note here is the cash flow doesn't go away, it doesn't typically go to zero especially if you have a property that has 100 or 120 tenants, they're not all going to go bankrupt, they're not all going to negotiate their lease down to very very low levels and... Rico Kanthatham: And with regards to your REITs investment, generally REITs own higher quality assets because the daily scrutiny by their investors in terms of pricing and the second thing is because we're very very bottoms up focused. When we decide to pick a company, we will scrutinize the portfolios these people own within their companies as well as the tenants. Scott has been very very careful during the past year when things were bad to make sure to invest in the companies that had the best chance of maintaining tenants and maintaining occupancy as well as rental rates. Joe T. San Agustin: What's the turnover rate with the REITs in the holdings, in your portfolio? Scott Westphal: Our portfolio was a little over

100% this year and the reason was because we had very defensive names at the beginning of the year and then we turned it over to more offensive names just to take advantage of the change in dynamics in the market place. We feel that the volatility of the market place was partly caused by knee jerk reactions and it was something that we wanted to take advantage of rather than be subject to it.

Dr. Leon Guerrero: This sector, we're new to it, do you manage property or do you own? Scott Westphal: Properties are owned by corporations. The corporations are what they call REIT status which is basically a tax status and the reason they have a special status is unlike regular corporations, a REIT does not pay any Federal income tax at a corporate level. What they do is they take the cash flow that they receive from the properties and they pass it through the investors in the form of dividends and there's no tax paid at the corporate level, the only taxes are being paid by the investors who hold the shares. Since you're a tax exempt organization, there's no tax being paid on the cash flows at all. Essentially they float to you free of any corporate income tax and that's one of the benefits of the REITs structure. It allows investors, both individual and institutions, to invest in institutional grade real estate in a very efficient tax friendly manner.

Wilfred Aflague: The property you scrutinize, is this situation forcing the lesser attractive buildings or real estate to refurbish and improve? Scott Westphal: It is. Wilfred Aflague: So does that then become part of your selection? Scott Westphal: It does and let me give you an example, I'm going to use the New York office as an example. The most desirable part of the office that people reside in New York is north of Grand Central or what we call the Park Avenue district. The Park Avenue is considered to be one of the more desirable addresses in New York. What happens is the down turn is if rents start to come down, generally what happens is people who are in the lesser locations, like the B and C locations, they'll take advantage of the opportunity and they'll move into the A locations. They might move, maybe they're a mile from Park Avenue, they might move to Park Avenue in that kind of environment to take advantage of the down turn in rents. So what happens is they upgrade their location, and they do so at an opportune level of rents at that point in time, so what you do is you get what you call sort of a flight to quality where people will move away from the secondary locations to what people consider the primary locations. So that's one of the reasons why we maintain a very high quality bias on our portfolio is we want to be able to take advantage of that movement of those people wanting to upgrade their location.

In any event, the purpose of showing you this chart on page 8 is really to give you an understanding of where valuations went during this pre-crisis level the bottom, the market where we are today, and we still think the valuations are reasonably attractive especially when you compare them to both equity and fixed income markets, the broader equity markets. Rico Kanthatham: You might want to talk about the fact that this is based on trough level. Scott Westphal: Right. The other thing is the discussion we had earlier about the fact that we had some downward pressure on occupancy and there was some downward pressure on rents because there was softness in the market. These current values, the last column here, these values are what people consider to be trough earnings, in other words, earnings that are low level for the cycle. So you should see an increase in the cash flow from properties as the economy strengthens and as landlords get more pricing power in the market. Rico Kanthatham: And when that happens, yields begin to rise as well. Wilfred

Aflague: And this capitalization, rent would go down? Rico Kanthatham: It would go up. Wilfred Aflague: You said earlier it would go down but it would never be at pre-crisis level. Scott Westphal: We don't believe it will, and the reason is because there was a period of time that we characterize as, from 2005-2007 where there was extremely loose underwriting of debt financing across the globe and because debt was so freely available at very very low cost, it caused the value of everything out there to be pushed up, because people were able to borrow money at say, 3%, and since that cost of money was so low, they were willing to bid up the price of assets in the equity markets because they were using very cheap costs of debt. Because of that, we believe the return to that kind of loose period of money or loose underwriting period is very very likely we don't believe the valuations will get to pre-crisis levels. So what we're basically telling you is that we view that pre-crisis column as sort of an aberration. We don't think it will be repeated because the availability of debt financing for the foreseeable future will probably not be available. Most people in the investment world agree with that kind of point of view at this point in time, and I think that's a very good thing because I think discipline underwriting is an important part of properly functioning in the investment markets.

On page 9, the cost of debt did come down quite a bit and although it's not at levels that are at the real peak of the borrowing frenzy, it has come down to levels where it's much more attractive. One of the things I wanted to talk to you about to give you an example of how the market's strengthened in the U.S. REIT market is Simon Property Group is the largest REIT in the U.S. REIT market, they are owners of regional shopping centers across the United States, they own regional malls all over the country. What happened was during the bottom of the crisis, people believed that companies would not be allowed to borrow money to finance their real estate portfolios. What happened when Simon came out in March, they essentially issued a billion dollars of capital in one day, $500 million of stock, $500 million of debt. They issued the stock at $30 a share, they issued the debt at 10.75%. That kicked off a period of resurgence in the market, people started to believe that the markets could come back. So in a very short window of time, a number of other companies issued equity and also refinanced some debt to a point where only 3 months later, Simon Property Group issued equity at $50 a share. They had just issued equity 3 months earlier at $30 a share, now they're able to issue it at $50, now the stock is up over $70 a share. On the debt side, they issued debt at a cost of 10.75% in March, 3 months later they issued debt at 6.75%. So that was a huge improvement in the outlook towards the real estate securities market. I just want to make sure you understand how deep the depths of despair were in the 4th quarter of 2008 and the 1st quarter of 2009, and how really, how the market over reacted to what was going on in the capital markets and we've gotten to a place where people are much more rational about what they're willing to pay for real estate in the market place. Dr. Leon Guerrero: What does BAA stand for? Scott Westphal: That's a corporate debt rating, it's just basically a quality rating of corporate bonds that is commonly quoted in the debt markets. The other thing that happened is there was a tremendous amount of stock equity issued in this time period which helped the balance sheets of these companies.

Where are we today? Today the REIT market is trading at about between a 7 and a 7.5% cap rate, so going back to my example, if you had property that you paid $1 million for, it would be generating between $70,000 and $75,000 a year in cash flow. Joe T. San Agustin: That's gross and that's really based on the market and not necessarily actual dividends declared? Scott Westphal: Right, but there are a lot of other factors that come into play.

Joe T. San Agustin: I'm concerned more about the spread than what you said, the cap rate versus actual rates. You're showing 3.6% here versus a cap rate of you're showing here of 7%, so you're actual is 3.6%. I'm trying to find out where that spread from 7 and 3 comes from, what happened to that. Based on your calculation, you said the cap rate is 7%, depending on the asset, but from our portfolio, you're only getting a 2.6% yield. Scott Westphal: That's a good question and let me explain. One of the reasons the companies are paying a lower dividend right now is because during the heat of the crisis, they were not certain about what their abilities were to refinance their debt. So some of the companies temporarily went to a period where they cut their dividend and those companies are in the process of re-establishing those dividends. To give you an example, Simon Property Group which is the largest holding in your portfolio, announced in the fall of 2009 that they were going to go pay a full cash dividend in 2010. So the reason they were, was because their confidence in their ability to finance their business was restored and it was restored because of the events that I talked about. Joe T. San Agustin: Did they suspend? Scott Westphal: In the case of the common stock which is this, they actually didn't suspend it, they cut it in most cases and they cut it as a precautionary measure to deal with the uncertainty in the debt market. But the truth of the matter is the companies are at implied cap rates of 7.5%. They have the ability to increase their ability now and many of them will do so and we expect the portfolio to benefit from that event going into 2010. Joe T. San Agustin: Is that the actual market for assets? Scott Westphal: It is the actual and one of the things that we do is, Cornerstone has both a securities investment group and a direct investment group where people are actually buying individual properties, so we know, we have very good information about what properties are being priced in the market place and in fact Cornerstone was involved in selling a very high profile asset in Washington DC in the last month, and we have very good information about not only where the asset sold, but also how many bidders there were for the asset, what kind of pricing they were willing to pay and it gives us a lot of insight into what we call the private market pricing is for real estate assets. Joe T. San Agustin: What's the correlation between, is there an actual correlation of the actual offering price versus the actual cap rate? When the cap rate is 7% and the offering is only 6% or 5%, because this is what you're saying, the cap rate and the property, the environment takes and your yield is down, let's say 2%. Scott Westphal: Right, but a lot of reasons to believe that will improve in 2010. When you have companies like Simon Property Group who have publicly come out and said, we're going to be restoring our cash dividend, there's no doubt in my mind that dividends will start increasing in 2010.

Just to give you an example, when Cornerstone's direct site put an asset, an apartment complex up for sale in Washington DC, they put it on the market for about $85 million and they ended up selling it for about $98 million. So our view of what cap rates are right now are probably somewhat conservative, but we do think that as more transactions happen we'll get a little bit more clarity on exactly where cap rates are. Right now we're doing the best we can given the limited number of transactions that go on in the market place.

Dr. Leon Guerrero: What will it take for you to invest here on Guam? Scott Westphal: Well there are no public companies that invest here on Guam. We would have to do it on a direct basis. Dr. Leon Guerrero: You don't manage property? Scott Westphal: We have direct side of our business that individuals make investments in properties and asset manages the properties, and one of the areas that we have a very large concentration in is that we are one of the largest managers out there that invest in the hotel arenas and if you were to make an investment in Guam, I would think that's one of the areas you would want to consider because... Terry Dennison: They can't. Joe T. San Agustin: Our law restricts us from doing so. Scott Westphal: I'm just talking in general because... Dr. Leon Guerrero: Let me be more specific. We are in the talking stages of building a building to replace this one and we'd like somebody to manage it because we're thinking in terms of structure where...we're between 2 financial institutions, this thing that's taking place north of us is a credit union and we have First Hawaiian Bank. We're thinking maybe a shopping area on the first floor and the upstairs will be used for the office for the Retirement Fund and the first thing we'd probably be looking for is somebody to manage the property and we still need to have a law amended so that we can rent it out, but we see this is an opportunity to update our office and generate revenue. Scott Westphal: Do you think there's good demand from other office tenants in Guam where they would want to occupy? Dr. Leon Guerrero: Well, we're going to solicit a bid for best use of this property. Scott Westphal: So you're having a feasibility study done? Anything is possible, we have a research group that looks at those types of transactions and we can have someone look at it for you, if you wanted. Joe T. San Agustin: What would it take for you to do that? Cornerstone: We're part of the securities group so that discussion, we could certainly put you in touch with the people on our direct property side to discuss your needs. I think it would be possible as Scott said, but a little outside of Scott's realm of control. Scott Westphal: When we came out last for the presentation, we had Michael Gately come out if you remember, Michael is the director of our real estate research group, he's someone that could give you some thoughts on what prospects were on renting the space, the balance that the Retirement doesn't occupy. That's the critical question you have to ask yourself is maybe you can rent to retail, you obviously can occupy the space you need to operate the Guam Retirement Fund. The real question is, is there going to be demand for incremental space beyond that and that's a question you have to do some research on, you need to be very thoughtful on how that research is done and you would definitely want to get some very high quality research done before you made a decision there because you wouldn't want to burden the Fund by creating a building that was too large for the amount of demand of space that you have in the market place, so that's a critically important part of what you need to do. Joe T. San Agustin: There are 4 hotels on the island that are actually owned by 1 single person and I'm just wondering if that was a risk operation. Scott Westphal: One of the reasons I mentioned hotels was that obviously tourism is part of your industry here. We have a tremendous amount of hotel expertise and there may be regulatory difficulties that might prevent you from buying a hotel on the island, but if you ever had an interest in doing that and you were able to work out the regulatory issues surrounding it, we have immense amount of hotel expertise including resort hotel expertise. Dr. Leon Guerrero: I don't know what happened in the past, but one of the provisions in our investment law is that we can't invest in hotels.

Terry Dennison: Before we run out of time, I'd like to ask you a more general question. What are we giving up by not going to global REITs? Scott Westphal: I think there's a couple of ways to look at it, I think global REITs, there are opportunities there that are significant. Rico (Kanthatham) is very much involved in that, his office is based in Hong Kong and covers both the Asian markets and Australia. We think there are tremendous opportunities there, we think there are opportunities in the U.S. as well. We think that probably the weakest continent is Europe right now and the reason for that is we think there are structural problems, the economies, we think are going to limit their growth more so than say the U.S. or Asia. I think the opportunities in Asia are terrific. Some of the clients that we're talking to are making an allocation in the U.S. and an allocation to global. One thing that you do have to think about as a pension fund is that your liabilities are in dollars and that is both a good thing and a bad thing and you need to understand the impact of investing in currencies outside of the U.S. dollar. Terry Dennison: We have well over 20% allocation in international equities. Scott Westphal: I understand, I'm just pointing that out as a concern. We have clients who have people all over the world and they need to manage their currency exposure because of that. I think there are opportunities both places and I'll let Rico talk about that. Rico Kanthatham: Because of the time, I'll keep it very short. Having worked on our global fund now for almost 3 years, I would say absolutely the opportunities are immense on the global real estate securities segment. The global REIT portion of the exposure around the world is very small. Very few countries in Asia have REITs markets and the biggest being Australia, Singapore and Japan, but still pales in comparison to the size and depth of what we have in the United States, not only in terms of market capitalization, but asset classes and experience and that's the critical thing. The second thing that makes it more challenging, the returns may look enormous, but the risk are also enormous, because the transparency of information in the United States because of regulations, the companies are required to disclose a certain amount of information that should make investors a little bit more comfortable. Not only do you have less stringent regulatory regime in many of these foreign markets, but in some markets, the information you get is not always necessarily correct. There are instances every other day of companies not nearly providing you what they should have. It will change with time, I think the global REIT proposition will become a much more attractive proposition as the years progress. I've been in Hong Kong for a while, we're talking China for instance, soon to emerge REIT market where there are very very few expert real estate managers so you're going to get REITs that are run by investment bankers or finance guys, but not necessarily guys who know how to manage real estate. It's not easy to run a building, just because you know finance doesn't mean you can properly manage a building let alone a portfolio of buildings in various cities.

I hope I'm answering your questions. I'm thrilled to be working on a global REIT fund, but the challenges not only on the currency side, but just on a real estate fundamental side is pretty daunting and as far as a REIT segment because your fund is more concerned with income, it's not a large market yet, it is still very heavily... The U.S. is still 60% of the global REIT market? Scott Westphal: No, it's 37... Rico Kanthatham: So you're essentially talking about U.S., Australia, a few REITs in Europe and it's not a very deep market at this point. Scott Westphal: If you want to have exposure to real estate because you think, first of all it has positive income attributes to it and you want to have the income as part of your funding mechanism for your fund, the U.S. is one of the better places to be because the companies do generate pretty good dividend yields and despite the fact that dividends were scaled back a little bit, over the last year and a half, they will return. Another issue to consider is unlike in the U.S., some of the global companies are developers and so they are, rather than owning real estate and leasing it out and incurring rental stream, they are more like a manufacturing company that says they are building residential units and selling those residential units at a profit and as you could probably imagine, the income characteristics associated with that type of activity are very different from a long term lease. Rico Kanthatham: You don't get the sort of low volatility. Sometimes they sell a lot of units, sometimes they don't. Scott Westphal: The exposure we have to development in the U.S. portfolio is minimal, there's very little development going on right now.

I want to be respectful of your time, I want to answer all your questions. Rico Kanthatham: Have we covered the major issues that you wanted us to cover? Dr. Leon Guerrero: There is one more thing that we have to look at is we want to take a look at your holdings, because you're not the only REITs manager. We want to compare if you are investing in the same thing. Scott Westphal: There's a chart with our top 10 holdings and also looks at our ratings by sector and as you can see, we have a very large weighting in healthcare because we like it's defensive characteristics and we think we could be in for a bit of a bumpy ride especially when we get into the later part of 2010. We also have a very large weighting in regional malls which is somewhat of a barbell strategy, but we think the valuations in the regional mall sector are extremely attractive and we think the tenants that are in the regional mall sector are really pretty strong financially and they essentially, we think they compliment one another and willing to diversify the portfolio in a pretty significant way. Going forward, we think that there are still opportunities to make some money in the regional mall area, we think that the healthcare area will do pretty well because there is continuing demand for elderly housing care in the United States. One of the things that I think is really important to recognize across all the property types particularly in the regional mall sector and the healthcare arena is that there's virtually no new supply in either of those property types and one of the reasons there's no new supply in regional malls is because it takes a great deal of demand to create a regional mall. Usually it's over 100 acres and you want to build them in large established metropolitan areas. So for the most part the regional malls that have been built in the United States are finished so you're not going to get new competition. The retailers who are essentially partners with regional mall companies, they want to be in the most productive regional mall centers, so they have a real long term commitment to these regional mall companies and the centers they occupy. As far as the healthcare sector companies are concerned, one of the things we like about the supply picture there that we think is a strong longer-term fundamental is that a lot of the healthcare properties out there are skilled nursing home properties and the skilled nursing home properties in order to build one, they have to be licensed by the state and the state doesn't want to have new nursing homes built in their states. The reason they don't is because a lot of the tenants in the skilled nursing homes are being funded by Medicaid, and Medicaid is a joint funding project by the State and Federal Government and the State Government is somewhat strapped right now financially, so they don't want to create new obligations to build nursing homes. So, there's virtually no new supply of nursing homes and we like that long term dynamic and obviously the U.S. population is aging and that increases the demand as well.

