

**Quarter Ended 12/31/08 Performance Meetings  
& Annual Manager Reviews**

March 4, 5, & 6, 2009

Retirement Fund Conference Room

Wednesday, March 4, 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  
James Taylor, Member  
Antolina S. Leon Guerrero, Member  
Katherine T.E. Taitano, Member

**Staff Present:**

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

**Other Present:**

Terry Dennison, Mercer Investment Consulting

**Defined Benefit Plan:** Pages 1 to 26

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**Defined Benefit Plan**

**1:30pm-2:00pm DB Plan – Quarter Performance**

Terry Dennison, Mercer: Let me talk a little about the market environment so we put in context when we talk about the DB Plan, which we'll be doing again tomorrow. Obviously the market has been responding to very negative economic circumstances, not just in the U.S., but also around the world. We see that the major industrial and the emerging markets have gone into a very steep deceleration of growth. Many of the developed markets particularly those where industrial production is a major part of the economic activity, I have seen that activity dropped dramatically, particularly in Japan, Germany.

A lot of this was due obviously to the economic shocks that we started to see happen beginning in the 3<sup>rd</sup> quarter of 2007 and basically the economic news just gets bleaker and bleaker. There are other circumstances that work, the economic situation in Europe has become very perilous in large part because of some improvident banking that had been done in Europe. They not only developed an unhealthy appetite for sub prime mortgage, they have some local nasty stuff that's probably even worse than our sub prime situation. We've seen continued action on the part of both monetary authorities and -fiscal

authorities, monetary authorities, it's a federal reserve -has reduced interest rates down to basically nothing for short term. There are actually photographs circulating of a Bloomberg screen which is a market monitoring computer system, showing a brief period of time where the yield on treasury bills was negative, you paid the Government to lend them money. There were a number of weeks where the yield on treasury bills was half a basis point. If you invest a million dollars for a year at half a basis point yield, your income is \$50, to give you a sense of how far rates have fallen. Rates have fallen in part because, despite the difficulties of our economy, we're seen as being a safe haven and there's been a tremendous inflow of dollars particularly in treasury securities, which have driven prices up to very high levels and yields down to very low levels.

Another factor is credit crisis and recession-depression which is inherently a deflationary event, so there's concern that we're entering a deflationary spiral. Basically people won't buy because they know that it will be cheaper tomorrow and that's how you get this extremely rapid contraction of economic activity. This has strongly impacted a number of industries in the U.S., particularly the auto industry, which we all know is in very poor condition. Years and years of basically mis-management finally caught up with them. They need probably 12-13million of unit sales, autos in the U.S. to basically survive and the latest numbers are well under 10. They've effectively become wards of the state, they've got one bail out and are probably going to need continuing bailouts. Obviously the concern of all these bailouts, is this money is basically borrowed. We saw some very interesting statistics on the size of the economic rescue stimulus bailout programs. The list of these programs would basically fill a page. It's not just part of 20 or 30 other programs where the Fed was buying commercial paper, the Fed was guarantying money market funds, the total expenditures to date, not just committed money, but expenditures to date are about one trillion dollars.

To give you a sense of how much money that is, that's about 90% of the inflation adjusted financial cost of World War II. It is an unbelievable amount of money. We've actually sent some history buffs back and looked at the major Government expenditures on an inflation adjusted basis, such as the Louisiana purchase, where we bought from Napoleon, the land that represents 15 states, putting a man on the moon, the cost of the Iraq war, the cost of Vietnam, all of these are a drop in the pocket compared to what so far we have spent and clearly I watched a little bit of the treasury secretary's testimony to the House, Ways and Means Committee today and clearly the markets are still very uncomfortable. We're now down, in terms of prices to where we were in 1996. People talk about the concern about having a lost decade like the Japanese economy had, a similar situation in the late 1980's, but if you're a stock market investor, you already had a lost decade. Realistically, all of the gains of the dotcom boom, the run up to Y2K, all of that is gone and more, we're back to where the stock market was in 1996. There's no clear sense that the end is in sight, the economic news continues to be bad, housing prices continue to decline, the banks are continuing to struggle with their capital situation. As more and more of these securities lose value, despite the amount of money that's been put into the banks, the reality is the banks financial situation is actually worse and worse, they are relatively unable to lend as well as relatively unwilling to lend. They look at the credit worthiness of prospective borrowers, and say, I don't know if we're going to get money out of this.

There are some bright spots that are not uniformly bleak, but the reality is where previously, the run of economists, believed that we would see positive GDP growth in the 2<sup>nd</sup> half of 2009, basically there's a belief now that the recession will continue through 2010, which will make it amongst the longest recessions since the post World War II recession. It's likely that (and this is bit of a crystal ball) but it's based on the behavior of markets in general, it's unlikely we will see a level of decline in the equity markets, that we've seen in the last 2 quarters. It's unlikely, simply because the valuations are becoming so cheap, unless we end up with a 1930 style of repression, where the equity markets could lose 90% of their value, which is what happened, it's unlikely that we will see further decline. The question is not further decline, the question is how long before the recovery.

Historically in the post World War II period, the stock market has what's called a leading indicator, it tends to go up while the economy is still losing ground, so we don't need to see an improvement in unemployment which is a lagging indicator, if you look at the history of unemployment, it tends to continue to go up well after the recession is over. Typically the market begins to recover 6-9 months before the bottom of the recession. Now the problem is, the bottom of the recession has now moved to late 2009, perhaps in 2010, it's unlikely we will see a recovery certainly for the next quarter.

The issues outside the United States are worse than here. Europe is in particularly bad shape, in part because they don't have the structures within their economic and political systems to deal with the issues as we have. They have a European central bank which functions like the Federal Reserve, but on the fiscal side, they have 12 if you consider the Euro land, 15 if you consider the non major European countries and over 20 if you consider all of the European Union countries, including the ones in Eastern Europe. Each one of these behaves independently, so one of the concerns is are the fiscal monetary authorities responsible in Europe able to deal with these concerns. One of the things that's become a growing concern is literally countries going bankrupt. We're all aware that Iceland has basically imploded their economy, all of their banks are bankrupt and basically the country is bankrupt. Part of the problem with Iceland is they took into their banking system a lot of foreign currency liabilities, in fact the foreign currency liabilities in Iceland are about 900% of their GDP. The foreign liabilities in Ireland are 900% their GDP, that number in the UK is about 450%, in Germany it's about 400%, in France it's about 350%. The U.S. is 87%, so as bad as it is here, it's much worse elsewhere. The size of the financial institutions over there dwarf the ability of the responsible authorities to rescue them. The liabilities of the Union Bank of Switzerland are 4 times the GDP of Switzerland. The liabilities on ING are several times GDP of the Netherlands. So the question is if these banks get in trouble, who in the world is going to be able to rescue them. Now, if you ask what's wrong over there, they have their own unique problem.

When the Berlin wall fell and the Eastern European countries moved to a more capital free environment, a lot of the local banks in Europe opened branches in Eastern Europe and offered home loans to people because now they could own their home because previously it was not allowed in a social system, so there was a tremendous wave of home buying in Eastern Europe, by this we mean, Poland, Czech Republic, Romania, Bulgaria, and parts of the former Yugoslavia. Many of these loans were attractive to the home owners if they did them not in their local currency. The Polish zloty loan is relatively more expensive than taking a home loan in Swiss francs or euros. There's a tremendous number of home loans

that were issued by subsidiaries of European banks to Eastern European home owners and they got a good deal they thought because they had low interest rates, the interest rates in Switzerland were very low, the interest rates in Europe were low.

What's happened now is these local currencies all lost value dramatically, the Polish zloty in many cases lost a third of their value relative to the Euro and the Swiss franc. So now you have a problem even worse than the sub prime, not only do you have people whose jobs are being threatened, but now their mortgages have become a third to a half more expensive because the currency in which they're paying has lost value. We talk about our sub prime mortgage problem and the Europeans not only had an appetite for our securitized sub prime mortgage, they also had a very unhealthy appetite for these loans. In California, about 10% of the homes are in default, basically it's come to be known as the sand states, Florida, Arizona, Nevada, California, where you have these huge rises in house prices and people were buying houses with very low underwriting. A classic example is, a Mexican gardener with a \$14,000 income in the central valley of California, who bought a \$750,000 house with no money down. The Eastern European problem is so severe, there's an article, this really got discovered by some reporters of the Daily Telegraph, if you go on their website there are a lot of stories that now have been picked up by the Wall Street Journal, which had a story about a week and a half ago and last week's Economist Magazine, the cover story was the problem that could break up Europe because of the bill for these things. The banks in Austria are all bankrupt and are all sort of waiting for the Germans to bail them out and the Germans said (no). So, it's extremely severe. Spain has made hundreds of billions of dollars in Latin America, there are serious problems with those ones. So, we're heading into an extremely difficult time, in fact, we might begin to see the U.S. pull out of this (the recession), because we're a large continental sized economy while it's still getting worse in other places.

