

**Quarter Ended 12/31/08 Performance Meetings
& Annual Manager Reviews**
March 4, 5, & 6, 2009
Retirement Fund Conference Room

Thursday, March 5, 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

Defined Contribution Plan: Pages 27 to 30

Defined Benefit Plan

10:00am-10:45am Dimensional Fund Advisors

Dimensional: Thanks for having me back. As you have requested, I wanted to spend our time reviewing just to give you a sense of where Dimensional is as an organization, to make sure you're comfortable with us as one of your managers and we'll talk briefly about the philosophy of the firm, importantly about how the consistency of that remains as true as ever. We'll get into a little detail about the strategy itself, I'll just remind you of how we go about constructing the portfolio. I put together a few pages to give you a sense of, we all know how bad the market is, we'll just give you a better sense just in terms of how it is globally and also in terms of how Dimensional fits within our universe. We currently are managing about a little over 2 and a half percent of the overall GGRF portfolio, that's what I see from what you have online and knowing what you have in your portfolio and we're pleased to be a part of that so hopefully we will continue for the long term. As you know we're managing an International Small Cap mandate, we're investing in a broadly diversified portfolio of non-U.S. securities and we're doing it in a way that we think is very consistent

and I want to take a few minutes just to bring you up to speed on Dimensional itself. Currently as of the end of last year we were managing about \$111 billion with the continued sell off from the markets that's now actually about \$95 billion.

One development since the last time I was out here, just so you know, we officially moved our headquarters from Santa Monica, California to Austin, Texas. We still have our Santa Monica operations, it's about a third of our total employees, we are now growing significantly in Santa Monica and we'll continue to grow even though, it's just at a much slower pace, but we're growing in Austin, we moved into our new headquarters building in late December, in fact I just moved there 2 weeks ago. We have investment operations in Austin, in Santa Monica continuing and in London and Sydney, we're working in coordination with Santa Monica. Our investment philosophy as you may recall, is a pretty basic philosophy where we try to take the simple concept of risk and return and relate it and apply it in a very sophisticated way and I think all managers will talk about that, but we think our take on it is somewhat unique and the fact that we're not trying to forecast the market, we don't think that our information is necessarily better, we just think we happen to be able to execute it in a way that is better than those other managers. We want to provide broadly diversified portfolios which is definitely true in this portfolio, but regardless of our strategy, that's fundamental to our business.

Page 3 gives you a breakdown of how the assets under management are really structured, the component, the strategy which GGRF has invested falls into that (top brown slice) at the top, it's almost 6% of our total assets under management, more than \$5 billion, even with this last month, it's still very significant. What we've done for Dimensional our first strategy as you may recall is our micro cap and small cap strategy in the U.S., we developed those strategies back in the early 80's long before most other managers were offering these strategies. At a time when people thought that even if there's a small cap effect that existed, but it's just very difficult to actually acquire it because of the cost of investing, but Dimensional has proved over time we're actually able to go about constructing our portfolio and our deliver the asset class and added value over the actual industry just because of what we're able to do on the trading and structure side.

Page 4 just gives you a sample of some of our clients, the reason for me including it is really about page 5, I really just want to have a couple bullets to talk about why within this very volatile market if a lot of managers are vanishing that even if the asset classes and the market are doing awful, we hope that you can continue to feel confident in what Dimensional brings to the table. The fact that the way that we run money is consistent, clear and transparent, the fact that the way that we're organized as an organization doesn't create any room for portfolio managers to play games, you're in a collection of highly sophisticated clients like yourselves with large plans who continue to invest with us and continue to trust us and we've actually been in a positive flow environment meaning that our clients continue to give us money throughout this temouchorous period of time including so far year-to-date and also to make sure you're reminded of the fact that this is our sole business, what we do is investment management, we don't have any other side businesses.

To come back to the philosophy section, Dimensional structures all of its equity portfolios around 3 basic concepts, around the idea that we can structurally design our portfolios to

capture the factors risk the drive long term performance. In short this is simple equity performance being into the market and then to variety of markets and to the degree that you structure your portfolio capture the size premium price/value premium and we structure all of our portfolios along this line. In the case of international small strategy, we're trying to capture non-U.S. small cap stocks across the spectrum not just value or growth but really getting you the entire asset class. The reason we're doing that is the long term evidence certainly is clear in terms of those effects being present both in the U.S. and internationally including the emerging market. If you look at it on a long term basis, both in the U.S. and in the UK, these are just samples, with the evidence we think over time we'll look very similar across all market places so the longest periods of time tends to even be monotonic, meaning the smaller and smaller you get, the higher the long term return. There's a lot of volatility in these numbers, over the shorter periods of times the size will be different across these various markets but if we go for a long time period of time, if you're able to capture those smallest stocks, if you're able to get an enhanced return and you're also enhancing the overall diversification because these securities also tend to have correlation to larger cap stocks.

James Taylor: I'm having a little problem understanding what it is you manage for us; you manage the small cap, or the small cap value. Dimensional: We manage an international small cap. James Taylor: If I'm looking at your data, you're managing an international developed small, that's \$5.6 billion as of to date? Dimensional: That's correct. James Taylor: And the material you're showing us right now has to do with just understanding that small cap stocks in general do better than large cap? Dimensional: That's right. Dimensional: The strategy that we're investing actually our international small company strategy found on page 16. It's a commingled vehicle, the vehicle itself is a combination, it's a fund of funds structure, meaning that there are 5 underlying vehicles, in which we invest, there's no added fees by adding a fund of fund structure, it just allows us to, it's the way it was originally structured when we got into this market place back in 1986. The portfolio as I said is a very diversified portfolio with more than 4,000 securities in the portfolio, if you look at page 17, we designed the portfolio, the idea was really similar to what we did in the U.S. which is to get clients exposure to small caps and construct it in such a way that was complimentary to their traditional non-U.S. equity investments. A lot of plan sponsors were invested, if they were invested at all in international, were invested in like strategies. What we're trying to do is international small company strategy that would compliment that plus capture the size premium that we believe to be there. When we launched the strategies, we first got into international small stocks back in 1986, the traditional industries such as MSCI didn't exist, wouldn't exist for another decade, so really we were on the forefront. When we construct a portfolio, this is a developed market only portfolio, we're not investing in emerging market stocks, we're making a size determination, within each of the respective markets, the EMU we consolidate currently into a single market place and we're targeting getting the smallest, 10-15% of small caps in each of the stocks. We go through the process of what the quantitative and qualitative factors are in terms of how we go by constructing securities.

A couple of quick statistics on page 20, just to give you some comparison of how we fit into the market place and how we're structured, this is a series of characteristics of the portfolio as of the end of the year. The largest position in the entire portfolio is about 30 basis points in size, so no single security has a significant weighting in the portfolio, it's all roughly cap-

weighted, you can see compared to the MSCI it's significantly, more broadly diversified and that is in part because we go much smaller than the MSCI. (Skip 2 more pages) We'll give you what you specifically asked for on page 23, as of the end of January, the portfolio had continued to perform on a relative basis well, but of course like the rest of the world had suffered from the overall market sell off. The portfolio was worth just about a little under \$23million, if you combine yesterday's horrible market and today's positive market, we'll probably remain above \$20million, but the market to be punishing. If you look at page 23, currently it's about \$20million, it was just under \$20million as of yesterday, we had a good market closing today, so hopefully we're back above. The design of the portfolio is really around the asset class, we're not looking to forecast the markets, I think the last 6 months or 2 years depending on your perspective, has really shown how fruitless a lot of those forecasts can be. They also reflect the fact that risk and reward are related, there's been a number of years we've been riding very positive returns, without carrying a lot of risk, the fact that we had this very awful experience, I think it's reflective on the fact that there is risk. From one perspective, it's not particularly encouraging, but I think there's some truth to it, in understanding that risk and reward combination, not only are there direct cost risks, there are market risks that you are paying for. Your portfolio like other clients that invest in this strategy, like my own personal money, paid for that risk, in fact we've all sort of suffered through this market, so I hope when you're thinking about your asset allocations, it continues to be in your minds the fact that you paid for the risk that will help you generate future returns. Nevertheless, there's nothing pleasant having experienced this, my job hopefully is really to remind you of the fact of what we're trying to do as investment managers in terms of delivering the asset class so you guys can be consistent with your asset class. I wanted to put together a couple of pages, if you look at the following section, just to give you a sense of where Dimensional fits and this strategy fits within the overall market place. Across the universe, markets continue to sell off and any where from 1 year numbers to the high 20s to the mid 70s, these are U.S. dollar returns.

The first page is on large cap section, a little bit more relevant to this strategy are small cap returns, these are pure industry returns, they're not for any particular manager including ourselves, it is a U.S., it is a European, it is an emerging markets dilemma. These are U.S. dollar returns so if you look at the 1 year numbers, in most cases they reflect about an additional 10% negative flow relative to the local returns, meaning the returns in much of Europe were, if you're just looking at the local, it was 10% higher. What we're trying to do with the strategy is capture the entire asset class.

Investment Committee Chairman Leon Guerrero: What I want to know is, we hear about money being set aside waiting to be stabilized, how much do you have in cash? Dimensional: This portfolio, the strategy and all of our strategies are designed to provide the asset class not to do the market timing, there's very little cash in the portfolio, it's about a quarter percent of the portfolio. One of the challenges, one of the core beliefs of Dimensional is the fact that, this really is a market timing question, is whether or not we got better information from a long term perspective relative to the rest of the market and whether or not we think our information is so much better in a very competitive market place that we can out guess what's going to happen in the market place. These are annual numbers, one of the things I was trying to show and give you a sense about, here within the size premium discussion was the fact that the markets can turn incredibly quickly. So this is a strategy and I hope that it is consistent with long term objectives of the plan and asset

allocation perspective. We believe it's designed to capture that small effect, we think we'll perform significantly over time. I think along those lines, it's important to realize one of the reasons to include the calendar year in your returns on the performance pages is just to show you how quickly they can swing back and forth.

