



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY • SECURITY • REWARDS

Eddie Baza Calvo  
 Governor

Ray Tenorio  
 Lieutenant Governor

Paula M. Blas  
 Director

Trustees:

Joe T. San Agustin  
 Chairman

Wilfred P. Leon Guerrero, Ed.D.  
 Vice-Chairman  
 Investment Committee, Chairman

Antolina S. Leon Guerrero  
 Secretary

Gerard A. Cruz  
 Treasurer  
 Audit & Operations Committee,  
 Chairman

George A. Santos  
 Members' & Benefits Committee,  
 Chairman

Katherine T.E. Taitano  
 Trustee

Wilfred G. Aflague  
 Trustee

**Quarter Ended 9/30/10 Performance Meetings  
 & Annual Manager Reviews**  
 December 16, 2010  
 Retirement Fund Conference Room

**Board of Trustees Present:**

Joe T. San Agustin, Chairman, Board of Trustees  
 Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee  
 Gerard A. Cruz, Member  
 Wilfred Aflague, Member  
 Antolina S. Leon Guerrero, Member  
 George A. Santos, 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  
 Doris Flores-Brooks, Office of the Public Auditor

**INTECH/JANUS:**

**Other:**

**Winslow Capital Management:**

**Robeco Investment Management:**

**Metropolitan West:**

**DB Plan Other:**

**DC Plan Other:**

pages 1-12  
 pages 12-14  
 pages 14-25  
 pages 26-31  
 pages 31-34  
 pages 34-45  
 pages 45

**9:00am-9:45am INTECH/JANUS - US Domestic Large Cap Growth**

Wilfred Leon Guerrero: We want to make sure we're meeting our fiduciary responsibilities by asking the right questions. We're going

to turn over the floor to you and for our part to meet our obligations, we'd like to know what your performance is in the last year and what you expect in the new year and how you're going to achieve that, are there any changes in your organization and whether any of the regulatory agencies have any issues with you and anything else that you think we should know about.

Thank you for having us today, I'm Ellen (Li) and some of you I have met, some I have never met. I'm based in Hong Kong, I'm responsible for institutional development for Asia and Japan. Christian (McCormick) is based in Denver, responsible for all the communications with INTECH clients from investment prospective. Last year I believe all of you met David, he's based in London, same as Christian, David is basically covering all the international business including Asia Pacific. If David is engaged for other meetings, then anybody in the team does the same job, so Christian (McCormick) is here this year to do the performance evaluation with you. INTECH as you know is one of the investments subsidiary in the Janus group. As a group Janus does pretty well, most of the strategies of our performance this year including the Janus investments, INTECH and Perkins. For INTECH if you look at page 44, composite performance, most of the strategies outperform their benchmark, including the U.S. strategies, global strategies. For Asia Pacific, the region I cover we focus on institutional clients like yourself, Government pension retirement funds, sovereign wealth funds and what we've seen last year is that there's a little bit repositioning in the asset allocation. A lot of the institutions they are moving from fixed income to more equity assets, from domestic assets to offshore. A lot of them increased their alternatives allocation to include some commodities and real estate. For Janus as a group we advantages from the exercise with a very wide product offerings. For example, the global equities and the global real estate, so we continue working in that front. A quick summary on the business side then I'll turn to Christian to take you through these particular investment strategies.

Christian McCormick: If I could ask you to turn to page 4 to start out with. First I want to thank you again for the opportunity, also I know that you funded back in February 2009 and we under performed last year and it's certainly difficult to have a manager that you choose out perform right out of the gates. I'm happy to report and we'll go through this in more specifics, as of November, since inception performance has improved dramatically both on an absolute basis and on a relative basis. Hopefully you will be happy with that and I can give you some insight. I'm kind of basing of what David told you last year, the reasons for our under performance have turned around and we see those environments continue to stabilize and help us going forward.

Before we go into those specifics, if I may, just want to run through a quick reminder review of what it is we do because our strategy is so unique. INTECH really is a volatility capture strategy, unlike traditional fundamental managers or even traditional quantitative managers, really all we're doing is analyzing how stocks move relative to one another using only their stock price in that

analysis and the great --- is to just look at what you do on an asset allocation stand point. You're looking at individual asset classes, stocks, bonds, real estate and others and you're trying to figure out what combination of these will allow me to get my return, the plans targeted return, but minimize the risk that you take to get there, the amount of risk being very important because you want the journey to get to that return to be as smooth as possible. Really at INTECH we're doing the exact same thing, that's how we look at individual stocks, we're trying to find a better combination of stocks than a cap weighted benchmark and in this case the Russell 1000 Growth and combine them in a way that we can achieve an excess return above the benchmark, but minimize the amount of risk we take to get there as much as possible. Risk management is absolutely key to what we do. Turning ahead to page 6, just walking through practical, how we go about doing that.

Our investment process and this is the same of all of INTECH's strategies, really the only difference from one strategy to the next within our firm and this has been true since we opened our doors in 1987, is the amount of risk that we take and the benchmark that is chosen; aside from that, the process is applied really in a uniform matter across all these different strategies. For the Russell 1000 Growth product in which you're invested, we always start off with the benchmark securities, we cannot own a stock outside the benchmark and that's one of our main tracking error controls. We eliminate stocks in step 2 that are essentially too expensive for us to trade. There's a large rebalancing function to what we do and if we buy or sell some of those smaller names in the benchmark as you can imagine, we'll move the price all by ourselves, so we tend to eliminate the smaller names in the benchmark objectively to minimize our transaction cost. As you can see it's a large number of securities, but in terms of market cap, it's maybe 1 to 1.5% of the total market cap of the benchmark, very small. Step 3 really gets into the heart of what we do and there's an analogy I like to use that has always helped me think about it, if I were to take these remaining 593 securities and lay them all out on the table, I'm pulling out each one individually, I'm really asking 2 primary questions. The first one is, do I expect this stock to be more volatile than the benchmark, meaning that over time do I expect it to move up or down more than the benchmark does and if the answer is yes, it becomes a candidate for being over weighted, we like that stock. The second question is, how do I expect it to move versus the other stocks in the benchmark, the correlation it has and if it has a lower negative correlation to the other securities, that also is a positive attribute and it becomes a candidate for over weight. But even there we also have a risk control overlay that, that says a third question that we're going to ask, how big is this stock in the benchmark and if you're one of the larger names in the benchmark, say Microsoft or Exxon Mobil or Apple, we're going to own at least a minimum amount of that stock in some capacity, because if we didn't have it in the portfolio, our tracking error will be a little bit too high; we want to track as closely to the benchmark as we can and still achieve that excess return. So we put that security back, we pull up the next one and ask the same question and we're just looking for the most efficient combination of stocks to build this more

efficient portfolio that again in the long run gets that excess return, but minimizes the amount of risk.

So at this point in time it resulted in a portfolio of 257 securities, 257 actual holdings. Now that number changes over time as each of the individual volatility and correlation characteristics of those stocks changes over time. But, the portfolio never becomes concentrated, it's always diversified across hundreds of different names, it's a great core type holding to have in the portfolio and because we go about getting to those 257 names so differently, it usually serves as a great diversifier relative to other managers. Wilfred Leon Guerrero: You're looking for stocks that are --- and you're looking for stocks that have negative correlation to the benchmark? Christian McCormick: To each other. Wilfred Leon Guerrero: What do you mean by that? Christian McCormick: Ideally if we could find 2 stocks that both of them have tremendous volatility, but they moved in opposite directions from each other, that would be the ideal scenario. Again that goes back to that asset allocation example is, we don't want all the stocks to move in the same direction, for all of them to move up at once or down at once because that would expose the portfolio to a lot of risk, to a lot of tracking error. Wilfred Leon Guerrero: So for every stock that you pick there's a corresponding other stock, they come in pairs? Christian McCormick: We don't match them as pairs, it's a correlation to all the rest of them as a group, it's a large optimization because if you picture with here we have 593 stocks and we're really assessing how one of them moves relative to the other 593 to try to figure out the best combination of all, but we're not just looking for pairs. It's relative to all other, in this case, all 593 names, how it moves relative to the group or individually.

Ellen Li: So the number of calculations would be 257 times 257. It moves all in different direction. If you move all in the same direction then your tracking error against benchmark will be huge, so we try to find stocks that move differently. Wilfred Leon Guerrero: What do you call your process? Christian McCormick: Volatility capture process.

Page 7 you have performance through the end of third quarter and page 8 we provide the update through then end of November. Just looking at November's numbers you can see since inception, going back to February 2009, the portfolio has produced roughly a 29% return and this is about 1.13% ahead of the benchmark. We were still slightly negative at the third quarter, but we had very strong October and November and just given the short time frame that you've been with us, that strong performance in October and November was able to pull us since inception returns, on a relative basis positive to be well above the benchmark. You can see the year to date and one year numbers also very strong on a gross and a net basis.

Over the long term the goal of the strategy, this particular strategy is to produce about 3-4% of return above the benchmark. Joe T. San Agustin: But you're not doing that. Christian McCormick: Right, it's kind of a 3-5 year goal that we

have to achieve that and with that goal in mind you have to stray from the benchmark, you need to in order to achieve a return above or below the benchmark you have to be different, we're just trying to minimize how far we stray from the benchmark. The least furthest distance we have to go and still get that return is beneficial. Joe T. San Agustin: What's your target spread? Christian McCormick: The target spread is about 4-5% of tracking error. This strategy actually is the most aggressive, that's our widest tracking error target, most of our other strategies are much smaller.

What we found statically this plays out, it's more the blow up, that's a phrase you here, but if your portfolio is down say 10% or 15% below the benchmark, it is so difficult for any manager to overcome that.

Ellen Li: We actually have different risk return profiles, some are strategies, the journey is not so smooth and more up and downs along the way. Some spread wider, some a bit more tighter. Joe T. San Agustin: Since inception you haven't been doing that, you have had too wide of a spread. Christian McCormick: You're right, but that's a goal. You would probably be happy with the number, but if I would come in here... Joe T. San Agustin: I'm not complaining, I'm just trying to understand your strategy. Christian McCormick: I'm going to give you an idea, if I was here next year and you out performed by 20%, something would be wrong, it would be good news, but a sign of something wrong. It's a good point, but we don't want to compound negative space as we call it.

Wilfred Leon Guerrero: Can you give us some thought as to why stocks become volatile? Christian McCormick: The drivers of volatility, we don't, not on a fundamental basis and what I mean by that, we don't look for what news is coming out or a global financial crisis or we don't try to guess or predict what the driver of volatility would be. Going back to 1987, what we found was stocks over time there is a pattern to how they move in terms of volatility and believe it or not, volatility is actually easier to predict or forecast than stock alphas are, is this stock going to go up or down, volatility is much more stable and easier to predict. Wilfred Leon Guerrero: It's strictly statistical decision, you don't take into consideration what the conditions are, you just look at the stock and say, okay it's time for this one to go up? Christian McCormick: Right, because we think that the conditions will manifest themselves on how the stocks will move. They're volatile because something is driving them, but trying to figure out ahead of time what those drivers are going to be is very challenging. Wilfred Leon Guerrero: So your decision is strictly statistical? Christian McCormick: Right, there are no fundamentals involved.

Gerry Cruz: What part of the market cycle would you say this model would perform better on, when a volatility index is at its peak or when a volatility index is more smooth and stable? Christian McCormick: It's when the volatility index is more smooth and stable, but different than a broad market indicator such as the VIX which has become popular. How the market itself

moves, we're not really that concerned about the level of the motion within the benchmark that's going on. A great example I like to use is, if every single stock in the S&P500 moves up by 20% one day and move down by 20% the next day, the market itself is very volatile, every single stock is behaving the same way, but if using that same example, if you had half the stocks by market weight went down by 20% and the other half went up, you wouldn't see any movement in the market at all, it would cancel out, but that type of movement would be more ideal to us, because you have stocks moving differently, it doesn't appear that way in the market, but you get a lot of commotion going on below the surface.