There was a phrase that we probably use here back several years ago when the emerging markets were doing very well, called BRIC which are the 4 major emerging markets, Brazil, Russia, India and China. Now there's another phrase circulating, of course the investment business is full of this sort of stuff, it's called PIGS, which are Portugal, Italy or Ireland (take your pick), Greece and Spain. These are the countries that are most likely to default on their public debt. The BRICs have their own problem in part because so much of their economy is based on confidential services. They had a housing boom also, so they're in bad shape and you can see how much stronger the dollar has gotten against the Pound and the Euro. When we look at the performance of the Fund, particularly the International, we'll look even worse than the U.S. in part because of the currency effect, because the dollar has gotten so much stronger.

As bad as you think the U.S. is, and it's striking because the cost of a credit default swap on U.S. securities has become pretty expensive. The cost to ensure against a default by the U.S. Treasury has become about \$90-100,000 to ensure \$10million of the treasury securities. This number has gone up by about a factor of 20. Previously it was unthinkable that the Treasury would default, well now it cost quite a bit of money to ensure against it. What's happened is there's still been this huge flow of money to the U.S. because it was seen as a safe haven and it all flowed into treasuries because nobody wanted to buy any corporate bonds and that drove the prices of corporate bonds to a very high level. The price now of a 2 year treasury is about \$108 per hundred, so it's 8% over value. The cost of a 10

year treasury is about \$115, so it's 15% over, you're actually paying more than you will get in maturity for that safety factor and of course that's part of the reason that manager's are very reluctant to hold treasury securities. Rates are so low, unless we go into an economic apocalypse, the balance of risks is very negative. You're likely to lose more money in treasuries than just about any other place, because the yields are so low. The low yield and the premium are 2 sides of exactly the same coin. If the bond is going to pay \$1,000 in 5 years and you're willing to pay \$1,050 for that bond, you're actually going to get a yield less than its coupon because you have to amortize this premium away, it's a charge every year against your income.

Gerry Cruz: Around mid December to mid January, it looked like the market was flirting with the bottom, around 82/8300. Terry Dennison: There was a bull market in 2008. If you look at the performance of the S&P from the 4<sup>th</sup> week of November to the end of the year, it was up 20%. So actually technically there was a bull market in the last month of 2008. Now given how much the market lost, it lost 40%. I think there was a sense that the new administration, it hadn't done anything yet, but it made sense to people, it was making sensible sounding noises and I think there was a sense that maybe optimism got a little ahead of itself and we've given that all up. I think there's still a concern that we probably haven't seen the bottom yet, but, again, barring economic apocalypse, we're probably relatively close to it. Gerry Cruz: What do you hear that managers are waiting for? What are they looking for? Terry Dennison: Well, there have been so many false rallies, I think they're expecting, they want to see sustained momentum for one thing. Gerry Cruz: So a series of positive news before they get back in as opposed to... Terry Dennison: I don't think they're looking at the news, I think they're looking at how the market interprets the news. Basically if we had a couple of weeks where the advanced decline ratio is very positive we saw new highs from the low level being set. News is good for a day, an hour, I think they want to see broad market momentum, that the market is sensing that things are getting better and the market doesn't sense it now. Gerry Cruz: What is that going to take? There's been so much in the news talked about, so much money thrown at this, so much initiative and backstopping, the Government is insuring commercial deposits now and paper now, there are just so many unprecedented steps and none of them has actually sold. What is still fundamentally wrong with the companies? Terry Dennison: It's confidence. What you have is a crisis of confidence. Nobody believes it's going to get better and as long as nobody believes, it won't get better. I don't think you're going to see some right angle turn where all of a sudden, happy days are here again. I think what you're going to see is a barely perceptible trend of the better news starting to be more frequent than the worst news.

One of the things people are looking at is the second derivative of house prices. House prices continue to fall, but they're falling at a slowing rate. We took a look at how the rebound after a recession happens and it's a good example of why it's hard to time the market. We looked at the percentage and some of these rallies have been going on for 8 or 10 years, we looked at the percentage of the total gain in the rally that took place in the 1<sup>st</sup> 100 days and it's often as much as 20%. So when it changes, there's an enormous amount of money on the sidelines. There are trillions of dollars on the sidelines. Gerry Cruz: And who is in control of those monies? Terry Dennison: Money managers.--- Gerry Cruz: But these are the ones that create the confidence because they're the ones who—and if they're waiting for the confidence—I'm trying to follow the logic. Terry Dennison: The problem is

that there's nobody left to move the market. There was a market panic in 1907 and basically JP Morgan had enough money that he was able to go into the market and basically by himself, turn around the psychology. He bought so much in one short period that he turned the market psychology around. There are no such JP Morgan's anymore, no one has that kind of money. So it's going to be a very mural thing a very viral type of thing, it's going to be imperceptible until it's done, until it's very obvious. The people actually start to see this and the problem is that people jump in and think it goes down more and jump in and it gets very discouraging. It's not going to be a right angle turn, it's going to be one of these things where the good news is starting to outnumber the bad news or the rate of the bad news diminishes. Maybe people are taking their increased cash flow with lower tax withholding and all of a sudden, they're buying cars. They don't have to go to 12million units a year, but if they pushed over 10million units a year, because everyone wants to be ahead of the game. What you're going to have, because there's so much money on the sidelines, you're going to have explosive rallies, that's why you get 25% of the rise of a market that may go on 5 years in the 1<sup>st</sup> 100 days because nobody wants to miss it. Nobody wants to be 1<sup>st</sup> and wrong, but once there's this momentum, nobody wants to miss it, which makes timing the market very difficult, because what it will imply is that people are able to move very fast.

For an entity like the Fund, you can say take some money off the table and had we had the foresight to do that a year ago, we would be in a much finer shape, but nobody has that foresight. The reality is, it becomes very difficult to try to time the market and the standard reason is it requires that you be right twice, know when to get out, but more difficult, when to get back in. Some wise person said, the way to make money is to be a buyer when everyone is frightened and be a seller when everyone is euphoric.

The market has fallen to the 1996 level, the market psychology, all you see on the horizon is bad news and behind that bad news is more bad news. Gerry Cruz: I don't think it's so much bad news as it is the uncertainty, because you can deal with news, you just can't deal with ambiguity and uncertainty. Terry Dennison: There's an old phrase about the market, the market loves good news, doesn't mind bad news, hates uncertainty and of course that's what we have now. How effective is the stimulus program? The economists have a statistic, it's become an obviously highly politicized concept right now called multiplier and basically what it is, is how many dollars, or GDP growth do you get per a dollar of stimulus and basically we voted on a stimulus program which is just a little short of 800billion dollars in 2 years. Right now we're about a 14trillion dollar economy, so 800billion dollars in 2 years on a 14trillion dollar annual economy is not that big. Plus, a lot of that really isn't very stimulative, basically having the federal government pay the states Medicaid costs only takes money out of one pocket.

It's interesting to see what's going to happen now as we all make more money because of reduced withholding. The problem is there's something the economists call the paradox of thrift. We all were taught as little children that being thrifty is good, a penny saved, is a penny earned. But the reality is, right now the Government would actually prefer that you spend the money. Saving it which is what most people are going to do today, that's what most people did with the tax returns, it went to pay off debt and savings. We've gone from a zero to slightly negative zero savings to 3 or 4%. The reality is, if the multiplier is 50cents on the dollar, even 75cents on the dollar, the actual impact on GDP is pretty small or

maybe it's 2 or 3% a year. They've recently revised the 4<sup>th</sup> quarter GDP down something like 7%. The best forecast I've heard so far for 1<sup>st</sup> quarter GDP is probably down from 4-5%, 2<sup>nd</sup> quarter from 3-4%, so it is getting better, it's not positive and in order to accommodate growth in the work place, in order to keep unemployment stable, we need about a 1-1.5% GDP growth to absorb new workers. So the statistic that everyone is looking at is unemployment because that is what causes people to become very defensive, if you think you're going to lose your job, you're not likely to go out to commit to buying a new car. Until we get GDP growth to about 1-1.5%, it's not going to have a material impact on unemployment. We haven't gotten to the pension fund yet, but I wanted to give you some background into how we got into this mess. How we got into this mess is not just bad mortgage brokers and a few people who bought houses they couldn't afford, it is literally the whole economy, companies, individuals, families, just over leveraging themselves, borrowing money to buy things because they thought they would appreciate in value and buy things because they had the money.