Another unique characteristic of how we go about constructing the portfolio is again what we're trying to do is to look at the asset class, industries are a great tool in terms of measuring performance just to make sure manager's are doing in fact what they say, there are some structural flaws that don't necessarily deliver precisely what we think our clients are looking for in terms of the asset class. When I mentioned, for example is we intend to invest in much smaller securities, what we're trying to do is capture that the smallest stocks tend to have the highest long term expected returns, we're trying to go as small as we think we reasonably can in terms of buying those stocks. As you get smaller and smaller, the number of names tends to get much larger. That's the high number of names; you're talking about a lot of securities in the portfolio which are a very small percent of the portfolio that we think in aggregate they have the potential of increasing the expected return in the portfolio.

Investment Committee Chairman Leon Guerrero: How come you aren't in Brazil?
Dimensional: Because we view Brazil as emerging markets. This portfolio is invested in some Hong Kong securities, but those that are Hong Kong registered and operating companies versus companies that might be Chinese companies that are listed in Hong Kong; we still view those as emerging markets. Our emerging strategies we are not in the local market, we're just buying Hong Kong stocks, there continues to be some structural issues within the local market that don't make it compelling from our prospective. In our emerging markets strategies, it's about a 9% allocation to China, which is a little under market weight. The actual turnover for the portfolio if you look at the aggregate for the underlying is only about 25% which is about a natural turnover rate for what you would actually expect. Just for being in the asset class, you would expect it, a portfolio that's going to be consistent to that asset class definition, they have about a 25% turnover, stocks that are moving out of the portfolio and stocks that are moving in. The trading turnover, there can be a lot of different noise within that number. If you look at actually how Dimensional trades in terms of our impact on portfolios, when it comes to trading perspective, that's actually something we hold out the numbers are kind of hard to scramble through because they're so detailed, it would be one of our most significant sources of added value. If you look at conventional organizations that do 3rd party analysis of tradings, such as Plexus which we use for both domestic and international, if you look at it, our numbers are almost always off the charts in terms of how good they are. There's lots of noise in actually how you look at those numbers because lots of managers can play --- and other kinds of trading measurements and they can find ways of beating them. Dimensional and aggregate, so focused on limiting the market impact on how we actually trade securities, that we almost always are the leader of the pack with the lowest cost portfolios. Just to be sure that there's no confusion, since we're not a brokerage firm, any trading that does go in the portfolio is looking out towards the portfolio, there's no way for us to have the incentive to trade more than what we think is appropriate for the portfolio itself.

If you compare for example page 31 and any of the later pages, page 33, you look at that same number that caught your attention, the 142 actually converts to a positive 96. It's reflective of the fact that especially over short periods of time, there could be a lot of noise within those sub-set of numbers. The most important numbers from an investment point of view that I'd like you to pay attention to really are the numbers within the 2nd section of this that starts with the allocation composition and total numbers, which you can see from the allocation perspective and the composition perspective, how we're allocating the portfolio whether it's by country or by size or within that individual allocation, whether the basket of securities that we own are relative to the index are performing well or not. In this case if you look at these, the longer term attributions the 4 month position versus the 1 year ending September 30th, if you look at the allocation side, whether you're looking by region or by country or by sector, all those numbers are positive in terms of actually adding value. Within the composition section, generally speaking, we're continuing to add value, if you look at the last column, particularly the bottom number, the 1 year ending September 30th for example 269 basis points of excess turnover from a variety of different sources. Within any kind of attribution there's all kinds of interaction, there's noise like what you're seeing in terms of performance really driven by whether it's in a particular sector or whether it's a small cap or a small cap within a particular sector in Japan, they're all inter-exchange, you have to look at the context across all these various different perspectives to get a better hold of the story, but we do try to show you and explain to you in different ways.

James Taylor: I'm looking back on page 22 and 23 and you've beaten the index 9 out of the last 10 years, do you feel as a company, you're ready to do that overall and what is your argument that we should stay in this kind of a fund? Dimensional: On the first question, we think that we're positioned to do well, we think we do offer a unique way in investing in the asset class and we think that our ability to deliver the asset class to capture the benefits of having a passive orientation in terms of low cost and broad diversification and being able to implement it in a very sophisticated and intelligent way is a great combination towards delivering asset classes, so in that perspective, we're better positioned in either end in a pure index world and looking at other active managers, we think that in general the way we run is a more reliable way in getting the market return than speculating particular investment choices. So from that group of statements, we think the answer is yes we can continue to perform well, we think we add an added value over conventional benchmarks in terms of how we structure the portfolio, the fact that we can capture the small cap stocks better than traditional industries can, we think we offer a better risk return scenario than compared to traditional other active managers, what we're not trying to do is speculate that we have better information than everybody else in the market place and that the market is generally efficient and we're going to take advantage of that and take advantage of the systemic factors that we think drive performance. I think there's a fair amount that remains in the market in terms of whether people think that they are smarter than their peers. I think the reality is the market is what the market is. We think that we'd rather be in a position to offer the market place and hopefully offer some value than what we're doing on the margins in terms of enhancing performance, making sure at the end of the day what you're getting is the asset class, which is leading into the next question, should you stay in the asset class, from a perspective from an asset allocation decision, hopefully you're looking to managers in terms of, once you made a decision to be in a particular asset class, to be able to deliver that. I would hate to be in a position where I was coming back to talk

to you and said I don't think what we delivered is international small strategies or if we were ever to expand the relationship, a different asset class.

The point I was making earlier about the different ways that investors pay for risk I think is really my answer to the latter question. We think from long term perspective, international small company stocks like any other small company stocks and other kinds of strategies offer a way of increasing the expected returns of the portfolio. There is more risk involved in them, they tend to be a little bit more volatile, they can offer some diversification benefits, they have a lower correlation, but they are volatile, that's the basic nature of investing in small company stocks, you're trying to increase your expected returns and you're doing that at a potential cost. The last year has been paying for that cost, the fact that we've all suffered through this, again it all goes back to the issue of whether or not anyone can forecast.

Again, there's a lot of evidence to show that people can't reliably forecast what's going to happen in the markets. I'm unaware of any managers that went out to all their clients and said go to cash 3 months or even 6 months ago, the markets falling apart, get out. Reality is no one knows how quickly this will turn or how bad this will be. From my own personal opinion and as well of what I think Dimensional believes, is that strategies like this do offer a long term added value. Now if the objectives are on a much shorter time frame and not the typical investment horizons that a lot of pension funds have, I think there's a problem there. Most of our clients, why we're so focused on the large institutional part of the market is they tend to have very long term perspective in terms of their investment strategy. We've come back to a period of time where the risk had been paid for in the market place or at least has been demonstrated. To move out of less risky asset classes whether it's international small or emerging, I think you should at least give moments to pause to think about whether or not you're effectively having paid for that cost of being in those asset classes, you're now getting out and won't necessarily be the beneficiary of them for a longer term perspective.

Controller Bernardo: My question is on page 31, can you discuss the allocation to Canada? It shows a portfolio allocation of 8% to Canada, but a zero for the benchmark and a portfolio negative return of 7 versus zero for the benchmark? Dimensional: In the MSCI Small Cap, which historically is probably one of the most prominent conventional benchmarks, does not include Canada as an allocation. We actually in early 2007 started including the design behind this strategy. To step back just briefly for a moment, when we design this strategy or any of the strategies in Dimensional, we're not starting from the base line of particular industry and trying to make that our allocation relative to that. What we're trying to offer is a solution. Most of our clients who are in this strategy are looking for diversification of an international into non-U.S. international small company stocks, which includes Canada. A couple of years ago we started including it, so the last couple of times where there has been that allocation, what we have seen on some of the reporting you'll probably get from us is in addition to the EAFE Small Cap index performance. A number of clients are starting to look at us because that does include Canada and so that's really a decision in terms of how you want to look at us but the fact is that the strategy as currently designed does include Canada.

Investment Committee Chairman Leon Guerrero: Any changes in personnel? Dimensional: There have been very few changes in personnel, go back up to page 14, it gives you a sense of the scope of the team. One portfolio manager left to pursue other opportunities that was someone that was previously working out of one office and decided to come back when there was a position available. Just recently announced in the last week, Andrew Cain who's one of our senior managers in Australia will be moving over and taking over a more executive role in our London operations, we've actually continued to add staff on the investment and client service side.

Investment Committee Chairman Leon Guerrero: Do you have any issues on the regulatory agencies, do they have any issues with you? Dimensional: We do not have any issues on the regulatory agencies in any of the markets. One of the questions that are frequently asked is whether there's any perceived conflict with Mercer and with Mercer, not from our perspective, we have a number of clients in common.

Investment Committee Chairman Leon Guerrero: You've been making money in the last 10 years you said, we've lost \$19million in the last 2 years. Dimensional: We started out the portfolio at the time it was invested, we had a nice pop in terms of the performance. Like I said, the context which I hope you will think about Dimensional, from what you've asked of us in terms of providing the asset class performance, in terms of adding it in a value added way, we've actually accomplished and the fact that we were able to do it relative to our peers. I hope that you will continue to trust us in business and I hope the next time that I'm invited out to meet with you it will be a more positive environment. (End of presentation by Dimensional)

11:00am-11:45am Franklin Templeton

Franklin Templeton: Both of those components have widened significantly in the last year and a half, but I would say looking forward over the next year and a half, there is opportunity for both those components to tighten, liquidity premiums as well as credit risk premiums, but it's been a very difficult period for fixed income managers managing high quality portfolios such as this. This is a portfolio where you're not suppose to take much risk, they're investment grade only, there are restrictions in terms of the amount of exposure you can have to certain areas of the fixed income market and having said that, you could have made some pretty serious mistakes over the last year and a half without taking a lot of risk in the portfolio.