Gerry Cruz: What would be a driver inside that index that would raise a flag in that model to say that we're about to see a move of some sort, we're about to see the volatility that we're waiting for? Christian McCormick: There's not so much a predictive piece in there, what we're looking for is any expected quick change. Here I'll show you it to you visually on page 14, it's what the model does not do well with because everything we do at INTECH is a trade off and with volatility the trade off that we're looking at is how much of a past of these stocks do we want to look at, but at the same time, balance that by allowing it to adjust as the market changes. You actually said it at the beginning of your question, the type of environment that's ideal or I should say more conducive for us is a period of stability. What you're looking at on page 14, the red bars are a measure of relative volatility within the market, so along the lines of the example that I just gave you any period of time where you see these red bars are high, there's a lot of commotion going on in the market, stocks are moving differently from one another and in large percentages. Conversely in say of 2003 to 2007, that's a period where there's not a lot going on inside the market. We don't care on an absolute basis if it's a high level or low level because the process will adjust to it, it's how quickly it moves between those 2 type of environments. So, ideally we like a period such as 2003 to 2007 because it's smooth, there aren't a lot of changes and what that helps the model to do is to say the past data that we're looking at will explain the future very well. There's not a lot of changes so what we see in the past is helping us understand the future very well and that is all fine and dandy until you get a period like the global financial crisis where you can see how abruptly it changes, it shoots up, it shoots up again, but then it comes down almost just as quickly. That level and that quick change as what David characterized last year as a regime shift is less conducive to what we do. We're working on ways to predict when the spikes are going to occur. Gerry Cruz: So things like inflation, CPI, those kinds of indicators, those kinds of economics are of very little relevance to your model? Christian McCormick: Correct. Gerry Cruz: For INTECH what I understand is that you guys track and do better in periods where the volatility in the index passed is a good predictive function for future volatility? Christian McCormick: Right or any change is very stable or slow. Gerry Cruz: So your model can look at what happened yesterday and say with a certain level of probability, a certain level of certainty, it's going to happen again in the future. Christian: Right. Gerry Cruz: And then you trade among the volatility within

those stocks given what happen today at the market close or yesterday. Christian McCormick: Right. So when I say the past it's a 4 year look back period and we run the optimization weekly so that 4 year period of moving forward a week at a time drops off an old week and brings in a fresh new week of price data. Any change in the market takes a while to filter in or to have an influence. Gerry Cruz: How about a change in the index, say stocks move out, stocks move in, that doesn't have any impact? Christian McCormick: Over time that's actually a small negative impact just because once the stock is out of the index, we have to sell out of it quickly because we can only own the stocks that are in the index, but usually because the reconstitution occurs depending once or twice a year depending on which benchmark you're looking at, it's not that much of an effect. Gerry Cruz: Do you guys go in and play with the levers a little bit on your model or is it just pretty static and you expect what it puts out in terms of recommendations for stocks? Christian McCormick: Yes. The optimization isn't tinkered with all the research is done just approving the model overall and then enhancement or tweak will be made and that's made going forward. In terms of the portfolio that the optimization produces, that's not judged by human eyes.

Wilfred Leon Guerrero: Your average turnover on an annual basis, 126%? Can you give me a sense of how long you hold on to that stock? Christian McCormick: It's not really a measure of stocks on a complete holding basis coming in and coming out, it's more that we're constantly adding and subtracting positions, so there's the rebalancing function. Gerry Cruz: And you rebalance how often? Christian McCormick: Every 6 business days for a particular client, so for example, your account would be rebalanced on a Monday of one week, Tuesday the following week and Wednesday. The rebalancing is a factor of what day you trade as a client and also individually once the portfolio assigns a weight for example, the portfolio signs a weight to Apple 3% of the portfolio, of course now as the market moves Apple is going to move away from that weight to the upside or the downside and we have band or determiners around that to determine if it moves so far ahead of 3%, we'll sell some of it to bring it back down, if it moves below, we'll buy some more to bring it back up to that 3% weight. So, it needs to be your day to trade and it needs to break the band of the upside or the downside, but still they do often because we're trying to capture that movement, that's how the strategy works, we have to be able to capture the volatility movement to the upside and the downside. It really becomes a buy low, sell high strategy. Wilfred Leon Guerrero: I want to get a feel for how long you hold onto a stock. Let's say stock A when you buy that, what are the chances of that being sold and bought back in one year's time? Christian McCormick: I don't know if I can give you an active number for that, an accurate number for that and if I can, let me get back to you with an answer. The reason being is size will be a bigger determiner of that. If a stock is small, there's a pretty good chance that it's going to move in and out of our portfolio more frequently, but if it's a stock like Apple, say it's the biggest stock, we're going to own it probably forever until it becomes a small enough portion. So, the risk control we had is we have to be within 2.5% of a stock, so

let's say a stock is 5% of the benchmark, we would have to own a minimum of 2.5% weighting in our portfolio. So with the bigger names as long as they are the bigger names, we will always hold them to some capacity, but a smaller name where that risk control doesn't apply, that may move in and out of the portfolio depending on how much their characteristics change. There have been periods of time where the portfolio has been very static and hasn't changed and just expanded in the number of stocks, but as some of the characteristics in the overall market change and our portfolio shrinks in size, they may be for an extended period of time. It's purely determined by their own individual characteristics.

Wilfred Leon Guerrero: A few minutes ago I was under the impression you guys are in a computer room and you just look at these things statistically. I'm now getting the feeling that you're actually looking at some of these stocks and saying, we're going to keep these. Christian McCormick: No, not at all, there's no human decision. Wilfred Leon Guerrero: What about the example you used, Apple? Christian McCormick: It's purely a risk control and that has to do with tracking error. So no matter how much, it's a mathematical model, no matter how much the math likes or doesn't like Apple, it may want to own, it could put half the portfolio in Apple or not want to own it whatsoever, but we don't want to stray too far from the benchmark as mentioned, we want to track very closely, so if Apple is a 5% holding, we have this risk control that's on there that means we have to own at least a minimum amount and that will change as weighting in the benchmark changes, that's not a man made decision each time the optimization goes through that, that hold true for Apple or any stock. If it's a certain weighting in the benchmark or a certain size, we're going to have to own at least a small percentage of it at minimum. Ellen Li: The reason we have Apple is not human being decided, it's actually a result of this mathematical model, as a result of stock being very volatile and also correlation among other stocks. As a result of this model, Apple seems to be always in the benchmark. So when Christian (McCormick) explained it, he used Apple, how long we hold it, when you look at historically it seems like we've owned Apple forever because the model chooses a stock which is volatile and also has less correlation against others. Also a risk control factor, when you try to minimize tracking error, as a result of that Apple is there, it's fulfilled that purpose. Also you question how long we own a stock and the turn over is 125%, it's basically because every stock, the amount of holdings is calculated by the model so we have to adjust that position because the market moves, volatility moves so we have to adjust this position to the optimization based on what the model tells us. Now we can do it every day, to optimize, but then the trading costs will go up so we have to find a balance where we consider the trading cost as well as following the model religiously so one week seems to be a good balance. How often we change the stock, how often it stays in the portfolio, again as Christian (McCormick) said, it's a change of position, not really we sell and buy another one. So the big position is kind of adjusted up and down, but it's always there, but the smaller ones when you adjust, the tendency is they will leave the portfolio or come into the portfolio because of the size change and also depends on the overall, how



big the mandate is, for a bigger mandate then the impact is relatively less, for a small mandate it's on the --- side for those small positions it tends to be a little more. You're talking about 125% turnover on a selected stock or overall? Christian McCormick: For the overall portfolio. It's the value so what we'll look at is 125% of the value of the year as being bought or sold. Joe T. San Agustin: You talk about market value, but you keep on turning them around, I'm suspecting you're turning the stock for the sake of commission. Christian McCormick: No, not at all. Joe T. San Agustin: 125% is high for that duration. Christian McCormick: But we're just adding and subtracting small amounts to each position. Joe T. San Agustin: What percent haven't you been turning around because some of them you're holding for a longer duration? Christian McCormick: We hold it, but we're still changing the size of the position. Joe T. San Agustin: Even just for the sake of just turning it around? Christian McCormick: No, because of the optimization, because each week a different weight is being given out by the model. Joe T. San Agustin: But if a stock is performing real well, why do you want to get rid of it? Christian McCormick: Because we're looking for volatility. Joe T. San Agustin: That's what I mean, for the sake of turning, it's too much. Christian McCormick: But turning wouldn't benefit us, it would hurt performance. We would have to have a good reason to trade a stock. Joe T. San Agustin: I'm just concerned about the amount of turnover you make.

Wilfred Leon Guerrero: Maybe the question should be, what's your buy and sell criteria? Christian McCormick: It's what I mentioned, the buy and sell criteria is, so as the model moves forward it is going to produce a new weight. Go to page 42, this gives you a snapshot of how the rebalancing takes place. It's not that we own Apple, its more percentage of the portfolio Apple is constantly changing and that's what's important to us. So you can see the solid red line in the middle of the chart, that represents a weight, let's use Apple as an example, the model is telling us we need to own a certain weight of Apple at least to be a certain percentage of the portfolio and that's going to change over time as Apple's price data changes over time. Around that you see we have those bands that I mentioned, so if Apple is suppose to be X weight and it moves high to the upside, let's just say hypothetically those bands are plus or minus 10%, so the model said I want to own 5% of Apple in the portfolio, if Apple were to increase in value to the upside and break that band, it becomes 5.5% which is 10% higher, that would trigger the sale, that's where we're going to sell Apple and bring it back down to that target weight of 5%. The same thing with the downside, if Apple were to decrease by a percentage of 10%, say go to 4.5% of the portfolio, we would buy more of it to bring it back up to 5%, that would trigger a buy decision. So the volatility moves to the upside away from the target weight and triggers the sale and volatility moves to the downside, that triggers the buy. Each of these bands are different per stock, but there's no individual sitting there saying, now is the time to sell Apple, now is the time to buy, it's only what breaks these bands based on the target weight that the mathematical model has given to it. Now that target weight changes over time, so we're going to be buying or selling each stock at certain percentages quite a

bit, there will be a lot of trading volume going on and in addition like I said it has to be your day as a client to trade in a particular security. Wilfred Leon Guerrero: Are you hooked up in such a way that those actions are triggered automatically by computer? Christian McCormick: Yes.

Diana Bernardo: In your annual average turnover of 126%, are you saying that's how many times you get rid of assets or are you including in that percentage the changes in say your ownership in Apple? Christian McCormick: That includes that. Think of it almost as more the dollar amount of the value of the portfolio is turning over about 1.2 times. Diana Bernardo: So the turnover means you're changing weights and certain assets, you're not necessarily getting rid of your assets in a given year? Christian McCormick: Exactly. Diana Bernardo: Maybe you can clarify that. Christian McCormick: Traditionally that's how turnover is thought of, if I own Apple, then all of a sudden I don't own it, there's 100% turnover which isn't necessarily true from a dollar amount, it's maybe we own \$10 million of Apple and then it grows to \$15 million, so then we bought \$5 million additionally, but then we sell another \$3 million. So, it's based on a dollar amount, it's not the name's being changed out. Diana Bernardo: So if you change the weight of Apple say 6 times in one year, that's included in your turnover? Christian McCormick: That would generate turnover. Diana Bernardo: So it's not getting rid of stocks, so you might just clarify that. Christian McCormick: Does that make more sense; it's a turnover of dollars, not of stocks. An important distinction is that we don't take any soft dollars. Soft dollars could be a relationship between a manager and a broker, that would be key, but we don't do fundamental analysis, so beyond trading as cheaply as they can for us, a broker holds no value at all. Joe T. San Agustin: It does raise a suspicion. Christian McCormick: All we pay our brokers are hard dollars and that's it and they tend to be cheaper than other managers.