Dr. Leon Guerrero: What are your holdings, the numbers, because Diana (Bernardo) was just pointing out to me that there's, I believe... Scott Westphal: If you go to page 13, there's the holdings, a chart that holds that number. The number right now is 51 which is a larger number than we typically hold and right now if you were to look at the portfolio right now, there would be about probably 8 less holdings in it than what's being shown on here because we're... Dr. Leon Guerrero: -- lack of about 9 holdings here and we still need to figure out what kind of... Terry (Dennison) mentioned to me yesterday that we have to look at this differently, we're just eyeballing the holdings, how much is invested in what. Scott Westphal: Terry, do you have a specific question? Terry Dennison: We were looking really at a way of figuring out how much over is left in our portfolio, the issue is methodological, the tool we're using isn't as good as the tool we need to build, so there's no specific question for you right now. Scott Westphal: Is there anything we can do to help you? Terry Dennison: We can generate it from data we have from the custodian. Scott Westphal: Ok, that's fine. Dr. Leon Guerrero: The concern is we have 2 managers and they're investing in the same thing and that's not what we're looking for, we're looking for diversification. Scott Westphal: We understand that and obviously we don't understand what your other managers are investing in so we don't have visibility to it, but we would be happy to help you in any way we can and to facilitate that analysis. Joe T. San Agustin: Understand that we have some --- overlapping in ---, so that's why we're concerned. We have Terry Dennison: Remember Dr. Leon Guerrero, we're dealing with a small universe, this is not like large cap growth, there are 81 companies in a pot, so there's going to be a lot of overlap, but the 2 managers have very different strategies and that's why we have these 2 managers.

Scott Westphal: If there's anything that we can do to provide you with attribution analysis or anything else that might lead you into this process... Joe T. San Agustin: These REITs are all in what part of the states? Scott Westphal: Geographically they're diversified across the United States, we have a fair amount of weighting in California, we also have a large weighting in the North East. One of the things that we found to be helpful in our strategy is you want to invest in companies that own properties in areas where there are large barriers for new developments because you don't want new competition coming in and one of the things that we're very careful about is we want to own companies that operate in regions of the country where developing new properties is very difficult. In some cases it's cost prohibited and so it's one of the reasons we do the portfolios under normal times in what we call barrier margins. We have actually backed off our California exposure a little bit. I think the important thing to recognize is that California is a very large component of the U.S. economy, in fact if you look at the California economy globally, it would be the 6th largest economy in the world. So to say that you are not going to have a representation there is probably a very risky bet. The housing market is a concern for the U.S. economy and the states that have a lot of exposure there are California, Arizona, Nevada, Florida, among others, but those are the ones that we are probably most concerned about. A lot of it was because there was too much easy money available for people to build properties and a lot of the properties were built with no intentions of ever occupying them and unfortunately that situation takes some time to work through. We are aware of it, we are on top of it, but it's going to take some time.

Dr. Leon Guerrero: Thank you very much. Scott Westphal: Thank you very much. Any other questions?

(End of presentation by Cornerstone - REITs)

<u>10:00am-10:45am Security Capital Research & Management – REITs</u>

Kenneth Statz: Thank you for having me in today. Dr. Leon Guerrero: For the record, we have Joe T. San Agustin, the Chairman of the Board of Trustees, Paula Blas, Director of the Retirement Fund, Terry Dennison, Mercer Investment Consulting, Wilfred Aflague, Trustee, Diana Bernardo, Controller, and Rosalia Bordallo, General Accounting Supervisor. As I mentioned to you, what we're interested in, is we'd like to know your holdings, what happened in the past, what you expect in the future, changes in personnel and whether any of the regulatory agencies have issues with you.

Kenneth Statz: Why don't we start with the nuts and bolts of Security Capital, regulatory issues, personnel and that would be Section 1, page 5. The first thing I would like to say is we have had no change in personnel, we have the same people since you've engaged us as a manager and since we talked earlier, the same senior team has been involved with the firm and at this time we have no plans to add people, we have no plans to subtract people. Our process requires many people working, because our research is very deep and requires us to look at the entire real estate market, which is a lot of real estate to look at, so we need a lot of people and so it would be very important to watch our personnel count to make sure the process that we talked about originally is still in place. Even though it's been a very very bumpy and volatile performance in commercial real estate for the last 12 months, things are starting to settle out. As a firm we've had great support during this very bumpy ride from our parent who is JP Morgan. We are wholly owned by JP Morgan and this is important for regulatory issues because JP Morgan I think is one of the best firms in the nation and probably the world in terms of very strict adherence to all of the rules that we have to follow as fiduciaries. We manage about $4 billion worth of assets but our parent manages over $1 trillion. They have very extensive systems in place to make sure everyone's doing the job that they're suppose to be doing. We have no regulatory issues but they watch us very carefully and even though we're a very small firm in Chicago, because we're owned by JP Morgan, we're watched very carefully. All of our compliance and all of our regulatory issues emulate out of New York city, we get lots of visits and there's never been an issue. Personnel-the same, regulatory issues none, and the firm itself is doing very very well. In this period when there's been concerns about what's happening in the environment, many clients have turned to JP Morgan in general because of it's strength. But the rest have turned to Security Capital because we are a unique very depth research team to figure out what's happening in the economy, in the commercial real estate and how do you invest wisely in that environment. So, our assets have doubled, some because the stocks have come back, but mainly because we've gotten a lot of new clients. Are there any questions?

What I would normally do is first focus on performance and then outlook. I'm going to first look out outlook, because it's been so variable out there and then turn back to what has been happening with performance with you, what do we expect to happen.

If you turn to Section 3, page 25 and 26. Now with the investment of commercial real estate through the public stocks of companies that own commercial real estate, our markets are always looking forward. Because they're stocks, they try to anticipate what will happen next to the cash flow of owning an office building, owning an apartment building or owning a regional or retail mall or owning stores. Because of that, our system is looking forward not to what's happening today exactly, but it's trying to figure out what's going to happen in the next 2 years, what's going to happen in the next 3 years, trying to look at what's going to happen. We think we're still in early stages of addressing a very weak economy, which is reducing occupancy and reducing rent, so our cash flow from the properties that we own for you is going down and we're also in the early stages of addressing, for real estate you have a lot of debt on real estate in the United States. In the U.S. the debt market for real estate is still very troubled. When the economy was booming and interest rates were low, a lot of commercial real estate took on a lot of debt and that debt is all coming due in the next 5 years. Because of the credit crunch, the market's been trying to figure out what will happen when all that debt comes due, will it be refinanced and at what rate?

If you look on page 26, this is a line that indicates the performance up and down of owning a wide portfolio of real estate stocks. To remind you, what we're investing in are companies that own real estate but trade in the stock market and so if you look at this entire index, it's looking at about 100 companies that own about 20,000 properties in the United States. Those companies own the properties and the price of the stock is indicating where people think the property values are going up or down and so you can see because of the recession in the United States and because of all the debt cost rising very significantly in the United States with the credit crunch, the value of commercial real estate as the stock market is trying to figure out what will happen, has gone down dramatically.

Now you started investing in late December with us and since then it's bounced a little bit off the bottom in a volatile way because now as of yesterday you were up about 25% in value, maybe a little more, every day it bounces a little bit, because they're stocks, they're going to bounce around a little bit. But the real question going forward is after such a big decline, we're now bouncing off of the bottom, the question is can we go back to the former lows, because everything is uncertain right now or is it more likely that we're going to start building a more positive stable pattern going forward and that's the real question as we sit here today. As I talk about the different parts and there's really 2 parts here you have to pay attention to, what's going to happen to the cash flow which means what's going to happen to rent levels and occupancy and what's going to happen to interest costs, because these companies have a lot of debt that they have to pay interest on and if the interest costs remain high, that's going to squeeze down the cash flow you get as owners of the property by owning the stock. So those are the 2 things going forward, cash flow with a weak economy, when will it stop going down and when will it start going up and what will happen to the cost of interest in this economy.

I'm going to argue, even though we want to be very conservative, we have been very conservative by owning the best properties in the United States because they're gaining tenants as they steal them from weaker properties in this environment. So we have very conservative, very strong companies and companies with very low amounts of debt, so we're being very conservative right now. We don't want, if the economy surprises us and goes back in the United States and gets weaker, we don't want to own companies that would have trouble paying their interest costs because their cash flow has declined more than expected. So during this period that you've been with us, we've had a very conservative of owning number 1, out of the 100 companies, we have the 20 that we think have very high qualities and their occupancies are going down, but less, they're rents are going down, but less and as the economy improves, they're going to improve first. More importantly as we'll see in a moment, the interest cost because they don't have as much debt as other companies, their interest costs have come back to being very low again and as low as they were 2 years ago, the market likes their debt and because of that, that is the major improvement that has happened over the last 12 months, it's propelling up the value of your stocks, because the cost of interest on your debt has improved, it's gone much lower than the market expected.

So we're going to look at 2 pages that deal with cash flow and interest costs and I'm going to show you what's been happening and what we expect to happen, leaving what we think overall returns will be and go back to your portfolio and look at what exactly you own in that environment. So the first page, let's look at page 28, page 28 is a complicated page, I'm going to make it, if I can simple, because this is a page, if you look at the lines, they're going down below zero. That means the rental rate and occupancy rate that year is going negative, that means the cash flow is going down. As long as these lines are below zero, every year, maybe at a different pace, but every year, our cash flow is going down not up. So we're trying to forecast when cash flow is going to start improving and it won't improve in our forecast until you go through the zero line. So, just because the line is going up, doesn't mean your cash flow is not going down, it might mean it's going down at a slower rate, that's the thing you have to get with this page, so it's really our sense that every year going forward what's happening to your cash flow. What we're saying here and we have it by property type, because in the United States every property type, and by property type I mean, do you own a company that specializes in apartment buildings, they have a very different earning cycle than if you own companies that own office buildings, they have a different earning cycle than companies that just own shopping centers, they're all different. So we want to look at each property type and say which property type is going to get their cash flow going higher the fastest, and in general we want to own those properties more in your portfolio than other kind of properties. So what we're doing here is we're looking in general at cash flow and saying, in the United States with 100 companies to invest in for you, which companies own properties that are going to start raising their rents faster. This page here if you look at 2009 and 2010, every property type in America is still losing rent right now. It's going down and it's going down for a very simple reason, there's 7.5 million jobs lost as you know, in the United States, 3 times the amount of jobs lost since the last recession. Real estate needs jobs, because when the economy is growing, you have more jobs, you have more people renting your apartments because they can afford to live alone, you have more people renting office space because their businesses are expanding and they need to put their people somewhere and very critically, you need more shopping centers because people are buying more goods. As long as the economy has bee a very short drop in the employment, the demand continues to be declining for commercial real estate. Dr. Leon Guerrero: When you talk about cash flow, ordinarily these stock companies declare dividends and the dividends are paid out on a quarterly basis or a yearly basis, how is that done in real estate? Kenneth Statz: These are called REITs and the REIT format is a special format in the United States that allows companies that own commercial real estate to take all the cash flow from the rents and pay out 100% of it if they wish in the form of a dividend without paying any corporate taxes. So the REIT fund is very special in the United States, it says you can own this property as an investor, like yourselves, and the company itself doesn't pay any taxes before it pays you its dividends. So REITs historically had been used by a lot of investors who own commercial real estate to get the dividend. It's a very efficient way to own real estate because the dividends are pure cash coming out of the properties. Now this cycle there have been 2 things that have happened to REITs, number 1, the cash flow has gone down so they can afford to pay out less dividend, so they've cut through dividend levels.... Dr. Leon Guerrero: But is the payment automatic? How does it work? Kenneth Statz: Every quarter directors of these companies look at the cash flow that they have at hand from operating their properties and importantly, they look at their debt cost because they pay their dividend after they pay their bond holders. Dr. Leon Guerrero:

That's pretty much like the stock? Kenneth Statz: It's like the stock, the only thing that makes the REIT special is the fact that there's no corporate taxes paid, so it's tax efficient and that's why people like to own real estate through a REIT, because the Treasury allows them to pass that cash flow whatever it may be, on to you without paying any taxes. Dr. Leon Guerrero: We're a non profit organization. Kenneth Statz: So there's no taxes. The only taxes are property taxes and employment taxes. They have to pay taxes on the dividend if there's any, the company doesn't pay any taxes, they pass it on, but you are in a perfect position to take all of the cash flow after expenses. Now a REIT payment dividend, when a board of directors says I'm going to pay you X amount for this quarter, they're trying to think ahead to make sure they have enough cash to keep their properties in good line, they have to pay. If they expect cash flow to go down in the future or if they think their interest expenses are going up, they have to reserve. So many REITs last year cut their dividends to zero and they did it not only because their cash flow is going down, but the IRS said for this year since interest costs are going up so high and the availability of debt during the credit crunch got so hard, they said why don't you keep your cash flow during this period of time because it will help you out, so one year they said you can do this. The next question will be, what are you going to do next year, because we want income from our REIT.

The quality of REITs that we own for you pay more in dividends than average because they have less debt and because their cash flow hasn't gone down as much. So the dividend yield on your portfolio is over 4% where the average dividend yield of all the companies we can invest in is closer to 3%. So that's kind of an indication of the quality that you own. As we go through the next year, some of the high quality companies that said, I'm going to be really conservative on my dividends, are reinstating them, so you're going to see your dividend payment go up fairly significantly. It's a little hard to figure out exactly how much they're going to bring back, but you should expect your income to go up not down from this portfolio in terms of how much cash they're going to pay you each quarter. The real reason for this is the debt rates have gone down so much that they can afford to pay more to you as the equity owner. For any company that owns real estate, they have to pay the debt people first and then you, and because the debt folks are charging less now, much less than they were last year, they can afford to pay you more in a dividend.

Dr. Leon Guerrero: Are all the good buys sold already or can we still buy or invest some more in REITs? Kenneth Statz: Let's talk about that because it's been very volatile. Our system has been built on a very long term outlook, in the next 5 years what will happen to cash flow, we try to forecast that and that assumes that the U.S. economy starts improving, not fast, but starts improving and that job loss will turn to job gain. So that's essential to our assumption that things won't get better fast, but they will get better. The cash flow is going to start rising everything by 11 and 12 and 13 and for some property types which is key to your question, we think there will be a surprising amount of cash flow, rents will spike in some areas, because no one is building anymore real estate in the United States. Whenever you have a prolonged period of no building, you tend to get spikes later out and so it depends on how fast the economy comes back. But no one will build again in the United States and it's very different to be in Guam and to actually see construction cranes and buildings being built because in the United States it stopped all over. Because no one's building, usually in 2, 3, or 4 years you're going to see rents spiked to get the buildings to come back again. So cash flow we think, especially if you own apartments in the United

States, people that don't own that rent apartments, we think that's an area that's going to have very surprising positive growth. So because of that we say we think a portfolio that owns a lot of apartments right now will do better in cash flow in the markets than anticipated and that would support buying more.

Other areas like owning shopping areas, we think that's going to be a very very bad business for a long period of time because the U.S. consumers have stopped buying, but what happened is all those new houses that were built, we build shopping centers near those new housing areas and so we have too many shopping centers in the United States. We built too many homes and too many shopping centers. In our portfolio we don't own many stocks that own centers because we think that will be worse than what people think. So our job in our research, to try to figure out your question, to make more money in the REITs, we always have to figure out, is the market right forecasting cash flow, are they too optimistic, are they too pessimistic. We think in some areas they're too pessimistic and we concentrated your portfolio there, we think in some areas they're too optimistic and so we've avoided it by not owning stock of companies that own in that area. So we think the answer to your question is it depends, it always depends, but right now because the economy went down so fast, there's a lot of uncertainty about what will happen to cash flow in the future. We think in some areas cash flow is going to be very very good and you should make more money in those stocks and other areas, we want to avoid it.

Let's look at one more point before we go to the overall what will happen and that's page 34. Now page 34 is the interest cost on the debt of these companies by different types of debt. So these are not interest costs on securities you own, you get a dividend, you don't get interest, but what's important is what do you get after these costs are paid. So this is a very important page and you can see in 2008, going into 2009, the interest costs soared. If you look at when the line was going up, that's like your interest cost soaring and after being very stable for many years, that's why REIT equity prices, what you own, went down because everyone was concerned unless these interest costs start going down, there won't be much cash flow to pay you as an equity owner of the real estate.

As you can see by September and today and December even lower, we've gone right back to the old cost. And the reason for that because a lot of areas of the market are not this fortunate, the real estate market as owned by REITs because it's such a simple transparent way to own real estate has received a lot more attention from debt holders. They like it, they can figure out what they own, they can monitor in the stock market what's happening to rents and cash flow, and they've decreased their class of interest so significantly that another answer to your question and it's not just cash flow, but cost. The cost have come down faster and quicker into lower levels than anyone expected, but only for a select group of companies. The best quality companies with investment grade ratings are getting very low cost of debt and a key point, very long term on that debt. Let's focus on that a little bit because interest costs for debt vary because short term interest rates are so low and intermediate terms are much higher. Some of the REITs that are weak have been borrowing very short term debt because they pay very low interest costs. But that's dangerous because if interest rates go up and the Fed starts reducing their stimulus, short term rates can move up very quickly and those stocks can get hurt very quickly because their interest costs will shoot up because they're relying on very low, very cheap short term debt. What we're trying to look at in your portfolio that are companies that are so high quality that the debt market likes them and they're giving them 10 year money, interest only, fixed rate at less than 6%, in fact the rates now are at 5.5%.