(Turn to the next page and get into performance, on page 8) We've broken performance once again in 2 components for the fiscal year and then through the period, this is through January. For the fiscal year ending September 30, 2008, the portfolio gross fees had a return of a little over 3% and the aggregate index had a return of 3.65%. The reason for under performance was securities specific risk. In the portfolio we had Rescap, which is a subsidiary of GMAC, which deteriorated in credit quality because of it's sub prime lending and we sold those securities at losses and they under performed treasuries pretty significantly and also in the portfolio we owned some Lehman Brothers debt, which we continue to own, which the Lehman Brothers went into default. Those 2 securities combined probably attributed about one and a quarter percent of negative performance for

this portfolio. So if you move away from that there were positive factors in the portfolio that offset some of that negative performance but at the end of the day the return was under the benchmark by about 65 basis points.

On the other hand, the story on the current fiscal year basis is much more positive. For that 4 month period of time, the return for the portfolio was 5.38% and the return for the index is 3.66%. So cumulatively for the 2 periods together, the return is 856 versus 744 for an out performance of about 110 basis points. The out performance is coming from investment grade corporate bonds, where we have been selectively adding to the sector, we believe that it's probably the most attractive sector. It's a combination of starting off with the fact that the absolute yields as well as the spreads of treasury on investment rate corporates right now are wider than they've been than any period of time since the depression, as I mentioned some of it is credit risk and the other component is liquidity risk and we believe over time as the monetary fiscal programs that are being put into place that start to take hold a positive impact on credit quality as well as liquidity. Not to say that we're going back to where yield spreads were 2 years ago versus treasuries, but we can see some pretty significant tightening of spreads and still have spreads higher than they were back in the worst period of time in the early 2000's when yield spreads were over 2% versus treasuries and you still can not even trace that much and still see significant returns. So that is one area that has done well starting in late November to the end of January and this had a positive impact on the portfolio.

Another area that's helped is the fact that we don't own commercial backed securities in the portfolio (that's a topic of discussion later on) and during this period of time, at least in January, they've underperformed treasuries and that has had a positive impact not only in the securities, so that's basically been it. During the 12 month period of time, we have had a light exposure to investment grade corporates that was positive because spreads widened, but at the same time some of our security selection wasn't good mainly the Lehman Brothers and the Rescap securities in the portfolio, but we also had other positives in terms of yield exposure in the portfolio as yield rates climbed and our movement in ABC mortgage backed securities also was positive during this point in time, but I would say, Terry could bear the sound in terms of looking at our numbers within Mercer's universe, if you look at the calendar year for 2008, you probably were in some place like the 50th-20th percentile.

Terry Dennison: For the one year ending 12/31 you were in the 27% percentile, very good performance. Franklin Templeton: So despite the underperformance for that period, the performance for the calendar was pretty close to top quartile within the Mercer universe. We also showed performance through January 31st that's on page 9, it just reflects on an annualized basis the good performance we had in that previous 4 month period. In terms of our outlook and strategy, I think there's been a tremendous amount of frustration in the markets in terms of the fact that the Government as well as the Federal Reserve Bank, the amount of attention, the amount of funds that have been put into the system to try to help the capital markets to help the economy. I think what people fail to understand is that while a tremendous amount of money has been put into the system, so much of it has been to replace the destruction of capital that's taken place during this period of time. So there's this great concern and frustration that we've put in trillions of dollars in terms of the Fed expanding its balance sheet in terms of providing lending facilities and yet what are the results, the results are, you're hard pressed to find areas where the economy has improved.

The only area that you could find would be in the area that the Fed has provided in terms of for asset backed securities where Triple A asset backed securities can be presented to the Fed and has resulted in a lowering of borrowing costs in the asset backed market, but aside from that, it's pretty slim. I think the market is frustrated by that especially in the last month since Obama has come in because I think a lot of us thought that with the new administration, there would be hope and getting down to this and trying to work this out. The problem is that this is a very complicated situation that is presented to us and there aren't any quick fixes, there's sort of a little bit of irony in the system in that we realize that Americans have lived beyond their means, they've borrowed too much and at the same time, banks and other financial companies have made riskier reckless types of loans.

So you have a financial system that is de-leveraging and in the process it's very hard for people that have good credit record to have access to borrowing and also you have individuals that have to live within their means, so we're saying, you need a higher savings rate because there has to be less borrowing. Well, if we move the savings rate to where it should be, immediately we'll go into a depression that is if people stop spending all together and started to save and pay down debt, so it has to be a gradual process. We realize the financial system has to downsize as well, you have banks merging and you have types of lending and types of leverage that now probably won't be permitted in the system, it means that these institutions individually collectively have to get smaller and that has a lot of implications when you think about the consumer sector as well as the banking sector contracting over a period of time that's going to have a negative impact on the economy. While you may see some very positive growth, percentage wise in a quarter or 2, the trend growth over the next couple of years, will be below the trend growth of the U.S. economy. So a lot of people are concerned, some of our competitors say that there's a treasury bubble, the treasury yields are going to go significantly higher because we're going to have inflation down the road. Our view is that when the consumer and the banking system is de-leveraging and it's a situation that will take a couple of years rather than a couple of quarters, it's hard to make the case to see rising prices, if anything the risk remains to the down side that you can see falling prices. Keep in mind that we have a strong dollar, which means that goods are coming into this country at lower prices, Asia is an exporter of goods and they have export economies, what that means is they have an infrastructure in place to produce goods and sell them to the rest of the world and they've found over the last several months that the rest of the world wasn't buying goods, they were buying to a lesser extent and what that means is that they still want to produce these goods, they want to keep the factories running, so we could see goods at even lower prices just to keep the factories running and that's positive for us in terms of goods coming into the United States at lower prices. So we're not concerned about inflation as some other investors are, we feel if it really is a problem down the road, definitely 2 years plus down the road, rather than over the next 2-3 years.

Investment Committee Chairman Leon Guerrero: Regional banks and smaller banks are generally not in trouble? Franklin Templeton: For the most part they're not, but some regional banks have very concentrated portfolios so they may be heavily invested in commercial real estate and certain aspects of lending and to the extent that they are, they could have problems, but they're not as complicated as the large banks. Investment Committee Chairman Leon Guerrero: It's the large banks that really are in a mess, it's not the small banks. Franklin Templeton: They're in less of a mess, because asset quality is

declining across the board, when you see the amount of new home sales and the percentage of the amount of those sales that are foreclosures, that's hidden across the spectrum. There are some banks that have largely escaped this but they would probably be more the exception rather than the rule. Looking at the portfolio on page 14, once again to give you a snapshot of how the portfolio has changed or hasn't changed during this time frame, we're showing you the portfolio at the beginning of the fiscal year September 30, 2007, at the end of the fiscal year and where it was at the end of January and we're showing you the index at the end of January just to show the relative comparison of one versus the other. In terms of the duration of the portfolio, it's around the same as the index which is showing here about 3 and 3 quarters years at the end of January and 3.98 years for the portfolio. In terms of the sector weightings you'll see that in the treasury sector, we had our most treasuries at the end of September and then as yields started to move wider, we started to gradually sell our treasuries and we were buying investment grade corporate bonds. We did a good portion of that buying towards the end of the year, so it's the November period where were spreads were at their widest. You'll see a lot of zeros there, mainly because we can't purchase those securities and that's the reason why there's no exposure.

In terms of high yield the numbers you see there or because of the issues that I mentioned the Rescap has been sold, the Lehman Brothers we continue to own, that bond is probably trading at about 13cents on the dollar right now, our view is that the recovery value on this bond is probably somewhere around 40cents on the dollar, hoping to realize that somewhere over the next 18 to most likely 30 months, the range is anywhere between 30 and 50cents on the dollar in terms of recovery. We believe this process is working out for the better, they've decided that rather than sell assets that they're going to put these assets into a public company that's going to trade so there's no need to come out of bankruptcy to sell the security and sell the assets at distress levels and that's a positive in terms of that type of recovery. So we believe that while the security is not earning any interest, unfortunately because it's trading at 13cents on the dollar, it represents a very small portion of the portfolio, but we do believe that the recovery value and the relative nearness to recovery is such that we believe to continue to own it and that's what we've been recommending on a monthly basis when we keep you informed. This is an investment grade portfolio and even though a security goes below and we believe we should hold it, we will run it by you and keep you abreast of the situation, which is what we're doing for Lehman Brothers. Even though a lot of criticism has been given to the rating agencies in terms of what is a Triple A credit rating security these days, with regards to credit quality, you'll see that we've kept the credit quality relatively high with about 75% of the portfolio either in treasuries agencies or in Triple A rated securities, so it's a high quality portfolio and it is a liquid portfolio. We had the outflow to fund other managers and we were able to do that in a very efficient way despite the fact that the markets were relatively liquid at the time. We were able to liquidate without having a major impact on the portfolio.

So in terms of positioning the portfolio right now, our view in terms of interest rates right now, we believe that treasury rates, we hold the Fed at their word. The Fed wants to lower borrowing costs for individuals and for companies and part of that borrowing costs is going to be the benchmark rate, the treasury yield curve and to the extent that treasury yields get too high and that's the big question, what is considered too high, but if the yields get too high, the Fed will come in and buy treasuries on the open market. Right now 10 year yields are about 10%, I would say if we got closer to 3.5%, you'll see the Fed come in and buy

treasuries because they want to keep treasury rates low for an extended period of time and they will expand their balance sheet to do that. Our view is that if we see treasury rates move closer to 3.5%, that we'll buy treasuries and extend the rate of the portfolio with that view that that's too high a rate given the shape of the economy, as well as the condition of the capital markets.