The type of environments and they're based on your question, the volatility environment on 14 does continue to stabilize which is conducive to our process and we expect that to continue. We don't predict bubbles like we saw in 2008 and 2009 or these adverse conditions where we're trying to add research that will help us do that, but as long as those are far and few between and we have the risk controls to protect our performance to the downside, we should be okay in the long term, but it does continue to stabilize and that's much more conducive to our process, so we do expect our performance to continue on in the next year. Joe T. San Agustin: But you're still clinging to the benchmark, you never have more than 5%, that's your strategy. Christian McCormick: That's safe. Gerry Cruz: It is a different strategy, that's for sure.

Christian McCormick: Organizational update just quickly on page 22, the firm as of September we're at about \$43 billion in assets, about 14 of which is in our large cap growth products, we have this one and another one. We did have a small personnel change on page 23, just quickly most of the individuals in yellow are folks like myself, but most of them are located at headquarters which

is in West Palm Beach, Florida, I'm based in Denver with some others. The folks in green on the right, that is our Princeton research office, so Dr. Fernholz is our Chief Investment Officer, he founded INTECH back in 1987, he is still with us as the CIO and Chairman of the Investment Committee. Below him we added a gentlemen there, 2<sup>nd</sup> from the bottom, Dr. Phillip Whitman, he just got his mathematics PhD from Princeton University and he was hired November 1<sup>st</sup> of this year. Unfortunately we had to let go another one of our researchers, his name is --- Ton , we hired him 2 years ago, Princeton has a 3 year training program, very extensive and part of the reason why it's 3 years is over that 3 year period in pieces they disclose more and more of our mathematical model which is proprietary as they gain confidence in the employee with the idea being that they don't want to have to let the employee go with full knowledge of what we do and how we do it, so with Dr. Ton we got to a 2 year mark and the determination was made that he wasn't a good fit. One characteristic that the members of Princeton have to have is they have to be able to conduct research projects on their own, to do things on their own, they come up with ideas on their own and he was not doing that very well, so the decision was made at that 2 year point that instead of divulging anymore information about the INTECH process, because the relationship wasn't going to work, it was better to just let him go. So Dr. Ton was at the level that Dr. Whitman is, an associate researcher so now we have another position open, he wasn't hired to replace him, he was always going to be an addition so now we need to find a replacement for Dr. Ton and that would be the last opening we would have in the Princeton group for a while.

Diana Bernardo: We had 2 changes, our previous contacts were Forrest and Bonnie, what happened to them? Our new contact, is it Ellen or Joby? Ellen Li: I don't work for INTECH, I work for Janus. INTECH is part of Janus subsidiary and INTECH is only responsible for investments. Janus, me Bonnie, Forrest, Joby, we basically are part of the distribution force so any products that Janus has, Janus Perkins, Janus' own products, we are responsible for distribution, support, operations. Forrest, he was in client services for a while and he was actually transferred from another Janus team and he's been with Janus for 8 years and he had an opportunity to move to another country from Hong Kong and he decided to take that chance, which is good for him. Bonnie has been with Janus for 3 years and Joby is in the client services team and Joby took over whatever Bonnie was doing. On a day to day basis she would be the main contact. I am responsible for overall client communications and business development, so Joby and I work very closely together. Joby would be day to day so if you want the reasons for cash flow changes and adjustment, Joby would be the one you would be in contact with. I travel and you can call me, but I'm not in the office a lot of the time, so Joby would be the person to contact.

Rosalie Bordallo: Any pending litigation or regulatory issues that you might have? Ellen Li: There's nothing with INTECH. Janus recently Wall Street Paper had some press, I sent it to Diana (Bernardo), some articles, it's nothing

to do with INTECH, but Janus is part of the group. What happened is, Janus is a fundamental manager and Janus does deep research on companies, we do our own research, we're not a Wall Street firm, we don't rely on broker's research, we have our own research team doing research around the world and for certain sectors like commodities, we actually subscribe to third party research, we don't rely on them but really as a part of expanding contacts in that field and one of the providers called Broadband Research they have been accused of sending non-public information to us and not just us, a lot of hedge fund managers get it, so we received non-public information, this is what the newspaper said. As part of the investigation of that firm, the U.S. Government came to Janus and asked a lot of information, that's what the newspaper said and we didn't know what's going on so we did some investigation among all the analysts. We have a very strict compliance procedure, so analysts they can trade stocks which they cover, so they won't benefit from what they know. We don't believe we actually have non-public information which is material to our investment, but because the Government came to our office and asked for information, we basically cooperated and gave them whatever they wanted. A week later or so we got official reply from the Government to say that Janus is not the target for the investigation, but because of the whole issue, they just asked us as part of investigation, but we are not the target.  
(End of presentation by INTECH/JANUS)

**Other:**

Wilfred Leon Guerrero: Terry (Dennison) was volunteering to explain to us about the scheme that... Terry Dennison: INTECH. The Chairman really should be here is because he was the one who seemed agitated. Rosalie Bordallo: Can I ask a question, when these guys got hired, was that not what they proposed? Terry Dennison: They're doing exactly what they said they were going to do. Rosalie Bordallo: I clearly recall that they were going to have a high turn over ratio, I clearly recall that they were of a conservative nature and they weren't going to try to shoot out the bulls eye every single time, they just wanted to make that incremental value, but going forward they always wanted to make that incremental value. Wilfred Leon Guerrero: (Let me defend the Chairman) I want to know more about their process and not necessarily against what they're doing. I think that's what (the Chairman) was trying to do is understand it more. Rosalie Bordallo: I think he has a problem with the turnover ratio and he keeps calling it turning.

Terry Dennison: The reason I was going to explain it and I really do think the Chairman needs to hear it is, this is different from 120% turnover in a small cap growth manager that holds a stock 5 months. This is different and it is simply an artifact of the re-balancing process, but in 10 minutes I can show on the blackboard how this number happens and why the Chairman's concerns are not necessary. Wilfred Leon Guerrero: I think when you see that kind of high turnover, the thing that hit you is that every time these guys stray they make money. Terry Dennison: They don't. Wilfred Leon Guerrero: Or it cost the Fund money. Terry Dennison: It cost the Fund money. It cost the Fund a

modes amount of money in the pursuit of making more money. You have to spend money to make money. Wilfred Leon Guerrero: I think that's where he's (the Chairman) coming from, we both have concerns. Terry Dennison: We all want to honor that concern and explain why from our perspective, it's understandable, it is their process. If you don't like that, we might as well start looking for another manager, because there's no way they can change it, that is their process. It is an absolutely unique strategy although the fundamental theory of it is in the public domain, it was published in the Journal of Finance in 1982. The secret sauce is how they do the trading, that's why they don't let anybody see all the details of the model until they have been there 3 years, because if you actually knew all of the secrets you could replicate the model. Wilfred Leon Guerrero: But the funny thing about it, I was looking at the overlapping of the securities and 50% of Winslow have the same stock as what these guys are doing by getting from their computer. Terry Dennison: Remember if you own 250 stocks of a universe of 500 stocks and the other manager is also buying from that same universe, the odds are 50% that they'll have an overlap. They're both large cap growth, they're both fishing in the same pond and if one manager buys 50% of the fish in the pond, there's a very high probability that the other manager is going to have an overlap. Wilfred Leon Guerrero: When I ask questions, it doesn't necessarily mean I'm against it or for it, I want to understand. Wilfred Aflague: (INTECH is) strictly formulary mathematics and Winslow is another strategy, the fact that they may have 50% of our portfolio in common between them tells me that they both are working, both strategies are working, even though they are so different, that's what I take comfort in.

Antolina Leon Guerrero: What is the turnover ratio? Rosalie Bordallo: The turnover ratio is always dependent on the manager, but like if you looked at Metropolitan West, theirs was a 20% turnover 20% ratio. So of this 100% that you see right now in time that's making you this money, 80% will be there next year. I'll get rid of 20% and replace those with better stocks or based on my process, whatever I need to trim down or get rid of, but 80% of these stocks today will be there tomorrow.

Paula Blas: The way I understand INTECH, theirs is all formulary, it's all mathematical so they have these parameters keyed into this one system and all the stocks go in there and it's spits out, you take this stock and this stock, they don't have that human discretion to like or not like it, it's the formula. Wilfred Leon Guerrero: Usually the turnover rate is a function of their buy and sell policy, when they get to a certain return, they sell, when they take a loss, the sell, INTECH is just completely different. Rosalie Bordallo: With INTECH you have to remember, in conjunction with the stock selection, they're also looking at the index because they're only trying to go a little above the index to beat the index, so what they're saying here is they have to look at the index and they're saying if the index says, 10% if Microsoft, I have to have close to 10% or a little more to beat the index, I must also look at the index, so if the index tomorrow Microsoft goes up to 20%, I will have to buy to make the 20%. Those big ticket

items in the index must held, they just can't ignore it because they have so much weight on the index return, you can't ignore it and they're saying whether I like it or not, I will have to put them in my portfolio.

Wilfred Aflague: Who in the company would have knowledge of their total... Dr. Fernholz. Terry Dennison: He is more the brain behind it, there's really 2 parts to the company, he talked about 2 groups in the company. He talked about the group in Princeton which actually figure out what they should hold, they're the mathematicians, all these guys are PhDs, these are the mega brains. The people in West Palm Beach do the actual trading, so they send the message from one computer to the other and part of the reason they have the 2 locations is during one of the hurricanes in Florida, they actually move the operations up to Princeton because the hurricane knocked out the power in West Palm Beach. So part of the reason for 2 locations is redundancy because they have to be able to trade, but the people in Princeton, the research group are the one's who figure out how the model ought to be implemented and then the people in West Palm Beach are largely the operations people. So, it's Dr. Fernholz and this little small group of people and again, they don't let people see all the details of the model until they have been there 3 years.

#### **10:00am-10:45am Winslow Capital Management - US Domestic Large Cap Growth**

You will lead us in a discussion of our portfolio, but just so we go on record as meeting our fiduciary responsibilities, there are things we would like for you to address. First of all on the performance itself, what we expect from you next year and why you think the performance would be ---, we want to know whether any of the regulatory agencies have any issues with and if there are any changes in your organization or personnel. You can address anything you want to, just make sure you cover those areas.

John Maschoff: I want to express our appreciation for the opportunity to be with you again and having worked with you now since the end of 2008 and with me today is Michael Palmer. Just let me begin with an introduction of Michael and we'll cover some of the organization issues, performance, our outlook, talk about your portfolio, how it has performed and why and we will respond to any questions that you have.

Michael (Palmer) has joined the firm in the beginning of August of this year and we began speaking with Michael (Palmer) about joining Winslow Capital Management over 2 years ago so this is not a recent development. We have kept him very, very active meeting with all of our clients that we possibly can see during the time that he's been with us and meeting with the consulting firms that we work with where we share mutual clients. Very quickly just some background and then I'll let him talk about his role with Winslow Capital Management and then we'll get into the booklet. Michael's (Palmer) experience, I've known him personally and professionally for over 20 years, but he worked

as a quantitative investment analyst early in his career, he also worked as a plan sponsor in your shoes, in other words, managing the Retirement Fund Defined Contribution Plan for a corporate organization, he then moved to the consulting side of the business where he worked for over a decade as a senior consultant with Wilshire Associates in Santa Monica and more recently went to work with Bernstein and then Alliance Bernstein, those 2 organizations came together and the last 5 and a half years of that he spent in London, England where he built they're global equity product from a \$3 billion product to over a \$33 billion product. So Michael's experience as a planned sponsor, as a consultant, as working as a manager in the investment management business, we think brings a breath of experience that we think would benefit our clients on an ongoing basis in terms of client services, management of the business with Winslow Capital Management. I'll just turn it over to Michael (Palmer) and he can add a little bit of what his role is on an ongoing basis and how he'll be working with others at Winslow Capital Management, our clients and our management team.