We want to own companies in your portfolio that who knows if the economy does a lot better so your the cash flow goes up, you want that cash flow to go to you, not companies that use short term debt to help out paying their dividends and so the economy is better, you expect to have higher prices for your stock, but because those companies may have chosen a very short term debt profile to save on money that all that improvement in cash flow goes to debt because the debt cost will go up. So in your portfolio we focus not only on good real estate, but we think is doing better than average and will continue and companies with very long term debt and keeping your debt very long term because ultimately, most of our clients when they buy REITs for the cash flow, they want to know if inflation is stronger than expected. If the economy does better than expected that they have an investment that over time will go up in value because rents will go up, occupancy will go up, we will have a better economy and because of that, they're able to pay more cash flow but only if they have long term debt in place because if the cost of their financing goes up at the same time, they can't pay you more dividends and if they can't pay you more dividends, if inflation goes up, the value is going to go down because it will feel like a bond not an equity. So something very important we've done in your portfolio is not just pick out what property types we think will do best but we've picked the best companies because they've been able to use these low interest rates right now that are developing and they're fixing so their cost of debt will not change for the long term even if interest rates in general start to go up. So as managers of your portfolio, we've built into 2 things, the answer to your question is, we think in general REITs are going to start being more stable, in general they're going to start giving 11%, 12% annualized rates of return, about half of that in a dividend, but half of that as the stock values go, appreciation and the only way that works is if their cash flow is going up in the next 2 years and if their interest costs don't go up too. So what we've built for you is a portfolio of companies that own good stuff that have the cash flow growth, but also has locked in their interest costs.

As I've said, there's 100 companies we can pick from, 20, 21, 22 companies that we think have that combination for you. It's a very conservative strategy, but if we're right and I think we've had a very long term history of getting the cash flow right and forecasting interest rates, you should expect by owning REITs, 10, 11 and 12% per year, maybe some years negative, maybe some years positive, this is a 5 year forecast and it's still volatile. Dr. Leon Guerrero: In trying to decide with an investment company that owns the place or manages the place, you also look at the property, what kind of capabilities do you have in your firm when you review the property? Kenneth Statz: There are 20,000 properties so, number 1, we don't see every property, what we've done as a firm is something very special because this is all 21 people focus on, it's a very big group, but it's a very big market, what we do is we try to figure out what the long term quality of every location of those properties are in the market. We get their address and when we get an address of a property owned by your company, we build what we call a demographic story and that just means you take Government data and let's take an example, if you own a shopping center, we know exactly where it's located, but this company might own 500 shopping centers, we look at all 500 shopping centers on their address and then we have our system say, in each address, what is the average income within a 1 mile radius, what is the average home price versus average in that community within a 1 mile radius and what's been happening to income levels over the last 5 years. What that means is we know long term how vibrant that location's demographics, how much money there is to spend at that property and they rank all the properties in America highest to lowest, but to your question, we go out and look at specific ones. Dr. Leon Guerrero: Do you do feasibility studies? Kenneth Statz: Because these are already owned and built, our companies if they think they're going to build any properties, we'll look at that. Dr. Leon Guerrero: We're in the talking stage of building a new building, --- we're thinking maybe if we can get --- to help us decide if we should proceed with this project or not. We're wondering if we can rent out some of the spaces to help with the cost of the building. There's going to be an RFP that's going to go out some time next month so what we'd like from you, we understand they're going to put it in our website when this RFP comes out and see if you're interested and helping us decide whether we should make this kind of investment. Kenneth Statz: Okay let me explain 2 things. Number 1, I buy stock and we're good at buying stock, so my advice on buying stock, I hope you like. We're also part of a much larger group that does exactly what you're saying on real estate. What our clients have done with us in the past is they get professional advice and we make sure our real estate people at JP Morgan look at the real estate and see if they can help you, but then they use us, not in a official capacity, but to see if this makes sense because we see a lot of these and we also help clients ask the right questions. At the end of the day you're going to make that decision if we can do a couple of things for you, number 1, we want to make sure that when you're all done with it, you can hire effective building for your needs and for growth but at lower cost than it would if you just stayed in this building over time. Now how can that happen? You have something very very powerful, which is a Government agency. The rent that you would pay to anybody or to yourself, think about it that way because it's going to cost a lot to build. The market highly values quality uncertainty right now, so there are investors all over the world that want to invest in Government leases. One of the alternatives, just speaking about what we're seeing out there are REITs that just own Government properties and investors like that a lot because of the certainty of the payment. This is what you have to think about, would it be cheaper for you to sell the building to somebody and pay them the rent and they'll value that highly so you'll build the building and you'll have lower costs, or do you want to be the landlord? Now the issue would be, and this is not my specialty, I know the questions asked, how vibrant do you think that if you build this building, other people will want to pay good rent that will cover your cost. My sense is because everything happening in the local economy from what I see flying in, is you may be in a good position with a lot of building going on and what's happening. Dr. Leon Guerrero: With the military build up, there's going to be more traffic and there's a credit union next door and a bank next door. Kenneth Statz: Those are really good qualities in the market here because whenever any tenant sees a high quality building going up, that's a good thing. You're sitting exactly in a touch spot in terms of one thing, how controlled will the new development be along this road, because if you think it might be good and you do all the things you want to do, how many other people think it might be good? Over time, any market that has increased demand, the first question we have is, how controlled will the new supply be? It's not good if the bank goes up and then everybody builds and they tend to over build in anticipation, but if there's some control on the new development and you own the land and have the right to develop, you could be in a unique position to get a good return. That would be part of the feasibility study to say, who owns all the way up and around you and how likely would they be to sell to a developer to compete.

That's what we like about your portfolio right now. Let's look at 2 states in the United States that help explain how you should think about this. Let's look at page 41 and 42 and the first thing on page 41, we were talking about apartments earlier and by apartments in the United States, when I invest in an apartment, we're not talking about a building that has 4 or 5 apartments, we're talking about a company that would own apartment complexes and usually have 200 hundred apartments and sometimes 400, 500, 600, so very large apartment complexes.

The new supply of this which is what I'm getting at for your question, right now we usually produce 200, 300,000 units a year because the U.S. economy grows as more people need apartments, we're basically producing no apartments right now. That's why I said earlier why I like REITs right now because we own good apartments and no one else is building them, so we should expect when the economy gets better, demand grows, that we should get higher rents. Now the question in the United States is, if rents are starting to go up, what would prevent everyone from building a lot more apartments and we try to look at 2 ways. Number 1, we try to figure out where the rents right now are so much lower that might prevent building a new apartment, but until rents go up a lot, no one is going to build anything.

In the United States right now we're very lucky, on page 42, inflation has caused the price of concrete and steel in the United States to soar and you can see even with this very severe recession, the prices of concrete and steel are still up dramatically from 2001 and 2002. What that means is that no one can build until rents go up a lot because they have to pay a lot for concrete and steel. Why is that in the United States? Because you think of our economy is so weak, inflation is so low, why is the price of concrete and steel so high? That's China, India, Brazil, concrete and steel are world commodities and they continue to absorb a lot of the supply of that material and so even though the prices have come down a little bit, it still cost so much to build in the United States. That means, not today, because no one cares, no one's building, but no one can build until they pay these prices and they would have to charge a lot more rent than you do if you already own the building and you built it 10 years ago. So all of these 2 pages are exactly what you have to think about, on this street if you're going to have more traffic, which is good, you have a pretty new building next door which means people like the area which is good because that's creating a better environment for office buildings but you have to think how much new supply is possible and because you already own the land and somebody else will probably have to buy the land, can you get a good rent for your building or should you size a building just for your needs and future needs? It's great if you can get some rent in the near term, but should you build a bigger building than you need, those are all the feasibility things you need to look at.

I don't know anything about the constraints on new development here, it could be real easy for all your neighbors to build, I don't know, but I do know the price of concrete and steel you'll have to pay is pretty high right now. Dr. Leon Guerrero: The RFP will be on our website. Kenneth Statz: And I'll have JP Morgan real estate look at it because we do help people. In the meantime, always, all of our clients ask us this question, because most of our clients have a lot of things going on in real estate, not just REITs, they might own buildings themselves. Whatever they ask us, we'll say, we're not the expert on that building but this is what I think about it and it's been helpful to our clients.

The final page I'd like to look at in terms of our outlook is page 43 and then I'd like to look at your portfolio and your performance. Page 43, that's the single point estimate if you owned a lot of REITs what we think over the next 5 years per year, you'll do and that 11.1% is our estimate if you take all the cash flow from these currencies, put in the current stock price and discount what's at discount rate to make that stock price make sense, we would say that number is not high, it's not low, it's about average at 11.1% based on the last 10, 15 years. So we're saying there's a lot of risk in the cash flow, but the prices are still very low and so that means they've already accounted for the risk and you should probably get about a 10, 11% rate of return. That doesn't mean if the economy gets wild again or if interest rates go up again that the stocks can't give you a short term --- because they're still very volatile, but in general, we think we've seen the bottom and now we're going to start going up because the cash flow is going to get better and the interest rates.

On page 19 and 20, let's look at your portfolio. Page 19 shows your year to date and this is just through the 3rd quarter, you're up 14.7% after fees which is significantly lower than what the overall 100 stocks have done. Our system, because we only own 20 out of 100, it can bounce around in the short term, but we look at that and say, we've been very conservative, the stuff that's been really beat up after the big fall has done better and we don't think that means that your portfolio over the long term isn't going to do better than expected. In this quarter you're actually outperforming pretty significantly but frankly in the short term we don't know, it bounces around. You're up around 25% year to date so after being up 14.7%, the 4th quarter again has been a positive quarter and actually you're outperforming so your overall performance in the short term is now looking like the index. We hope in the short term, and also in the long term, to outperform that index and because of the quality we own, we think we have the right stocks. More importantly if the economy gets worse than expected or interest rates go up, your stocks won't go up, but they won't go down as much, so we've built safety, we think into your portfolio.

If you look down here on page 20, the final thing I'd like to look at, this is the percentage of your portfolio when you look at all the stocks we own and say, what do they own? We own a security called Simon Property Group which is your largest holding and they own just regional malls in America. If you cut through all the ownership in your stocks, you would say, 15% of your portfolio is invested in companies that own regional malls which is about average for our index. We own very very high quality regional malls which means they're located in very dense areas and the sales per square foot that they are able to give their retailers is very high, $500 a square foot. In America, the average regional mall only charges $300 per square foot, so we own the malls that are very productive, that a lot of people are shopping at and that's been a very good place to be at this year because the market got very negative on all centers and now they've understood the high quality malls are doing better than expected. So again, high quality is doing better than expected and you made a lot of money this year in owning high quality malls and we think that continues.

Multifamily which are apartments; you have 22.5% of your portfolio in apartments, much more so than our benchmark, if you just owned a bunch of REITs in the United States. That's because we think rents are going to shoot up faster in apartments and because their interest costs are very low because the debt market likes apartments because all the problems we've had in the United States, the occupancy rate of apartments in the United States has stayed at 94%. All the other property types, their occupancy rates are in some cases, 80%, but because people can't buy homes anymore if they don't have money down, they don't have income. A lot of people have switched over to renting apartments because they can't afford to buy homes. We think that continues because in the United States, they've changed the way people can get mortgages permanently, where you have to have money down, you have to have a job. What that means to us is we're sitting, after a terrible recession of 95% occupancy in your portfolio. That means even a little improvement in the economy, we think that people will still rent but that they will be able to afford higher rents.

We own a lot of apartments. Where we own an office, we have a little higher than normal, but we only own in 3 markets in the United States. We own in Washington DC because the Government is getting bigger and bigger and they need more space, also in West L.A., now Los Angeles is a tough office market if you're downtown. If you've been to Los Angeles, downtown as you know is not booming, but the West L.A. market is actually starting to turn already because it's a very special market and it's not filled with a lot of financial service going into the firms, it's got a lot of different high end uses of offices, so it's been hurt, but it's already started to come back and it's a very special market. We own a company called Douglas Emmett for you and they're only in 2 places, West L.A. and Honolulu and so it's a very special office portfolio that we think is a very good safe place right now. The final place we're starting to add back into is New York City. New York City got hurt but it's coming back faster than expected and the real reason for that is it's still the cheapest place in the world to do financial business. It's rents are high for the United States, but they're much lower than any other place in the world. So even though it's tough times in financial services in many areas, New York has turned out to have survived a lot better than people expected and we're building that up. Boston Properties, the second biggest holding, that's New York and Washington. So, bottom line in your portfolio, you own the best of the best, you own balance sheets that are very long term orientated so if inflation is a problem, these companies will not suffer like other companies, they could have issues, but not nearly as much as other places and we just think that rents are going to go up a lot faster than owning this stuff than owning other areas of the market. We're very optimistic in the market you own, in the short term we'll see what the economy does, we'll see what interest rates do in the short term, but we are supportive of owning good properties right now because we do think rents are going to do better than expected.

Thank you everyone, it's been a pleasure coming out here.

(End of presentation by Security Capital)

<u>11:00am-11:45am Robeco Investment Management – Domestic Large Cap Value</u>

Dr. Leon Guerrero: We appreciate you coming here to discuss your portfolio. For the record I'd like to say who are present, Joe T. San Agustin, Chairman of the Board, Paula Blas, Director, Terry Dennison from Mercer, Wilfred Aflague, Trustee, Diana Bernardo, Controller and Rosalie Bordallo, General Accounting Supervisor. We're going to ask you to lead the discussion on our portfolio and for our part, we're looking at what you did last year, what you expect the coming year, changes in personnel and whether any regulatory agencies have any issues with you.

T. Kimo Blaisdell: We want to thank you very much for having us out here. We are Kimo and David and we represent Robeco Boston Partners, we've been managing a large cap value portfolio for you since June of last year, so about 18 months. This is our 2nd presentation to the Board, thank you for having us back. We are here for you to make sure we address the issues you have, if there are any questions during David's presentation, we can get into any more detail on anything you want.

David Pyle: On page 1, the performance on your portfolio, the top line will show the returns of your portfolio, below that is the Russell 1000 Value Index which is the primary index we are bench marked against, as well as the S&P 500. The gray shaded line shows the relative performance versus those indexes and for the primary indexes, the Russell 1000, we are ahead of the bench mark quite substantially on a year to date, since inception date, so for the year we are about 600 basis points or about 6% ahead of the index, so that's good.

On the next page we have some words on how we've done that and what has transpired over the year to date period. As you know, the year was really broken into 2 halves divided by March 9th, which was when the market bottomed. Into that the market was down quite substantially, the portfolio was down, but the good news was that we were outperforming the index by over 400 basis points. When we presented to you I think what we told you was we have our best relative performance during weak markets, we expect to outperform during weak markets and keep up and hopefully beat by a little bit in the up markets. Since March 9 we've outperformed by about 200 basis points, so we've been able to do that and that's how we've gotten to the 600 basis advantage for the year to date period. The other part of that just breaking it down further, the way we have the portfolio positioned and through this entire time, it's been a very high quality portfolio. You may have heard that when the market bottom started going back up, what was leading the market up were lower quality companies, so we still managed to outperform without exposure to those lower quality companies. We have companies with very strong balance sheets, very strong positions, strong management teams and we expect those to continue to outperform going forward and we have some of the different stocks that were really helping the performance.

Page 3, a way to look at risk and risk in your portfolio, the way to do that is to measure the standard deviation in returns, essentially that's the volatility, how much do your returns bounce around, we have that listed on the lower, on the left hand we have the return for the portfolio. Your portfolio is the blue square and the other points represented there are various indexes. You want to be toward the upper left hand side, that means you're having higher returns, while taking lower risks and that's exactly where your portfolio is positioned so even in a very strong up market, your portfolio was able to outperform while taking lower risk. That's what we try to do at Boston Partners and we've been able to do that with your portfolio.

Page 4, this is how we pick stocks for a portfolio, we look for 3 attributes, we look for good valuation, that means stocks that are priced low relative to the cash and earnings that they generate. We look for companies that have strong business fundamentals, that really means companies that have high returns on the capital that they employ and we look for some kind of catalyst or business momentum. And that's simply asking how the company's doing, is it getting better or is it getting worse, where we can find that combination of characteristics the stocks that we buy in your portfolio. It turns out to be a very low risk approach and the reason is because you're buying a good company, you're paying a good price for it and something right is happening with the company and that's the combination we look for.

On page 5 you can see how that lays out on various characteristics. On the valuation we list a couple of valuation characteristics there, the 2 PE have price earnings, that's comparing the price of the stock to earnings that they'll generate so the lower is better. Your portfolio has better valuation characteristics versus both the S&P 500 and the Russell 1000, so we have a better priced portfolio than those indexes. On the fundamental circle, that's just measuring the returns on capital that are generated. We use several different methods to look at that, OROA stands for Operating Returns on Operating Assets, it's a pre-tax return on capital ---, ROE stands for Return on Equity, and LT EPS Gr. Rt. is Long Term Earnings Per Share Per Growth Rate how fast is the company growing. In all cases you want the numbers to be higher, you want the growth and you want to have higher returns and you can see relative to the index, that's the way your portfolio is positioned. On the bottom, we just look at the number for catalyst, we just look at the number of companies that are meeting the earnings expectations that are published by the Wall Street and in this case, 3 quarters of your portfolio has, by this measure, has positive business momentum.