A statistic I've seen, in 2006, cash withdrawals due to home equity re-financing, amounted to 9% of personal income. We were basically spending 109% of our income by borrowing on our houses and the presumption is that houses always go up and down and as soon as that started not to be true, the roof fell in. Now I would say, when the history of this is written, we're going to say, thank goodness it happened now, because if we would have gone on another couple of years doing what we were doing, there wouldn't be enough money on earth to fix the problem, assuming there is now. So, when we look at the performance, when we get to it, there's some very big negative numbers, that's how we got there. When we get to funding, (which is Friday's discussion) I wouldn't be terribly quick to write checks to fund the 3 remaining 2 unfunded & 1 partially funded managers, small cap & we partially funded REITs. My concern with the small cap is as long as we haven't spent the money yet, smaller companies tend to have more frail balance sheets, they're more dependent on their banks, they have less access to the commercial paper market, they probably can't sell debt, they probably can't sell equity at a sensible price, they're financials are brittle at a time when things aren't good. (End of discussion of DB Plan quarter performance)

### **2:15pm-3:00pm Capital International**

Charles, Capital International: Let's start with the portfolio review. We are covering a 17month period here under tab 1 and 2 on the 1<sup>st</sup> page, it provides you with the investment results for the portfolio in the last 17months. Before I go into the details, I think it would be helpful if I just give a very high level summary of what's happened. It has been very eventful and I'm sure the other managers you have met this morning will probably have given you the full details. Within the context of emerging markets in the last 17months what we saw, or what I saw was that the situation really started to become more challenging starting from June 2008. Looking back, winding back the clock, if we look back to the last quarter of 2007, it wasn't that bad, in fact in the month of October 2007, we still saw in Asia, in China, we saw the listing of Alibaba.com, one of the world's largest internet related IPO since Google was listed. We started seeing in December 2007 also Chinese inflation was reaching it's 11 year high, so economic activities were going on and that's how the inflation was being fueled and it was reaching a very high level.

As we entered into 2008, in February 2008, that month we saw commodity prices, global commodity prices reaching a record high it's hard to imagine now, but it did happen. As we went into April, Brazilians foreign debt rating was upgraded to investment grade by S&P and in China that month, the market went up by 15%, again it's hard to imagine because the Government the decided to cut the taxes on transactions for stocks.

As we went into May 2008, we saw record oil prices, if I remember right, it was reaching about \$150 a barrel. The inflation in Asia continues to be high, that was the month when China had the earthquake that killed almost 70,000 people, that was in May.

As we moved into June 2008, we started to see issues emerging, the inflation fear, had caused central banks in Asia to increase interest rates, there were concerns about food inflation and we saw global economy slowing. If you look back, you will probably remember there was a time when the rice prices were going up and we saw riots going on in several countries.

As we moved towards the end of 2008, we saw Russia and Georgia having a bit of a conflict, which is a bit of an understatement and as we moved into September 2008, that's when emerging markets started to take the first big double digit hits. The market, MSCI emerging market, that month, went down by 17.8%. As a result of that, in September, several markets lost about a 5<sup>th</sup> of their value just in one month. As we really went into October, after these incidents, we saw central banks stepping in, starting to cut the interest rates and since then we have had numerous stimulus packages and things like that. That includes China, a \$486billion stimulus package was announced in China.

Against this backdrop, I would first start by looking at the investment results, for the 12 months to December 2008, the portfolio achieved an investment return of minus 30% when the benchmark was down 34%, it was a big negative number, but the portfolio on Guam achieved a performance of 3.8%. I don't want to dwell to long on that because I appreciate that you're concerned about the absolute figure. What happened since September is under tab 2, page 10. Up to the end of January from September, the market went down by another 29%-30%, the portfolio went down by 29% and the market by 32%. I just got an update going into March and I just got February, the market was down 5.4% when the portfolio was down 3.4%. So for the 5 months to the end of February, the markets were down 35.8% and the portfolio was down 30%. I'm afraid the absolute effect is not encouraging, we are all facing challenges here, but I think this is the time that opportunities are emerging from the emerging markets.

Anita: (via conference call) What I prefer to do first is go over investment results, how we did versus the benchmark for the 12 month ending September 30<sup>th</sup> and the 4 months ending January 2009 and then more importantly, talk about how the portfolio is positioned. As Charles pointed out, we had a sharp sell off of equity losses globally. The sell off started in the developed markets and moved over to the emerging markets causing concerns of a synchronized global recession and what you saw last year was a severe credit dislocation which impacted its economic activity. Emerging markets were down just slightly more versus the developed markets, it wasn't a huge amount and part of that was the sharp sell off that you've seen in the currency in the last 2 months. All sectors boasted negative



returns, some of the traditionally – areas like healthcare did better, but they were also down double digits.

We were ahead of the benchmark for the past 17 months to include February, that is because the portfolio has been more defensively positioned. We have been focusing more on companies with stronger balance sheets and we have had an average of 5% in cash which has helped us in this environment. Just to give a brief summary of how the portfolio is positioned and going forward also, on average I would say the portfolio is more in a more defensive position, we do have a larger portfolio, we do have a larger exposure to the telecom area which tends to be more defensive, we are focused on stronger balance sheets, we do hold gold companies in the portfolio. We have also been adding to companies which -- have become very attractive, especially in China and in the energy area. This is just a brief summary of what I will be covering.

On page 2 you can see the market view of 12 months September 20<sup>th</sup>. Every market had negative returns, some of the weakest markets were China and Korea. Korea was weak because the currency weakened by 24%, but you can see that all markets were down and emerging market equities fell more than 20% for the 12 months and what you also see is a number of currencies weakened by more than 15%. Russia was weak on concerns not only of commodity prices falling but also because of political difficulty. What you don't see on this page is that all sectors were negative, healthcare was down 15%, which was the best sector for the 12 months ending September 2008. If you turn to page 4, this is where the attribution starts for the 12 months ending September 2008. If I summarize, we were ahead by 400 basis points versus the benchmark, most of the value we added was through stock picking in Korea, our stock picking in Russia added value, we were underweight some of the large oil companies in Russia, we also added value by having a smaller exposure to China, that was one of the weakest markets. So we added value by stock picking, by country diversification, by holding cash and if you turn to page 5, you see the sector attribution analysis from the sector perspective. On this page you see the benchmark return for all the sectors were negative, I mentioned that earlier, the range is from 15% for healthcare to 27% negative returns for industrials for the benchmark, we added value through stock selection and by holding, 5% cash, where we added more value in stock selection in industrials and technology. Within the information technology area, we have stronger companies such as Taiwan SemiConductor, Industrials, Construction are one of the names that helped investment results. What held back or detracting from investment results were having a lower exposure.

On page 6 you can see the top 10 contributors to investment results and top 10 detractors also some of the gold companies that helped investment results for the 12 months. When you look at the detractors, I just want to point out some of the names that we held in India which hurt investment results, ELS is a property company and has a very strong asset base and all property related companies in India had weak investment results. Any company that held higher debt in this environment or had to come to the market to raise capital, their stock price was hit and this is one of the names where conviction did change on the basis that they do have a fairly high debt level.

Let me go to attributions for 4 months from September 2008 to January 2009, on page 10 you see the investment results, on page 11 you see the market review, basically in the 4

months sell off became even more severe, the 4<sup>th</sup> quarter of last year was one of the worst in terms of stock market returns and basically what you also see is a sharp sell off in currencies. In this period emerging markets were down 22% and basically what you also see is that commodity based currency, commodity based countries were hit, to give you an example, Brazil weakened by 17% and when you look at the return percentage in US dollars, 24%, Russia was down 57% by political issues and Russia is also very dependant on oil. Again, no place to hide, all sectors boasted negative returns. The 4 months ending January 31<sup>st</sup>, where did we add value, we were ahead of the bench mark and on page 12, 13 and 14, what you see is the attribution. When you look at the country attribution, what you see under active return contribution you see we added value by stock selection and also by currency diversification. In terms of stock selection, it was very strong in South Africa, primarily we held some of the gold producers and those companies were a little more defensive and that helped our investment returns. In terms of currency and country, what helped investment returns was the fact that we were under weight -- the other thing that helped investment results was being under weight Russia, when I talk about how the portfolio is positioned, one of the things I will mention is during the last 16 months, we did change our views on Russia, we became concerned that the lower commodity prices and the political risk in Russia was going to impact investment returns. Over a year ago we were actually overweight in Russia and we did reduce Russian exposure and now we are under weight Russia and that did help on investment returns.

On page 13 what you see is attribution from the sectors, basically what added value again was stock selection, holding cash, it was having a larger exposure to sectors such as telecommunications. Stock selection was strong in energy, it was strong in materials with the gold companies, the area that was a little weak was individual stocks in industrials. On page 14, some of the individual names that helped investment results, Harmony Gold, China Shenhua Energy company is a coal company, in terms of the top 10 detractors, basically some of the things that hurt results was having a smaller exposure to names such as China Mobile. Investment Committee Chairman Leon Guerrero: On page 13, you have cash 7.2, is that normal with you or is that you trying to sit on the sidelines? Anita: That is higher than normal, generally we tend to have cash below 5%, some of the portfolio managers have been more defensive and that's where cash is generally after our guidelines well below 10% but the 7% cash is keeping on the sidelines and having that cash helped our investment results. To summarize what's happened in the markets and what's helped our investment results, you saw global recession, credit dislocation in the developed markets which impacted the developing of the emerging markets, there was no place to hide, we did better versus the benchmark because we were more defensively positioned by holding more cash and because of stock picking. Any questions on attribution? Charles: No, go ahead.