One sector that I mentioned that we find attractive is investment grade corporates, we believe that there's too much risk being priced into investment grade corporates, especially when we move away from the financial sector and that we believe over time as the economy stabilizes and I'm not saying recovery, risk premiums should start to come in. When you look at the yield on investment grade corporates and you take a time horizon any where over the next 6-18 months, its spreads were heightened by 200 basis points. So right now in round numbers, investment grades for corporates on average yield are 5% more than treasuries, if they were to have a yield of only 3% more than treasuries, which is still historically very high, that would result in investment grade corporates out performing treasuries on the order of about 15-20% and you'd still have investment grade corporate yield spreads at still very wide levels, at 300 basis points over treasuries. So we believe that's attainable over this period of time 6-18 months, it's a primary reason why we've been gradually adding to the investment grade corporate sector in this portfolio in the 4th quarter and the beginning of this year. Mortgage securities, the mortgage pass thrus, if anything probably a source of funds if we see opportunities in other parts of the market, we believe they're fairly valued. There's the risk that FNMA and Freddie Mac come up with a program where anyone is able to refinance their home as long as they're just refinancing your existing principle. So FNMA is only guaranteeing that mortgage, so if you're FNMA and you have a mortgage outstanding, I would say that the borrower is in better shape if their interest is 4.5% instead of 6.5%, even if the loan is \$100,000 and the market value of the house is \$85,000 and there's a possibility, they have to change their charter. Anyone in the room, if you have a conventional mortgage with FNMA, would be able to do this. So as a result of that, we could see mortgages under perform treasuries in that type of environment and we're watching very closely, but that's a possibility.

One area that we're not invested in as we read the guidelines the commercial backed securities, so I would like some clarification on that, it represents a small portion of the benchmark and one of the reason why it's a small portion is because it's performed so poorly. Right now it's a little more than 3% of the aggregate index and as I read the guidelines I sort of come away thinking that we can't invest in them so I need some help here because the guidelines are pretty complicated. Commercial mortgage backed securities, can I buy them in this portfolio, I read the guidelines and I think I can't? Gerry Cruz: I don't think you can either. Franklin Templeton: If you're buying the highest quality mortgage backed securities, you have loan to value ratios of about 60% as well as subordination within these deals of another 30%. If you're looking at deals that were put together back in 2005, before lending standards started to deteriorate, before some of the bubble occurred within commercial real estate, your chances of retaining that super senior status are very high, even in a very bad commercial real estate where one can say either has started or will be coming through and the yields on these securities are about 12-15%. So there's definitely a disconnect between the ratings and how they're being priced. Are we allowed to buy them because you have investment guidelines and statutes and that's the law and we don't want to go against the law. Gerry Cruz: I think our understanding was

that you didn't buy commercial mortgage back securities, but to answer your question truthfully, I don't know, but I think to gain exposure into the commercial market and the commercial real estate market, we have spun off a different mandate to address that issue.

Board Chairman San Agustin: How is that different with REITs? Terry: They're somewhat related because they're backed by real estate, but we have to look at the guidelines. I haven't looked at the guidelines or statute with regards to this. This is one of these problems where this instrument didn't exist when the statutes were written, they never complementated this. If the statute is silent, can we buy anything they don't forbid or can we only buy what they permit and this is not something we can give you an answer today, because we're going to have to look at the guidelines. Franklin Templeton: That's all I ask, because if we feel strongly about it, we feel it's our obligation, you can say the statute permits it, but you still can say no way. All I'm saying is we could have a situation where because of legislation, there's various things where things change relatively quickly and at the very least I'd want to make you aware that we've changed our opinion on that and it's more of that than anything else. Investment Committee Chairman Leon Guerrero: Between the 2 of you, is there any way to get a position paper in regards so that we can look at it? James Taylor: We need legal opinion. Board San Agustin: We need to explore it, get a position paper and then get a legal opinion. Terry Dennison: Right now the major issues in the market seemed to be mortgage backed space, but the asset backed space is next, unless the economy improves dramatically. The commercial is really focused on retail activity, hospitality, who's in the hotels, who's paying their rent on their offices, the asset backed are individuals and if you look at the receivables problem like American Express have, people are really struggling. It's a question of fact and we'll get you the answer. Franklin Templeton: I think it's the intermediate to long term clarification that is important in terms of managing the portfolio. In terms of near term use and action, I think that's something we can sort of put aside.

Investment Committee Chairman Leon Guerrero: When did you guys buy the Lehman Brothers holding? Franklin Templeton: May of 2008 is when we purchased it. Gerry Cruz: So you might be a claimant on that law suit is what Dr. Leon Guerrero is saying. Investment Committee Chairman Leon Guerrero: Any changes in the personnel? Franklin Templeton: Within the fixed income group, no changes, if anything, we're looking to open a position for a credit analyst for our London office to follow European credits and manage a European portfolio, but no cut backs in fixed income. With regards to agency securities, the statute states, I think the Fund is not allowed to have more than 5% in any one issuer, so my question to you is currently what is the current fixed income allocation? Gerry Cruz: 40%. Franklin Templeton: So what I've done is I've set it for 40% fixed income, if you would gross that up to 100%, it would be 12%, I've taken a haircut at 10%, so I won't have more then in FNMA or Freddie Mac and that's going to include pass thrus. How about foreign corporations or foreign sovereigns? Terry Dennison: That I think is statute. Rosalia Bordallo: Its policy, it's allowable by law and the Board needs to address that. It's up to the Board if they want to allow a manager to go into that.

Franklin Templeton: Do you anticipate any asset allocation changes where you would be asking us to liquidate further? Terry Dennison: I think we're required to hold 40% fixed income, so I don't think any asset allocation changes would matter. (End of presentation by Franklin Templeton)

1:00pm - 2:00pm Income Research Mgmt (Funded October 2008)

IRM: Thank you all very much for having me out here to talk to you. Let's make it as much as a dialogue as possible, so interrupt me with questions as we're going along because a lot of stuff to cover. I thought I would talk generally about the 2 portfolios and I put a chart in here that has the market values so I guess we will spend a lot of time on that because it talks about what goes on in the market place and as you know, you funded us in the middle of a market that was a little unprecedented. For us the challenge is that it's a very evolving market and the assets that you gave us to begin the whole portfolio are probably some of the assets that are most effected by what's been going on, mostly from a valuation point of view in the way they trade, so it's made this whole process of managing our sort of core portfolio and then managing this transition portfolio that much more challenging. The guideline waiver issue we wanted to discuss and some of the other things we can do at the beginning or the end and I think it will all come together as we go through the materials here. I think the best place to start is to jump to page 6 and what I did here was basically put the market values of the portfolios since the day the portfolio funded on October 15, 2008 and then every month in and then the request I had to move the CNBS from one portfolio to another, I put it in here so you can see it, I think it will help you understand exactly what we're trying to do.

And one final bullet point that isn't on this page is we were able to sell some items in the transition portfolio and we moved about \$11million in cash from the transition portfolio to the Guam portfolio. So the numbers at the bottom if you put it roughly, as of today, will be \$43million in the Guam portfolio and \$47million in the transition portfolio. I think it's important to know the end game so it will help frame some of the discussion.

Gerry Cruz: How much of the commercial mortgage backed do you have in your portfolio when you acquired us? IRM: Total, it's probably close to \$20million, it might be a little more than that. Gerry Cruz: This is stuff that was on your books when you acquired the portfolio? IRM: Yes, we haven't purchased any CNBS for you. Gerry Cruz: Are you aware of whether or not you even have the authority to purchase commercial mortgage backs? IRM: I think we do, it's in the context of the guidelines, but I think we're restricted and part of the reason we want to have the waiver is that we're restricted to 40% of securitized bonds across both portfolios and of course because we were given a tremendous amount of that, we're over that. What we're going to do is, we wouldn't buy more, ultimately what we want to do from CNBS, we're constantly looking through the bonds and this portfolio holds basically 07 paper. It looks like the previous manager bought just about every 07 deal that came to market and we like the earlier vintage stuff. Gerry Cruz: I was just going to suggest that maybe you might want to have your compliance department look at that one more time. James Taylor: The issue was raised by somebody else and we would appreciate your input on this. IRM: Okay, if according to the guidelines we're allowed to buy this, I'll look into it. I believe we are. Ultimately what we are going to try to do is in the Guam core portfolio, we're going to try to swap out of the 07's into the 05's. The problem is that the spread has been so wide with the 07's versus the 05's that it hasn't made sense to do that trade yet so we're looking at that and hopefully that's moving our way, we can get you into the stuff that we want to own as opposed to what was given to us. So if you start at the top on 10/15 when we took all the securities in, we're basically at about \$113million in market

value, \$52million was allocated to the core portfolio and about \$61million was allocated to the transition portfolio. And the issue is, that was using the bank pricing, so the transition portfolio is chock full of commercial mortgage backed securities which are on the whole priced ok but a lot of the non agency back securities that's the stuff that is the most difficult to deal with, was priced way too high by the pricing services. So that first dip down when you look just after 16 days, you see the market value of the transition portfolio drop down to 62, the bulk of that is us getting our arms around what's in the portfolio and overriding the bank prices down to a more reasonable valuation to what we think it was worth. That process continued through November, you can see there's a tremendous drop of market value unfortunately from October 15 through November 30th. I would say a lot of that was again the pricing issue that we were ahead the pricing services understood these bonds to be valued and then secondly, in November, that was when Paulson, (you remember Tarp) right around in mid November, they said they were not going to use those funds to purchase troubled assets.