On pages 6 and 7, it's a snapshot of your portfolio as of the end of September 30, 2009. On page 6 on the left hand side we show the 10 largest positions within your portfolio. On the right hand side we show how your portfolio is positioned in the different economic sectors relative to the benchmark. Your portfolio is the aqua bar on the top, the Russell 1000 Index is the brown bar and the bright brown bar is the S&P 500. The largest sector in your portfolio is finance, we've seen a lot of opportunities in finance. We think if you break finance into 2 parts, one is insurance, one is banks, since we've started the portfolio we think insurance has been very well positioned and that has helped the returns in your portfolio. We're now starting to see a lot of opportunity in banks, as you know the banks went through a very difficult time in 2008 and 2009. We think not all of them, but some of them are not only on the road to recovery, but they're improving their business prospects by being able to pick up new business from some of the banks that are struggling, so we have been buying more banks over the course of 2009. Technology is the largest overweight relative to your index. We're seeing a lot of very good opportunities there that meet those 3 criteria that we look for. The largest underweight is communications, that's primarily AT&T and Verizon and we just don't see those stocks as being attractively positioned today.

On page 7 is the entire portfolio, we also show the changes that have happened in the portfolio, the aqua colored positions are the ones that are in the holdings, and the up arrows or down arrows show positions that were either added to or trimmed, and the berry colored are the positions that were sold during this position which was the 3rd quarter of 2009. So you can get an idea of some of the different positioning moves that we have been making within your portfolio.

In terms of the outlook on page 8, we show some areas that we think are attractive and areas that we are adding to in the portfolio, and we break these down into 3 things. The first is what we call soft cyclicals, and these are just companies that own good, solid franchises, have good managements, good balance sheets, but for some reason their business is tied to the economy and it has suffered over the last 12-18 months. A good example is a company called Manpower which is a temporary staffing agency and as unemployment started going up, companies obviously don't need as many people, the demand for Manpower's business, the demand for the temporary employees have gone down. We now started to see that come back and so that kind of soft cyclical company is an area that we've been adding to. There's a another company in the portfolio called Reliance Steel, they don't make steel, but what they do is they buy it and they cut it up and process it for other people that need different sizes of steel. The business went down when the economy went down so it's now coming back, so we see those as attractive candidates.

Second area, credit sensitive financials, which is just another name for banks, we're seeing some high quality banks, a bank like Wells Fargo who was able to buy Wachovia Bank and get it at a very good price, they got it at about a quarter of book value, which is a measurement for banks. We think that if they can execute that transaction and integrate the company, and we think that they can, that would be a very big driver for their business for the next 5 years and we have several banks that have those types of qualities and we've been buying those. In this final category here, and I'd actually move it up to the top because over the last 15 months it's really come far, high quality on sale, these are very high quality companies like a Microsoft or a Johnson & Johnson, where they would typically sell at a price earnings multiple of 18-20, but today because of the recession, they're selling at 12 times. They're very popular, they generate lots of cash flow, they have good market position, good balance sheets, good management, but now they're selling at 12 times, we think that's a very very good deal. So the whole high quality on sale, this I think more than any area, has the potential to drive the portfolio from here for the next 18 months. These 3 areas here are broadly where we're seeing attractive candidates.

On page 9, all we do here are point out that after recessions, typically a value style outperforms. You look through and look at the recession periods on this shaded bar, we've gone back and looked at recessions since 1953, most of the time, value outperforms. So having this style of portfolio from here going forward, if history is any indication, we should do very well.

I'll finish up on page 10 and maybe this is a discussion point we can get into. There's a lot of stuff happening in the U.S. markets today, both within the financial markets and externally. We're keenly aware of all these things and how it effects the portfolio and the individual stocks in the portfolio, but importantly we don't try to predict the future, so we don't know how healthcare reform is going to come out, but each and every day we're watching it and assessing however way this is going to affect our different companies and we take whatever appropriate action is needed. It is interesting because you can see there's a lot of interesting topics going on right now and these will affect corporate America as well as the world and it will affect the companies within that, so there's a lot of stuff for us to analyze and a lot of things for us to keep an eye on.

To get to points 2 and 3 that we were talking about, on page 12, is the equity investment team of Boston Partners. The good news is there has been no changes on this page for about 3 years now, so there have been no changes in the personnel. In terms of the regulatory issues, there are no regulatory issues that I'm aware of and there hasn't been any change in that in the last 3 years now or more than 3 years.

So with that, we'd like to take any questions, we can go back to any pages, there's also some more information that may be reviewed in the appendix more deeply on our process. Rosalie Bordallo: This is just out of curiosity, you say you're not heavy into telecommunications, with the IPhone coming out, why hasn't AT&T really, because they're so tied to the product and the product is such a hot product. David Pyle: The problem with AT&T is they pay about $525 per IPhone, they charge you $200, so they're losing $300 per phone, they're making it up by getting subscribers. When we did the math for that, that's an ok return for AT&T, it's a phenomenal return for Apple. That has been driving their mobile phone business, so that's good but there's 2 other parts of the business, the land line business, that business is their highest profitability business and the problem is it's shrinking at a very high rate, at about 8% of people per year turn off their home phones. So it's their highest profitability business and it's shrinking by 8%. The wireless phone business is growing with the IPhone, but the economics are a little questionable in terms of what AT&T makes. The final piece of their business is TV to your house, they've had to spend billions and billions of dollars to make sure that the wires are going by your house and allowing you to hook up. Even after they've done that, not a lot of people hooked up so they've had to provide a lot of promotions. We don't think they're going to get a great return on that TV business, and Comcast and some other cable providers have been fighting back. The wireless business is fine, I could buy that myself, that would be great. The landline business is shrinking and that's their most profitable business and their TV business, it's unclear where they're going to make their return.

In your portfolio you own Vodafone and Vodafone is a UK wireless company. One of their biggest assets is they own half of Verizon wireless which is the other competitor to AT&T. It's less expensive than AT&T so by buying Vodafone, you get better business at a lower price, so that's kind of how we've done it. It really comes down to the problem, yes it's growing, but it's not clear that they're really profitable and they lose that exclusivity on the IPhone this coming June.

Terry Dennison: Do you have an economic scenario, are you agnostic about the economic future and if you have one, what is it? David Pyle: We're agnostic. We build the portfolios from the bottom up. We're aware of how the different scenarios affect our companies, so clearly our banking analysts are keenly aware of what the yield curve is doing, but in terms of building the portfolio to take advantage of an economic scenario, that's just not the process that we use. From the bottom up, what we're seeing are companies that are on the most part positively surprising. We think the economy is getting better than it's generally getting credit for, but we can see that from the bottoms up. Terry Dennison: But aren't most of those surprises coming from cost reductions, top line growth? David Pyle: Absolutely, but you're seeing more and more companies have top line growth now. Semiconductors is one area you're seeing it, temporary staffing agencies you're starting to see it, you see pockets of it happening, you see pockets are getting bigger and bigger, but cost cutting clearly has been the number 1 driver.

Terry Dennison: You've been positioned so much that looking at companies that are going to have very accelerated growth because they've cut their cost base so much that a dollar a top line growth goes to the bottom line much larger than it did historically. David Pyle: That would be ideal, the problem is that most of the companies are selling it at what we considered it to be pretty high multiples. So you look at most of the world on a normalized basis, they're still selling at 20 times earnings, so that's why the category is soft cyclicals, that's been an area that I don't think the market is focused on, it's like a Manpower, so it's not as dramatic. It's harder for Manpower to cut...they can just let people go, it's harder for them to cut their G&A cost, but they can also just add people back pretty quickly.

Thank you.

(End of presentation by Robeco)

1:00pm-1:45pm Metropolitan West

Dr. Leon Guerrero: For the record, we have Paula Blas, Director, Terry Dennison, Mercer, Wilfred Aflague, Trustee, Diana Bernardo, Controller, myself and Rosalie Bordallo, General Accounting Supervisor. We'll let you take the discussion and tell us who's responsible for not investing in the financial sector.

Mark Heath: Sure. You have our report and let me know if you have any questions. Page 1 talks about when we began and how much. We started about 9 years ago, 6/30/2000, we started with about $90 million, we paid out about $62 million and we have about $78 million left. This a very important relationship for us and we're very pleased to be working with you. On the right side you will see we have about 6% in cash which is higher than normal, we normally keep that around 3-5%, but we had some transactions at the end of the year that caused our cash to be a little higher. Dr. Leon Guerrero: Are you sitting on the sidelines? Mark Heath: We never sit on the sidelines, we're always fully invested unless we have transactions where we're selling and buying.

Page 2 shows our performance, compare us with the Russell 1000 Value Index. I imagine Terry's already gone through this with you, but for the last year we're down 2%, our index was down 10.5%, for 3 years we were down 2.2%, the index was down about 8%, for 5 years we were up about 7% and the index was up about 1% and inception to date we were up about 5.6% and the index was up about 2.7%. So in each one of those categories, we've significantly outperformed the benchmark.

Terry Dennison: Looking at the Government of Guam funds versus your value composite, the difference is, which are mostly in the last fiscal years, are they systemic, is it still some issue or is it just random noise? Mark Heath: I think it's systemic, anytime you put restrictions on us, we have to find a...we see a company that we want to invest in and we can't do it because of your restrictions, we find the next best in that industry and the next best is always going to be a little worse than the best. Terry Dennison: If we were going to ask for some relief, what particular restrictions or issues, the dividend pay? Mark Heath: The dividend pay is significant, I think that would be number 1. Dr. Leon Guerrero: I don't understand what are the restrictions, I thought we got rid of all the restrictions. Mark Heath: We did for 6 weeks and then we got them back on. Dr. Leon Guerrero: What are the restrictions? Terry Dennison: You have to have a history of paying dividends out of earnings and profits, 3 years out of 5, they can't pay dividends that weren't earned, that's the earnings profit test, it has to have positive earnings per share for 3 out of 5 years. Now it's much more difficult really for the growth stocks versus the value, but it depends on the value too. There's no such thing as a growth stock and a value stock permanently, they change sides all the time, so these restrictions are still hurting and Mark said exactly the right thing, if they can't buy the best, they have to buy the 2nd best which is by definition, the 2nd best. Dr. Leon Guerrero: I guess I'm wondering, what are we doing about that? I thought that wasn't an issue anymore. Mark Heath: The history of it was that they were removed when the Legislature adopted the Prudent Man...Paula Blas: It's 60 days or 90 days and then they repealed that law. Dr. Leon Guerrero: Why is that repealed? Paula Blas: It was only good for 3 months. Wilfred Aflague: So what can we do now to remove these restrictions so (MetWest) can buy the best and not the 2nd best? Terry Dennison: What we're doing is actually leaving the restrictions, but basically getting larger and larger pieces of the portfolio to which they don't apply. We haven't directly --- the dividend restrictions or the interest coverage on fixed income, but we have pieces of the portfolio now that it doesn't apply to. Paula Blas: We actually did lift the dividend restrictions for common stocks so you can now purchase securities that don't pay. Rosalie Bordallo: Yes but you're still put on limitation. Paula Blas: Was that the limitation, is the percentage, what they did was, they didn't give them the full percent, what was it, 25%? Rosalie Bordallo: of the 50%. Terry Dennison: The Legislation said 50%, the Board said they'll only go half way. Rosalie Bordallo: And only by petition by the manager (request for relief beyond 25% by the manager). Terry Dennison: So the Legislature said only 50% of the portfolio doesn't have to follow the rule, but the Board said, instead of the full 50%, we'll give you 25%, but you can apply for the other 25%. How binding is this exactly? There might be a point even with the restriction placed, it won't make any difference because enough of the stocks meet the restriction, it's only the inability to buy stocks that don't meet the restriction. So somewhere in here short of 100% being exempt from your restriction, there's a point where for most managers it doesn't make any difference anymore, but it sounds like the 25 or 50% is still impacting it. Wilfred Aflague: This may be an unfair question at this point, but can you quantify this restriction from last year to 2009 and show the amounts of lost revenues? Terry Dennison: When we looked at this, the issue is not just the lost revenue, in fact the more powerful argument is concentration of risk because what happens is if you have 10 possible stocks in the industry, you can't own 5 of them. All of your money in that industry is now concentrated on 5 stocks instead of the 10, so the issue is, I can't buy the stock, the issue really is because I can't buy this stock, I have to put the money someplace else which might be doubling up, which exposes us to stock specific risk. We've got more money than we want even in a good stock, so it's more subtle than just return, it's also the fact that it's reducing the return but it's also increasing the risk.

Mark Heath: In October we outperformed the market and in November we underperformed the market. On page 4 it shows our weightings in the various sectors, most of the sectors were pretty close. We are overweight in consumer staples and information technology and we are underweight in energy and financials. Terry Dennison: If I asked you how these lines would look for your model portfolio, would they be significantly different also? Mark Heath: No. Terry Dennison: So the sector weights aren't being impacted by the restriction, it's stock by stock that's being impacted.

Mark Heath: Page 5 gives us a listing of your portfolio as of 9/30. If there are any stocks you'd like to discuss, I'll try to address them. Page 6 talks a little bit about our firm. We now have a little over $11 billion in assets as of September 30, which is quite an increase,. We were fortunate and even throughout the financial crisis to gain new customers and many of our existing customers gave us additional funds to invest, so we came through the crisis quite well. We continue to add people and we continue to add resources in terms of research and computer systems where other firms had some last minute panic, lay offs, we had none of that and we continued to grow quite nicely. Dr. Leon Guerrero: Is your personnel still the same? Mark Heath: Our personnel is still the same, all the folks that you met are still the same and the key ones in terms of investment are still there, doing the same thing. We have a list of our other products, besides our large cap intrinsic value, we have a small cap, a global and a balanced and I'd be happy to discuss those with you at another time. On page 7, again, nothing has changed with our firm, we have the same people, we have the same process, we have the same philosophy, we have no blemishes in terms of law suits or problems like that. Dr. Leon Guerrero: No regulatory issues? Mark Heath: We interact with them all the time, but we don't have any complaints. On page 8 shows our long term progress in terms of our investment compared to the index. We've outperformed the index pretty steadily.

Terry Dennison: On 2 of the financial stocks, M&T Bank and Zions Bank, I know Zions is likely to have a lot of commercial problems, but there's a lot of concerns that some of the regional banks that have got a lot of exposure to developers and real estate in general, your problems have not been as transparent and as visible as with the major money center banks, what makes you comfortable with those 2? Mark Heath: We looked quite carefully at the portfolios of those 2 banks, what the holdings are and we're quite comfortable that we're not going to have any major surprises in terms of derivatives or their loan loss ratios going up.

Dr. Leon Guerrero: Mitsubushi, is that in Japan? Mark Heath: It's one of the major banks in Japan. Dr. Leon Guerrero: What's the situation with that? Mark Heath: We're optimistic in Japan in general, we think that they certainly had their share of problems but there's a lot of wealth there and these banks are starting the process of deregulating in Japan that the U.S. went through 15 years ago, allowing them to buy and sell insurance and other sorts of products that we have and we think there's a lot of opportunities for these big banks to do quite well in Tokyo and the major metropolitan areas. Terry Dennison: How much of it is connected to Mitsubishi as a corporate entity? Mark Heath: It's very small, it started out that way, but they've bought 2 or 3 other large banks that are going to come out, it's not the old system that we were faced in the 80's.

Dr. Leon Guerrero: This return of -13, is that just for the quarter or for the year, for Mitsubushi? Mark Heath: That's for the year. Dr. Leon Guerrero: What are you going to do next year? Mark Heath: Same thing we're doing this year. Our portfolio turnover is quite low and it's lower than it normally has been, generally we turn it over every 3 years and now we're more like every 4 or 5 years. So we will continue to do the things that we've always done, look for good companies that we think are priced at a significant discount and the market will recognize that discount and buy it up in the next 2-3 years. So I don't think anything dramatic will change.

Dr. Leon Guerrero: Thank you.

(End of presentation by Metropolitan West)

Dr. Leon Guerrero: The restrictions we have on common stocks... Terry Dennison: The requirement is the portfolio be at least 50% of the portfolio be in stock that has been paying dividends out of earnings and profits for 3 out of the last 5 years. Legislature gave us relief to only have half the portfolio be subject to that restriction, the Board proposed the limit of only half that. Mark (Heath) said it is impacting the portfolio. We're still seeing our portfolio look different and in some cases, not as good as their unrestricted portfolio. Joe T. San Agustin: So what does he propose we do? Dr. Leon Guerrero: We asked Mark (Heath) to write a letter to the Fund on the impact of this and Terry (Dennison) is going to comment on it.

<u>2:00pm-2:45pm DB Plan – Other:</u>

1. **Securities Lending**

You should have the letter which is what we asked Northern Trust to provide us, a good faith estimate and I'm hoping that is a good faith estimate. Interestingly, their sense of how much money you made dropped by about a third in those couple of months. If you go to the second to the last page, there's an analysis of the money flow in the securities lending program. They're expecting, if we participate in using what I assume is a very conservative collateral program, $681,000, we would get 70% of that, which is $477,000. The question before you is, given the risks that have surfaced with securities lending, many of which been addressed, the securities lending disasters don't affect you because you weren't in the program, the question is, do we want to accept the risk of some potential future problem that we can't anticipate, in exchange for avoiding getting a half million dollars, do you want the half million dollars with the intended risk or not? I think Northern has done a lot to clean up their program, they got rid of some of the more insane collateral pools that had all sorts of wild and crazy stuff, I would remind you in market terms, nothing is righteous in the reform center, I assume they have been somewhat reformed.

Dr. Leon Guerrero: As I understand, litigation is still on. I strongly suggest that we wait. Terry Dennison: I certainly wouldn't object to that. We have a group that looks at the securities lending program both for Northern and for State Street, there are enough problems where in a worse case scenario, the survivability with Northern and State Street are questionable. The thing about it is, the amount of dollars that are involved in these programs is gigantic compared to the capital of the bank. If you look at State Street's bank, they have capital of about $6 or $7 billion. At any point of time, they may have $50 billion on loan. The size of these programs is larger than the capital of the bank. I'm with Dr. Leon Guerrero on this, as much as I'd hate to forego $477,000, we dodged a bullet.