Anita: Let me talk about outlook and how the portfolio is positioned, we are long term investors, we do our own research and our focus is on individual companies, basically what we've seen is stock market returns accelerated in the 4<sup>th</sup> quarter, what you're seeing is diversion rising, liquidity has dried up, credit markets are still dislocated, but they are improving, but what you are seeing is central bankers are intervening aggressively. Prime example is China, in 2007 seems a long time back, you had seen inflation in China what we saw was interest rates were rising, basically what you're seeing now is that because of the speed of decline in economic activity, the Chinese government has a huge stimulus package

that started cutting interest rates and these activities on all the margins started to help, so the positive in all of this is the central governments are intervening aggressively to provide liquidity in the market and so far in countries such as India and China, even though growth slowed down, it's still positive, you are still seeing positive growth, these markets have been impacted by the slowdown in the developed world and by the credit constraints in the market. As I mentioned I would say on the margin, we put our manager to be more defensive, it is a team approach, everybody is not as defensive, when I put all the portfolio managers together I would say we are focused more on companies with strong cash flows, strong balance sheets, attractive dividend yields, so when you look at the top 10 you see telecom companies such as America Movil, and Bharti Airtel, America Movil is the largest name in the portfolio and Atel is the 10<sup>th</sup> largest. Telecom companies tend to be more cash flow generated companies, these companies tend to be a little more defensive, growth is not really linked to industrial activity. Also we hold some of the stronger technology companies which are very attractively valued and they have strong balance sheets, an example is Taiwan SemiConductor. Expectation is over the next few years we're going to see economic activity return. In energy where we've been adding names such as China Senhua Energy which have very strong reserves, which have very good growth, we also have been adding Reliance Industries in India, we've been adding some mining companies. When I look at some of the activity that's taken place in the portfolio, we have added to some of the telecom names, we've added a fair amount to energy related names, under weight in energy versus the benchmark, today we are a little over weight. Where we've also been adding to is China and where we have reduced our exposure is in Russia.

On page 17 you see some of the buys and sells and what you see at the top are all energy related names. In terms of sales, we've trimmed Taiwan Semi Conductor because the stock price had done well, we still hold a significant exposure. Where we have been reducing is Russia as I mentioned. Under tab 3 you have a lot of details on valuation, basically what you see is that the growth with the emerging markets is going to be higher as compared to the developed markets it's not all the economies, but generally they remain and when you sort of look at the summary of the outlook which is on page 22, you see the positive and the negative and basically the positives are higher in the emerging markets and you have seen a number of positive structural changes in the emerging markets. The negative is that a number of these countries are dependant on commodity prices and their also dependant on export and credit markets still remain dislocated. If I summarize how the portfolio is positioned, there's a very nice picture on page 23. Basically what you see is we have an exposure to energy related names especially to coal related names, we also believe that a number of governments are going to try and stimulate economic activity by infrastructure spending, we do have exposure to cement, such as in China, we are still cautious, we are focused on strong cash flow businesses, more predictable businesses, such as the telecom companies, the consumer staple companies, the electric utilities, still like some of the precious metal companies such as the gold related names like Anglo Gold, some of the Chinese related internet companies and we continue to find good value in information technology in China.

Where we have a smaller exposure in the portfolio is financials, its' not because of stock prime or mortgage issues, it's more a question of valuations and we also have a smaller exposure in Korea and Russia. Are there any questions? Investment Committee Chairman Leon Guerrero: Can you give us an idea of the economic stimulus that is being put in place

by some of these countries? Anita: China is laying out a number of interests, it is infrastructure spending and it is one of the priority needs in China so that is an example. Another example, the Indian election is going to start coming up and it's only after the elections where we'll really see where the stimulus package is going to be, but they also are focused on infrastructure, whether it's power or roads. The most clear cut example right now is China and the focus is on railroad. Terry Dennison: We tend to think of China as being an export driven economy, but clearly if only for the population and the emerging middle class, there's been a big growth in indigenous consumer demand, we hear stories about the major cut backs in their export oriented businesses, what does the indigenous demand consumer goods in China look like? Anita: It has not has been as strong as expected, the interior is still holding out but it has been driven more by export and basically the theory of rising investments, rising income, that leads to more insurance and higher domestic spending. So the consumer power is there, but the consumer spending hasn't been there to the extent expected and there have been some slow downs in some of the discretionary areas such as automobiles, but overall I would say China has been a little more dependant on export. India is less dependant on export, but they also have been impacted by the synchronized global slowdown. Terry Dennison: Thank you.

Dr. Taylor: One country name I saw in your portfolio several times is Mexico, any comments about what's happening in Mexico and whether they continue to be a place where we want to invest? Anita: Traditionally Mexico has had some defensive companies, especially what we call the (Carlos Slim) companies, these companies have more share holder oriented, tend to be more well run and cash flow generated companies such as America Movil. In our portfolio, we have America Movil another was a bank again a (Carlos Slim) company, but Mexico is linked to the U.S. and they are being impacted more by the slowdown and what you have seen is weakness in the currency. Mexico is a place where at the macro level we are concerned, our focus is more on what we think are the stronger companies there. At the macro level, the outlook is bleak right now for Mexico. Dr. Leon Guerrero: You're not concerned about the civil unrest that appears to be happening? Anita: I have been reading about the civil unrest, so far our concern has more been about the macro economic weakness and the political risk just makes it worse so again we definitely are more focused on the stronger companies in Mexico, but so far I have not heard a lot of discussion on the political risk.

Gerry Cruz: I'm just wondering, given what we know about what has happened over the last 8 or 9 months and in light of what you are looking out over the horizon in your equity outlook, has there been change in how capital constructs their portfolio runs through the series of screens today versus how you did it before August of last year, is there a change in your process screen and portfolio construction? Anita: Our process remains, in terms of being focused on individual companies having a team approach, but 2 things that have come to the forefront and I would say are enhancing our process, 1 of them I would say is balance sheet or liquidity related issues, I would say broadly speaking in the world leverage, debt related credit issues or problems were underestimated. What I would say is happening is our entire research process is becoming more integrated with fixed income, more integrated between the developed and emerging markets, so here there are a number of our investments. One of the recent discussions has been what's happening in Eastern Europe. About 3 or 4 months ago our fixed income analysts have talked about risk in some of the eastern Europe countries, so again, this is one I would say 1 set of change that I have

noticed. The other thing that I have noticed in our portfolio is there has been a little more of currency hedging. Gerry Cruz: In following the hedging portion, what part of the performance last year was a result of exchange rate and what part of the performance was a result of pure company performance? Anita: Majority of the value added was due to stock selection, when you look at the country attribution analysis on page 12, you can see active contribution of that 2.8% came through stock selection. When you look at page 4 and you see active contributions is 3.6%, stock selection was 1.1%, currency was 0.7%. So, a large part was stock selection, what you don't see out here is value added through hedging. I think most of the value added came through stock selection and through holding cash. Gerry Cruz: And your cash position is about 7.5% as of January 31st? Charles: That's right. Gerry Cruz: And you hold the cash in the currency of the country or is it multiple? Charles: It's mainly U.S. dollars. Anita: It's mainly U.S. dollars, we do have a little bit of hedging into the Euro also. Cash is held primarily in U.S. dollars, there's a little bit of hedging which is in the Euro. Gerry Cruz: So a little bit is a result of the currency fluctuation, a majority of the performance was a result of stock selection. Charles: That's correct. Gerry Cruz: So a lot of emphasis on the stock selection, these days the stock selection being as cheap as they are, how do you ensure that you don't fall into a value trap and pick up stock for the purposes of an artificially, perhaps low price but not really understanding the underlying weakness that's involved. Anita: That's one of the hardest things to do is to try and avoid value trap and it is basically just by going on research and looking at not only what the company is saying but also what the competitors and other people are saying and because we also have a team approach to investing, the portfolio managers challenge each other and the analysts are also challenged and it's really by doing research that we try to avoid value traps.

Charles: Let me raise this question, we look to understand the business more although the future strategy and triangulate what they say compared against the competitors. Anita: Yes and basically we don't invest in something just because it may be cheap but we try and see what is the company going to look like 3-5 years, is it going to be a better company in 3-5 years and we look at those metrics, we don't just do a screen and say this is the price to earnings and because it's cheap we're going to invest in it. We look at what we think the company is going to be worth in 3-5 years. Board Chairman, Joe T.: Granted all those things you're saying, your stock selection, what country do you think you will be more concentrated on and have better chance of getting out of the recession, where you would guide your investments? Anita: I think the expectation of a number of the portfolio managers in Asia is going to come out first.