Michael Palmer: It's a pleasure to be here and a pleasure to be a part of Winslow. I won't add a lot to what John (Maschoff) has said, I think he's covered it well, other than it's been a priority for me to get out and meet our clients and so most of the last 4 months it's been doing that. My role very specifically is 2 things and one is to assist in the management of a growing organization and that's what I've done most recently and Winslow has been very fortunate in continuing to deliver for clients and see asset growth and as we do just as we're thinking about when we look at stocks, we have to look over the horizon to get a sense for a growth company where it would be, we have to manage our own business in that way too, so I think of me as a bit of an over the horizon addition to ensure that we have the resources to deliver on our promise to clients going forward.

John Maschoff: Thanks Mike (Palmer). If I may ask you to turn to tab 1 in your booklet, I just want to very briefly refresh you on the investment process and the team so that you have that to put in the portfolio performance and the construction of the portfolio in some context there. Keep in mind Winslow Capital, we only do one thing and that's Large Cap Growth, we're highly focused on one asset class, U.S. Large Cap Growth. The portfolio management team has been working together now for nearly 12 years, so it's the same team, same process generating performance that you'll see later on in your portfolio and also our historical composite portfolio.

If you flip on to page 2, again our portfolio management process and the analytical process and identifying stocks is highly integrated at Winslow Capital Management. The portfolio managers are also research analysts, but we have 3 specialty analysts and I'll talk about that, but they work hand in glove at developing their own research, building their own earnings models to understand what's new and different about the companies that we invest in for your portfolio and why they can beat Wall Street consensus earnings

expectation. So that's what we're trying to find, about 60 stocks of through our own research that we believe are growing their earnings faster than what Wall Street expects. If we can find those stocks we can have absolute winners and the way we construct the portfolio, we can have relative winners relative to the benchmark and our peers in this particular business.

One thing that I should bring out that's very important is that we also do not limit ourselves to a subset investment style, we look for earnings growth in 3 different areas, yes we want the long term consistent performers so like GE, like Procter and Gamble which we will own from time to time, but we also want quality cyclical growth companies at the right part of the cycle and it's not a short term cycle of 2 or 3 quarters, but a sustainable cycle of 18, 24, 36 months. Also we want to have newer, more rapidly growing businesses, these are businesses that have reinvented themselves, have developed a new product, a new business service that again, can grow faster than the economy in general. So, we want to have a balance there of 25-40% of each of these categories in the portfolio, it allows us to find opportunities to invest in for our clients at all sorts of market environments, we want to pay attention to valuation, that doesn't mean that we're limiting ourselves by being a growth at a reasonable price manager, we will pay a higher growth that we feel that we can dimension and is sustainable. We want to make sure that again, at the time that we buy it, it's a reasonable, fair price to it's peers, to this industry in the market in general, we want to make sure that when we buy a stock in the portfolio, we know what impact including that stock has on a portfolio overall; we just don't want to have a collection of stocks that have a portfolio created in a very intended manner, so we have self imposed, plus or minus 10 percentage points going to any economic sector in the portfolio, we want to have a variety of earnings rates, not all 40, 50% growers, that's to risky, a variety of PE ratios, controlling risk and market capitalizations starting at \$4-5 billion, that's where some of those newer industries with more rapid growth might come in all the way up to the mega cap stocks like Apple, Google, things of that nature.

Again, be very, very careful once a stock goes in the portfolio, be on the look out as to what can go wrong, what can adverse fundamental factors or market factors might be creating a problem for the company and changing why we want to own the stock and when we see that happening, we sell. Also we sell when stocks approach a 5% weight in the portfolio, I believe that's one of your investment guidelines, that is a guideline that we have internally as well, we don't want to let anything get way over weighted in the portfolio and of course the market can sometimes can tell us that we're wrong, so if we see we have a stock down 20%, we have to do it from our cost or a recent high, we have to do a full review to evaluate whether we want to continue owning that stock in the portfolio.

Michael Palmer: One addition because it's also in your guidelines, we do not use cash, we do not use cash as an investment decision, it's simply a residual or a by product that purchases and sells, today cash is about 1.5% in the



portfolio and it's going to always remain very, very small as you intended in your policy.

Again, back in Minneapolis on page 3, you can see Clark Winslow the founder of the firm. Clark (Winslow) provides a macro view to the investment team, also is very, very active in working with our client base and the consultants that we work with, Justin Kelly, Bartlett Wear, they are the ones that make the day to day decisions in stock selection in the portfolio, they're covering those economic sectors that you see there, Steve Hamill our healthcare analyst, Roger Mendel our industrials, materials analyst, Patrick Burton, a change from the last time we met with you, Patrick (Burton) is an addition to the firm, he did not replace anyone, again, an individual that we've known for 15 years coming into our office as a sell side analyst bringing us ideas in the stocks that he covered and again we recognize that there are opportunities in some of the energy sectors that Justin (Kelly) is following in terms of the secular rise in crude oil prices provides a support umbrella for alternative energy spaces such as solar bio mass, other things nuclear or what have you. We wanted to free up more time for Justin to have in the energy sector so we brought Patrick (Burton) in again, to give us support in technology and some of the business services that are very similar to some of the stocks that he followed; he was on the Institutional Investor magazine, all star team for 8 years in a row, he was the lead analyst bringing Visa and MasterCard public, those were 2 very large IPO's; we own those stocks in the portfolio, we own Visa today so he knows that stock as well as anyone on Wall Street today. Our head trader is Eric Pagel, our resource team, Michael (Palmer), myself and other individuals, we have 3 CPAs on our team doing portfolio accounting and administration work. Again, resources to serve our clients to make sure the reports are timely and accurate. So that's the team that we have.

If you look on page 5, we've continued to grow our business and our number of clients since you hired us at the end of 2008. This number, actually as of today we currently have \$14.5 billion in assets under management for 65 institutional clients. So again, we don't have a large number of clients, but we do have some large clients that have trusted us in managing their Large Cap Growth portfolios and these are just a representative number here.

You asked about regulatory, we are not involved in any litigation or any regulatory inquiry. We do have a full time compliance officer on board, we have all sorts of policies in place to make sure we run our business in accordance with regulatory standards and of course, the ethics that we require of our employees managing portfolios. So no issues on the regulatory side. Organizationally we talked a little bit about Winslow, but we are as you know a subsidiary of Nuveen, it's been a wonderful relationship, they've been providing us with some back office infrastructure which allows us to focus the vast majority of our time on the investment process and our clients.

As for performance, you can see it there on page 6 broken down. Let's start at the top, you can see the third quarter was a very good quarter for your portfolio and Winslow overall out performing the benchmark as you can see there. The first 9 months if you can see there if you looked at the first and the second quarter of this year were tough quarters for us and we'll talk a little bit more as to why that occurred and again, the month of October and November broken down individually for you. Inception numbers there you can see you came in at a cumulative time relative to the market and also our portfolio, so inception dates through the end of November you're up nearly 3% ahead of the Russell 1000 Growth and then if you wanted to annualize that number you can see it right below. Wilfred Leon Guerrero: Why is the Government of Guam Retirement Fund different from Winslow? John Maschoff: It primarily relates to the restriction you have on us purchasing ADR's or American Depository Receipts in your portfolio, you've limited us to not purchasing those and there are certain companies that have done very, very well that we own in our other portfolios that we don't own in yours. Wilfred Leon Guerrero: It's straightened out. John Maschoff: It's straightened out in a sense that you don't want us to own them because you have other manager who do. Wilfred Leon Guerrero: It's not by law? (I'm looking at Gerry (Cruz). Gerry Cruz: ADR's, no, it was a conscious decision on our IPS. Michael Palmer: It's not a regulatory requirement, it's your... Wilfred Leon Guerrero: We had a problem with the Government of Guam law before... Gerry Cruz: Because ADR's are, we have our international exposure with international managers and so we made the decision to just keep U.S. domestic, large, small... Michael Palmer: So an example would be if you looked at our typical portfolio today, we have close to 10% of the holdings that are in global companies, many of them with big businesses in the U.S., they just have to domiciled outside of the U.S., some of them even for tax purposes, they're in Bermuda, but for all practical purposes they're a U.S. company. We own 2.5% for you and that's the result of the clarification of the guidelines of just over a year ago when you said, you don't want us to buy them, you don't have to sell the ones you own immediately and so selling them and not buying them, your portfolio is about 2.5% versus the other portfolios at about 10%. That differential a couple of stocks for example, M--- is kind of the Google of China, is up over 100%.

Wilfred Leon Guerrero: For the past 5 years we've been trying to change our law and I thought we had it where we wanted and that's why I asked that. Gerry Cruz: It's not law, it's our investment policy statement, but we did loosen up a lot of the law, we are 13% invested in foreign equity.

Michael Palmer: We would like to think we're providing our best thinking to all our clients and if we own some of them for other clients, we would like to own them for you, but we understand we play a role within the context of your broader portfolio and you should not think that over time the performance differential will be meaningful or that we in any way can't meet your objectives by not owning them. What it will mean is that especially in shorter periods of time there will be periods where you will do better than our composite because

you don't own them and periods where you will do worse then, but there will be a difference because of that primarily. We will manage your portfolio consistently with your objectives.

John Maschoff: Just to bring you up to a more recent period here in the 4<sup>th</sup> quarter, I will tell you that your portfolio as of the close of business on Monday the 13<sup>th</sup>, your portfolio is up 15.4 and that's essentially in line with 15.4 for the Russell 1000 Growth.

Page 7 let's just review the third quarter and we'll talk a little bit about what we see in the 4<sup>th</sup> quarter and for the year in total as well. Throughout the entire year the best performing sector has been information technology, that's an area that Justin Kelly covers and again, early on we began in the economic recovery that we've had here since the end of 2008 that's one area where Justin early on recognized that the inventory levels and the people that consume technology in the business services and things of that nature, stocks such as Accenture or Cognizant Technology Solutions were doing very well, their order rates and their contracts for new business services were increasing and we can see signs that the economy was recovering, so we began to move stocks out of names that we had early in the middle part of 2008 and at the end of the height of the market problems and the recession and such so that's when we began to over weight through individual stock selection in information technology and that has served your portfolio well. Again, a recurring thing throughout the year has been healthcare and financials, those have been difficult areas given what is going on with regulatory oversight, not only the Obama Healthcare Reform, business has put a shadow over healthcare stocks and also again, financial reform has had an impact on financial stocks even though names that we own such as JP Morgan or Goldman Sachs and that particular area fundamentally had been doing well, they have the strongest capital basis so we think going forward they're going to continue to be leaders in their sector and do well for your portfolio, but they hurt us on a relative basis, relative to the Russell 1000 Growth.

We have not been throughout the year in a view that we will have a double dip economic recession, in other words, our portfolio has been positioned for slow growth, but growth in the U.S. economy and also globally over the past or so. Again, we haven't really made a lot of structural changes in the portfolio and such, we've been positive on that and we're beginning to see those positive signs in the economy continue and we believe we have a good portfolio going forward so that's part of our outlook there.

Obviously we've been watching what's been going on with the European sovereign debt, things of that nature but we certainly don't see any major disruptions to the market at this particular point in time. Obviously what the Federal Reserve is doing has had an impact that's been more of a psychological impact in that yields have actually crept up again; just the view that someone is taking action has benefited the stock market and your portfolio.

One of the things that we're seeing here in this highly correlated market, in other words where you have fundamental out performance by some stocks but you don't get the benefit of stock appreciation in a market such as what we had here in 2010, but we have been able to upgrade the quality of the portfolio by buying these higher earnings growth at very attractive prices here, so we continue to take advantage of that.