Two things happened, valuations came down again on a lot of the non agency mortgage back securities, the market took a big hit, but more importantly everyone who was hoping they would sell some of that to gain some liquidity who owned this paper, suddenly had to look to other parts of their portfolio to sell and they looked to CNBS commercial mortgage backed securities, so that's when commercial mortgage backed securities took an even bigger hit, they started falling bad a little bit initially when we got the portfolio and then fell out dramatically in November that's also part of the decline in the market value, you can see the market value wasn't that great in the core portfolio because that's funded with slightly more liquid securities. We took in a lot of portfolios like this time period and on Monday, what your traders might have categorized a liquid security or something that was partially liquid by the end of the week could have been a 3 or a 4. So that's what we're dealing with and that's why the CNBS issue wanted to move things over. The market it's just so fluid and changing dramatically on a day by day basis that it requires this sort of massaging of what should go in one portfolio and what should go in the next. For us it's just accounting it doesn't affect, if it was in one portfolio, we really wouldn't want to sell this commercial backed securities because we think they're worth more than what they're being priced. So whether they're in one portfolio or the next doesn't matter too much, ultimately what we want to try to do is get this core portfolio looking more like our portfolio, so you can start to judge us on how we do with our strategy and then we can start to keep working out of some of this transition.

What I did was, I know we asked for approval, but I wanted to show you what it looked like if we moved the CNBS, we requested I guess initially \$19million but when we go back and look at it because the market is changing so much, it's really \$16million, this shows what it will look like if we moved the \$16million from the core portfolio into the transition portfolio, so at the end of January, that's what the market value will look like but then over the course of mid January and February, the market started to feel a little bit better, in December the market started to feel a little bit better and in January it started feeling better and what went on was there were some programs coming into the market where some people wanted to buy some of this non agency mortgage backed securities, it's very specific and it's by shelf, there was one interested party who wanted to buy a lot of the Wells Fargo paper issue and we worked out, we sold about 8 line items, about \$7million other transition portfolio out of those names so we got decent bids, sold bonds everywhere from mid 60s to

80s in terms of dollar price and these are things that were being priced in the mid 40s to 50s so with patience you're going to get some good execution if you ever work out some of this stuff. In the mean time, this non agency mortgage backed paper is throwing about \$500,000 of cash flow a month, half of that is from pre-payments and half of that is from coupon interest so there is a constant cash sort of build and we moved close to \$11million at the beginning of this month from the one portfolio to the next and now it's getting closer to a 50/50 split so I'm sure one of the concerns was we wanted to move the CNBS from one portfolio to the other that would have this lopsided effect of having way more in the transition portfolio than the core portfolio, but since we were able to sell some items, it's back more to a 50/50 split.

Gerry Cruz: What would be the rationale for the transition portfolio? IRM: The rationale is it would make us have patience and not fore sell some stuff in a bad market place. We understand that these are securities that we don't love, but they're ok at the prices where we can sell them. They're certainly not okay, unfortunately, at the prices we paid for them, but when they're being priced in the 40s and 50s, it's not necessarily a good sell. They're waiting to be sold, while they're throwing off cash flow, they're waiting to be sold at better prices. The rationale for moving the CNBS is that those are a way to sell too, if we left them in the core portfolio, it would look silly, it would have way too much in commercial backed securities and would not perform anything like our regular portfolios because of that over weight and I don't think you would judge us fairly on what we're trying to accomplish.

Gerry Cruz: So, is there going to come a point where we no longer transfer assets from the Guam portfolio into the transition? IRM: I think we should be there, if you look at this point and if you go line by line through the Guam core portfolio, there's really only 1 bond that's tough to sell right now, but other than that, we're pretty much there, so I wouldn't expect us to come back with anymore requests to move anything from the core portfolio back to the transition portfolio. The core portfolio is really close to looking the way we want it to look, the last couple remaining will be the last inherited corporates we'd like to get out of and the CNBS that we left in there are a little long so the contribution to the duration, the effect on the portfolio is really 2x where we want it to be percentage wise. Ultimately we want to swap those out off into some shorter 05, but the market hasn't allowed us to do that yet, so once we do that, I would say it's going to be pretty close to where we want it to be.

Gerry Cruz: Is it reasonable to ask for a time frame where you think you'd be able to liquidate? IRM: It's getting there. I think our outlook is things are definitely moving in the right direction, I think December and January showed that spreads started to tighten, liquidity came back in, we were able to get out of those non-agency mortgage backed securities, but it's going to be bumpy, it's not going to be a straight shot back into normal, back to where everything is smooth sailing, there are going to be some bumps and I think February is a bump like that. James Taylor: The biggest concern that I have and I don't see any alternate is, we're demanding a lot of faith from you and in terms of your analysis of what's going on, I just want to feel comfortable that I know what's going on maybe on a month to month basis, what's in that portfolio. IRM: I was thinking that maybe what we should do is, we've been doing a lot of these transition portfolios and I think the key to making it successful for everybody is constant communication and you need to have (in person) communication, phone calls are tough but better than emails. I was thinking about

a monthly update, more than just the holdings, sort of a summary of, here's what's going on and just sort of lay it out for you so you have more of a constant dialogue, maybe that will be helpful.

Investment Committee Chairman Leon Guerrero: Our position is, this is our goal and we don't need to be constantly asking, you should do whatever you need to do. IRM: Right and the last bit was just cleaning up this whole transition versus core portfolio and I think once we nail that down, it's more communication. One of our hallmarks if you talk to our existing clients, is communication, we try to make sure that we are talking to our clients and we're all in this together and while it's our job to manage it, to let you know what's going on is sort of paramount to what we're trying to accomplish. Gerry Cruz: That's important, but what I think is also important from where I sit is that we know when to begin to judge a performance, if we have this moving transition portfolio, it kind of masks what the true performance is of IRM, the sooner we get to the point where we can objectively measure your performance, is a place I'd like to go. IRM: That's what we're trying to accomplish with why we're moving CNBS over, roughly 50% of the portfolio, I would say, we're there. We would love ultimately to get out of the CNBS and do that one last swap and really make it look like ours. Gerry Cruz: Let's take a look at that about whether or not that's even an investable option, whether it has compliance before we do that and if it is then that's good.

IRM: Any more questions on that page?) We threw performance up there because I couldn't go to a meeting without any performance, it's only 3 months and I don't think it's really representative of what is, it's more representative of what's going on in that core portfolio, so it's dramatic under performance relative to the benchmark, it's basically all being over weight on some of the stuff we didn't own. So you can see November is the toughest month, that's when the market got hammered, December things started to come back a little bit. I think one of the key numbers to see the effect of what's in your portfolio versus ours, if you look at the chart below on page 8, you can see that the year to date of our composite was a positive 2.8% versus your portfolio which is a negative 1.42 performance relative to the benchmark and that shows that we're still not quite in line with what we're suppose to be doing. We don't really have performance being calculated on the transition.

I like to show page 8 because it shows how we manage our other clients portfolios in this process and we under performed in 2008, so even if you had your portfolio with us in 2008, it wouldn't have been a good year, it's probably better than a lot of managers, but it was definitely a tough year, not one that we're proud of, but I think it's understandable. What happened in 2008 is a lot of good was thrown out with the bad, what got us into this mess was the sub prime and the mortgage backed securities, but what happened as a result of that and the Lehman Brothers and this overall illiquidity, is that a lot of good bonds got thrown out with the bad. Examples are high grade corporates, bonds like Budweiser and Coca Cola, household names trading at ridiculously wide spreads. In bonds we bought about 12% of the portfolio in this other type of bond, Small Business Administration loans, which are backed by the United States Government at the peak of this whole good being thrown out with the bad, they were trading 4% over treasuries. The only thing that traded well in the fixed income markets was nominal treasuries, not even tips, tips which had the same credit quality were also thrown out with the bad so tips became a relatively cheap

alternative last year as the whole year focused on deflation and not inflation. So the only thing to own last year was treasuries, if you owned anything else you didn't do well, they give you an opportunity and they give us an opportunity to buy more of some of these high quality bonds to really increase the yield of the portfolio. Any questions on the portfolio? It is what it is and I don't think it's representative of us, but we wanted to show it to you. Ultimately our goal was to make your portfolio form in line like our other portfolios.

On page 11 if you look at the 5 year, that shows what I was talking about, these are all United States Government bonds fully back by United States treasuries. The 5 year of the treasury was at one point 1.9%, SBAs were trading at 2.6% over in terms of yield and those other, I don't know if you're familiar with those FDIC backed loans, another program set up by the Government to get liquidity back in the banks to allow them to come to market with bonds maturing no more than 3.5 years out without being backed by the FDIC, so being fully backed by the United States Government, Goldman, Bank of America, JPMorgan, everyone came with these deals when it started back in November, it started around Thanksgiving, they were trading at close to 200 over treasuries 2% higher than treasuries backed by the FDIC and we bought some into your portfolio, not in November, but basically 1% over treasuries, so there's another example of the good going out with the bad, so you want to own those instead of treasuries. In the chart on page 12 speaks of what I was talking about before, the good being thrown out with the bad, Budweiser, household names, trading at very wide spreads to treasuries. If you ran this chart 5 years ago, maybe 3 or 4 years ago, all of these boxes will be pretty much right on top of that green line, you wouldn't even see a disparity, that's how crazy things have gotten.

If you look on page 18, this is what the core portfolio looks like at the end of January, so getting kind of close to what we want it to look like, not exactly the same bonds, but pretty close. You can see the yield advantage is 260 basis points over the index, so we are over weight spread product and that's conscious so that's taking what you've given to us and selling off a lot of it and buying a lot of new bonds. If you look down at the bottom, about 45% is what's called structured paper, if you go to the 3rd box down, you can see we're over weight a little bit on the structured product, but you can see where we differ dramatically at the bottom line, mortgage backed securities, so we don't like to own traditional fixed pass thru securities, we don't like the structure of those bonds. Unless you're being compensated so much with so much extra yield, we're almost always going to be under weight. What we prefer to own are commercial backed securities, some asset backed securities, SBAs for some reason are included in this category, because there are some cash flow issues to them, we keep them in this category. Where we're most over weight relative to the index is in high grade corporates, we think that high grade corporates are a very good opportunity, where they're trading with sort of depression like scenarios priced into the market and we think there's a lot of value in all of those sectors, financial, industrial and utilities. This is close to what you look like, what we would want is different CNBS and maybe a couple of different corporates that we have and weren't able to get out of, but on the whole, it's pretty close.