Investment Committee Chairman Leon Guerrero: I have 2 questions that we need to ask and we'll end the discussion with. Have there been changes in your personnel? Charles: Yes, in terms of corporate structure, corporate governance in this team nothing has changed, but within capital, we have established in the last 18 months a global executive office, it's manned by 2 people, who are now bearing more of the management responsibilities so that over time we can make more timely decisions regarding the company. There's another function that has come up that is the mandate manager so what happens is that going forward, mandate managers, there's 1 mandate manager per mandate, the mandate manager and the 2 people from the global executive office will be ultimately be responsible for the investment results for all our client's mandates. Now for this particular mandate, the mandate manager is a gentleman who is also a portfolio

manager for this mandate. Now to answer your question more completely, in the last 2 months, in 75 years history there has been an announcement of redundancy and of the 9,500 people that we employ globally, we have let go 500 people, so it's about 5%. Basically the background of this exercise is because in the last year or so we have been assessing where we should put our focus on going forward. Totally independent of the crisis of the micro crises that we're seeing, it's just that this is something that we have been doing a long time, it's just that the emerging of this crises has capitalized the decision. Of the 500 people that we have sadly asked to leave, most of them are my team people from the European office it's because at one point we made the decision of having an IT support come in from London and that's probably one of the most call centers in the world, now it's more in the states. The others are people from every other division for example corporate communications, and all the other administrative divisions. The key of the whole situation was we have realized what has happened was the investment horizons for many of our clients have been shortened for various reasons because of the defined benefit moving to the defined contribution because of accounting rules and therefore they have to post losses or under performance or whatever you call it. As a result of that there has been a period that we have seen some terminations of accounts and that prompted us as to review our portfolios of business, we are looking at what are we missing and the answer to that is we should focus on what we do best and just do those and as a result of that, certain types of mandates would no longer be managed, but we continue to feel that we can truly add value through either global mandates or multi regional mandates or objective oriented mandates.

Rosie Bordallo: Did you do anything wrong that you might be taken to court? Charles: No.  
Gerry Cruz: Is there a change in this mandate? Charles: No.

Board Chairman San Agustin: Before you leave I just want to thank you because you invited us to go to Vietnam last year, that was a good experience for some of our Board members, it was a very good experience for me. (End of presentation by Capital International)

### **3:15pm-4:00pm Fisher Investments**

I want to take this opportunity to thank the Board for letting us present today as well as Terry, thank you for the opportunity to be here. Obviously judging by some of the other books I see here, this is pretty thick, I have a lot of information here and I have some prepared comments in terms of the portfolio and I included some of the slides that might help address some of the questions.

We manage an international portfolio for you and on page 1 is just really a high level snapshot of both the mandate total value as well as some performance figures there, some updated performance, year to date as well. In terms of the organization, on page 4 I think now more than ever, clients are concerned with the stability of the organization, stability of the people. The nice thing to know about our firm is we've always been 100% employee owned, we have no parent corporation, the only thing we do is asset management and we don't have any strange business lines, things that would create some sort of distraction at the moment. We have zero debt as well so financial security, we're extremely stable. The people at the firm who when you hired us are still working at the organization and are the

vast majority of the shareholders so there's no intention of them going anywhere. On page 9, I want to point out some structural characteristics of the international market as well as point out real briefly a high level overview of our process, then jump into how we're postured and what we're thinking and talk a little bit about attribution. As most of you know, we're a top down manager, which nicely compliments your other international managers and all that means is in addition to focusing on picking individual securities, we have also focused a lot of our effort and resources on those top down decisions in country and sector calls.

Page 9 highlights the importance in focusing on these countries given their material influence in the benchmark. Really all this does is aggregate capitalization within these countries and this just shows top 3, top 5 and top 7. The important thing to know here is relatively few countries are actually driving the benchmark and therefore it's imperative to add the decision making at each one of those levels. (The subsequent page) just drills down a little bit deeper in terms of sector characteristics within each given country and indeed, there is also a high degree of concentration within the sectors, within each given country. So, again, this is critical because often times sectors will ultimately drive country performance and getting those countries and sectors returns is a big part of our process.

So just a wrap up, on page 11 shows stock concentration and all we did here is carry forward the same sort of analysis, but here it shows the top 5 stocks and aggregate of market capitalization. What you see here is that the international market are fairly shallow in that really only a handful of stocks ultimately are driving respective countries returns and as I just mentioned given that sectors are really driving that country as well. Again, it's important to have resources focused at each one of these levels and again, it's a nice compliment to your other international managers that might just be focusing exclusively on stock selection. Over the long run, about 2/3 of our excess returns is really attributed to that country and sector level.

Page 14 is just a high level overview of our investment process and this might make some more sense when I tie things together in terms of our themes and what we're looking at and possibly addressing some of your questions. We really begin our process by focusing on a series of portfolio drivers called economic political sentiment and this really helps us craft our country and sector decision. After making those decisions, we drill into more of a quantitative process where we're ultimately trying to reduce risk across the portfolio especially at the liquidity and solvency level.

And then finally, we're doing individual security selection which you're probably most familiar with it's traditional methodology, we're out there trying to identify companies which we believe have extremely strong competitive advantages or what we call strategic attributes. Everyone has a different way of defining what a great company is, our way would be saying a company is a little cost producer high relative market share, some characteristic or trait that's going to allow it to really beat up on its competitors and achieve above average market share.

Page 16 & 17 is a snapshot of how the portfolio was postured at the end of 2008. As you know from last year we were fortunate enough to be granted a little bit of opportunity and flexibility within investing in the emerging markets. You can see that this profile is very

non-traditional for a manager like us, that outside of the emerging markets in the United Kingdom that virtually every other country is essentially a fairly neutral perspective on and that really ties into our sector allocation which is on the next page which we feel is more important at this period in time than let's say the country in that really moving forward is going to drive returns is really these sectors and we've postured the portfolio with an overweight as you can see to energy materials, information technology, industrials, with some of our greatest under weights to financials and consumer staples and utilities.

On page 19, I'd like to talk about our thoughts on the beginning of 2008, how we postured the portfolio, how we did and sort of where we stand today. In the very early stages of 2008 we were fairly optimistic, we thought there were pockets of weakness in the global economy, particularly financials, within financials, particularly housing, as well as autos and as a result of that, really steered clear of those categories. We did not anticipate a financial panic. We did not anticipate a bare market. This red line in front of this page, really shows, really divides what we felt was a fairly normal correction within a bull market and I could get into some of the underlying reasons of what turned a fairly normal correction into an all out panic. As you can see there, really up until that point in time, we were adding a substantial amount of relative return and then when the panic unfolded, that's essentially literally when we gave everything back (and I'd be happy to walk through the reasons). We had the portfolio under weight to financials, we anticipated a struggling credit environment. With that anticipation of a struggling credit environment, what we did was we sold securities with lower capitalization, and capitalization goes hand in hand generally speaking with quality or credit quality of particular companies and increased the capitalization of the portfolio. So, buying large, we own the big companies in the world that have a tendency of higher credit quality, so we felt, in a difficult credit environment, companies that had much higher credit qualities would have a relative advantage to their peers because they'd be able to borrow money essentially during tough times when maybe a lower quality peer where they're competing against simply wouldn't have the same equal access to capital.

The remainder of the book starting on page 22, really gets into details of what led to the financial panic, where we feel we are in this bare market and how we have postured the portfolio and why we have postured the portfolio to take advantage of the ensuing bull market. (This could take a lot of time, so if the Board or Terry has any specific questions, maybe we can use the bulk of that time to sort through some of these pages and that would be in the best interest of everyone's time)

Terry Dennison: On page 19, I've been doing this for a long time and I've never seen a client review or the client's performance in a foot note, maybe you're not very proud of it, but I would have appreciated a slightly clearer discussion of what the performance actually is. This looks a little evasive. Fisher: I wasn't trying to be evasive and the relative return is in the body on the left. Terry Dennison: I understand that. We have down graded you to a below - rating for a number of reasons for a number of reasons and let me just read you the rationales so that the Board can hear your commentary on it. We've always had a high opinion for Fisher's top down process but a number of recent changes decreased our confidence in the overall investment approach. Fisher has embarked on a plan to expand its distribution network through acquisitions of smaller money management shops, adding a product team to manage US large cap value or growth and start its own publishing imprint. Investment Committee Chairman Leon Guerrero: I was very interested in what