Again, we're just watching the market very closely day to day and having a small investment team, we could be very nimble and take action, so if we were to see any disruptive forces at the individual company level or the market level, again, a portfolio of 60 stocks, a very tight team that's working together daily, we can be very nimble. Michael Palmer: Maybe just add, summarize some of the points John (Maschoff) made, given a modest economic growth in the U.S., not a double dip, but not a typical or robust recovery, where are we finding opportunities in the portfolio going forward given that environment. I think I categorized them broadly as 2 themes, one are companies that can do well regardless of the economic cycles, people call them A cyclical companies. Companies that have disruptive technology or business model that are transforming ways we're doing business, many of them are technology types of companies, which is why we have an over weight position in technologies. Companies will spend on technology to improve productivity; they need to spend on technology because of the advancements and changes that are going on there. So that would be an example of an A cyclical or a disruptive category of opportunity.

Secondly, there are many companies that have meaningful earnings and sales outside the U.S. even if they're U.S. companies. So if you think of a company like Yum Brands, you essentially think of Kentucky Fried Chicken, their biggest growth market is China. The rapid growth in consumption and discretionary income, China is allowing them to participate in that growth even though they're a U.S. based company. Today about half the earnings of our portfolio companies come from outside the U.S. So in an environment where parts of the world will have more robust growth than we will in the U.S., many of the big companies we own can participate in that. That's may an overly simplistic way of thinking about where we're finding opportunities, but even in an environment that is modest in terms of it's growth prospects, remember we just have to find companies, 60 companies that can grow quickly in this .

Terry Dennison: Another factor besides economic growth that some people think about for portfolios is inflation. Obviously people have been expecting inflation for 3 years and it's always somehow receding into the future about the rate the calendar moves, but at some point here given the economic, financial, fiscal and monetary stimulus, inflation is likely. How does that factor into your portfolio decisions? Michael Palmer: I think it's something that we're very conscious of at the moment, our view is that the period of time that is likely to become a bigger issue is in the intermediate term, it's not in the immediate

term. The immediate term if you look at the inflationary environment it is very low for a couple of reasons. One of them is the union labor costs, wages are a big part of inflation and you're not seeing the pressure there for many, many reasons, including the fact of high unemployment. That will not stay forever. We also have a very --- monetary environment as the economy begins to improve and as employment begins to improve the shift will move from kind of the company level, micro environment for inflation to the monetary base and the fiscal pressures of inflation. I could put a date on it, but I think over the next couple of years, less impactful, over the next few years following that, inflation is likely to be more impactful. You're seeing a little bit of pick up in yields even in the moment with concerns over that. I think it's a bigger issue in the short term for bonds. Companies have to deal with a rising inflation at the time it happens, but bond investor's deal with it at the time of expectation and you're starting to see a rise in that. There's a big debate, is this a rise in real rates or a rise in inflation expectations and some people say it's more a rise in real rates. Regardless however, our view would be 2 things, one is, stocks are in a reasonable place, not a great place but a reasonable place to protect an inflationary environment, commodity is better, but bonds are worse, but stock companies can raise their prices, they have more flexibility to do that along with inflation.

Secondly, it will be an issue we believe, but not in the very near term and when it does, if you look at our typical portfolio holding, it's probably a couple of years, so we're buying companies that we think will participate in the low inflation environment today and a couple of years out, it will have to be a more meaningful part of our focal.

John Maschoff: If we can just move ahead, page 8 is a graphic illustration to what you saw earlier on the portfolio performance booklet, the blue bars are our periods where our composite has out performed that of the Russell 1000 Growth and the absolute numbers are there below those 2 charts. I don't need to spend a lot of time there, but I think what's important is to look at page 9 and page 10 some specific attribution in your portfolio and what has occurred and again focusing on the third quarter. As I mentioned earlier, technology stocks are doing well, Priceline, Cognizant Technology, Citrix Systems, Amazon, obviously a retail, but again a company very much involved in the technology delivery in their business and sales of their products that they have, QUALCOMM, Apple, Baidu and such.

Michael Palmer: This is composite attribution, not your portfolio so we don't own Baidu for instance, I just want to make that clear. John Maschoff: That's a good point, thank you for bringing that up. One of the things that we've seen early on and had weights in investment technology are is what you may have seen in reading about what's going on in the computer world today and that is a concept known as cloud computing or virtual desktop work, virtual servers, things of that nature. Companies such as Citrix Systems and Apple to a certain extent, Microsoft have all benefited from that. Justin is seeing a lot of growth

way beyond what other people early were recognizing, so we got in on some of those stocks pretty early and it's benefited the portfolio. You will see some names there too that are kind of old line industrial names, Cliffs Natural Resources, why do we own Cliffs Natural Resources, they are a large producer not only in North America but also in Australia for --- coal, obviously the demand for that in India and China has been very, very high so they have been benefiting from the growth in those countries and those economies and providing that particular commodity. Union Pacific, a railroad, that's something that Roger Mendel recognized very early. We bought Union Pacific way before Warren Buffet bought Burlington Northern and we recognize that a lot of their long term contracts were being redone and despite what a deflationary environment they did have the ability to raise the prices and increase some of these margins in some of these long term shipping contracts that they have with commodity firms and other distributors of products around the country, so that has been a good stock for us. John Deer also doing things in more the non-farm area and benefiting from growth outside of the United States as well as in the United States in terms of agricultural production.

Some of the losers you can see, Occidental Petroleum was a stock that hasn't done well however we recently have purchased additional shares of Occidental Petroleum because of a new in the ground oil find that they have in California. Their cost for production is much lower than their competitors there. They have a new CEO, he's managing the company very, very well, we see margin expansion in that particular stock. So again, that's an area where we looked and said, yes it may be down, but long term it has great potential there.

Lowe's, we did sell that stock because we didn't see the recovery in the housing industry and home improvement area that we thought might have occurred. Again, that's still a head wind that we recognize going forward as basing the consumer and the overall economy is the fact that housing prices, actually more recent data suggests that it might be slightly declining and whereas earlier they seem to be stabilizing.

Some of these other names, Hewlett-Packard you may have heard the name, Mark Hurd, the CEO is involved in some issues relative to his personal behavior, he had to resign and that was a disruptive factor. Given our sale dividends we said, we're not going to sit around and wait to figure out what happens post Mark Hurd, we wanted to go ahead and sell the stock, we may revisit it.

Intercontinental Exchange, that is a company out of Atlanta, their volumes are up, it's a negative performer here, but again looking at that company and the volumes on the derivatives that they trade is very, very positive and such.

Medco Health Solutions is a stock that we did sell, a lot of their contracts are 3 year contracts were coming up for renewal and they were discounting their prices to maintain their market share, we saw that as an adverse factor and

actually sold that company and bought Express Strips which is one of their competitors that was not taking part in that and that has been a good trade for us.

Michael Palmer: Let me just jump in a little bit, I wanted to talk about a couple of things that kind of tie them back to the process that John (Maschoff) talked about earlier. If you go to the next page which has the year to date through the next quarter, firstly, you'll see at the top right technology being a source of out performance, we talked about that, the far right attribution 2.9% what that really means is that we out performed in your portfolio by 2.9% because of our stock selection in technology. The other point I'd make is at the bottom right of that bottom right side where you see sector allocation is 1.2% and issue selection 1.8%, which would give you the net .06% positive that we saw on another page. What you should see over time is that our performance comes from stock selection, everything we've talked about is we look at individual companies, try to buy 60 individual companies that we think can do better than the market thinks they can do and if we're right, the stock price will reward them. So we're not making big sector themes, big macro theme positions in the portfolio, we're buying companies that you should see over time stock selection as a validation of our process being the source of our out performance.

The other thing John (Maschoff) mentioned is sell discipline, it's very important not just to make it but in growth investing in particular to keep it and so one of those disciplines is the sell discipline and part of that in terms of dimensioning that sell discipline is we like to prevent our losers from being anywhere close to as big as our winners in an ideal world they would have an impact, a negative impact of 50 basis points or half a percent or less. So if you look at the left side the portfolio impact column and you look at the winners at the top, the impact ranging from 1.5% to 0.3 and if you look at the losers at the bottom and the impact ranging from -.03% to -.07 and actually those are a little bigger than we will typically see for individual companies, but 0.3. Notice what's happening, the best of the winners are doing twice as well in terms of positive as the losers are with negative impact, that's control, that is sell discipline and action and over time you should see that. If we can have our winners doing a little bit better than our losers, that's how we're going to out perform with some consistency for you. We can never promise we will never have losers, we're human, we'll make mistakes, but what we can promise is that we will try to manage that in a thoughtful way to limit those losers so that they don't create major impact for your portfolio.

Wilfred Leon Guerrero: What are you holdings, you have about 60 stocks?  
John Maschoff: Actually today they're about 62 stocks in the portfolio, but it typically is about 60.  
Wilfred Leon Guerrero: I'm just making an observation here because we just got done reviewing a similar manager and their system or process is very different from yours, but there are about 31 stocks where you are overlapping.  
Michael Palmer: How many stocks do they have in their portfolio?  
Rosalie Bordallo: 250.  
Michael Palmer: So given that there's going

to be some overlap. I would expect that they don't own them in as big a weight. Wilfred Leon Guerrero: I'm just looking at this from the standpoint, if you are owning the same stock, then one of you is not needed if you're buying the same stock. Michael Palmer: It's a very fair point because in a sense you're getting some redundancy. I don't know of those 30 stocks that they own and we own, what their overall weight is. It might be half of our portfolio and it might be 10% of theirs, so it's going to make a big deal for the difference for us, it might be a lesser difference for them. Wilfred Leon Guerrero: What I think is interesting is the way you select your stocks and the way they select theirs, it's totally different. John Maschoff: We own them for different reasons. Michael Palmer: Well hopefully those 30 stocks are the best 30 stocks because you do own them twice.

Page 14 in the upper left box you can see the 4<sup>th</sup> from the bottom it says number of holdings 62, the growth index is 627, so we own 1 company in 10 of that index. Typically we'll own between 55 and 65 stocks, so it means 90% of the companies don't meet muster with us, we'll own about 1 in 10 on your behalf. Also note if you look at sales share growth over the next 5 years and cash flow growth, 17 times sales growth for your portfolio versus 11% for the growth index which is already a rapidly growing index, 21% growth for cash flow versus 13; the characteristics you would expect to see, more rapid growth in the portfolio. Notice debt to capital as a measure of quality or stability in the companies, 32%, the lower the number, the less debt in their capital overall, 41% for the portfolio. One way to think about this portfolio that we own on your behalf is more rapid growth in earnings, more rapid growth in revenue, but a more stable, more conservative balance sheet which we think particularly in a challenging economic environment that we're still in is a good thing.

Let me just finish with this one last point and this is our forward looking point. John (Maschoff) talked about not a double dip, but not rapid growth going forward and he also talked about the very high correlation of stock returns that have gone on. Terry (Dennison) probably has great insight of this across managers, but one of the things we've seen over the last couple of years is that different from normal, normal being successful companies are rewarded by higher stock prices and less successful companies are rewarded weaker stock prices, to some extent we've seen companies rise and fall together irrespective of whether they've done particularly well as individual companies in terms of their operating businesses and the reason has been because people have become concerned about whether the world will end or whether the world will continue, it's very much focused on macro bets, will the U.S. double dip, will Greece default on its debt and the Euro break apart and so forth. You can measure that in terms of correlation, a very high correlation is stocks performing the same and we've seen that and that has been a very difficult environment for us and I think for individual active managers, because as John (Maschoff) said the very first half of the year we under performed a little and in the second half we've out performed a little, but if you look at the companies that we own and ask one simple question, did those companies in that period deliver on their



fundamentals, their operating business better than the market expected and better than we expected. In the first half 75% of the companies in our portfolio performed better than we expected, we expect them to do better than the market. In the second half of the year 75% of the companies did better than their operating business than expected and in the first half of the year we under performed and the second half we out performed. It wasn't because the companies performed differently, it wasn't a failure in research, what it is that in the first half of the year the market was much more concerned about these macro economic events and in the second half of the year that's broken down a bit, not completely. So it still is a challenging environment, but what I would suggest is it's also one with a lot of opportunities. We look in the portfolio and we see we're very excited about the opportunity that's in there today. If you look at what we can buy in terms of earnings growth and what we have to pay for that, John (Maschoff) talked about sensible valuation, we're getting some really good companies at more attractive prices.