Gerry Cruz: What do you see in the commercial backed securities that's attractive for you to be almost 11% over weight against the index? IRM: If you go back to page 14, what you see there on the bottom left hand side, the blue line is the spread chart that shows what CNB spreads were like historically and what happened to them in that first blip during the

Blair Stearns, the beginning of this crisis and then what happened in November, which was that dramatic widening. We look to the right, there's a whole bunch of CNBS that you could buy, we focus only on the Triple A senior structure, so the highest tranch, first pay, if there's a default on one of the underlying loans, the loss will flow up the bottom and hit those double D's, the cash they get from selling that flows down to us in the first category. What we like about it, the valuations where they are, they're actually pricing in the fact that you can almost have 100% of the loans default and historical recovery rates, we're not going to lose a dollar of principal. So they are pricing ridiculous scenarios that we don't think is going to occur. The deals that we buy are diversified across property types, we have everything in there from office, retail, across the country as well, 150-250 loans, so it's very diversified pools and again when you run the math, if 100% default, you're going to be okay, you're protected, you wouldn't see one dollar of principal lost at the current valuations. So we think in it's highest quality tier of this market, there's just tremendous value. Every portfolio that we have is about 15%, so this is pretty close allocation-wise to where we want to be, again not from the bottom up point of view, not just the exact securities. So, 15% CNBS, 12% SBA against treasuries trading at 2%, eventually spreads are going to tighten, are they going to tighten tomorrow, maybe not, they're probably going to widen again, because it's going to be bumpy, but I think if you look out 18-24 months when the economy starts to feel better, you'll start to see spreads tighten.

On the corporate bond side, we think corporate bonds are trading 2 times wider than what they traded the last time we were in this crisis. Back in 2002, we went through the Enron crisis, spreads widened up. They only got about 250 over, right now we're 2 times that. Some of that is fundamentally justified, I think this economy is probably worse than it was back in 2002, but it's that technical widening of all this fore-selling that has made this a really great opportunity to over weight corporates and over weight the higher quality names. Even the Triple B's that we own, are the higher quality Triple B's, the higher tier so the defense in the rails under yield a lot of the single A's, but give you some diversification. That's another one of the waiver items, part of your guidelines say that no more than 20% of the whole portfolio can be below single A and we've done a good job of getting rid of some of this stuff, but right now we're still at 20.6% or 21%, so we're 1% over. Our goal is to try to get you in compliance with what was given to us, but we just don't want to give stuff away to make that happen. So, part of the waiver that we would be asking for would be, once I double check the CNBS issue and make sure we're on the same page there and we'd like some more time to get you in line with the ratings requirements too.

Gerry Cruz: You're pretty over weight on the asset back? IRM: We are, there's not a lot in the index, that is mostly high quality credit cards with the big banks, nationalized banks, what you're not going to see in our portfolio are regionals, where at some point the Government is not going to throw good money after that and not back then. Our confidence level in Citibank, Bank of America, JPMorgan, Wachovia and Wells, are going to be around and they're trading ridiculously wide and we think their credit card programs are fine as well. To quickly run through the transition portfolio on page 23, the bulk of these finance names are hybrid type of securities, which are trading terribly in the market right now and you can see it's being priced in the mid 40s, we're eventually going to try to get out of these when the bids improve in the market place. The utilities are hybrids as well and industrials are just tough to sell names. There's some asset backed that are tough you can see. Looking over recently the ETRVM deal, that price is no where close to 93 and needs to be

marked down, it's hard to do anything, that's an E-Trade, these are backed by boats and recreational vehicles.

Investment Committee Chairman Leon Guerrero: What does the term "yield to best" mean?

IRM: The term "yield to best" is similar to yield to worst and our firm has a bias towards that term, which results from long ago we did a lot of put bonds, corporate bonds that had longer final maturity dates, that were maybe 20-30 years but had a put option within 10 years, the option was ours, not the issuers, so if you want to calculate the interest where you're at, the "yield to best" if it was a high interest rate environment and the bond was trading at a discount because of the maturity, but because you could put it back ahead of time, you can calculate the yields when you have the option. If it's not a put bond, it's yield to worst. The CMBS, the bulk of those are the ones that we requested to be transferred so you can see what it looks like and you can see 07's pretty much across the board, most of the deals came in at 07. Gerry Cruz: Are these paying? IRM: They are paying, none of these are in default, even the non-mortgage backed securities are paying. In terms of the firm, we haven't really lost any clients over this time period, we've had a decent amount of new clients, we've added about 20-25 employees over the last year and a half, we're up to about 70 employees, no seniors have ever left.

Investment Committee Chairman Leon Guerrero: Do any of the regulatory agencies have any issues with you? IRM: No they don't. We had an SCC audit in March 2008 and we passed, they found 2 things, a couple of our employees were late filling out their trades, you have to report all your trades, one person was on vacation so it was a couple of days late and on our private client side, you do a lot of crosses, if one client needs money and you need to liquidate bonds, you can cross them into another portfolio and we did 835 of those trades last year and they didn't like the price on one of them, we followed our procedure and they said we didn't. Those were the 2 issues that came up, but nothing substantial. I'm going to look into the CNBS issue and let us know on the guideline waiver and maybe what I'll do is make this monthly update iterative and you give me feedback if it was too much or too little and we can go from there. Gerry Cruz: Our Investment Committee meetings are the 2nd Friday of each month so if we can have it right around there. (End of presentation by IRM)

2:15pm - 3:00pm Davis Hamilton (Funded September 2008)

Davis Hamilton: On page 1, this is a top level comment on what's going on in the fixed income markets and the asset markets overall over the last 6 months of last year and it was a time of crisis. In the fixed income world, everyone ran towards treasuries for the safety of having that Government backing and not only was it a time of danger and that's what people were trying to avoid, but the way we tried to look at it internally was a time opportunity and so the last few months we've tried to take advantage of that and some of the positioning we've done in the fixed income portfolios and obviously continuing into this year.

Page 2 here shows how extreme it got, there's a chart that shows how much corporate spreads widened out, so this really shows how much excess yield corporate bonds were giving you above treasuries and what it reflected was to entice to a degree that people were willing to

stay in corporates, they were demanding quite a bit of excess yield to stay in that and you can see that at the end of the year was definitely the highest level that we have seen in 12 years and kind of on these charts across the page it shows some of the different crisis we've gone through in the financial markets over the last few years to the extent to where this one topped them all. Page 3 shows as those spreads have widened, the opportunity that's really presented itself now and what we were trying to take advantage in the portfolio and if you look back at some of the past, 1998 was the Asian financial crisis and you can see there corporate bonds basically gave you negative excess returns, meaning they were underperforming treasuries.

The following year they had a pretty meaningful snap back and the same occurred in the market in 2001. Last year was a little bit unique in that corporate bonds basically delivered negative excess spreads in 2007 and with the crisis last year, they trumped it minus 20% excess returns, so very meaningful and very rare that we've seen 2 years like that in a row, we think that means tremendous opportunity to basically add value and spread product beyond treasuries here in the new year.

Page 4 shows if spreads were to tighten and this shows an example of a 10 year financial issue, so be it a corporate or an agency, if spreads were to tighten by 150 basis points over the course of 2009, that bond would basically appreciate in price, the combination of price plus the spread tightening, would be a 17% return as that tightened, if it would be a bigger tighten, 300 basis points, 27% and obviously if it happened more quickly, even more better benefits, that's really what we've tried to take advantage of is looking to add spread product to the portfolio, high quality spread product, because we definitely stick to high quality. Page 5 is just a summary of some of the Government actions that have been taken already over the last few months as the Governments tried to battle the financial crisis and bring stability to the credit markets. What all these add up to is because of these actions taken so far, we've already seen corporate spreads start to tighten up a bit. Here in the new year obviously the equity markets have been under tremendous pressure still despite that happening the credit markets have actually been much more stable and some of the news that's come out that's been negative for the companies like Citigroup, Bank of America and some of the big financials has actually been positive for the bonds because the actions they've taken, they're bad for share holders but they're good for bond holders in that they give greater confidence that these corporations will be able to service their debt. All that being said, it's sort of the back drop of what we're looking at going into 2009.

Page 6 is a brief summary of performance, obviously we took over the management of the fixed income assets towards the end of September and the 4th quarter of 2008 was spent really transitioning the portfolio and working with the securities that we received. Obviously there were some problem positions in the portfolio, it was a very diverse portfolio of bonds that came in and we went into the 1st quarter and into the new year really working through those positions as the market has given opportunities to get out of bonds that don't really fit what we want to own going forward. Basically there were a lot of lower quality credits, there's some - bonds in there which we wouldn't normally hold, there's some other agencies, but the biggest would be the credits, some of the corporate credits that have been in there. We have been adding broadly across our portfolio as we've been adding corporate exposure. This portfolio when we took it over actually had a higher degree of corporate exposure than any of our other accounts so we kind of work that down in line with our

other accounts. And also with that there have been some positions especially on the corporate side, American General which is a subsidiary of AIG, there's some bonds in there that came in the portfolio that were American General paper that came in that have been traded at pretty distressed prices so if you looked at their yields right now, they're yielding 20-30% because they're still at a depressed level so we've been able to sell out some of those positions when the opportunity has risen. A few of those positions we still have in the portfolio because they are current on their payments and as long as they're current on their payments, the risk is, you sell them at these depressed prices, you lock that in.