Rosalie Bordallo: How do they expect to make money if rates are at zero? Terry Dennison: They're not at zero, in fact remember, the Treasury is at zero. If you look at the collateral pool, you're not just investing in treasuries. Rosalie Bordallo: But isn't that our main concern, what are they going to have in that collateral pool? Terry Dennison: The danger is a conflict of interest because any securities lending agent is getting 30% of the earnings of the collateral pool, so they have an incentive to make that collateral pool yield as much as possible and what happened was, all the securities lending agents, when rates went down, crept out of that risk factor. Instead of being short in high quality, they went longer, they went into lower quality, they went into some pretty wild and crazy stuff and they got burned.

2. **Funding of Managers:**
   a. **Thomson Horstmann & Bryant**
   b. **Cornerstone - Partially Funded**
   c. **Security Capital – Partially Funded**

In the successful strategy for investments which is to buy low and sell high, there are going to be very attractive opportunities in the REIT market. The last thing we want to do is put in money at the top of the market because that almost guarantees losses. So, one of the things that makes investing difficult is you often need to make the allocation at the time when everything is terrible, if you wait til everything looks good, you're probably not likely to make money, you're in fact likely to lose money as the cycle goes in the other direction. I would be very comfortable recommending to the Committee and the Board tomorrow that we fully fund the REIT managers. The target allocations are actually split a little ways, Cornerstone which is actually the more conservative manager, although I think both of them are very risk aware and very careful about not investing in high risk situations, the more conservative get 4% and Security Capital which is more aggressive largely because they own fewer names, they own 20 instead of 50, be fully funded up to the 10%. Right now the money is parked in fixed income and it was exclusively when we set up this asset class during the search process, we said we would reserve the money for it and it would be parked in fixed income. If you remember when I was looking at the asset allocation yesterday during the performance review, I said the over allocation to fixed income and the under allocation to real estate represents this parking lot phenomenon, that apparent difference will disappear when we fully fund the REITs.

Dr. Leon Guerrero: You're suggesting we put more into Security Capital by how much?
Terry Dennison: If you look at this big spreadsheet, the legal size, that's what the target allocation was set at. The advantage of fully funding is not just increasing exposure to REITs, but decreasing exposure to fixed income which is right now over allocated and at some point when we start to see interest rates rise, we're going to see losses in the fixed income portfolio simply because of rising interest rates.

To get it to work, you have to do all of these. The problem is we have to look at a lot of things simultaneously, we can't just look at REITs, but there are a couple of complicating things here and we had a discussion also about emerging markets, we're actually over weighted in emerging markets by $27,844,000 and I don't think based on the discussions we had yesterday as well as the discussions at the last meeting, that anyone is interested in taking money away from emerging market. If we keep the over weight, that means we have to suck money out of some other place. I think what we're going to have to do here is figure out what we want the end to look like and then recalculate the spread sheet. I certainly would be very comfortable maintaining that over-weight to emerging markets or even dialing up. Right now it's 5.34, in the asset allocation, the maximum we had here was 6. The maximum you can have is 6, so actually instead of releasing $27 million, if we went to 6, it would be about another $6 million, from about 4 to $6 million. I would be very comfortable with increasing the allocation of emerging markets up to the full target.

The Board or the Committee today needs to figure out what they want to have happen and then you plug in the numbers in the portfolio and the process recalculates. We have to figure out what we want to have happen. We want to fully fund REITs and move emerging markets to 6%. Rosie Bordallo: What are we going to do with AXA? That's another issue that will have an impact on this and also we have the RFP for the small cap. Terry Dennison: The small cap is allocated at 10%. My recollection was that we were going to limit Thomson Horstmann & Bryant to 4%, the new manager 4% and retain 2% in the ETFs. Rosalie Bordallo: The problem here is by pushing up the emerging markets, the decision needs to be made, where do you want to reduce. Terry Dennison: I agree, the books have to balance in the end, but I think we need to figure out what we want the end to be and see what the spreadsheet tells us what the transactions are. Part of the problem now is we're not reshuffling the 10%, the 10% isn't here either, right now there's only 5.34%. Diana Bernardo: Do you want to consider dropping the allocation to Fisher? Terry Dennison: I think Fisher is getting over allocated. I think Fisher has too much money. Part of the problem is that if we want to get rid of AXA which we certainly recommend, we can't give the money to Fisher because I'd like to see money taken from Fisher, not that they're doing badly, but they just have too much money, they have done badly in the past. I think then we'd be looking at ETFs to soak up the AXA International and the excess of the Fisher International from target which is $17 million.

We have the developed market large cap because we have issues with Fisher, it has too much money. So what we'd be adding here is a row in the developed market large cap for ETFs which we would be taking $17 million from Fisher to get them down to their target of 10 and taking the entire $30 million that's right now with AXA and that's really a parking place until the Board decides what to do with that money because we don't want to not be exposed to that asset class. That's been a good performing asset class to us and we don't want to have a hole in the portfolio but we don't want this much money with Fisher.

The ETF is passive, it's simply investing in the index, it gives us exposure to the asset class but there's no opportunity to add value. Our view, the book view, Mercer's view is that international is not an asset class you want to index, long term you want to be active in. Managers can add value so I think we're just parking the money until we can go through the process that's required to do a search for another international manager. Rosalie Bordallo: So another motion would be to basically pick up another international manager. Terry Dennison: Yes. So the motion is one, to reduce Fisher back to it's target of 10, liquidate AXA, park the money in the EAFE IShares and initiate a search process, which is develop an RFP, distribute the RFP, get the response back, just like what we did for small cap, but for international and fully fund the REITs.

Director Blas: Action items are: Fund REITs to the full 10%, increase the emerging markets allocation to 5.75%, terminate the AXA International fund manager, move the $30 million that AXA currently has and the $17.6 million that Fisher is over weight in to an IShare EAFE account and conduct an RFP for an international manager.

Dr. Leon Guerrero: Terry, you were mentioning about balancing or reviewing this asset percentage? Terry Dennison: Yes. At some point down the road in 2010, I think it's time for another asset allocation where we may look at additional asset classes like non-dollar fixed, potentially a few other asset classes, but I think we should maintain this one for the present because that's a 3 month process for us to do that asset allocation study and probably a half a day of discussing it with the Board. Joe T. San Agustin: I think in 3 months we'll have to look at the asset allocation, things are moving so fast now. Dr. Leon Guerrero: That will be on the agenda for March 2010. Diana Bernardo: If the excess on Franklin is not sufficient to fully fund REITs, where do you recommend we take that from? Terry Dennison: Ironically, Davis Hamilton, Jackson is over weighted, IRM is under weighted, we'll have to see what the computer says, we're not going to do this to the dollar, we're going to round it to the nearest $100,000.

Joe T. San Agustin: What is the right time to move and do you have to give the managers consent or give them time? Terry Dennison: You're getting into a period in the market just at the end of the year when the market's become just a little less liquid, lots of people take the last week of the year off and the market can get kind of squirrelly towards the end of the year because if there's less activity, there's less money in the market, smaller trades move the prices a lot more. The price is set by the last trade, so you might make an argument to wait until the first week in January to make the move so we have the full liquidity back. The amount of money your talking about is not huge, but the conventional wisdom is towards the end of the year, liquidity disappears from the market and the market starts to get very choppy, little changes cause big shifts and what we don't want to do is we don't want to sell at a temporary low and buy a temporary high, so I just assume have relatively stable markets. If you look at the daily volume of the New York Stock Exchange, it nose dives after about the 23rd of December because the market participants just don't play anymore. The other thing that you run into is, you get a lot of transactions that have nothing to do with the economic reality, are tax driven, that if you have a lot of big gains this year and you don't want to pay taxes, you sell a lot of things at big losses. So not only do we have less liquidity, we have trades that are being done, transactions being done simply to minimize taxes. If you have big gains, you probably want to take losses, if you have big losses, you might want to realize some gains, so that's just another reason to stay out of the market the last part of the year.

None of these changes represent emergency situations. Yes, we're uncomfortable long term with maintaining the Schwab fund that has actually replaced the AXA fund, but it's not like we're pounding the table to get out of it tomorrow. There's no need to rush and I think there's a cost at risk. You can do it in pieces, a third of it you could do the Tuesday of the first week, the Wednesday of the second week and the Thursday of the third week, avoid Monday and Friday. All this is market law, Mondays and Fridays, things get a little strange.

Defined Contribution Plan

3:00pm-3:45pm DC Plan

1. Target Date Funds

Terry Dennison: We know from data that Great West has provided us that the account balances that your participants have are very low and I know that if you budget carefully, it's actually possible to live on this island with modest amounts of money, but that means that we're going to have a bit of a question for us. If you are going into retirement with a low balance or you are thinking about retiring and don't have much money saved, you have 2 choices, you could invest more aggressively and hope to grow that money to a somewhat larger pile or you could say, and this is sort of the utility theory of economics, I'm much better off not losing a dollar than making a dollar. Now the problem here is, you have to make that decision for the participants by choosing which fund family you offer. If you offer one of the conservative funds like Vanguard, the people with small balances are going to have a lesser opportunity to grow that balance over time, but also have a lower probability of suffering large losses. If you go to one of the more aggressive strategies, such as T. Rowe Price that offers the participants the opportunity to have the market make their pile bigger at the risk of having a time like 2007 & 2008 where all of a sudden the pile gets a whole lot smaller at a very inconvenient time. So that's part of the problem or part of what makes this a very difficult decision.

It appears to me that people live here a relatively long time. That's a factor that we have to look at, if people tend to live long. If you look at the participants in this program they are primarily younger people, so now we have to think about this, not in terms of they're going to need this money earning for a long time, but they are probably going to consume this money fairly fast. We should be looking at funds that have a glide path that becomes conservative very quickly, because people will be drawing down their balances very fast. The danger with these is having a horrible market just before you're going to retire, because this is like a cash balance plan, basically if you had a $30,000 balance in the middle of 2007, by the end of 2008, you probably had a $20,000 or $18,000 balance and if you are retiring in 2 years, you're not going to have enough time to get that back.

There's a sense now, the Legislation obviously backed up things like Healthcare, Congress is probably going to make it either very difficult or impossible for you to not roll over the money because Congress is very well aware that there's a cohort in the population that in your words have managed their affairs very poorly. They haven't saved enough, they started late and they took money out, they took loans, they took hardship withdrawals, so basically they're now going to become wards of the Government. You're going to have a permanent underclass of people who thoroughly mismanaged their financial affairs over a life time. All they have to do is say, it's your money, you can put it anywhere you want, except your pocket. You're going to be forced to roll it over either into a subsequent 401k plan or an IRA. I think it's for the best because most people when they get exposed to the amount of money they have in this plan, it's the most money they've ever seen in their life and that boat looks really good.

The problem is we just have a whole group of people that didn't save enough, didn't start early enough for whatever reason and took the money out whatever chance they could. Paula Blas: Right now with the DC Plan, the Board has the discretion to close that door now on hardships. They actually reduced what they could use it for and they actually increased the restrictions on how to be able to take out a hardship, but that's not stopping them. Rosalie Bordallo: The problem here is the termination and that's the door that's still wide open. Joe T. San Agustin: Should we close it? Rosalie Bordallo: Yes. There should never be a reason why...it should be like this, if you terminate and come back tomorrow, you can't take your money. You let them say, ok, you can terminate and if you want your money in 3 months time or 1 years time, we're more than willing to give it to you, but you can't come back into the Government. Legislation has to exist where they want to withdraw because they terminated, they can't come back Monday and start working again, that's the only way you're going to stop that. This is the major problem that's affecting these pots, the ease of them to be able to take out early so by the time they do retire, it's so small.

Terry Dennison: If we turn to page 3 under tab 2 in the Lifestyle book, here are the 5 fund groupings we are looking at. Then there are some pages that look at some details about the individual funds because again you're buying a family of funds. What you're going to see is each of the vendors makes decisions about how many funds to offer, in the original incarnation of the lifecycle funds, they offered funds for every decade, 2000, 2010, 2020, 2030, 2040 and eventually 2050. There are times when and now is one of those times when only going on full decades becomes a problem because if you think about now, 2009, 2010 is a year away, 2020 is 11 years away, that's a huge gap, that's a huge difference in what your investment horizon is and your investment opportunities are. So the first response was to add the half decade funds. It's interesting because Maxim, started on page 5, relatively later, they did the decades, but they did them on the half decades. The Maxim funds had the luxury of starting later, but actually now have 2015 is near term, 2025 is far away. Temporarily, that structure doesn't have this huge discontinuity. Now when we're all sitting here at 2014, it's continuity will be back, but right now that is an advantage, but you can see a lot of people, Schwab on page 6, have got that issue because 2010 is right around the corner, 2020 is in 10 years. T. Rowe Price has the half decades, Vanguard has the half decades. So that's one of the design factors, it's not a big decision but it is sort of a design factor.

Starting on page 9 there are lengthy discussions about how each of the organizations makes the 2 sets of decisions they have to think about. One is what is a glide path, at what rate and at what benchmarks do they progress across time from a very high risk, high return, pure equity allocation to a very low risk, low return, more cash like allocation. And then for each one of those points on that glide path, how did they decide what the constituents are of the individual funds. Each one of these funds is made up of other funds, so for example, a 2010 fund might have 40% equity, but that equity is actually represented by a piece of large cap growth and large cap core and small cap value and small cap growth, in a sense, each one of these funds is constructed using all the difference pieces that you find in the DB Plan to varying degrees. If you go out, the proportion of the assets that's invested in more equity like assets become bigger and maybe the mix changes.

One of the vendors as you get closer to retirement starts to include treasury inflation protected or real return assets because inflation starts to become more of an issue as you get closer and closer to retirement. So there are really 2 decisions to be made, how do they want to manage the glide path and how do they decide for each point on the glide path what the constituents for the fund for that age group should look like.

On page 9 looking at Barclays, BGI, on the right hand column talking about the investment process glide path construction and monitoring, they make the assumption that this is the primary or only source of the target savings, which for your participants is probably a very helpful assumption. They look at relatively long post retirement life expectancy but also behavioral consumption patterns and that's the fault that a lot of the more simplistic plans didn't think about. That they assume the balances that people thoughtfully say, I have a balance of $200,000 and my life expectancy is 20 years, so I'm going to take no more than $25,000 a year hoping that the investments will fill in for the fact that I'm taking more than my fair share every year. Most people just look at the pot of money and it's like a jar of candy, you want some more, you stick your hand in it and all of a sudden, the jar is empty. So they're thoughtful in a sense of looking at the behavior, the consumption patterns in addition to likely draw rates and various amounts of risk and returns. I think that's a very thoughtful way of thinking about it.

They have ones that are pure index meaning that there's no active component to it, they just use index funds blended to be suitable for somebody of that age and then they have risk controlled active version, so if you want funds to take some active management risk, you can take a little more active management risk.

If you look at page 11 at Barclays for terms of idea generation, we think very highly of them. They're getting the highest possible score, double plus. --- actually invented the concept of target date funds which only go back to 1993. They're very good at what they do, the philosophy is very consistent, it makes a lot of intuitive sense and they're thinking very much about the glide path and the research that underlies it. The portfolio structure becomes attractive again because they have both the passive and active versions of it, in implementation, capacity is not a concern because they're using index funds, the rating is and you're not use to seeing the "I," to think of it just as A-, the "I" is more for me, it has to do with this being an indicative rating rather than a rating that was used by range or you, the Committee, because there isn't one for this asset class. The additional observations here are significant as you thumb through this. BGI believes in focusing on the ability of a retiree to maintain spending habits during retirement, versus income replacement and mean return. So they're thoughtful about how people spend their money.

The Schwab target date funds, they are also active and passive, the glide path changes over time and in a non-linear fashion. A linear glide path, it just moves like this, a non-linear glide path has jumps in it. They believe that as you get to some sort of perception of, I'm going to retire soon, like if I'm going to retire in 2015, I all of a sudden start to see the world differently. So what they do is their glide path actually doesn't just monotonically become more conservative, it stays relatively high and then jumps down, which is simply a different way of doing it, it's not right or wrong, it's just different. Their funds are called SMRT Funds, again a mixture of active versus passive. It's used primarily by people with Schwab as a record keeper, it hasn't gotten a lot of traction for non-Schwab record kept products.

On page 14, the Idea Generation is very good, we think their intellectual capital is deep, they do a lot of thinking about modeling in asset allocation, it's a largely open architecture structure. By open architecture it means it's not all proprietary funds, so they go out and find the best mutual fund because again, these are funds of funds, a particular fund is made up of potentially 15 or 20 other funds, they will go out and find the best fund for each role in the structure. Others are pure proprietary, if you look at Fidelity or T. Rowe Price, all the funds in the funds of funds are Fidelity are T. Rowe Price funds, which means you're not getting any diversity of thinking, you're not getting any alternative ideas, they all have the same economic scenario in mind, so the open architecture is kind of an interesting advantage. The portfolio construction equals, that indicates that we're not too keen on it. There's a lot of overlap in the process, we're just not as impressed with their portfolio construction as we are with other people, they use mostly off the shelf tools.

Maxim again is a Great West related product, it's relatively new. This is an interesting one, because unlike the other vendors who basically have a 2010 fund and a 2020 fund and a 2030 fund, there are actually 3 funds that are available for each date. There's a conservative, an average and an aggressive fund and let me give you an example of how you might use that, if you have other assets, you have a spouse with a pension plan or you have other sources of income which means you're not totally dependant on the results of this plan, you can be more aggressive. You can say, I want my pile to grow relatively faster because I can take more risk and use the aggressive version or if you're very risk averse, the fear of losing a dollar is much more traumatic than the pleasure of making a dollar, which is typically utility function, we would rather not lose money, you need to be able to get $100 to make you as happy as running the risk of losing $10. Now there are a few people who do things like jump out of airplanes with parachutes, for whom they want the risk, they want the excitement, but generally people are risk averse, that's the technical economic of risk averse, that the utility of the marginal dollar gained is less than the negative utility marginal dollar lost. They have used, the company that manages these has hired a firm called Ibitson and Associates to help them with the asset allocation. Ibitson is an extremely highly regarded firm that does asset allocation. We use to use their software until we built our own that was actually a subsidiary of Morning Star, a very highly thought of analysis and data provider for the mutual fund industry.