I'll just leave you on page 16, just a couple of stocks on the left side by way of example the first one Apple and if you go across the top you can look at P/E 11 that's on forecasts for next year, 15x earnings growth and yet we're expecting 2% growth. Look at Oracle, 12 P/E earnings growth. Now normally a growth manager such as us has to pay equivalent to even a premium in the growth rate in terms of valuation so you'd see the P/E being higher than the growth rate or equal to the growth rate, we're able to buy companies lower than expected growth rates, why, because the market has cared less about those individual companies results and more about macro environment. On the right side you'll see your portfolio is based on next year's expected earnings 16.7x earnings, we're getting what we think is 22x growth, we're paying a discount not a premium and that we think is not a particularly attractive set of characteristics for your portfolio going forward. One the one hand challenging environment over the next year, slower economic growth on the other hand, slower growth companies we think could do better than the market in that challenging environment and we're paying less for them.

Any final questions, I have one brief comment. The front of our book it says seek opportunity, control risk we do this obviously to be able to generate alpha and meet the expectations that our clients have for us and I mentioned our asset growth, we at \$16.5 billion in assets under management, this is something that we are looking at on a daily basis and we're actually taking steps to slow the growth of the company to preserve our ability to preserve alpha for our existing clients and continue to take cash flow or new money from our existing clients. So you'll see us taken action here in the months ahead to close certain distribution channels and access to our firm and again protect our ability to do the best job we possibly can for you and our other clients. Any questions? (No).

Okay thank you very much.  
(End of presentation by Winslow Capital Management)

**11:00am-11:45am Robeco Investment Management – Domestic Large Cap Value**

David Pyle: Please ask any questions along the way, I don't want to be monotone about this about this, I'll make it as interact as possible. Let address the 3 questions right front. Turn to page 12 behind tab 2, this is the organization of the equity investment team that manages your portfolio. We manage the Large Cap Value of your portfolio, myself, David Pyle and Mark Donovan are the co-portfolio managers on our product. There have been no changes in the portfolio managers. In terms of research analysts, one gentleman left us early in the year, Pat Regan, we have hired 3 people, our policy is always to looking to hire people so the reason we hired 3 this year is because of the financial crisis and we found a lot of talented people that were looking for jobs for no reason of their own. So one analyst has left us and we have added 3 in there. Let me back up to the broader organization in terms of client service, there was a gentlemen named Kimo Blasedale who was the client service manager on your account, he left the firm about 3 weeks ago and it was somewhat of a surprise to us, but a very friendly relationship with his leaving. He came from the Government of Hawaii's pension plan and he decided he want to go back on that side, so now he's at the Queen's Hospital Endowment Fund. In terms of servicing your account, we are actively in the process of finding someone to do that. You always have me, I'm not going anywhere so you can contact me and we will put a client service person in place very quickly.

In terms of litigation I don't know of anything that is happening to our firm currently. In terms of regulatory issues, no issues, everything as far as I know is going fine including the more recent insider trading issues that have come up, we have not --- and we do not expect that since we do not use what are called expert --- which is similar to the most recent issues that we have seen over the last couple of weeks.

Page 1 under tab 1 shows the performance of the Retirement Fund. We have a lot of time periods here, the first 5 of the 6 columns are all kind of similar and we have since inception which was June 1<sup>st</sup>, 2008. The longer periods here since inception we are ahead of a primary benchmark, the Russell 1000 Value Index by a pretty healthy amount, that reflects the financial crisis where we did quite well. This year we are trailing the benchmarks by a little bit of focusing on the calendar year to date calendar to date 2010 where we are trailing the Russell 1000 by 68 basis points and your portfolio was up about 7% through the end of November and the good news is as of yesterday you are up about 12%, you're still trailing the benchmark by a little less than that.

As I talked before and what I tell all of our clients, our hope is to do well during the bad years, which we did during the financial crisis and keep up doing the good years and essentially that's what we're doing.

On page 2 it's not necessarily all about return but you need to look at the risk taken within the portfolio to generate those returns and we plotted that on page 2 using the annualized standard deviation of returns which is on statistical measure of risk and plotting that --- return which --- Large Cap portfolios, this is looking back over the last 10 years, but we were looking at various time frames, but the chart will look the same. The fact that are portfolios that are represented by the aqua colored square up to the left. So we are generating higher return while taking less as measured by standard deviation.

Page 3, just some observations about what has helped and hurt this year. Again, it's turning out to be a fairly strong year, up through yesterday up about 12%. What tends to hurt us in markets that are strongly rising is that we don't tend to chase stocks which for whatever reason are doing very well, so we don't tend to chase the high flyers because we are value investors and we try to have a strong risk --- as possible. There have been a couple of activities predominately the REITs and the utilities and communications, those stocks have done quite well. Most people are chasing dividend yield, they can't find dividend yield in the bond market so they are starting to look at the stock market, one of the areas they are finding it are REITs and REITs are up nearly 20% this year. As we look at them through a fundamental perspective, we think the price being paid through the public REITs market is too high. The yield that you're getting from those apartments and those commercial buildings, whatever they have is not appropriate for the risk that you are taking. Interestingly if you were to go buy a building, the price you pay for it would be 30% less than if you were to buy a REIT that held some more types of properties and that is because equity investors are chasing that yield and willing to bid the price up of the up of the REIT even though the underlying properties in the private market don't support that kind of valuation. So that is not an area that's attractive to us.

One area that has helped us out a bit this year is consumer holdings which is if you think back at this point last year or 2 years ago, I don't think anybody would have thought that the consumer would have been spending money, but the fact they are also has to do with consumer companies have restructured so they're much more profitable now and that's an area that has provided quite a return for your portfolio.

Terry Dennison: If you differentiate consumer into staples and discretionary, how would you be weighted? David Pyle: Much more discretionary, much less staples. Reason being, of the most staples stocks, cereal and things like that are 18-19 times earnings ---, discretionary --- less plus they've had more of a --- ...so retailers and things like that.

One other area that has not kept up so it's hurt relative returns within the portfolio is technology, which has been surprising to us because that's an area that the earnings have come through well from the companies, the valuations we think are good and stocks just haven't performed. It's an area where we still

maintain an over weight because we see attractive set of characteristics within some of those stocks.

Page 5 let me just briefly remind you of how we think about stocks and how we choose stocks to go into your portfolio. There are 3 characteristics that we're looking for, the first is we're looking for attractive valuation and we're value managers so that's something that we are always looking for and we look for valuation over many different types of metrics such as price earnings, cash flow, liquidation, all those different types of metrics, anything that gives us an insight into what the true value of the company is. The second thing we look for is business fundamentals, that's simply asking what are we buying, how good the company is, what have their margins been, what have their returns been over time, do they have high returns or low returns, how is their business structured, do they have lots of competition or not a lot of competition, does their balance sheet have a lot of cash or does it have a lot of debt. All those types of things helps us judge the quality of the company. Finally we look for some kind of catalyst, we think a catalyst in 2 parts, one can be business momentum, which you can look at is the company meeting or beating their earnings expectations, are their earnings generally rising, those types of things. The other type of catalyst we look for is some type of management induced change, so this is where management is actively trying to make business better so it can be splitting up an unprofitable division, it could be breaking the company up into individual smaller companies, it could be buying back stock rates and dividends, it could be a new management team being put in place and those are important things to look at because they typically lead to the business momentum that I spoke about before. So we find this combination, that in the middle, those are the stocks that are going into your portfolio and when one of these goes away, that's when we sell stocks. If the price goes up and the value is no longer attractive we're going to sell it, if we see the fundamentals of the business deteriorate, we're going to sell the stock and if we see the catalyst change or go negative or go away, we're going to sell the stock.

So that's the combination of things we're looking for and when we put this together correctly, your portfolio will then have characteristics that have more attractive valuation, more attractive fundamentals and catalyst in place greater than what's in the benchmark. These 3 concepts tend to out perform over time so if we can have a portfolio that have those 3 characteristics in it, we will out perform over time.

In terms of portfolio construction, where we're finding these characteristics I really classify this year, it's been a tale of 2 cities. On the one hand you have what I call the micro, you're just to look at companies in a vacuum and just look at their earnings that they're producing and the cash flow that you're producing you would think that we're in the biggest recovery that the world has ever seen because something like 80% of the companies have been beating their earnings expectations. Balance sheets in corporate America have never been in better shape, many companies have billions and billions of net cap. I was just

watching CNN and they were talking about all this cash on the sidelines they want companies to invest and that's because they don't have a lot of debt and it's sitting on the balance sheet. Returns on capital for the S&P 500 companies are as high as they've been pretty much ever. So everything looks pretty good, that's the micro world. Now the macro world, the economic world, what you see in news papers and on TV, it's different, unemployment is high, we're still struggling to recover from the recession, housing prices in the United States are difficult, retail sales although more recently they've picked up have been tough. It's been a tough world out there and every day as I sit and watch the stocks in your portfolio go up or down, it's a tug of war between these 2 facts, companies with poor earnings, stocks go up, somebody talks about the economy and stocks go back down. We've been as low as about minus 11% this year and now we're sitting on the highs of plus 12%. So the micro world is starting to win because those earnings are starting to come through and the economy is now starting to pick up. So it's really been a tug of war between those.

Part of that has cause the second bullet point, an exceptionally high correlation among stocks. What does that mean, it means that all stocks are moving together, there has been very little differentiation. When stocks are highly correlated active managers have a tough time out performing because we live for stocks moving in different directions. Right now if you look at the average manager, even though we're trailing the benchmark by a little bit, we are --- in the second quartile of managers because everybody is having a difficult time. At some point that will break up in the being in fundamentally solid companies that are under valued will --- in the portfolio, but today stocks are highly correlated.

What we're focusing on is the second bullet point here, we're focusing on business quality because eventually business quality drives earnings growth and earnings growth drives share prices over time and it's our job to pay the right price for those earnings and take advantage of valuations.

The portfolio characteristics are very attractive and we'll see that on page 7. Because stocks have been highly correlated, that means the market is not differentiating between higher and lower quality business and the ability for us to be able to buy very high quality business today has never been higher. Let's look at page 7 and I'll show you how that comes through on the statistics. The left hand side on valuation is looking at price earnings and price book. You can see that your portfolio relative to the Russell 1000 and the S&P 500 has somewhat better valuation and that's what we're trying to do. What's really interesting, I think is on the fundamental characteristics, we list a couple here. OROA stands for operating return and operating asset, ROE stand for return on equity and LT ESP growth rate, that's long term earnings per share growth rate. Where the characteristics in your portfolio are higher means that's better especially on the returns, the OROA and ROE. So without paying a higher price, we've been able to buy fundamentally stronger companies and that has been a result of this market with all stocks being correlated in that we've been

able to find these higher quality companies. As you can see at the bottom the catalyst, your portfolio 85% of the companies have met or beat their earnings expectations, so you have a business momentum as well.

In terms of how the portfolio is arrayed across the different economic sectors, you can see that on page 8 on the right hand side. As I mentioned before, a couple of areas of under weighting relative to the benchmark, REITs and communications as well as utilities, those are some of your big under weights. Technology is your biggest over weight and the biggest sector is finance. Now let me explain how we put these sector weightings together. We buy stocks one at a time that meet those characteristics, we become under weight or over weight a sector in the portfolio because we're either finding a lot of stocks or not finding a lot of stocks in that sector. So Mark Donovan and myself, the portfolio managers, we don't try to guess what sectors are going to do well, we just try buy stocks with attractive characteristics and the sector weights are really kind of fall out of the process at the end of that. So today technology, we see a lot of attractive opportunities, consumer services which I also mentioned, we're finding a lot of opportunities and we're not in communications ----.