James Taylor: Do you happen to know if any of that material that we're talking about, the corporates, were bought at that level of evaluation or were they dropped in value after whoever bought them after? Davis Hamilton: They dropped, the previous fixed income manager. There's basically 2 or 3 of them if you look where they trade now versus the prices that they were purchased at, they trade at a tremendous discount and that was the case when they came into the portfolio in September so we're definitely closely monitoring those and as spreads have tightened, we're looking for the opportunity to prune those back. The first thing that we did was we trimmed out some of the corporate positions that were receiving better price in the market where we weren't going to because a lot of these bond positions were securities where there really just wasn't a ready market. There wasn't a market maker willing to take those off your hands and in some cases, there's a market maker out there but there's a tremendous spread between the bid and the ask and a lot of these are just not willing to do anything with them. What we've done by staying patient and sticking with some of those positions as the credit market has strengthened and those spreads are coming back in, we're starting to see the opportunities that one market makers are wanting to make a market again in some of those positions, so we sold some and we're being patient with others. All in all since we've taken in the portfolio, we've turned over about 40% of the portfolio. So again what we're doing is we're trying to act prudently, we've gotten to a point in the portfolio where we're happy where we are in duration and some of the other characteristics and the exposure in the portfolio between treasury and corporates and mortgage backs.

On the broader scale we've gotten the portfolio to a degree that we're happy with how it's positioned, but as we move forward and opportunity presents itself, we still move out some of the positions that came in and move into bonds that we feel more favorably about. Page 6 the performance for the short period, obviously the 4th quarter of 2008 was a transition period where we're really trying to work through the bonds that came through the portfolio, going back to October/November, they were very difficult periods for all asset classes in the market and obviously as we saw in that one chart, as spreads were widening, that did have a negative impact on the bond positions that came over and as we were working through that in the 4th quarter it definitely had an impact on the performance of the portfolio. Since then you can see the account was up about 20 basis points versus the now Barclays use to be Lehman aggregate index, was down 88 basis points so we've been able to pick up 6 basis points relative in the month of January. Through the end of February the portfolio was basically flat with a return of zero versus the Barclays aggregate index down 1.2%, so roughly 125 basis points of relative out performance so far here in the new year. A lot of that has been as credit has tightened, mortgage backed's have tightened, spread product is starting to pick up that excess return that we were hoping to see as we move into 2009.

Again, we believe that to be kind of the game plan for 2009 and the fixed income markets in general.

Page 7 gives you a summary of some of the steps that we took in the 4th quarter and into the new year in terms of working through the restructuring of the portfolio. One of the things that we've done so far is that we have consolidated down, we've removed 9 positions from the portfolio. When we came in, there was about 109 bond positions across all the different categories and it's now been trimmed down to 80 positions total and again some of them have been various mortgage pools, some of them have been corporates and so far we haven't really added any new corporates in there because it had a higher exposure to begin with. What we really added so far has been exposure within the mortgage backed's, high quality, mainly 15 year maturities and part of that we've moved to upgraded credit quality and I've mentioned some of corporates that we've sold and what we've also done as we've done that was moving into agency debt, mortgage backed and agency backed, so they're all Fannie Mae, Freddie Mae, Government backed pools of agencies that we've added. As we've done that the quality profile has moved up and we feel that there's a lower degree of risk in the portfolio so we're comfortable with that. We've also added, as we kind of re-positioned it, some of the mortgages we've sold have been 30 year mortgages and we've moved those into 15 year mortgages, it's reduced the convexity in the portfolio, meaning it's a little less sensitive to moves and interest rates, because the yield in treasury has gotten so low that we do think as we move forward, the yield in treasuries will start to move back up and at the same time, some of the excess returns, the yield on corporates and some of the other areas will start to move back down. So again, within that framework, a lower convexity of the portfolio will be better positioned to take advantage of that and finally, when we got the portfolio it was about 40% longer duration than the aggregate benchmark and we have taken steps since that time to move it back to a more neutral position. Again for that, we would rather be shorter duration relative to the benchmark right now because we do think that the direction of interest rates will be moved back higher in terms of treasury products, tightening on the other areas but the overall direction, rates moving higher.

On page 8, this is kind of our fixed income market factors and what we're really looking for going forward. Some of the factors, sentiment and monetary are really neutral in terms of looking forward, investors have started to, obviously last quarter, they've moved to put their portfolios in very defensive position, we do think that as we start to move forward, they'll start to move away from playing such a degree of defensiveness and start to more, not aggressively, but more proactively add excess return opportunities and again, that's where we've moved our portfolio. And finally money supply, the Government has taken a lot of action that is increased money supply, so money supply is showing growth, we really haven't seen that trickle down and see banks making greater loans right now and really why that's happened is not because they're not willing to make loans, the demand side has not been there because small businesses and small corporations and the consumer is so leveraged up that they're trying to work down their own balance sheets, so there's not really a tremendous demand right now for that, we think that's the way it goes at least for the 1st half of 2009. On valuations, the one thing we look at negative right now and what we mean negative is that treasuries are so over valued and that their yields have gone down so much as everyone's tried to crowd into treasuries to just kind of hide out and play it safe, that we think that the opportunity, the next direction is that rates move higher and bonds move prices in terms of treasuries move back down, which isn't necessarily a negative thing for

the bond market overall because the other non-treasury, the spread products, mortgage backed's, agencies, we think there is definitely room for those areas to give you positive results in 2009.

Finally, both economic and inflation factors are positive right now in that because the economic slow down is really taking away from inflationary fears right now and without those inflationary fears, normally that would indicate, you would see lower rates overall, all else things being equal. So, there's really no reason for rates to move up higher as a result of inflationary factor, which is a very different scenario than the middle of last year when oil prices were hitting \$147 a barrel and all the different commodity types were just kind of at extreme levels, we've seen those work down tremendously.

And finally, economically, things have been very weak, but the Governments and Governments world wide have taken action to try to really prop up the economy and give down side support and where it's really being felt right now is in the credit side of the markets, we got to see it really triple over and benefit the other asset classes including stocks.

So finally on page 9 is a snapshot of the portfolio itself as of early February, we wanted to bring something that's up to date as possible at the time we put the books together. As you can see right now, the biggest bet in the portfolio versus the aggregate is that we're over weight in mortgages. Where that's really taken place right now is we've added Fannie and Freddie backed mortgage pools that are 15 year, non of this is sub prime, this is very high quality investment grade mortgage backed securities that we still feel as spread products spreads tighten, there's a tremendous opportunity to add value. Usually corporates, the portfolio is basically right in line with the aggregate index. Opportunistically, the first thing we'd like to do to work out of the corporates that we still have portfolio that we inherited from the prior manager and put them into higher grade and put them in corporates that we'd be owing broadly across our portfolios and after we've done that, we still opportunistically look to step up our corporate exposure a little bit more, nothing meaningful above the benchmark, but slightly higher level and again that would remain in very high quality securities.

Investment Committee Chairman Leon Guerrero: What did you do with those holdings that you didn't particularly care about? Davis Hamilton: Some of them we still have in the portfolio. As we've gotten the opportunity where prices have gotten more realistic, we've worked out a few positions and there's probably 4 or 5 corporate securities that we've sold for the portfolio. Some of the other ones we have on the monitor list of the framework of what we would like to do, we're monitoring those prices and once we see them improve, we'll move out of those securities. Investment Committee Chairman Leon Guerrero: Was picking up someone else's portfolio much of an issue for you? Davis Hamilton: When we went back in October, we kind of broke the portfolio down into 4 buckets, there was about half the portfolio that we put into the difficult and very difficult categories. Having it properly categorized that way has allowed us to monitor it properly and because of our thought process, we think that corporates will improve in 2009, we've been patient in some of those positions and we've been rewarded so far in that when they came in they were already under so much pressure, that we were starting to see those extreme spreads that they were trading starting to tighten a bit. We think that will continue to be the case and we will get

the opportunity to work out of those positions without causing any undue harm in terms of bad prices. That's what we've done so far, we've tried to be prudent and patient.

James Taylor: Is the reason you're so heavily into mortgages because that's what you picked up? Dimensional: Where we've sold some corporates, where we've added the exposure has been mortgages. If you look at our portfolios across the board, if you look at all of our client accounts, we're over weight in mortgages right now. We have a little bit more mortgages in this portfolio right now relative to agencies, some of that does reflect the portfolio of what we've received, what we've done is some of the mortgages that were 30 years, we've positioned them into 15 years. Right now in plain high quality mortgages, there's a tremendous opportunity because the excess spreads that they're trading at where these are mortgages where all the payments are current, they're not sub prime customers where they're at risk for foreclosures, or any of the other areas where their payments will not continue. James Taylor: So you say the entire 62% or the great majority of the 62% are what you consider to be solid? Davis Hamilton: Correct, that area we've worked through some of the portfolio, if you look in the 2nd half where it kind of goes to the purchases and sales, what we've done is we've sold some like the 30 year, the longer duration pools on the mortgage side and we've moved them, so in total, we've turned over about 40% of the portfolio and somewhere of maybe between 5 and 10% that is corporate and the remainder is really mortgages, where we've worked through what we've received and moved it into mortgages that better fit the profile of what we want to own.

James Taylor: And the reason treasuries are so low compared to the aggregate, is because you believe treasuries are due for a fall? Davis Hamilton: Correct. We think that treasuries are over bought spreads. James Taylor: You're making a pretty strong call in that regard. Davis Hamilton: Versus the benchmark, but that's consistent across all of our fixed income products right now, we're under weight treasuries, we think the opportunity right now is that treasuries yields are going to move back higher. Everyone is so crowded in that trade as they start to move out of treasuries into other areas, yields are going to move higher and treasury bonds prices are going to fall down. James Taylor: So this portfolio looks pretty much the way you want it to look? Davis Hamilton: With the exception of the municipals and the fact that we would probably own a little more agencies, but it would probably be the 6% municipals, you could look at that 6% split into those 2 areas. I think there was only 1 treasury security held in this portfolio when we received it, I don't think it was exactly 3% of the portfolio, but that is consistent of where we've been overall in our other portfolios. If you look at where we're positioned in high quality spread products, there's a tremendous opportunity to add value over the foreseeable time period and not just in 2009, we think this will continue in 2010. But again, because of the fact that we stick to high quality plain securities, we do not feel that we're taking on any undue risk characteristics in having that spread product in treasuries. We think the bigger risk right now is if you're too heavily invested in treasuries, you're going to suffer negative performance of the bonds as the bond prices move down and the yields move higher.