you have to say about that. What are they acquiring? Terry Dennison: There's more detail if I can get to it, all these ventures necessitate the involvement of Ken Fisher and other senior personnel which may interfere with the running of the current strategies. Additionally Fisher is introducing new products which use the same research team that have different philosophies and strategies. With the bottom up analysts researching stocks that fit both domestic and non US core products, we have little confidence that the research will be sufficient enough to support all their products. While Fisher's top down process continues to be the main driver of non US strategies, we believe the combination of greater firm distractions and diluted bottom up research will lead to an overall weaker process and we're recommending a downgrade in the rating. And we continue with the discussion, the fact that on page 16, that you've hired Putnam which is an investment banking firm and focuses on the investment management business to build on internal mergers and acquisitions group. This group would consider firms with specific products not by Fisher high net worth focused firms and private client groups. Although the separate team will be charged with finding these opportunities, we worry that Ken Fisher will focus less on the investment side and more on growing his firm. The individual we spoke with claimed that Ken Fisher has minimal involvement in the expansion of the firm, we find it hard to believe that Ken Fisher will not play a large part in the growth of the company that bears his name and of which he and his family own a majority of. (The following paragraph on page 16 goes into the discussion of the book publishing activity.) There will be 10 books in the next 5 years, one of which written by Ken Fisher and the others by Fisher investment team members and our comment there is with all or new already expanding researchers responsibilities, we wonder how much of the time will be taken away from researchers for these books to be written. We often within Mercer write books and it's a very time consuming activity and we just wonder about all the distractions and the fact that you seem to be losing your focus on what seemed to be your core business. (I want to respond back on these questions, did I elaborate enough?) Investment Committee Chairman Leon Guerrero: I still don't know what the acquisitions are. Terry Dennison: One of the things that money managers are very interested in doing is distribution. They have a factory to produce investment performance and they can make more money if they can find more places to sell the products and what they're looking at is buying additional money management firms, particularly those in the high net worth market. One, to expand the distribution capability of their existing products and also to make new products for that market place. We're just very concerned about the distraction that's all involved, they're doing all sorts of things except the performance isn't very good and you should have prepared for this because you should have heard it at other places.

Fisher: I'd like to specifically address both of those points. First comment that's a little dated in that the idea behind.. Terry Dennison: This was written February 12, 2009, so it's dated by 3 weeks. Fisher: We no longer have an M&A team, we saw weakness within the asset management industry and saw it as a good opportunity to pick up firms and easily put them within the Fisher Investments umbrella. Since then, we have completely eliminated that group, we no longer have an M&A team, we no longer have the ambition of making acquisitions, we are focusing on the core. Terry Dennison: What epiphany causes you to make that change? Fisher: I don't know if Ken or Jeffrey really had an epiphany, I think the idea was, here's a great opportunity to pick up some areas that we don't have expertise in to help augment our own research financial panic sets in and says, and we say to ourselves, we're no longer going to spend any of our time on this and completely

eliminated the group from the firm and severed our relationship with the investment bank. It's no longer a focus, it was something that we were considering for a very long time, I think from the time of communication of us actually forming a team, it was a team that lasted maybe 6-7 months within the firm.

Part 2 of the analysis from Mercer research is the books and Ken Fisher has written in Forbes for over 2 decades now. Ken Fisher lives in the shop, his passion is investments and he's not a person who spends his time on the weekend golfing or doing some other hobby. Really, this is what he loves to do and he also loves to write, Ken writing books is nothing new to us. We did something interesting, what Terry mentioned in terms of publishing, we wanted to create basically little manuals that we could give to our retail clients, 2 of them, we actually just published, 1 was on energy and the other on materials. And literally this is essentially gathering all of this information we've accumulated over a year and it's sort of an educational guide on energy and materials for people that aren't investment professionals and if the Board is interested, we'll give a sense of what kind of writing it is, I'd be happy to send you copies of it. In preparation of writing these, we actually expanded our research group and over the years, we've consistently added members of our research group. In defense of additional products, the only additional product that we actually launched was a dedicated emerging market strategy, which is a very natural fit within our core competencies. We've been managing in the emerging markets for a very long time and finally some of our clients said, we'd like what you do, could you carve out a part and manage an emerging market strategy for us separately. So, we do not have a large cap value strategy, we do not have a large cap growth strategy, the only strategy that we have added to our line up since you've hired us is an emerging market strategy. Did that sufficiently address the concerns?

Terry Dennison: I'm just curious, the conversation was with Justin Arbuckle, how come what he told us 3 or 4 weeks ago is different from what you're telling us? Fisher: Justin and I are actually responsible for the Mercer relationship, so I have to apologize but I know we haven't actually met with --- who's in charge of the strategy since February of 2008, so I know Justin hasn't spoken to --- within the last few weeks, I actually just spoke to her to arrange a meeting in June. Terry Dennison: You have some catching up to do because this research note was dated February 12, 2009. Fisher: It's from early 2008. Gerry Cruz: So you don't have the M&A shop? Fisher: We had, I think it was about 4 members as an M&A team. James Taylor: If I read it right, your performance doesn't match then benchmark, it's a little below. Fisher: That's correct. James Taylor: What are you doing to change that? Fisher: It's a tough question to answer, I think you know, more specifically, how are we posturing to move forward to add value and ultimately change this and I think, well this side is maybe not a favorite of Terry's it shows how quickly things change and I think just as fast as bear markets occur and how hard these things drop, just as fast as how things rise on the outside. We feel we're adequately postured for the next bull market and if it occurs, we should be picking up, we anticipate picking up... James Taylor: So you believe your existing strategy and approaches are such that when the market changes you're ready to take advantage. Fisher: Yes. Gerry: What's going to be the catalyst for the turn? Fisher: In our mind there's really 2 areas that caused the bear market, the credit markets and the Government, what we feel were mis-steps by the U.S. Government, in that saving 1 company and not saving another created a tremendous amount of uncertainty. One of the things we've seen that's very encouraging is that the credit markets have started to normalize, that is huge, sort of catalyst or remedy of the prior problem. Gerry Cruz: And

that's evidence by: Fisher: Increase in lending, increase in credit spreads. We feel which has caused a tremendous amount of recent volatility has been both Obama and Geithner providing little substance and not a lot of confidence. One of the very nice signs, if you recall the fear of this nationalization of the banking system and then the administration quickly understanding that they need to come out with a comment shortly thereafter to clarify that speculation to us, gave us the sense that these guys get it that they made mistakes in terms of Geithner coming out and saying, I have a plan and not giving specifics or clarification or Obama coming out and saying I have a plan, I'll tell you specifics later on that the administration has improved. So, those we feel an increase in clarity from the Government and exactly what their plan is as well as the normalization of the credit markets, really are the catalysts here. Gerry Cruz: This morning and I'm paraphrasing here, there was on the news, the President said something to the effect that his policies are not going to be guided by the short term gyrations in the stock market. I'm just trying to reconcile what you just said with that statement. Fisher: I think he actually said, they came out later and said that's not actually what he meant. So basically what happened is he said investing in stocks right now is a good value and then people really started extrapolating what that exactly meant and whether he's paying attention to the day to day. The White House, the press came out and said, we're not focusing on the day to day movements on the stock market, if you focus on the day to day movements of the stock market, you'll lose track of the long run, so I think he mis-spoke and the White House came out and clarified that.

Investment Committee Chairman Leon Guerrero: Can you explain page 11. Fisher: On page 11, all we do here is we take the top 5 stocks based on market capitalization so way of gauging the size of a company and we just take, loosely, the top biggest stocks within each one of these countries and it shows how much of that total market it represents. For example, if you look at United Kingdom here, the top 5 stocks make up 36% of the total market. So in other words, a handful of securities are really driving the benchmark's return, so it's critical to be cognizant of what those securities are. Investment Committee Chairman Leon Guerrero: It's got nothing to do with your holdings right? Fisher: No. It's just some characteristics of the international market which we feel are important to realize. Gerry Cruz: Our holdings as of December, in terms of sector relative weight is about the same as where we are? Fisher: That's right. Gerry Cruz: So we're over weight in materials, energy, IT and industrials. Terry: Can you in 50 words or less, explain the economic environment that under rides that position, what has to happen for this to work? Fisher: We don't think there's a near term substitute for fossil fuels, we think that global economic growth is better and will be better than anticipated currently. The huge infrastructure projects that are existing infrastructure projects and planned infrastructure projects are going to put incredible amount of pressure in pricing. We feel those sectors are going to benefit from it. Terry Dennison: Pricing of things like cement, steel and copper. Fisher: Exactly. Gerry Cruz: When do you think that happens because you're talking about the money getting thrown in from the stimulus package to do all this construction, painting, infrastructure, on trouble ready projects? Terry Dennison: The general thinking in the U.S. is that the trouble ready projects are probably ready to start spending money in less than a year because most of these require lending of contracts, there's several letters of approval that has to go in the money flow, so they're more trouble ready than some of them with an idea in their head. But I think what Chris is saying is outside the U.S., there are tremendous amount of infrastructure projects, remember the last folks talked about the

railroads and roads, China being big infrastructure spending. It makes perfect sense, the reality is, particularly the emerging markets stuff are from a huge lack of infrastructure. China's spent a lot of money on roads but they still don't have enough, India's hardly spent any money on roads. Fisher: On page 37, highlights a lot of what you don't read about in the press is really this ambiguous wall of stimulus money and that just breaks it apart per region, for example China, the vast majority is going into infrastructure.