The left hand side shows the top 10 positions within the portfolio and on page 9 you can see the entire portfolio. We do color code this so you can see some of the actions that have been taken in the portfolio in the third quarter. We show new holdings or new positions in the aqua color, increases in the gold color, decreases in the purple color and I'll call that wine berry, in the liquidated positions and the ones that are black are not changed. What you'll see is most of the sales have been because of price targets and most of the positions we're just finding attractive opportunities as well.

That's all I have prepared, there's some more information on economic statistics which I don't want to bore you with. Some opportunities that we're seeing, a bunch of different stuff to talk about if it's anything interesting or any other questions?

Terry Dennison: You mentioned the macro economic environment, how much macro economic forecasting do you do? David Pyle: We don't, we don't do any forecasting. All of our analysts, all of our portfolio managers are clearly aware of how the macro economic environment will impact any individual stock, but what we don't do is forecast the environment, forecast would be thinking what the economy is going to do and then try to position the portfolio on that, but we're very much aware of what's going on, we don't like to make a lot of predictions.

Wilfred Aflague: I just wanted to, because I've never heard of Raymond James Financial Inc. David Pyle: It's a small regional broker, so like a Merrill Lynch, but they focus mainly on the South East part of the United States. The reason it's in the portfolio is we think it's an attractive price, but we also think the smaller brokers, we don't think it's true that they've been able through the

turmoil, able to hire some brokers through bigger brokerage firms and have grown their business. Their balance sheet is very, they weren't encumbered by all the toxic assets, they have a very clean balance sheet, so that's in essence why we own it, it's generated a decent --- over time, it's also a company that can benefit from rising rates because they tend to get the spread between what they paid on their --- what they received. It's a good example of through the financial crisis, people ask, why are you over weight in financials and the fact is there's a lot of companies that did a lot of either bad or dumb things and there were a lot of other companies that were sold off for no good reason that are taking advantage and growing their market through this and Raymond James is one of them. A company like Wells Fargo, they bought Wachovia Bank for next to nothing and doubled the size of their company, we think they're going to be extremely successful with that position, they're going to have to work through loan losses like everybody else, but when the environment gets so mixed up, there's always some companies that can benefit from that.

Terry Dennison: Along those same lines and obviously Bank of America bought Countrywide, which is a disaster, could still bring the company down. David Pyle. Yes and I would say Bank of America has been a disappointment and that's the reason why we turned the stock back, Countrywide was bad and we threw the stock back. We make mistakes and the important thing as an active manager you acknowledge them and move on.

(End of presentation by Robeco Investment Management)

### **1:00pm-1:45pm Metropolitan West – Domestic Large Cap Value**

Eric Smith: So we have the research team and made a decision at that point to bring on another analyst and Gary (Lisenbee) has been, I'd say an architect of this strategy and has moved into the CIO role to oversee this process. Jeff Peck was really working closely with Howard to determine what stocks went into this portfolio, he has moved into the Lead Strategist position. Wells Fargo, it's important to remember has obviously a vested responsibility and obligation to our company and stepped in and made retention offers to all of the people in the investment team of which they have all accepted, these are 3 year packages, so it would be our expectation that we would not leave any of these analysts, the investment team would remain in tact. Obviously Gary (Lisenbee) is still very committed to this and has moved out of his President's responsibility so he can devote more time to the overseeing and making sure from a risk management perspective that we are managing the portfolio in a way that we always have been and the analysts themselves, it's been no change for them, so the people that are responsible for understanding these stocks, making these stock decisions following these companies are still here and it would be our expectation that they would remain here for some long period of time and continuing to work with Jeff (Peck) they have a very good relationship with him and in fact I have noticed since that some of them have actually blossomed in a sense of giving them a little bit more freedom in terms of open discussions, so it's actually been positive in that respect. From our perspective, we're not doing

anything different that we've been doing for the last, really since the firm was started and we have the resources now to continue doing what we're doing

It's important to remember that Wells Fargo has a little over \$3 billion in assets with us and other assets, so in terms of the firm's viability, we don't see that as a long term issue. Keep in mind we're a manager of about \$18 billion dollars at the peak, a couple of years ago we were managing \$10 billion. This firm is very successful and profitable on all levels and even if we should see any assets run off, we don't anticipate any issues with the firm's profitability or viability.

So, it's our expectation that we're going to continue to do what we've been doing and it's important to remember with a style like this, this is not a growth stock style that we're not buying and selling on a daily basis, we're investing in businesses, we have a 3 to 5 year time horizon and the analysts are really, best way to think about it, business appraisers and they understand these businesses. We're looking at 3 to 5 years and you can see the performance really shows that when you look at our performance over time that it's a result of understanding businesses and being patient with those businesses. So, we can afford to have stocks in the portfolio that are in there for 5, 6, 7, 8 years and I can virtually assure you that you're going to see no change in the way that we're managing these portfolios, there's no change in terms of the turnover, we're going to continue to have this long term time horizon, out of 40 positions in the portfolio, if we have a 5 year time horizon, that's 8 new positions a year, which is less than one a month and that's historically been the case.

The performance that we're going to have in 2011 and in 2012 is a result of the stocks that are in here today, it's not going to be the result of something that is done or not done in the next 6 months or 8 months or 18 months for that matter. We're continuing to focus on taking care of our clients and managing the money that we have and pretty much those 2 things we do, manage money for clients and we get out and talk to them and we communicate with them, we give them reports and make sure they understand what we're doing in the account.

Just to sum up, this is something that none of us wanted to see certainly as colleagues and I don't want to diminish by any means the importance of any one person in the firm, but we're not a 3 person firm, we're a large firm, there are professionals in the firm, these are career analysts positions, they're not stepping stones to other positions and we're going to continue to manage money for our clients and we're going to do a good job and it's not depending on any one person and it never has been.

Are there any questions out of that, anything I didn't cover? Wilfred Aflague: Regulatory, SEC concerns? Mark Heath: Any investigations or complaints, anything like that? Eric Smith: No. Wilfred Aflague: The outlook for 2011. Eric Smith: I can tell you that we continue to find securities in the portfolio,



when we look at our portfolio on a quarterly basis we do an analysis of where they're selling in relationship to what we call our intrinsic value and they're selling at about 75% of that estimate which tells you that there's still substantial upside on these stocks. It's interesting, you've been with us such a long time that the numbers pretty much bear this out, if we're finding companies, if we're finding a stock that's worth \$100 and it's selling at \$75, that's \$25 potential gain; \$25 on \$75 is 33% and if we have 3 to 5 year time horizon, that should come out to be 6, 7% a year compounded over that time period, that's exactly what you've had in your portfolio and that's what we're continuing to see. I'm not saying we're going to have 7 or 8% over long periods of time, but that's what we're seeing today, that's what we saw 6 months ago, 16 months ago, 60 months ago. So, we're still finding securities, quite frankly we think this is an excellent opportunity and environment for firms like ours that are stock selectors and not so dependent on the economy and growth, finding good businesses that are able to separate themselves and distinguish themselves from their competitors based on the company themselves, not because the economy is doing whatever it's doing. .

I might add we had a lot of people who have come in to visit us, talk to us and due diligence, met with our analytical team, sat with the research team and we've had a very good response once people understand exactly how we do things, how we look at securities. We've had people ask us, what's a reasonable time for evaluation and my answer is I think to be fair, if I was in your spot, I'd say a year. I think if you look back at the end of the year and you saw these guys are changing the way they're doing things, they're not doing the things they've done in the past. I wouldn't even focus on performance that much, performance is what it is, irrespective of who is the lead strategist, the stocks in here, they're going to do what they're going to do and I think what I would do is look and say, okay here's the philosophy and style that this firm has, a year from now have they done anything differently. I think you'll see, I know you'll see that we're continuing to manage money the way we've always managed money and there's going to be no change in our style and how we approach stocks. Performance is a fall out of that and I think over rolling 3 and 5 year periods we're going to continue to do well.

So that would be my suggestion and obviously biased from that perspective, but at the same time that's what I would do. I've been on Boards and in these positions as well to give a fair evaluation; you're in a fortunate position that you've seen how it works. You've been with us a very long time and we appreciate that and all we can ask is people give us a fair time for evaluation and not make decisions based on letters that have gone out and kind of what you might be hearing, but really just kind of seeing the facts and evaluating over that time.

Are there other concerns? Diana Bernardo: Out of curiosity, with the changes in your organization and the clients that you have, have any clients informed you that they want to depart? Eric Smith: Oh sure, yes and that's

not to be unexpected. We've have a very large client that's come in and did an extensive due diligence, 2 days, they had 8 people in our company, talking to all the analysts, meeting with us and they came away reassured that what we're doing is what we're going to continue to do. We have clients that Howard was very close to and he did have many accounts that he was close to and those people have decided to terminate. So, we would expect that to happen and it's just natural, having been in this business as long as I've been in it, this is a people business, people form relationships and when they leave, some people are going to say, okay this is the guy that I identified with. some people will say, Howard who and they don't know Howard. So really as the firm has grown, relationships have changed and Howard had very few relationships with clients, but we've had some that have decided to do other things and all we can do is, quite frankly we can't worry about that, obviously every client is important to us, but we need to take care of the clients that we have.

We appreciate it and I know these are difficult decisions and obviously we would love to have the opportunity to continue to manage the portfolio and I would say if questions come up after this meeting, things that I've missed, I've tried to be very open and direct and just kind of share the history of what's happened and if there's something that I may have missed, let Mark (Heath) know or drop me an email, I'd love to talk to you.

Thank you again, it's good to see everybody.  
(End of presentation by Metropolitan West)

## **2:00pm-2:45pm DB Plan – Other:**

### **1. Securities Lending**

Wilfred Leon Guerrero: Diana (Bernardo) has 2 other items in here, the securities lending and funding of the managers. First of all, securities lending, I understand the Board already approved this. Rosalie Bordallo: Yes, they did. Wilfred Leon Guerrero: I predict that the law is going to change. I don't think we should be getting this advice from our lawyer, our lawyer should tell us if it's legal or not, whether it's a good idea is something else. Antolina Leon Guerrero: We asked her to tell us whether or not, what our risk was, review the rules, she wasn't giving us investment advice, she was talking about whether or not the agreement protected us and minimized our liability. Wilfred Leon Guerrero: I don't agree with Terry (Dennison) on this, I predict that they're going to change the law, I don't believe these bankers. I was under the impression that securities lending was that somebody wanted the security in their portfolio, but then I find out what they're using it for. Terry Dennison: In the last couple of days a committee of the U.S. senate has been looking at the issue of securities lending and part of it reflects pretty much what you're saying, in a minimum there was, before the crash a lot of lack of transparency of what they were doing. The Senate's concern is that plan sponsors really weren't told all the bad things that could happen, they were just told, here's some free money. Now

obviously a lot of the problems with the securities lending involved the collateral pools, that's where Northern Trust got in trouble with a lot of plans sponsors where basically in order to make more money for themselves, they invested in much more aggressive collateral pools who were appropriate, that's why you're in the most conservative possible collateral pool. Just some of the headlines coming out of the discussion about the Senate's hearing on it, were phrases I could of heard coming out of your mouth such as, the banks were getting all the money and the plan sponsors are taking all the risk. That literally was a quote from the article that I read, so this issue still has legs as they say in Washington.