In terms of housekeeping, we haven't had any more changes in our firm, when I was here in December we had discussed the changes that took place earlier related to equity, on the fixed income side there have not been any changes what so ever, at the firm level, there have been no changes. The one thing to mention is that we did hire one new investment analyst, who joined our firm the 2nd week of December and he's been a great addition so far,

but short of that, they've have been no other changes related to ownership or anything else. It's been steady as it goes and like everyone else, hoping for a better market environment in 2009. Rosalia Bordallo: Do you have any litigation held against you whether it's regulatory or personal or by consumer? Davis Hamilton: No, no litigations. (End of presentation by Davis Hamilton)

Defined Contribution Plan

3:15pm - 4:30pm DCPlan - Quarterly Performance

Terry Dennison: Of the difficulties of the market been that's impacted our investments to a degree that we can only take what the market gives us, so if the market is down significantly, our portfolio is going to be down significantly. It's unrealistic to assume that we're going to be able to go against a strong trend in the market as we've seen. If you turn to page 24 in the book, just talking about the performance, one of the things that we look at is what the total fund performance has been and we compare it 2 ways, we're comparing it against the index that we have set up which is effectively a passive implementation using index funds of our core strategic asset allocation. On a periodic basis we go through a process of establishing what the appropriate asset allocation is taking into account statutory requirements, good practice for risk and return and being mindful of what the needs of the fund are to generate wealth. It's inherent in our economic system that's seeking higher returns begets exposure to higher levels of risk. If we're going to get the kind of return we need to get the wealth in the plan, we're going to have to accept some risks.

If you look at the quarterly performance (for quarter ending December 31st), we were down 11.6%. Our blended index, which is again a passive implementation of our strategic asset allocation, was down only 9%. The numbers in parenthesis represent our performance versus a wide range of other public funds. We have a universe of performance against other public funds with which we can measure our performance. One of the things when you look at total fund performance is the impact of asset allocation, our asset allocation was selected to suit us, the other public funds are presumably doing things that suit them. If we look at our performance versus the other public funds, we rank in the 20th percentile. Let me explain why that's good instead of bad. For reasons that are lost in the midst of time, back in the late 1960's, the organization that really started this business, a company called AG Beckard, now out of business, devised a way of talking about relative performance that is the reverse of every other known use of percentile. The way to interpret that number in parenthesis is our total fund performance was better than 80% of the other public funds in this universe, so we're among the top 20% in terms of investment performance for the last quarter of 2008. A significant part of that is our relatively low risk portfolio and if you look at the performance of our fund for longer periods, it isn't as good and part of the reason for that is other public funds got into exotic asset classes, they got into hedge funds, commodities, private equity, direct real estate, all sorts of more exotic investments for which there was a period where performance was very good and within the institutional investment community and a lot of pension funds wanted to look like the Yale Endowment, that's what everybody wanted to look like, not Yale Harvard, some ivy league university endowment which was 40% hedge funds, because their returns were so high.

First of all, that's inappropriate for a pension fund with the liability structure you have, this is a closed fund. The flow of contributions isn't enough to pay benefits, you have a very large negative external cash flow, which means we have to be very sensitive to liabilities, we have to have money in hand to pay these benefits. A lot of these alternative investments which had performed very well for other pension funds are very illiquid, there's no ready market for units in private equity funds and there has sprung up a secondary market for

these units and usually they sell for anywhere between 50-60% of what the managers thought they were worth. So the reality is the fact that we were partly by statute and partly by Board direction, relatively more conservative in these difficult times has clearly benefited us. Obviously we've all been reading that the Yale and Harvard Endowment had now owed so much money that they're having to cut back expenses at those universities, lay off staff, reduce programs, because the hit was so big. The reality is, I think most people in the investment business believe the damage is even more severe than what they're been saying because a lot of these investments don't have quotes every day, they're not priced every day like bonds and stocks are, in fact if you've got a commercial real estate program where you own a shopping center, nobody actually knows what that shopping center is worth until somebody is willing to buy it and there's an incentive on part of the appraisers that are required by the managers to basically be optimistic.

Similarly alternative investments and hedge funds probably have economic losses that are not being reflected, so not only are we in the top 20% for the quarter and the top 24% for the year and the top 32% for 3 years, we're probably actually better than that if we compare ourselves against other public funds looking at the real economic losses that aren't being reflected because these securities don't trade every day. We generally have under performed the passive implementation of our strategy, which is our index and on the next page, we can kind of see why that's happened. There are 2 sets of data on the next page (page 25), the next 4 sets of bars, the green is us and the gray is the blended index, are for cumulative periods. The trailing 1 quarter, 1 year, 3 years and 5 years. And then the right hand set of 5 bars are for annual periods and one of the things you'll notice is the more active style that we have, we don't make extensive use of index funds, the more active style we have, worked very well in periods where the markets were up. So, if you look at 2007, 2006, 2005, 2004, our active strategy out performed our index for all of those periods. Now what we found was when the stock market was down significantly and we're driven largely by what happens in the stock market, so the stock market can almost be thought of as a proxy because about 60% of our assets are invested in the stock market, domestic and non domestic. What we find is when the market was down as strongly as it was in 2008, active management under performed the index. You can ask why don't we change, but timing the market is a very difficult thing to do, because in order to time the markets successfully, you need to do 2 things right, you need to know when to get out, which is often relatively easy and then when to get back in, which is often relatively hard or is very hard, because you have to get out when everybody thinks that things are great and you have to get in when everybody thinks that things are bad. So, it becomes very difficult to time the market and we've adopted a strategy using a more active style. Interesting I think there's a general belief now that as we get into the later stages of the decline and the recovery, that active management will again do better. The reason being not that active management is good at picking winners, but rather active management is good at avoiding losers, which is actually the same thing. So you can see why while we've done very well, relative to the index, and this is not relative to other public funds, we've been hurt by the relative under performance of active management during this last quarter or last year.

One thing about cumulative numbers, if you look at the cumulative numbers, the last quarter, the last year, the last 3 and 5 years, because of the mathematics of the return calculation process itself, the numbers are what are called end period sensitive, that's what happened in the last period which dominates what happened in prior periods, so if we have

a recovery in 2009, we will see this relationship that we see in the cumulative period reverse again, because right now the last period is negative going forward, the last periods are likely to be positive.

On page 26, one of the things we're looking at here on the left side, each one of those bars represents one quarters' performance relative to the benchmark, so the zero line is matching the benchmark, the bars above the line represent quarters where we've outperformed and the gray bars that are below zero represent quarters where we've underperformed. So you can see until the recent unpleasantness in the market, with which we are all aware, generally our performance has been almost invariably positive, not by huge margins, we're not swinging for the fences, the trouble with swinging for the fences and being very aggressive is the market makes you look very bad sometimes. So, if you look at the predominance of the green bars, the green bars are generally where we out performed the market, above are larger than the much fewer gray bars and that blue line is actually the rolling excess return, basically it is summing up 4 quarters, so you can see that this constant low levels of performance has accumulated on a rolling basis to where before the recent market decline we were 400 basis points or 4% ahead of the benchmark. Now we've only had one quarter out of the last three, 2nd quarter of 2008, where we outperformed. The last 2 quarters in particular, the very bad 3rd quarter and the perfectly dreadful 4th quarter with which we are all familiar, particularly October. There was actually a bull market in 2008, it's hard to believe, but if you look at the performance of the market from the 4th week of November to the end of the year, the market was up 20%. So actually by common measures of what a bull market is or a rising market, we actually had a rising market in 2008, although most people wouldn't believe it, what's happened in the last several weeks is much of that has been given back, we're at about a 12 year low in the S&P 500 and the market was up about 3% today, but then that's just a day, the market is very volatile, it could be down again tomorrow. Again, this is relative performance, so all we need to do to outperform our benchmark is to lose less than what the market's losing, so we have to see when we re-convene here in May, how well our managers have done for the 1st quarter. The reality is, we want to make money, but if we can't make money, we'll settle for not losing money. Again, you can only take what the market gives you. The reality is, we have to invest in something, our asset allocation has to add to 100%. And one of the things that was so peculiar last year was despite the fact that we have a very diversified portfolio, which is something that is really an artifact of the last several years, previously we had a very concentrated portfolio that was subject to significant declines because all of our stocks looked about the same, they all were value managers, mostly large cap, if we had a market that particularly impacted those, everybody did badly.

We over the last several years have diversified into international, small cap and we have changed some of the managers to get rid of some of the weaker managers, so there's been an upgrade in the portfolio and we would have thought, given how the correlations that underlie our diversification calculations work, that we would be relatively insulated from a major decline. What happened this time is that everything did bad, the only thing that did well was treasuries and the problem with treasuries bonds is the yield on them was so low that we would run out of money pretty fast. We need to produce long term, about an 8% to keep the fund from basically evaporating. So if we became extremely safe, we could certainly avoid these losses, but we would guarantee the relatively quick failure of the fund. Unfortunately, we have to take risk, we have to expose ourselves to the occasional market

volatility. One of the things that you have to understand when we do the asset allocation exercise is in that process, we formally acknowledge that there are periods where the market goes down, so the model does not assume that the market just clicks up into smooth fashion, it assumes a lot of volatility. (End of recording)

Respectfully submitted,



STEPHANIE A. HERRERA
Recording Secretary

Affirmed:

Wilfred P. Leon Guerrero, Chairman