The individual holdings are starting on page 52, starting on page 51, shows high level characteristics, that goes into each holding, within each particular region. If I can comment briefly on another tailwind that we see within the categories, the sectors energy and industrials and materials, in addition to this underlying economic or potential economic activity that Terry referenced. Almost every case within every single bear market which I highlight here, if you take a bear market and cut it in half, the categories held up fairly well in the 1<sup>st</sup> half of the bear market, but in the 2<sup>nd</sup> half absolutely got decimated, in this case, energy, industrial and materials, tend to be the categories that bounce back the most. What happens is this over reaction in a rational sentiment and literally starting on page 43, you look at the S&P 500 literally goes every single bear market using that rule and literally every single category, generally speaking, the areas that get hit the hardest, bounce back the most and we believe we are at the very late stages of this market.

Terry Dennison: Just a couple of questions on individual holdings on page 54, before you joined us, I was talking a little about the market environment and concerns about the financial system in Europe and I'm just looking at the two Spanish banks here and they have both been mentioned as having significant exposure to loans in Latin America, are you familiar enough to talk about what the investment case is on those 2? Fisher: I would have to get the analyst-- and I'll be happy to send it to you. Gerry Cruz: So you think we're right at the cusp? Fisher: Ken's pretty vocal in his recent Forbes column, he says try to pick the bottom of the V's is really a fool's game, but we do think it's going to be a V-shaped recovery and not in the stock market and not necessarily, that doesn't rule out double bottoms or triple bottoms, but looking back again virtually every bear market with the exception of the 30's was a V and what caused a V to turn into a L is essentially the equivalent of an investment meteorite, something that's completely outside is already existing, that is not going to be a credit issue and it's not going to be the Government, it's going to be some exogenous factor. In the 30's what disrupted (to the downside, what turned the V to an L) was World War 2, something unrelated to what we're currently experiencing. Terry Dennison: Do you think the U.S. or the non U.S. will lead us out? Fisher: Going back to that notion that the categories that get hit the hardest, that come back the most, we feel that emerging markets are going to come back the most hit the most, we feel the emerging markets, international markets are going to come back the most than the U.S. markets. Terry Dennison: Is that magnitude or timing? Fisher: Magnitude because the U.S. has obviously held up better than the international market. Terry Dennison: Would you suggest the U.S. would recover first? Let's separate magnitude and timing, would you suggest the recover first because they got into trouble first? Fisher: I don't know the answer to that question. (End of presentation by Fisher)

**4:15pm-5:00pm Axa Rosenberg**

Amy, Axa Rosenberg: Before we go into details on updating the investment review, we just want to give you an update about our team in Asia. I think you met Adrian in the previous meetings, Adrian is finishing his contract in Asia and will be returning back to New York in mid March. This account will be taken up by Ying Du, who is also based in Hong Kong with me and given she's 8 months pregnant, she couldn't fly this time, so she apologizes for that and will be joining us via conference call. I am Amy and I have been working for the company for almost 9 years and I use to work with Adrian on your accounts and now I'm working with Ying to look after your accounts. We also have our Asia Pacific CEO, Kevin Chen joining in from the call, Kevin is based in Singapore. You all have the presentation with you, so if you turn to page 4, this is a brief summary of your current investment with us. You are investing in the Axa Rosenberg Small Cap Funds and the Axa Rosenberg International Equity Funds and the funds have the Citigroup World extended group market index and the MSCI index respectively as their bench mark. Page 6 and 7 is a performance summary for the representative portfolio for international large cap and small cap, given that you're investing in the large cap and the small cap, we have to give you the representative portfolio return and we understand that we will be focusing on financial year ending September 2008 and also for the new financial year starting October 2008 - January 2009.

On page 6 is the large cap performance summary, the one year ending September 2008, the portfolio had a negative return of around 32.04% versus the benchmark of around -30%. As you can see on the quarterly breakdown about both of them, the negative returns was mainly coming from the 3<sup>rd</sup> quarter of 2008 and later in the presentation we will talk more details about where this and the performance come from. For the period between October 2008 - January 2009, the portfolio was down by around 28% versus the benchmark which was around -27.75%. The benchmark portfolio was pretty flat, there was a change in the performance for about 48 basis points. When we move onto the next page, this is the performance summary for the small cap, for the one year ending September 2008, the portfolio was down by around 34.25% against the benchmark of around 34.46%. There was a positive return of around 21 basis points and similarly you can see on a quarterly basis, all the positive return was generated from the first half of 2008. So, for the period between October 2008 - January 2009, the portfolio was down by around 34% against the benchmark of around -29%. There was a negative in the performance of 4.78%.

Before we go into the performance attribution, I would like to show you some of the highlights that happened. In the 4<sup>th</sup> quarter of 2007, actually the market continues down, prime and credit crunch issues came up and in the market there was discussion about inflation versus growth, whether the global or U.S. are going into the recessions and one of the key things they are looking at are the U.S. housing markets so there were a lot of uncertainties in the markets. So during this uncertain market, we invested more in defensive sectors such as the utilities, telecomm and we outperformed the benchmark. If you look to page 9, moving on to 2008 as you can see on the right hand side of page 9 that all the equity markets were down in different regions across the board.

For 2008 as a whole, the large cap was down by around 43% and small cap was down around 42% and when we're looking at 2008, actually we can divide it into 2 parts. In the first of 2008 and the behavior of the first half and the second half were quite different, for the first half it's actually more industry theme dominated, as you may remember the oil

prices got record high, over a \$100 per barrel, so under this kind of earning growth potential estimate, the energies and materials dominate the market in the first half of 2008. We saw a shot of rotation of your portfolio at the beginning of 2008, at the 2<sup>nd</sup> half of 2008 it begins shifting from a more cynical sector as you can see on the left hand side of page 9, you can see that the volatility was picking up in the 2<sup>nd</sup> half of 2008 and also you may also remember that sometime in early September or October, there were extraordinary events that happened in the financial sector, there were a lot of problematic institutions being covered in the market like Lehman Brothers, AIG, etc and during the period all the Governments in different countries, different regions, they have been thinking about – the rescue package to rescue the economy there. So in the 2<sup>nd</sup> half of the year is more adverse and you can see the volatility pick up a lot in the 2<sup>nd</sup> half.

On page 11, it gives you each sector performance on a quarter to quarter basis. As you can see on the 1<sup>st</sup> half of 2008, the energies and the materials were the best performed sectors in the markets and mainly driven by the positive earning growth potential in this sector. Moving on to the 2<sup>nd</sup> half, you can see that these 2 best performed sectors became the worst performed sectors and these moved to more steady earnings or more defensive type of sectors like healthcare and materials. We also saw a lot of earning revision down, worse in the 2<sup>nd</sup> half of 2008 as well.

If you turn to page 15, on the left hand side of the graph you can see lots of historical events in the market and you can see on the nearest crisis is kind of the reason for the significant drawdown in 2008 was kind of historical record, we haven't seen that before in the market and this was actually a result of earlier deteriorations as well as the global synchronized recessions. On the right hand side of page 18, is kind of confirming what we saw in the market, the earnings deteriorating beginning in the 2<sup>nd</sup> half of 2008.

On page 17 is actually more detail looking into quarter by quarter how the earnings and pricing are related to each other. On the top left hand corner of page 17, you can see that the earnings and prices connected together and the sector that has the positive earning growth potential like material and energy has been rewarded by the market and this is one of the reasons why we see in the 1<sup>st</sup> half of 2008 we have very strong alpha, a positive alpha in the period.

Moving to the 3<sup>rd</sup> quarter, there's an inflation point that's the earning and price dislocated, as you can see in the graph, that's actually for the positive earning with potential growth sector like energy and materials will not be rewarded by the market, being penalized. The more stable earnings, more defensive type of sectors like telecomm and utilities has been rewarded by the market. When we move into the 4<sup>th</sup> quarter, we start to see the earnings and the price again, so we can see more stable earnings because they're starting focusing on the earnings growth companies to more stabilized companies such as healthcare and telecoms, those types of sectors. In 4<sup>th</sup> quarter, you can see that those types of stabilized companies have been rewarded by the company. These materials have been given all the earnings revisions downward, you can see that they started from being positive potential sectors, moved to negative earning potential sectors in 4<sup>th</sup> quarter. So with all the back drop of the market, how we react or how the fund moved being positioned differently in different periods of time.