On the right hand column on page 50, they use a wide variety of asset classes. I like the diversity you have here, that basically you don't just have bonds, stocks and cash, that you have things like TIPS, high yield and you'll even see, not in this one, but some that have an explicit allocation to emerging markets, which as you know, we think is a good idea. While they're relatively new at it, we think pretty highly of them. We don't formally rate them because they're almost exclusively used by people who are record kept by Great West, so they have not come up at this point for ratings.

T. Rowe Price is the second to the last one, this is by far the most aggressive. This is the group I cited, not by name, but in paper not being mindful of active participant behavior. Their glide path stays relatively aggressive and doesn't reach the sort of terminal point of being very conservative until you're age 90. In fact they think that the most important thing is risk and longevity risk, outliving your assets. The solution for longevity risk is a high allocation, the problem is if you consume the assets rapidly or you happen to run into a period where assets use a lot of value, you can be put in a situation where you cannot recover, there's no time and money to recover. As we say on the right hand column of page 17, the most conservative allocation which is 20% stocks doesn't occur until 30 years after the expected retirement date and they do have exposure to emerging markets but my sense is this is ill suited to your participant base. It is on page 18, totally proprietary, all of the funds of the 15 funds that make up the target are T. Rowe Price funds. T. Rowe Price is a very fine manager, it's not the issue we have, we just think that their methodology for constructing glide path is wrong heading. Page 19, looking at some of the factors overall it's pretty clear in my mind that we couldn't ignore them. The implementation is an issue there because some of the funds are actually closed, but there's sort of a back door into them, they're closed because they have too much money, they can't invest the money wisely. They'll take money directly, but because the lifecycle funds can invest in them, there sort of a back door access and if the manager said, we don't want to take anymore money, because we can't add any value, but still they use them in the lifecycle fund, basically we're saying you can't add any value, so what are we doing that for.

The last one on page 21, Vanguard is an organization that's interesting because typically we discussed who owns it, in a sense, nobody owns it, it's owned by the shareholders in the funds. You can think of it almost like a not for profit, mutual insurance company. There's nobody making a profit here, because if they have excess money, it just reducing the expenses of running mutual funds. So it's a very unique way of thinking and because it's not a profit making entity, because all the profits just go back to the funds, they have very low fees, in fact Vanguard is very well known for having very low fees and in some cases striking low fees, like a quarter of the fees that other managers charge. It also has a very well known bias toward passive management. Vanguard does not believe as an organization that active managers can consistently add value. In their stable of funds they do have a few actively managed funds, but generally they encourage people to be invested in index funds at very low fees and you get rich instead of the money managers getting rich.

The decision making process here is unusually a little complicated. There's a lot of different entities that are involved with the decision making process, they have multiple entities that get involved with setting the glide path, there are multiple entities that get involved in individual funds and when we look at the analysis, we think that's actually negative, we like to see a little bit more clarity, a little bit more process behind that. They do look at participant behavior, meaning their glide path is a little bit more conservative, gets down to lower risk assets more quickly. The glide path does have a relatively bit more higher equity exposure to people whose ages are 20-25, but by the time you reach retirement, it's down to 50/50 and rapidly falls from that to a 30% equity, 70% bond when you get into the 65-72 area it's much more conservative.

The expense ratios are strikingly low, where other people are looking at 50 basis points, they're looking at 20 basis points. If we look at the summary on page 23, it's the only one in this group that's not A rated, it's B+ rated. We obviously think very highly of the implementation because it's primarily index based. Because they're not profit making, are able to reduce fees, we just think the idea generation is problematic. This multitude of people who are sort of involved in all the steps, they do a good job of minimizing risk as you near retirement, the downside protection is amongst the best.

If we get to what it is this thing is made of, on page 24 we have a table that shows for each one of the vendors the sorts of things that their funds are invested in. We see the word indirect, what that means is they don't have an explicit allocation to emerging markets for example, but emerging markets are in the international piece. So they have 2 options, they can have developed markets in emerging markets or they can have total non-U.S. which has an emerging market component, but it's not explicitly carved out. If we get into the things that I think are interesting, there's TIPS in the BGI, in the Maxim and in Vanguard and clearly if we are indeed heading to a period where inflation becomes more of an issue, TIPS wouldn't be a bad thing. BGI has even real estate, as does Charles Schwab, real estate is thought of as being a diversifier and a protection against inflation. A couple of them have non-U.S. and high yield, that's Maxim and T. Rowe Price, so they have a variety of things they're made of.

Now let's get down to looking at the key question which is the risk which is primarily the conservatism of looking at the asset allocation. If you look at page 25, we rate the 5 funds in order in terms of the risk from most conservative to most aggressive and there's 2 ways to think about it. Typically what you read if you read about this in the press is the percent equity and the presumption is, anything that isn't equity is safe. Well that's not exactly true because it could be long term bonds which are volatile, it could be real estate, so if you rank it purely on equity allocation, the most conservative is BGI, the second most Maxim, the most aggressive is T. Rowe Price, because we know that they're going to have a very high equity allocation even into retirement.

The other way of ranking which generally produces much of the same result, you don't see somebody going from top to bottom, let's rank them by fixed income. If we assume that fixed income is conservative and anything else is risky, it's a different way of looking at the same question and then what we do is we sum up the numbers to the left. So regardless of how you look at the world, whether you assume there's aggressive and everything else is safe or they're safe and everything else is aggressive, no matter how you look at it, T. Rowe Price is the most aggressive. They are the most aggressive no matter how you look at the world and BGI and Maxim are tied for being the most conservative. Again the discussion we had which is important would indicate we're probably more comfortable with a relatively more conservative fund family.

The next pages look at each individual fund. I'm just going to go through the example first of BGI just to show you how to read this. Again, this is different from picking an ordinary large cap growth fund because the glide path is so critical. Let's start at the bottom first, what we're looking here at is where the glide path is versus a universe of the glide paths of all of the lifecycle funds that exist and it's a little envelope that the 5th percentile is the most aggressive of all of the lifecycle families that are out there, so it's going to be the highest line. The median is the larger solid line without the circles and the bottom, the 95th percentile, is the most conservative for each date. What we see is, Barclays is very safe relative to the other funds, in the 2040, 2050 range, it's hugging the bottom, then it slowly moves more toward the middle of the road until you get very close to retirement, where it becomes really very safe. The post-retirement you can almost disregard because most people will have at that point spent the money. At the top we're looking at the performance rating. The thing that's important when you look at the performance rating, the most important to determine the performance is not the performance of the funds that make up each of the funds, but rather what the asset allocation is. Anything with high asset allocations did horribly in 2008 and terrific in 2009. So the absolute dominating factor is the level of equity exposure or the level of safe exposure and what we see here is basically BGI is right in the center, if you look at the rank, it's right in the median for 3 months, 1 year, 3 years, but pops up to basically the top of the 2nd quartile, the bottom of the 1st quartile if you look at it from 5 years. A lot of these funds don't have a lot of history so we can't go back and show you the history. So the expense ratio is pretty cheap, the equity allocation is relatively low, it's a more conservative fund.

Then we show you the glide path on page 27 and the thing to really look at is the dark purple which is the fixed income. You can see the 2050 funds are pure equity, but as you get closer and closer to retirement, when you get to 2010, it's up to 60% bonds. So there's only a 40% equity exposure which is made up of domestic and international, so when you're very near retirement, this is pretty safe. You can see there's a steady slope until you get to that retirement place. Typically once you get to that retirement, it doesn't move, it gets to a static allocation at that point. Some of them do move, but generally it's like what you see here where the lines no longer move.

Looking at the Schwab funds, looking first at the bottom, you can see they're amongst the most aggressive. Their line is hugging the top of the bar, so it is amongst the most aggressive, it does become a little bit more conservative once you get towards retirement, but if you look out at 2020, which is only 10 years away, you're up at 60% equity and nearly as high as it goes. As you would expect for 1 year, the numbers look pretty good, for 3 years, the numbers don't look quite so good. The expense ratio is relatively cheap, it's a pretty attractive fund, you can see glide path that fixed income starts at the same kind of low level but at retirement, it only builds up to 50%. Let's just assume 2010 at retirement, it's still half aggressive equity at retirement, so that's a little bit more aggressive.

T. Rowe Price is the first one that has the half decade funds and is extremely aggressive, in fact it's at or above the 5th percentile of aggressiveness pretty much across the board. If you look at the 2010, it's close to the 60% equity, for somebody who's at retirement, that's pretty aggressive. This fund took a serious bath as you might expect in the 2008 period. If you look at their glide path on page 31, it's just striking that you don't start to develop any significant fixed income until you get to 2030. So in 20 years of retirement, this is a serious go fund and if you look at the 2010, it's more than 50% risk assets at the 2010 point.

On page 32 looking at Vanguard, this again has the half year, so it's got a little bit of chop to it, a little bit more middle of the road, very aggressive at the long end, lesser so at the short end. If you look at the glide path on page 33, they start to pick up the fixed income portion relatively significantly at 25 years to retirement, but if you look at the 2010, it's up to being 50, 55% in safe assets, so this is a relatively safer fund.

There are a few with 55, 2050 and other funds out here, we do show the performance, we were not able to obtain the level of data we needed to be able to rank Maxim to give you that detail, but if you look at the performance on page 34, that fund would be appropriate for somebody that's 20 years old.

Since nobody has been in this for more than 14 years, they're probably relatively younger people, so let's take a look at the 2030 fund and the 2020 fund. Unfortunately, one size fits all is going to be our problem. If we look at the 2030 on page 39, as you might expect, the performance was pretty negative during the relatively recent period, the recovery has been spectacular. What we see is generally T. Rowe Price by far is the most volatile and BGI is the most stable. You see the same pattern for the 2025. Literally for 5 years, 0 percentile for T. Rowe Price, the green lines on page 41, but they're also much poorer when the market was declining.

Dr. Leon Guerrero: Going back to you saying, one size fits all, how would Mike (Perez) advise the participants on this? We seem to agree that the size of the investment participant --- is pretty small and we already have 15 years put into the system, what would his advice be to those people? Terry Dennison: In a sense it simplifies Mike's job because he basically, he could make up a little chart that says, if you are 52 years old, you should invest in the 2020 fund. The 2020 fund according to the thought and theory in analysis, is the right asset mix or the most correct asset mix, the best asset mix for somebody of that approximate age, 12 years to retirement, 2020 fund. If they're age 30 and 25 years from retirement, the best is the 2040 fund or the 2045 fund. This is why when we do the mapping, we're going to do this age appropriate process, there's going to be a mathematical formula that if you fall into this age band you go to that fund, if you're a little bit older, you go to that fund, if you're younger, you go into that fund. If you're relatively young, you should be a little bit more invested in equities because you have a longer time frame, you have a longer time horizon, you can tolerate the volatility, this gets much simpler because it's one decision. Looking at the scripts he has, one of the things he has that is troubling is often people will use this as just some other fund, they'll put 20% of their account in lifecycle fund and put the rest of the money in large cap growth or small cap value. The idea here that this is the total solution, it's one decision. Most of you have heard or been exposed to the idea of automatic sign up, that you can join the company and opt out, but if you don't sign up, you de-sign if you want to and usually the default fund for these sorts of programs is age appropriate lifecycle funds. If you don't do anything, you get signed up and your asset allocation is the age appropriate lifecycle fund. The reason we had the discussion of you going this direction is that this fund adjusts as you get closer to retirement age, you actually roll down that glide slope.

Most people start too late, save too little and make bad investment decisions and get the money out of the fund and waste it and that's the reason they have no money. We can't fix, they take the money out and waste it, we can't fix, they start too late, we can't fix, they save too little, but we can fix, they make dumb investment decisions. Of the 4 problems, the reasons most people are going to be poor, only one of them is within your realm to fix. This does give them the option for making 1 in 4 investment decisions and not ever think about it again. You could do this your 1st day of work and retire 4 years later and your fund would have behaved the way it should have behaved if you were an investment professional.

Mike Perez: This takes care of a lot of apprehension of employees for making either no decision or making stupid decisions. You can have someone come in and say, I was told by my banker to check my statement, look for the 3 best performing funds for the last quarter and shift every quarter, you can explain what you're doing, but because they're banker told them to do that, they're going to chase returns whereas if you get that responsibility away from them and you say, this is being managed for you, it's just much easier to get them to participate and if they don't participate, it's going to be defaulted and they'd be better off than if they were in an inappropriate fund. Terry Dennison: That's outside the scope of investment decision making.

Joe T. San Agustin: What about distribution? Paula Blas: Right now separation, just because the plan document allows you to take a distribution upon separation, upon retirement, there are certain factors. If you took away upon separation and the only choice you have is to roll it over into another qualified plan.... Wilfred Aflague: What about hardship? Paula Blas: Hardship, right now the plan document is still within the Board's discretion, that still could be modified by the Board and restated. Dr. Leon Guerrero: What are we allowing in hardship: Paula Blas: Right now you allow for 1 eviction or foreclosure during the entire Government career, they can't take out a hardship every year, it's now limited to 2 years, we extended the time out, funeral and medical expenses and the medical expenses have to be more than 7.5% of your AGI for the last 2 years. Diana Bernardo: But the Board can decide to prohibit withdrawals altogether. Rosalie Bordallo: I think it should also happen on the DB side, I think it should be across the board. You're going to have a problem here because they're going to say, well the DB people can do it and in essence, you're also hurting a DB member when you allow someone with 22 years of service to withdraw because they now become a DC member. This thing of, it's my money, I think the Board should take the stand where, if they were in social security, they would never be able to withdraw this money. Paula Blas: If you separate in the DB Plan, you can withdraw up to 25 years. Rosalie Bordallo: This is my problem, I've literally seen people who had 25 years, but legally you couldn't force them, sick leave wasn't counted and if it was, it would have been 25 years, they withdrew because technically they didn't have 25 years of service.

Terry Dennison: So the question before the house is which one of these families do you want to adopt because if we're going to implement it as soon as possible, Mike (Perez) needs to know. I'll tell you what I suggest, BGI, largely because they're the most stable. It's easy to say, why can't we find somebody that's really fantastic, the trouble is if you're really fantastic, all that means is when the cycle changes, they can be really bad and people become discouraged. One of the things we're looking at doing searches for participant directed plans is literally avoiding managers who can be really good and really bad. If it was in the DB Plan where I could sit and talk to you about it, I might be able to show you that you're actually better off with somebody who's really good most of the time and really bad sometimes. For a participant directed plan, what's going to happen is, people are going to pile into it, they're going to chase returns, suffer big losses, become discouraged, take the money out just the time it turns around. So to some degree it's being a little paternalistic, it's basically saying, we're not going to give you dangerous toys to play with. Wilfred Aflague: So it's as close to one size fits all considering our universe, our population. Terry Dennison: It has the characteristics that are most important, it has a relatively conservative glide path, you become much safer as you approach retirement. If you look at the returns, it's always pretty good, it's never really fantastic, but it's also never really horrible, because people do really stupid things when it's really fantastic and when it's really horrible, in fact they do the wrong thing. When it's really fantastic, they put money in just before it goes down, when it's really bad, they take money out just before it goes up. It's only going to replace, if you want it to, the array of life style funds that you have in the DC Plan, the conservative, moderate, the aggressive, it replaces the target risk funds with target date funds. Mike Perez: You wouldn't only be doing that, you would be making these the default options by age appropriate.

Dr. Leon Guerrero: We'll accept the recommendation of our consultant as the action item for tomorrow.

1. **Other**

Treasury Inflation Protected Securities (TIPs)

Terry Dennison: The last item we have is the search, Treasury Inflation Protected Security. Again, the issue here is the sense that we have to provide participants an opportunity to invest in a security that provides protection against inflation. While inflation is not a highly visible issue right now, most economists believe that if you have any kind of recovery and I think the issue for now is not will we, but when we have a recovery, we're likely to see an increase in prices. We did show when we did the market environment report yesterday that in a relatively brief period between 1913 and present, the value of the dollar in 1913 fell to 4 cents, so inflation is a significant issue. When we look at the funds on page 3, they really fall in 2 categories. One are pure funds that contain only treasury inflation protected securities. They are issued by the U.S. Treasury, the are Government bonds but they have a unique characteristic in that every 6 months, they adjust both the coupon or the interest payment and the principal, the maturity value for inflation. So if you own a treasury inflation protected security with a little bit of lag, you are protected both in terms of income and maturity against inflation.

A security is a member of a broader family called a real return instrument or real return investment. Real return is a term that was developed by the economists to indicate what your return is adjusted for inflation. Let me give you a quick example, if inflation is 2% and you have a return of 4%, that is a nominal return. If you subtract inflation from that, you're only getting 2% real return because half of your return, 2% has been gobbled up by the declining purchasing power of the ---. So real return sorts of investments are ones that provide either pure or some effort at providing an inflation adjusted return. There are times that Treasury protected securities are badly priced in the sense that they are over valued, you pay too much for the protection. The other type of fund that we see here is not always pure, but if are over valued, if they cost too much, they're not attractive, they invest in other things. The other things are suppose to have real return characteristics, but they're not pure treasury inflation protected securities.