On page 18 and 19 is the active sector movement starting from September 2007 to January 2009, for the EAFE large cap and small cap respectively. Actually, the 2 graphs are quite similar, but in different extent, so we may just talk through the large cap page which is on page 18. If you're looking at the 4<sup>th</sup> quarter of 2007, the fund was over weight in the materials and energies and also over weight in the discretionary. As we mentioned in the 4<sup>th</sup> quarter of the market, they invested more, going more for the defensive type of stock given the short end of the market, so our over weight position in the discretionary part of the performance, being the major detractor of the performance. When we move on to 2008, as you can see in the 1<sup>st</sup> half of 2008, there were increasing active over-weighting in the materials and the energy, as we saw the earning growth potentials there and under-weight in the financials and this kind of position actually helped in the performance. Moving on the 2<sup>nd</sup> half of 2008, as we saw the volatility being picked up because there was financial institution problems and a more sentiment driven period and when we saw the volatility pick-up sometime around July to August, as you may remember, we have 2 investment model and have a fully integrated risk model within our investment process. When we saw that volatility in the market being picked up, our risk mode has been controlled to trim down at the exposure, it's more like risk controlled type of activities, we trimmed down the active exposure in the materials and the energies. Moving to the beginning end of 3<sup>rd</sup> quarter, early 4<sup>th</sup> quarter we saw that earnings connection back to the market and also we saw the earning deterioration in the energies and the materials sectors so you can see there's a decrease in the over weighting, actually, we went from over weight to under weight in materials moving towards the 4<sup>th</sup> quarter. This is telling us how the market reacted and how the portfolio's being positioned.

In conclusion on the performance, the year 2008 is a very difficult period for the active fundamental managers like us because of utilities increasing so much and the investor not focusing on earning growth in the mantle. So we also see there's a lot of risk in the market, but at the same time we also see the opportunities as well.

(Ken via conference call): Amy just went through what happened in the market place, I think everyone is quite familiar with what happened in the markets in the financial institutions as well as the economy. She also touched on why we under performed in the first quarter of 2007, as well as under performed in the 3<sup>rd</sup> quarter of 2008, which was the highest under performing quarter of 2008. And you can see the market driven by the credit crunch as well as the full blown economic depression that's happening in the global market place. And how the returns as well as sector rotation in the national market that's costing us earnings growth has been very much ignored in the later part of 2008. What we've seen here is the market has been really driven by the greed which is very much shown in the 1<sup>st</sup> half of 2008 --- towards the early half of 2008 driven by the greed and the later part of 2008 is mainly driven by fear.

Let me explain how we get to the valuation dispersion and the opportunity increasing for the active managers. What we do here is we take the book to price ratio and calculate among other stocks how that dispersion will cause different --- of this book to price ratio among other stocks has behaved over time. As you can see that --- there are times that the book to price ratio are significant -- long term average, --- the most recent one will be --- period and subsequent --- period which is between 1990 and 2002. You can see that on global basis, the book to price ratio dispersion now increased dramatically --- low period

we've seen in the last 3 years. You probably recall that from 2003 to 2007, it's the period that --- low volatility period and we can describe it as --- market volatility low as well as --- section of volatility, which is an indication of the opportunities --- managers to out perform. What we've seen in that 4 year period is the --- section volatility has decreased to --- . Sure enough in the last 2 years, you've seen that measure has jumped to almost a better high level, which is much higher than the historical average and we've seen here the --- dimension, we've also seen that measure has jumped --- has really positioned active managers well for the opportunities that we've seen the big gap between the over valued and the under valued stocks based on all this fundamental valuation ---. --- look at earnings dispersion, which is another indicator we use to look at how analysts have a disagreement or agreement amongst themselves on these stocks, on the company earnings next year. When we look at how the analysts --- relative to each other and calculate that dispersion, also described as --- of the--- of the ---. You can see that it's also been increasing recently significantly --- in the last 12- 18 months to a much higher level --- uncertainty in the market ---- both the direction the economy is going to go as well as what --- will be in the next 12-18 months, but it certainly has increased significantly in the last 12-18 months and what we're seeing here is an opportunity that presents risks as well opportunity for active managers. I think this dispersion is really a double edge sword, for active managers to out perform in the market the --- dispersion to be around --- level --- higher, to give them more room to exploit the mis-pricing in the market. On the other hand, it also means if the manager happens to be on the wrong side of the ---, if the market continues to ignore the valuation of earnings, the best manager could under perform more than normal circumstances. But again for us, the dislocations in the market, the ignorance of the --- valuation earnings, the market --- could happen in the market from time to time, but --- or not, those periods are not --- and tend to be short and during the subsequent periods when the economy stabilizes and the market stabilizes and the --- returns in the market --- focus on fundamentals again and the --- that will be the time that the manager focuses on fundamentals --- earnings and we will be rewarded when that returns to the market.

On page 27, which is something but I want to --- but I want to look at our portfolio, look at our strategy, --- calculate what the portfolio is --- earnings than the benchmark, relative to the --- investment. What we did here was we took this snapshot a year ago and look at all the holdings --- the company --- in the portfolio, --- 2 strategies during that --- with us and track the company earnings for 12 months and calculate the earnings yield for the portfolio and compare that earnings yield to the benchmark. That is not a trailing measure, but --- a year ago, because we didn't know what the earnings will be, but according to what our process, the model --- on average, the company --- holdings in the portfolio will generate more future earnings relative to the current stock price than the benchmark and sure enough we can see from the --- that --- the realized earnings yield in the portfolio for the last 12 months and the large cap, the EAFE represented portfolio, --- which is the benchmark of the Fund, you can see that the portfolio almost has --- percent of the earnings yield advantage --- the benchmark. In the same token, the EAFE small cap also generates about 1.6% earnings advantage in the last 12 months. Also this particular moment, we're looking at how much of earnings that have been forecast, --- generate from the companies that we're holding now compared to benchmark, you can see for the next 12 months, the large cap portfolio will be generating about 10.31% of the earnings relative to the benchmark, generate about 9.75% of earnings in the next 12 months from now. In a similar way, you can see the small cap --- which is a much greater earnings advantage in



the next 12 months based on the estimate and this is something that we always go back and check our funds and our portfolio --- and make sure that it consistently deliver that earnings advantage in the past as well as going forward. This is really what we promised our clients and the performance is really something that --- take advantage of in the long term. (We'll stop here and see if there are any questions)

Investment Committee Chairman Leon Guerrero: Do you have a listing of your holdings?  
Amy: We don't have it here, but the latest one, we have was September and I sent it to Diana.  
Dr. Leon Guerrero: Mercer's report is telling us that, is there Baloise, a return of 10%, do you know what kind of company that is?  
Ken: We need to look at the detailed holdings and see, I assume this is a small cap company, holdings in the EAFE International Small Cap Fund, let me take a look at this name and see what this company does. I assume this is one of the companies that under performed?  
Terry Dennison: No, it has a very positive return and it's one of the top 10 holdings in the small cap fund.  
Amy: The Baloise is an insurance company.  
Terry Dennison: It's the 3<sup>rd</sup> largest holding in the small cap fund, about 1.4%, that 10% return is really going to help form it.  
Investment Committee Chairman Leon Guerrero: What about Adecco? That's a staffing company.  
Investment Committee Chairman Leon Guerrero: What about Logica?  
Terry Dennison: That's probably an IT company.  
Ken: We can send you a listing. The top 10 contributors have about 30 basis points for each company and the bottom 10, you will see the contributors -20 to -30 basis points. We're not really trying to bet, earn big on the little names, but some of them were kind of spread out, to a few 100 names in Europe, in Asia, and typically one name under performs, that doesn't mean it has a very big impact on all of our performance, but what we see is sometimes they are focusing on earnings, valuation, and during certain periods of time, the markets are very much ignored.  
Investment Committee Chairman Leon Guerrero: I understand, I'm just trying to get a sense of where the losses are where the gains are. I want to get a feel for how things are going.  
Ken: Once we send you the list of the top 10 and also you can get a similar way from the bottom 10 contributors, you will know where the gains are in terms of the active contributions from the top 10 and also you can get the bottom 10. It's sort of off-setting each other, you will see quite a few names that have a relatively larger contribution to the portfolio, but you never see the under performance, but our portfolio is quite diversified.  
Amy: When I forward the detailed holdings to Diana, I can also add the top 10 and the bottom 10 contributors.  
Rosalia Bordallo: I think what Dr. Leon Guerrero is looking for is more an attribution report, where it says, you have the sectors in you index, and under weight in this sector in the portfolio and this are the percentages in the index, and based on this under or over weighting, it detracted from the portfolio a return or it added to the portfolio return.  
Amy: In terms of attribution, we can look at it a different way and for the one we prepared in the presentation, we can look at it by sector. So for example on page 20, this is the performance attribution and for the EAFE Large Cap Fund period for one year, like ending September 2008 and then on the top part of the presentation, you can see the portfolio weighting and then the average benchmark weighting and also how the returns look like in these 2. Because we have quite a diversified portfolio, we can give you a selection of the top and the bottom contributors to the portfolio and hope it helps to give you a bit more information where the contributors and the detractors are coming from. Would you like something like what is on page 20?  
Rosalia Bordallo: Sometimes graphs are really nice, but sometimes it's easier to read holdings.  
Amy: So you would prefer

numbers. In the next meeting we can try to put it another way which is showing numbers rather than a graph and I hope that helps. (End of presentation by Axa Rosenberg)

Respectfully submitted,



**STEPHANIE A. HERRERA**  
Recording Secretary

**Affirmed:**

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**Wilfred P. Leon Guerrero, Chairman**