The other factor we're going to see is some of these funds are not all pure all the time. The best example I use is in the food world. Think of a can where the label says peas, but if you read the fine print, it says, contains at least 80% peas and 20% things that are still good for you and you can call that a minimum content rule. The FCC requires that the only security or fund to contain at least 80% of what the label says it is. So you can have a fund that you say is a fund and it only has to contain 80%, the other 20% has to still be something that's good for you. We're going to run into some of those funds.

The vendors we're looking at, these are pure funds, these are not a fund of funds, so we don't have that multi-dimensional analysis. American Century, BlackRock, an extremely highly regarded investment management firm, they're now running nearly $10 trillion in assets total, they work for the U.S. Treasury, they actually manage the U.S. Treasury, they're a phenomenal organization, they have just racked up the purchase of Barclays but they will run that separately. PIMCO is very famous fixed income management firm, Vanguard is back and another pure fixed income manager, Western Asset Management in Los Angeles.

There's just some detail on the firms on page 4, ownership on the right. If you look on page 5, one of the things that's striking is while some of these organizations are huge, BlackRock has nearly 5,000 employees, PIMCO has 425, Western nearly 1,000. There are very few people involved in these strategies, in fact Western has one person, although they're supported by a very big team of supporters. Because there's not really a lot of security selection here, they're only buying Treasury bonds, these are Treasury securities, so you don't have to think about it, you don't have to think about credit spreads, because you're buying the simplest security in the world, you don't have to have gangs of people to do this and they are relying on the rest of the firm. We do list the key team members on page 6.

Terry Dennison: On page 7, we show the strategy name and when it started the first treasury inflation protected security was issued by the treasury in the 90's. They are relatively new the first one was issue by the UK Bank of England and there they're called Index Link Gilds, Gild is a British term for government bond and those only go back to the 1960's when inflation became a real issue in Britian. You can see that they are all committee based. This is not a star system, they're all actively managed. There is a strong argument for active management here instead of passive so even the Vanguard fund is actively managed. Vanguard again has a strong cultural preference for passive but this one is actively managed.

The sector selection, 3 of the funds are sector specific, they basically have TIPs. PIMCO and Western will move in and out of TIPs based on the pricing but it is always at least 80% TIPs. Some information about the fund size - the Vanguard fund has 25 billion dollars in assets. So this is an asset class that has accumulated a lot of money and clearly there are a lot of TIPs searches going on amongst our client base. This is probably most actively considered additional option to participant directive plans. HR departments are hearing from their participants that they want some protection against inflation, can they have inflation protection option in their 401K or 457or 401A. Participants want to have the option of being able to protect ourselves because inflation is something that everyone has heard about.

If you look on page 9, the quality of these is obviously typically extremely high because the ones that are pure TIPs are all Triple A by definition, well it will be until the treasuries are downgraded when the U.S. economy becomes a complete mess, but right now the average quality of these bonds is all Triple A. There is a fascinating statistic here in terms of turnover ratio, the PIMCO total return fund is the most exotic of the funds on this page and we'll see what it will invest in - invest in just about anything. It is still 80% TIPs, in fact more like 90% TIPs, but the other 10% is wild stuff but that is what PIMCO does. The PIMCO total return fund is one of the best performing fixed income funds out there. This is the real return version of it and they invest in a lot of different things. The turn over ratio is striking, they turn over the fund 900% per year. So they are constantly buying and contrast that with Vanguard which has a turn over rate of 28%, or American Century with 18%. The 18% means the average securities held for five years. You could see a huge difference in the expense ratio. The PIMCO total or real return fund has the highest at 65 basis points and you should expect Vanguard with 9 basis points, which is a cheap thing.

On Page 10 - We saw what the average credit quality was which is Triple A. This is looking at how low they can go. Western is pure Triple A. American Century minimum issue quality Double B average minimum average portfolio quality is Double A. BlackRock is average portfolio quality treasury as is Vanguard. PIMCO would actually put a small amount of junk bonds in this fund if they think that is the best way to generate returns. PIMCO is very different from the rest; remember they are all 80% TIPs. It is what they do with the rest of it. Now what you are also going to see is PIMCO returns have shot off the lights consistently. We are going to skip the duration because it is not very irrelevant.

On Page 12 - Looking at the credit quality you can see despite the fact they invest in a whole bunch of different things, it is almost all Triple A, in fact Barkley is pure Triple A, while PIMCO is only 90% Triple A in governments. They fool around with a lot of other stuffs in the interest of seeking returns. They only do this if they don't think TIPs are reasonably priced.

On Page 17 - What we did here is we showed, besides TIPs, what else can they buy and you can see that for somebody like Vanguard it is TIPs they can buy basically. Everything else is off the table. If you look at PIMCO anything is on the table. Some of the stuff here is pretty exotic. Remember it is still 90% TIPs. This is what they do with the other stuff. Frankly if PIMCO could buy Martian preferred stocks they will buy them. They will go anywhere and do anything.

On Page 18 – Looking at the discussion, I will only talk about the non TIPs piece. The pure TIPs piece is pretty straight forward. On Page 18 on the right hand side, second paragraph on the bottom, again at least 80% of the portfolio is invested in TIPs - that is an SEC rule. Up to 20% can be invested in other things if TIPs are unattractive which is an interesting thought. I mean basically if TIPs are not a very attractive investment right now why not let them go on and put a little bit of the money some place where it is a little bit more attractive.

On Page 19 - BlackRock again its 80% TIPs, but they're allowed to invest in other sorts of securities when TIPs are over valued. We are going to have a decision here - pure TIPs verses not pure TIPs. On the PIMCO total return fund again its 80% TIPs, but they really go of as we saw with that list and the focus is more again real return. It's a broader concept, not just protection against change in the Consumer Price Index (CPI), but protection against the broader prediction of inflation. Remember inflation is a broad thing. Inflation hits house prices, inflation hits food, inflation hits energy. CPI is a measure of inflation. It is a measure of inflation for urban consumers that own their own home. It is full of adjustments for improvements and quality. So, it is a measure of inflation, its not inflation, it is only a measure. The real return fund idea is let's protect not just against what CPI measures, but the broader loss of purchasing power of money, and that is part of the reason why they needed to be able to invest in a lot of other things.

On Page 23 - Looking at the factors in terms on PIMCO, idea generation is outstanding they really think about how the fixed income works. The portfolio construction is the top notch business management got a neutral score partly because we got little bit of concern about how over stretched few key people are, but for something that as simple as the TIPs portfolio, that is not a big worry. It's straight A rated – it's our highest rating.

On Page 25 - The Vanguard fund focuses on TIPs at least 80% again. The only thing they will do is if TIPs are unattractive they will invest in nominal, not real treasury securities and cash. So rather than going off in this wild and crazy stuff if treasury inflation protection securities are too attractive they'll just buy regular treasuries. So basically they say, if TIPs are fairly valuable buy TIPs, if TIPs are too expensive, we will buy treasuries and when the treasuries become too expensive we will go back to TIPs. So it is much purer than some of the other funds we looked at. Chairman San Agustin: There is no risk either way. Mr. Dennison: No risk either way, no credit risk at all.

On Page 26 – WAMCO – Western Asset Management - they got an interesting approach its all inflation adjusted or inflation protection but they may invest up to 30% in non US inflation protected securities, but they hedge the currency risk back to the US dollar. The object when you create these products is to have a variety. Chairman San Agustin: Where is the mark up in terms of really why would you want to go that way. Mr. Dennison: Because if you can invest in a, remember inflation is a global phenomena, don' worry about US CPI they're basically saying we're not protecting you against them but, we are because the fund is mostly TIPS, but inflation is a worldwide phenomena. It may be higher here less there but, if for example UK inflation gets very high. Now they're going to have some of the same inflation characteristics to the US one of the things that makes inflation high is interest rate, price of energy and so forth. But if you can invest in a UK treasury inflation protection security. An index Link Gild, and hedge the currency back to the US dollar, you're making more money. Chairman San Agustin: Like I said, there's got to be an advantage. Mr. Dennison: Yeah, there is an advantage to do it.

On Page 27 - This is against the universe of other fixed inflation protected. For longer periods all of these are excellent managers. PIMCO if you look at their performance and their ranking, it is out of this world. They are literally in the top decile for 1 quarter, 1 year, 2 years, 3 years and 5 years. Literally top 10% with huge returns versus the median. Now to be fair, they're not exactly playing the same game because remember they're not investing in TIPs or investing in 80% or 90% TIPs, but what it shows you is how much additional money you can make with that last 10%. Remember 90% or at least 80% in the case of PIMCO, 90% of these funds is all the same stuff, so the difference between these funds is what they do with the other 20% or the other 10%. In the case of the Vanguard, they only invest in treasuries. So those returns are going to be probably relatively less attractive because they're playing the game straight up. They are just investing in TIPs and if TIPs are too expensive, they're investing in treasuries, until TIPs become cheap enough again. The others to a smaller degree, American Century, BlackRock, to a larger degree PIMCO were investing in other things.

Those of you who have been involved in searches before know - I am going to turn to Terry's favorite 2 pages, but then I am going to take you back to a couple of other pages. I have always believed and one advantage of being Director of Consulting is "other people now believe what I believe." "Isn't that amazing," I mentioned something like that at another client meeting and one of the client, said "its nice being King isn't it. Chairman San Agustin: "It's the art of appreciation."

On Page 43 – Let's look at consistency of performance and those of you who have done this before, know that I truly believe the key to success is consistency, and if you are moderately good all the time that is much better than being really good sometimes and really bad other times. Let's look at what we're seeing here with this consistency performance. What we're looking at is returns on a rolling annual basis for a five year period, and there are twenty, if you have complete data, twenty rolling annual periods in 5 years, so we are looking at twenty different observations. And my believe is you definitely want to avoid the fourth quartile. That's just a bad place to be. I would prefer not to be in the third. It's nice if I am in the first a lot as long as that does not result in me being half below the median sometimes, but I think the sweet spot is probably consistently in the second quartile.

Now if we look at this, focus on a couple of managers. BlackRock is interesting they're never in the 4th quartile. They're beating the bench mark 89% of the time on an average percentile during 11th percentile, their first quartile 90% of the time, 2nd quartile 6%, a little bit below the median, 6% in the 3rd quartile. To get your asset with PIMCO which they got all this levers to pull, there is a way of thinking about investing that the more opportunities you have to invest the more leverage you can pull, the more dials you can set the easier it is to add value. And in deed they generally have a lot of value 45% of the time they're first quartile but 20% of the time they get it wrong. Now if you just look at the floating bar charts, PIMCO looks like the obvious winner. The problem is that if you just look at 1 year, 2 years, 3 years, 5 years, embedded in that is a lot of volatility.

The beauty of looking at it this way is you see on an annual basis how well they do, so all of a sudden PIMCO does not look so good because 20% of the time during their 4th quartile, their average percentile ranking is only middle second quartile - 38, and they are actually only better than the bench mark 40% of the time. So, I showed you the floating bar chart because if you look at those only PIMCO looks terrific, but if you look in terms of consistency you get a very different view -BlackRock looks a lot better.

Now, the most asset test is rolling three year returns, (go to page 44) the rolling 3 year returns are in a five year period they are (20) twenty of those, so we are just looking at a longer window. BlackRock is simply 100% of the time. They don't have full history they only get 10 periods because it is a relatively newer fund. For every single rolling 3 year period in the first quartile their average percentile ranking is 2, meaning they beat 98% of the funds. And they beat the bench mark 100% of the time. Remember how good PIMCO looked - fantastic looking performance but on a consistency basis they don't look quit so good. Average first quartile 25th percentile, they beat the bench mark more than half of the time, but they are also, you know 10% of the time during the 4th quartile, 5% of the time in the 3rd quartile, so you get a different picture when you look at consistency. Let me take you back to a couple of pages that I think are significant. Go back to page 35, and again consistency comes from being rarely wrong and not wrong by very much. That is how you beat consistency. Let me remind you how to read this chart. There are a lot of things in this chart. The bars are looking at quarterly returns, and we are looking at quarterly excess returns, so we are subtracting the bench mark, so index fund will just be straight across. The green bars are periods where the market is falling. So if you got positive return meaning you got a bar above zero that is green that means you lost less money, and that is probably worth more than making lots of money. The same thing mathematically, but psychologically you are better off when you lose less rather than make a lot. Couple of things you notice - they make money in rising and falling markets. They are relatively few excursions below the median they don't have that many negative numbers, in fact there is only five points that are negative and most of them are not very large. The dotted lines that are sort of behind there - the top one is the 25th percentile, the middle one is the median and bottom is the 75th percentile and you look at that versus the rolling excess return which is the redline. You can see as long as you keep winning that rolling excessive return keeps piling up. The longer the winning streak the better the batting average, you don't have to hit homeruns. But the better batting average if you're hitting single after single, after single, after single - that adds real value.

On Page 36 - PIMCO total return fund invest in all sorts of stuff - there are times when they are very, very good. But here we see a lot less stability. And remember the previous discussion we talk about the importance of not having something that is too volatile because participants don't make good decisions, around volatile funds. After it is really been terrific they chase returns and pile money in. They suffer big losses, they become discouraged, and take the money out just at the time the funds start to rebound. So while the PIMCO total return fund might be a good option if you want to have this kind of strategy in the DB plan because this committee makes very intelligent decisions the average participant does not. So while the PIMCO real return fund has attractive characteristics I look at this volatility and say this just is not suitable. Now we can look very quickly at the other funds.

The America Century basically is almost an index fund. Remember I said indexing probably is not very good in this asset class. And you can see that its red line the rolling return is often below the median. Basically active managers win a lot. We look at Vanguard while it's an active fund it still does have very index like characteristics, and then again the redline does not look very good relative to the median. WEMCO has the same volatility issues that PIMCO actually has for much the same reason. Better poker player than I actually appear in this meeting. It shouldn't be too difficult too figure out who I like. Trustee Wilfred Aflague: "And your recommendation is?" Mr. Dennison: My recommendation will be BlackRock, I think BlackRock is creepy good. That is a very technical term we use in the consulting business. The beauty of it is they are not going to go off and do something crazy, and I love consistency. Vice-Chairman Wilfred Leon Guerrero: "You are going to be rich overnight?" Mr. Dennison: You are not going to be rich overnight, in fact "you will be poor over night." Trustee Aflague: You are going to be protected all the time.

Trustee Aflague: Can I ask a question, before you said real return - what is positive and resolute. I heard that earlier today and I meant to ask, you said positive and resolute returns. Controller Diana Bernardo: Maybe he said absolute returns. Trustee Aflague: Well I guess he said absolute, I wrote down resolute. Mr. Dennison: Resolute does not have anything to do with this that I can think of. When managers talk about returns they talk about it in two ways, the absolute return is what we show in the book - what the rate of return actually was - up 10, down 10. The relative return is really what is on Page 35, it is what you get after you subtract the bench mark. So it is relative to the bench mark - these are excess returns. Trustee Aflague: What is real? Mr. Dennison: Real and nominal -real is adjusted from inflation and nominal is not. So there are really two independent things - real and nominal and absolute and relative. The relative they keep trotting that out because if the market is down 30 and you are down 20 you actually did pretty good. Your relative return plus 10, despite the fact you lost the 5th of the money, had you invested in the index you would have lost a third of the money.

5 Year Plan

Vice-Chairman Leon Guerrero: Are we ready to accept. Trustee Aflague: The king's recommendation. Vice-Chairman Leon Guerrero: Are we done - one more thing, this in regards to our 5 five-year plan; we are trying to push this thing so that we can adopt it in January and there are only two more things that we like your advice on. One of them, which you already discussed, is the land use. First of all, we are proceeding with the idea that we are going to hire somebody to give us the best use of the land and what have you and from there make a public decision. What do you think about how we are going about doing this thing of the building. Mr. Dennison: I think it makes a lot of sense, I think you are in a relatively growing economic environment because of the military relocations that is going on in Asia and the fact that Asia is a very sensitive area from a National Security perspective for the U.S. I mean, we have been kicked out of the Cameron Bay, kicked out of Tongsudo, kicked out of Subic Bay, and kicked out of Clark, were getting kicked out of Japan, and getting kicked out of Okinawa. This is the only place we are not going to get kicked out of. Rosalia Bordallo: The U.S. is doing it themselves. Vice-Chairman Leon Guerrero: We are not big enough to kick them out. But you know that's what you need. You are making a big commitment here, you are going to spend. All I know about real estate is that I bought 2 houses and sold one. That is what I know about real estate, maybe I know a little more, but that is about it. But you are going to spend a lot of money building this building, if the feasibility study says it is a good investment for you to build a building bigger than what you need, and have it be an income generating property you are going to be very dependent on those assumptions working. And, I thought that the real estate manager that was talking about looking at who owns land around here, because he spoke a very true statement when he said the problem with real estate is always over building, and that if somebody makes a buck ten people jump in and try to make 2 bucks each.

This is a fairly a small island and the island is not going to get any bigger, and the reality is that the population is probably not going to grow enormously so you're effectively going to be competing for tenants and traffic with other desirable commercial areas. And if it does not work... Vice-Chairman Leon Guerrero: The population is going to increase substantially. When people talk about the increasing population, they are usually talking about the people inside the fence, but before the marines get here we need to import workers. Trustee Aflague: Laborers. Mr. Dennison: When I am talking about population increase, I am talking about - we are not going to have too many people living here. Trustee Aflague: We are going to have 80,000 more in 5 years. Vice-Chairman Leon Guerrero: We are talking about 45,000 people outside the fence, that is an increase that is large for us - this is not L.A.

Mr. Dennison: One of the things that I would look at, if I was doing this, I bought two houses and sold one, that is my credentialness, you know this island very well. I would go on google earth and look to see what is actually around here and now if you go out that road you get to the airport. There is a huge chunk of land that is taken up by the airport, but what is over there. If they're going to have 45,000 people there are going to be houses, they're going to live some place. Is there some place there for them to live. Is that land buildable because the whole thing here is traffic. I don't know the village names very well, I know where Tumon Bay is and that's about the extent of my knowledge, but I don't think people are going to come from the area around the Air Force base to come to shop here or to buy things here. Doesn't the Navy own Nimitz Hill or something like that, so you could build houses there. The question is where is the traffic is going to be, where is it going to come from because there is not much. I have actually drove down the road pass the McDonald's just barely got pass McDonalds but, what is actually out there - that is going to generate traffic. But I think you got an interesting location. You certainly need a new building, things don't work very well here, and I do think you do have an opportunity, and you are going to build a little cluster here a brand new building. The bank next door is brand new, the Credit Union is going to be brand new, and you build a brand new building here all of a sudden you have a little bit of counter balance to some of the less attractive stuff that's down towards the ocean, the ocean end of this is a little skuzzy down there. But I think you are building a little island here that is pretty attractive and that is what you want. The reason that small stores go into regional malls are the anchor tenants, the big traffic builders.

You know in the mainland if you have shopping center with a Nordstrom you are going to draw a huge amount of relatively high value high spending traffic because they like to shop at Nordstrom, so they're going to have to walk pass your store to get to Nordstrom. What is going to make them go by your place here and shop, but what I think is to significantly increase the attractiveness of the area is retail. The stuff that is around here now is the low endish. I would take a look at and I am sure of the feasibility study. What is the population within a mile or 3 miles. People are not going to drive 15 miles here to go to whatever store you have here, unless it is completely unique. So how much is available for development of residential, say in a 3 mile radius. You take a huge chunk taken out by the airport, you know it is mostly in that direction and maybe up toward the Nimitz Hill end. I think you are doing the right thing, you are seeing that it is not going to cost you much money to get the right answer, and it is going to cost you a lot less if you get the right answer and decide not to do it than if you just go ahead and do it then discovering it was a bad idea.

Vice-Chairman Leon Guerrero: The other item, Terry, is in regards to staff development. We think we have an excellent management team here. I joke with these guys not to ride in the same car because if they get into an accident we'll have problems. We need to build up the team here and you have experience with other funds. I think the only way we can do this is to grow our own staff.

Mr. Dennison: Well the advantage, first of all, there are not a lot of places to go for people to do what happens here. There is only a hand full of public funds compared to other sorts of enterprises. You know if you are running a retail store or you are running a manufacturing firm there's lots of people you could hire who have experience doing what you are doing,. There is nobody on the island that has experience doing what you are doing by definition basically this is the only fund. You know even if you reached out to Honolulu you would not find very many people. So the option is to grow your own if you can; but that takes time - we deal with the same issue. If we want to grow our business we are limited by the fact that we have to sit down with clients. You know I have joked that after doing this for 37 years but I still have not figured out how to be at more than one place at a time, actually it is a limiting factor. I can only be at so many clients, because I could only be at so many places. So we struggle with the buy, build, position. Buy is relatively easier for us because there are other consulting firms. Build - you get a better product but in takes longer time. You get a better product because they adopt your culture, they understand your way of doing things. They don't have to unlearn bad habits, they don't have to learn new good habits, they understand your systems, really not just you know - this our system you play it like this; they really understand how it works. So if you've got the time it will be better to build rather than buy. And if you buy and you get a problem you will have a real problem. I remember months many years ago we hired a support people - an analyst level like an Ashish type person and inside of 3 months before we were able get rid of him, he made a mess, took us a year to fix. So the advantage of growing your own is that you can weed out the losers a lot more easily.

Vice-Chairman Leon Guerrero: What kind of experience do you have with public funds. Mr. Dennison: My experience of public funds really ranges from very large state level funds, Arizona State Retirement System, Colorado Public Employee Retirement System. Vice-Chairman Leon Guerrero: What kind of positions do they have? Mr. Dennison: On the investment side, once you get into the 5 to 10 billion dollar range they start to develop an investment staff, they have a Chief Investment Officer (CIO) then they grow an Assistant Chief Investment Officer in case the Chief Investment officer departs. We have an interesting situation now with a client, who is not mine, although I spend a lot of time with them. The Sacramento County Employees Retirement Association - their CIO left to take over the State of Nebraska Fund and he was the only person so they got instant crisis, they had instant business continuity crisis and actually what they are doing is they are renting one of our people who is basically the Acting CIO, and he spends 2 days a month in their office and basically sort of a rent CIO. And actually I was the Chief Investment Officer for public equity for the University of California for more than a year because they lost their entire staff basically and they needed somebody to run there place. So on a non-discretionary basis I had an office up there, I had people working for me. I was the Chief Investment Officer but generally what you do is not really efficient until you get up to the five billion dollar range.

But if you look at a very large fund - Arizona which got about 22 billion has 10 investment people. They run money internally, mostly index. Colorado Public Employees has probably 25 investment people. Vice-Chairman Leon Guerrero: What about funds similar to us. Mr. Dennison: Typically what you have is more operational backup. I meant your problem now is you correctly observed that you got a key person risk with two people here who probably know a great deal about how things work and if they left the seen quickly for whatever reason you could have some problems. You have problems getting stuff out and you would also have potentially internal control problems because, you know, if the cats is not around who knows what the mice are up to. So what I would do is clone these two - that's the way I would start. We have the same issue, I have a backup, not just a backup on this relationship, but a back up for my big corporate fall. Vice-Chairman Leon Guerrero: I know that we are struggling on this like - how do we get these people into an entry level so that they can aspire into these positions. Mr. Dennison: Well do you have somebody who is a sharp, fast mover on the staff now. Vice-Chairman Leon Guerrero: We are looking at this conceptionally instead of, or she may have somebody in mind, but from my perspective, I think we want to provide a system so that they can... Mr. Dennison: You know what I would do if possible is take somebody internally; one, I think, it sends a good message that there is opportunities for development within the organization. I think it sends a very positive message, work hard, do a good job and you have an opportunity for advancement. You know if every time there is an opportunity to have a new position that is attractive you parachute somebody from the outside. People are going to loose interest in doing a good job because there is no incentive of doing a good job. So what I would do if you have people, and its sounds like Diana has got somebody in mind, I don't know if Rosie has somebody in mind, and if you don't you can't make a ..... If there is nobody, there is nobody, but if there is somebody who just needs more attention, more development, more mentoring, you built them a day at a time, you basically say I am going to have you follow through what I am doing, watch me do what I do, here is the thinking behind it. When I train somebody like I train Ashish, I would sit down with him and say okay, this is how I am thinking about what I am going to talk about. This is my logic, these are the directions I thought about, I rejected this direction and I emphasize that direction, so that they've learned not just the process, the monkey see, monkey do, but why do you do what you do. It is very easy, you can write a procedure manual you know and you put in a box in case of emergency, break glass, and you know when you open it up - first step do this. That is not really helpful cause all you do is you just freeze it. The best that it can ever be is what it used to be as opposed to a system that can actually grow so I would basically develop, I have no problem making everybody know that this is the next Rosie in training, the next Diana in training because business continuity is important. You loose a key person and you are dead in the water.

But if you can identify somebody the best thing you can do is not monkey see monkey do. Vice-Chairman Leon Guerrero: I think where we need help is creating the position that we can go to the Government of Guam Civil Service and say this is the kind of positions we have and they do have these positions in other funds in the states. Mr. Dennison: You could advertise in pensions and investments, you would have to have a job description, you would have to be able to identify... Secretary Leon Guerrero: I think that what he is looking for is, they're trying to identify a position that they could create in the civil service system so that is why he is asking what do you know about other funds that are our size and what kind of staffing do they have so that they could create a position that we could move her and take her into this room so that we could be helping Rosie and Diane.

Mr. Dennison: Well, I think you would have to sit down and do they have these job descriptions now or are they fairly representative or are they ancient history. Mrs. Bordallo: Fairly representative. Mr. Dennison: You know I would start with that, I mean basically where it says does you would say assist with. So that you create an assistant role that corresponds to the controller and accounting supervisor role. You know I am obviously not familiar with your Civil Service process but I think you just develop a role in the business case for it is you have to have continuity, and your growing your base of members in retirement, in particular, growing the funds are becoming more complex. How many managers did you have when I started with you. Mrs. Bordallo: 9. Mr. Dennison: They are all doing the same thing, all beating the same drum, there are 2 drums. Mrs. Bordallo: Six equity. Mr. Dennison: The number has not grown very much, I would expect it would have grown, but they are not beating the same drum anymore. They are doing different things. I meant pre Mercer. Mrs. Bordallo: Fisher came in with Mercer and all the other funds came in. Mr. Dennison: If you need a business case the business cases the world is getting more complex.

Mrs. Bordallo: Our dilemma here, and this is the dilemma the island faces and we tried to explain this, is that we opened positions to help us, the response to these opening are I mean I can't bring somebody in if nobody wants to apply for it. The salary is so low that and this is a government problem, a major government problem that even to get a simple accountant we don't even get the response for that. We can't compete. Mr. Aflague: And the other problem with that is when we talk to CSC they don't understand what an Investment Manager is. We need to educate the people from whom we want the permission to hire. Mrs. Bordallo: But it is worth it, you know what I am saying. Mr. Aflague: We are talking about the mind set up there that is not aware of the complexities of the world that we deal with and they work with day to day. They don't understand, all they understand is - I got two more years to retire. Mrs. Bordallo: You hit it on the nail that we are the only game in town so when you are the only game in town you have this huge government organization that nobody really knows the job functions here because it is not mimic especially CSC, if it is not mimic that GPA or DOA, they can't relate to it and they just look at it yes and what and what. Why do you want something better, why do you and they look at it as something better?

Chairman San Agustin: The other choice is that we discussed is to take out the entire retirement staff out of the Civil Service system, and run it like Great West, that is all it is. And the board only operates like that and then to hire everybody else. When we have the same debate when we were going to start the Government of Guam Credit Union; we are going to get all the employees to be civil service, we said no way, so we started with that, started that the same time, and went to that same process and here is the reluctance of being in Civil Service. Can you imagine 44 employees automatically become private employees. .San Diego - they are not part of CSC or the government.

Mr. Dennison: In most funds on the Mainland, particularly the larger funds, but the pension fund is exempt from social security and exempt from procurement process. Basically it leads procurement rules with respect to investment related decisions. I mean it is very difficult if your procurement rules make you higher investment managers using the same process as they use by dumb trucks. And that is going to be a tough fight. That is a political fight, but it is going to be very, very difficult and part of the reason why they do it is compensation. The Colorado Public Employees, the entire investment staff are contractors; they are not saying their employees are contractors because they make 10 times as much as any other state employee. The higher the best is going to cost money.

Big fight is you really have to get out from under the rules and the rest of the government. Because while you are part of the government your unlike anything else in the government. There is nothing else like you. You are competing particularly as you grow and want to get more investment expertise you are competing for a class of people, that unlike anything you have anywhere else you think of. I expect with my modest experience here that is going to be a big fight. Because people are going to see that as a precedence. I mean if you can escape Civil Service, and escape procurement rule who does not want to do that. Secretary Leon Guerrero: There is precedence, they are an autonomous agency. Mrs. Bordallo: They are not subject to CSC, UOG is not subject to CSC at all. Director Blas: They got there own personnel; only their instructors but the rest of the University are CSC. Secretary Leon Guerrero: CSC does not have a position that you could use here in house to fill the need that we are talking about. Director Blas: No, there are no other entities. Mrs. Bordallo: It's not so much that there is not a position currently in existence, it's nobody wants to apply for it. Chairman San Agustin: Why is that? Mrs. Bordallo: Because the salary is... we are tied into the hay. We don't have much leeway as you know even if they do come in, we can't give them a salary that justifies them leaving another position even if we did go above step. That is the problem. So we are stuck in a limbo, because first of all you don't have that many qualified people.

Secretary Leon Guerrero: Okay, let's not talk about bringing somebody in. You already have somebody in-house that could do it. Mrs. Bordallo: But there is a problem; a lot of the positions are geared towards degrees. That is a main problem within this agency. Chairman San Agustin: What would it take to draw the line with the Civil Services Commission. Trustee Aflague: Unclassified, be linked, become independent. Director Blas: Let's send this person to school. Director Blas: No, that's just it, you have right now 7 people that have the degrees here. Mrs. Bordallo: But they don't have the degrees or the qualifications within the degree to qualify them for that position. Secretary Leon

Guerrero: Right, all I am saying - my point is … Vice-Chairman Leon Guerrero: I see your point - you're saying to have a degree in this trade. Secretary Leon Guerrero: You can send them to school, and grow them into that position that they will get qualified for…I mean that is going to be an easier fix and you already have a person in mind than this battle that you're trying to get from undersea. It is a place to start is all I am saying. Mrs. Bordallo: And, I agree on that one. The problem you can't force a person to go to school even though they are sharp as a whip you know I mean. Secretary Leon Guerrero: Well, I mean your right, if your candidate is not interested in the upward mobility and the opportunity than forget it. You are not going to get them.

Vice-Chairman Leon Guerrero: I don't think we're exploring everything that we can. Because, I know at the University they have internship program on the bachelor and accounting and business management. And, I don't think they are coming over here for their internship. Secretary Leon Guerrero: Well you know what that is just like Marie Pelkey. That is what she did and she ended up interning with Smith Barney, and we know she is with them. Mrs. Bordallo: You are talking about Smith Barney who can start at about... Secretary Leon Guerrero: Rosie, you continue to keep saying we can't, we can't, we can't, over and over again. Mrs. Bordallo: Lena, you know the thing is, that position has been continuously announced on our website and we still don't have any leads. Secretary Leon Guerrero: I hear what you are saying and you continue to do the same thing and you get the same results. You got to do something different is all I am saying.

Chairman San Agustin: Apparently the salary is not competitive enough to attract these people, that's all it is. See there is also an area here where we can move the line down. Director Blas: We have classified positions. Chairman San Agustin: Unclassified, you are the only one here that is unclassified and Diana was by transfer. We can move the line here because a lot of these professional people in that line just like what GPA did. Secretary Leon Guerrero: So you guys have a suggestion. Director Blas: Well, so that is what I am saying, we are going right back to the fact that we don't have the authority to do it, so I need the authority to be able to do that. That is what it comes down to. Mr. Dennison: You could hire a contractor. Chairman San Agustin: Independent contractor, yes, we can have an independent contractor, but you're going to have to get an RFP. Director Blas: That is something we could do, but I don't know if that is the route they want to take. Mrs. Bordallo: I don't know if you can contract an employee for personnel service. Director Blas: You can't do personnel to fill a position.

Controller Bernardo: Paula I was going to say something - you know, I guess the problem right now, at least since I have been here, is there has been an open announcement for an Investment Specialist position - I believe that is what it is. Nobody has applied and part of the problem is because of the salary. But then I think the other item is with open accountant positions to fill the position in the investment section and even that is becoming a problem. Chairman San Agustin: You can't get an accountant or a bookkeeper. Controller Bernardo: I was going to maybe ask Paula because that person I am referring to internally is a Management Analyst and that person has a degree, could we not maybe announce Management Analyst positions to fill for in the investment section. Secretary Leon Guerrero: And include investment specialist. Controller Bernardo: And will that not be the position that probably be the best route. I think the Management Analyst should do it. They may not have the investment background, but like Dr. LG says, we can send them to training or whatever staff development. Chairman San Agustin: But you can't hold them once you start training them, there are other fields that might attract them and just grab them and we will have the same problem. Controller Bernardo: I think maybe the Management Analyst should do it, their degrees are required right.

Chairman San Agustin: You know the Doc Sanchez scholarship, you send a lot of them to the University and what happens is those kids get their degrees and they go back to their own organization and they get fed up then they start working for the Navy. Half of those Doc Sanchez scholarship recipients are working for the Navy now. Director Blas: We have to see what they come up with because they have some issues with working with all the benefits. Trustee Aflague: I learned that we can build, buy, or rent. Now we can rent.

Mr. Dennison: Well, it sound likes from Paula and Rosie is saying you can't rent somebody on a personnel services contract. Trustee Aflague: But you know what we better justify with DOA personnel if we can hire a contract CIO. Director Blas: Our consultants, our managers, are all third party professional contractors. That is what we do, that is what I am saying, it is on the operational side. Mr. Dennison: Bigger problem actually is, I don't know the kind of situation. In her case it's more severe because her role requires a particular professional designation. So it is not a case of they are a fast learner, they have relevant experience - you have to have a particular professional designation to do that and you just can't cook those up that quick.

Mrs. Bordallo: No, I think in her case it might be easier because her salary is there. Because she is contractual. Salary wise you can get somebody with that designation. Vice-Chairman Leon Guerrero: It sure will be nice if people can look at accounts - I noticed that we can really rely on you quite a bit, so if something comes up check - with Terry. Mr. Dennison: That is what we are here for. Mrs. Bordallo: But, that is what he is there for. Vice-Chairman Leon Guerrero: You know that CMO thing that we got into, nobody picked that up. Somebody reviewing the accounts could have said hey you know what is this thing. Mr. Dennison: I am not going to paint your garage, but if you ask me a question, ask for help, I will tell you if you're outside the scope. Vice-Chairman Leon Guerrero: We don't know what question to ask you. Mr. Dennison: If I think of a question, I will raise a question for you.

Chairman San Agustin: We are right back in a circle again. Mr. Dennison: Okay noon tomorrow right?

Respectfully submitted,

STEPHANIE A. HERRERA
Recording Secretary

Affirmed:

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Wilfred P. Leon Guerrero, Chairman