The other concern and it was a much more significant one in that a lot of mutual funds, particularly index mutual funds lent securities and when the financial crisis happened there were a number of instances and these mutual funds were used in 401k plans, a lot of instances where participants weren't allowed to leave the index funds because if they had lent securities and the collateral pool had losses, the people who had borrowed the securities were not required to return them and basically the funds were frozen. What's happened now is virtually all of the providers, particularly in the --- index funds, now have both funds where they do securities lending on a much more conservative basis and non-lending funds. The reason particularly for index funds liking securities lending is it is a way to make the tracking error with the index even closer, in fact with securities lending, it's possible to have an index fund which is incurring real cost, but still returning the index return or even slightly above the index return. If you think of an index fund that holds all the securities, there's friction, they're paying fees, they're paying transaction costs. So now, inevitably the index fund is always a little bit below the index return. Well, they would like it to match it exactly or even better, actually have a little bit above, they could do that with securities lending, so if you go with a non-lending fund, you're not going to get the index return, you're going to get the index return minus these costs and expenses and friction.

This is going to get more publicity. I'll see if I can find some of the discussion of this, but literally, I saw the first mentions of this on the hearings on Monday, this is absolute latest news. Rosalie Bordallo: Is this coming out of a Democratic Congress or is this going to transfer over to a Republican Congress? Terry Dennison: I didn't know, I think it's the Senate so that would not change parties in January. Rosalie Bordallo: Okay, then the Democrats won't have as much, doesn't the seat ratio change? Terry Dennison: It goes from 59 to 53. Realistically Congress doesn't really make the laws here, the rules here, what they're doing is they're torturing the SEC to get them to change the rules. Congress has an investigative element as well as a Legislative element and this I think is more looking at the investigative element. Of course they're hearing from their constituents that, I lost money because I tried to leave this particular option and I was told I couldn't and Congress like many investigators and auditors and the standard joke is the auditors come after the battle and shoot the wounded. The reality is this is going to cause maybe some changes to the

rules, although frankly, they've already fixed the problems that they're investigating. The problems were ridiculous collateral pools that basically were just bombs waiting to happen and very much less disclosure, they've already fixed that, but I think I think you're going to have some more bad publicity about the securities lending business. Most of it has to do with things that aren't being done anymore, but you don't get your face on the news by saying, we took a look at this, but there's no problem. So apropos Dr. Leon Guerrero's concerns, there could be another round of awkward news items coming out, but the focus is really on the lack of disclosure on the old model of securities lending about the risks. There was intimation that this was free money, there was no risk, you just take the money. Wilfred Leon Guerrero: I'm assuming a lot of Trustees are like me, they just didn't know about this and I think if more Trustees know about it, they're going to raise their voice. Antolina Leon Guerrero: But I think the agreement that we signed off on was very different from what was originally proposed and the problems that had risen. Just from my understanding, there's very little. Wilfred Leon Guerrero: I guess that's reassuring because in that law suit, the teachers are not only being asked, they're being told that they lost their money, but they also have to make up that loss. That's ridiculous. Terry Dennison: Yes, right. The Chicago Teacher which is a Mercer client, they swallowed the kool aid, because Northern Trust is the local bank and they got greedy and you know what happens when you get greedy, but I mean the world is very different. The other concern you have to bear in mind is, once you reduce the risk to the irreducible minimum, there's still going to be some risk. There's some risk even if you invest in Treasuries.

I was reading this morning, I read European newspapers on the web because they're much better at explaining economics than the U.S., but there's now serious question as to whether or not the U.S. Treasury is going to lose its Triple A rating by the middle of the decade. We might end up with not just an occasional Microsoft borrowing at less yield, but basically the U.S. Treasury being a mid grade credit instead of the risk-less return. You have reduced to the irreducible minimum; your only collateral is U.S. Treasury Securities. You're over 100% collateralized. Then you have to ask yourself, if after reducing the risk to the minimum, there's still a half a million dollars on the table, it would be really hard to explain to the people in the little shopping center down the road here why you didn't take the half million dollars when the Government can't keep the street lights running. Rosalie Bordallo: Especially if you're saying your collateral is U.S. Federal Government, people are going to say, are you saying the U.S. Government isn't good anymore, that their debt is not good. I mean, that's the only thing we're using right now in this collateral pool is U.S. debt and short term. Terry Dennison: If I were in the Legislature and somebody was saying, here's a half million dollars and it's as risk-less as possible in our economic system and you don't take it, but still you go down to the Legislature and say, we need money. Wilfred Leon Guerrero: To me, the concept of the bank saying to me, lend me your security or lend it to my friend here and we'll share the proceeds, but if it's a loss, you take the loss. That to me I find that very hard to swallow. Terry Dennison: Well remember, they

changed their indemnification provisions... Rosalie Bordallo: But that's not occurring now. Wilfred Leon Guerrero: Okay, that's good... Antolina Leon Guerrero: That's why Terry (Dennison) said, it's very hard for us to say no to this, there's hardly any risk, there's a possibility of a huge yield for the Fund, but it was really because they were minimize the risk. Wilfred Leon Guerrero: The way I'm seeing it is, the bank has got this deal and it's like a mutual fund that they have and they tell the security owners, here's the menu, pick what you want. Rosalie Bordallo: But in this mutual fund we actually said, this is the only thing you can have in this collateral pool. It's not where they're saying to me, here's A, B, C as the choice, the Board said, only this and this is all we want. Terry Dennison: There are caps, there are caps at the borrower level... Wilfred Leon Guerrero: So there are a lot of changes here. Terry Dennison: It's very different. Rosalie Bordallo: That is why Joanne (Grimes) came out, to explain the changes that occurred, what was in the past and what changes were going to occur now and to explain the indemnification.

## **2. Funding of Managers:**

- a. Numeric Investors – Partially Funded**
- b. Eaton Vance – Partially Funded**

Diana Bernardo: We wanted to look at the asset allocation and see if we want to provide additional funding for Numeric Investors and Eaton Vance. Wilfred Leon Guerrero: What's your recommendation? Rosalie Bordallo: We want to know if you want to fund them fully. Diana Bernardo: Or we want to see what Terry (Dennison) has to recommend if anything. Terry Dennison: Well, realistically as we talked about yesterday, you are over in REITs because of market, REITs have done so much better than your other investments. So, first of all I would take some money, there's 1.36% over the range in REITs and also, both of the REIT managers were cautious about the 4<sup>th</sup> coming year with interest rates moving the way they are, so I think we can take off the 1.36% that's over in the REITs. Interestingly, we are actually way over in domestic large cap and in fact this isn't necessarily the reason for doing it, but a secondary reason for pulling the cord on Metropolitan West is if you pulled the plug on Metropolitan West and took their allocation, you'd cut the overage, you'd go from being 3.47% over to about 2.5% under. So maybe what we do is we take some of the money that had been given to Metropolitan West use that to fund the small cap along with the REITs and we have a smaller allocation in the parking place and maybe when we get the new manager, the replacement of Metropolitan West, we rebalance so that we maintain the relative spread. Part of what you're seeing is if you look at the value, the value is not as far over as the growth, because remember in the performance report, we've been in a market where growth is outperforming value, so growth is over weighted versus value. Or we can just strip a little from Winslow and INTECH. We can preserve the money that's in Metropolitan West and just strip a little from INTECH and Winslow. If you took the 1.17, 1.13, and the 1.36 from REITs you would pretty much have your number. So maybe that's the right answer, take the excess

from Winslow, take the excess from INTECH, the excess from Cornerstone and the excess from Security Capital.

Diana Bernardo: One other item, with the cash flow issues, we actually drew down \$5 million about two weeks ago and part of that went to the December 15th payroll and the rest will probably go to the next, but we'll probably need to draw down another \$2 million. So in the process of doing all this, we'd like to take in \$12 million, actually \$12 to \$15, because cash flow for the next couple of months may be a concern, given Gov Guam's cash flow situation. Wilfred Leon Guerrero: You know it seems like we rebalance these things on a monthly basis and I don't know if that's such a good idea. Terry Dennison: We're running a negative external cash flow so we need money all the time, so we're taking money from the people who have done relatively well. What's happened with the market, things like REITs have done really well and bonds have done less well and stocks have done sort of in the middle, so the portfolio will become unbalanced simply because of market effect, the winners get bigger, the losers get smaller and it's considered a best practice to rebalance periodically. Wilfred Leon Guerrero: I know, but it seems to me like monthly rebalancing is getting too much of that taking from the winners and giving to the losers. Rosalie Bordallo: That's always how you're going to look at rebalancing, who's doing well gets a haircut and who's not, well they're lucky they don't get touched. Wilfred Leon Guerrero: I'm saying I don't know if we should be doing this on a monthly basis. Rosalie Bordallo: You really have to understand that the current cash has gotten very precarious because DOE has not paid us, GMH... Wilfred Leon Guerrero: Cash problems I can understand. Rosalie Bordallo: It's all for cash, that's the only reason.

Diana Bernardo: Numeric and Eaton Vance are new managers that were just funded in October, but they were only partially funded and the question is, do we want to fund them further. Paula Blas: And we already said we weren't going to entertain additional funding until Terry (Dennison) came out. Antolina Leon Guerrero: So we didn't rebalance last month? Terry Dennison: No, we gave them half a load. Rosalie Bordallo: But because we are going to liquidate, the issue is... Paula Blas: We're trying to take advantage of it at one time. Rosalie Bordallo: This one time shot is kind of what we want. Wilfred Aflague: How far ahead do you plan your cash needs? Rosalie Bordallo: It's on a monthly basis. You could have gone out 6 months for last month and say for sure how much you want to liquidate, but just last month or the last 2 weeks have really kind of put us in a situation where the signals are there, if you don't pay attention, we might have major problems and not have enough cash. DOE has not paid us, they are \$1.5 million for one pay period, GMH is already up to \$4 million and if DOE doesn't come in, you're talking \$3 million per pay period, they're behind one pay period and have another pay period coming up. Paula Blas: GMH is behind 4 pay periods. Wilfred Leon Guerrero: What about the law suit? Paula Blas: We filed a writ, they have until January 11, 2011 to respond to the writ, they did get their loan approval for this particular bill that authorizes them to take a direct loan, if not, a revolving type of loan. The

institution that pitched it is only going to give them or approve them for \$12 million. Wilfred Leon Guerrero: They get that loan, what do you think they're going to do with the money. Wilfred Aflague: I don't think they're going to be as caught up. Paula Blas: They're going to pay their vendors. They don't have supplies, pain medication... I already know just based on conversation with the Chairman that's pretty much what it's going to go to.

Terry Dennison: I would take the excess that's in Cornerstone and the excess in Security Capital, the excess in Winslow and the excess in INTECH and that's enough to do the domestic small cap and probably give you enough money to keep the party going for another couple of paychecks. Diana Bernardo: If we take \$6 million from Cornerstone, \$10 million from Security Capital, \$14 million from Winslow and \$14 million from INTECH, that will give us about \$44 million, so that should be good for Eaton and Numeric. Terry Dennison: Yes, but then you'd still need to meet your payroll. Diana Bernardo: So we will take from Metropolitan West. Terry Dennison: We will take all of it from Metropolitan West, but we're going to leave the 1.04% to pay paychecks and put the remainder of the target amount in an index fund. Not only are we going to get rid of Metropolitan West and take all their money, they're actually over 1.04%, so we can take that 1.04% and bring them back down to their target and invest that in the index funds and then we got about 1.04% of the total fund which will be about 13 or \$14 million. How long will 13 or 14 million last you? Paula Blas: \$14 million is what I need for one month. Diana Bernardo: That's assuming nobody pays. We just don't want to have to liquidate pay period to pay period.

Terry Dennison: The other thing is, if you want to just correct another overage, we've actually got way too much in the I Shares EAFE ETF. Why don't you clip that for another 1% and that would give you another month. If your burn rate is 1% a month you could probably easily figure out, you can clip that for a month and that gives you money through February.

### **3. Other**

Wilfred Leon Guerrero: I want to ask about the possibility of setting up a --- investment account, because I think we're going to see more of this, agencies not paying and we don't want to deal directly with the Government of Guam, but I think we can deal with the banks and say, we have this kind of money, we want to invest and if you want to lend it to Government of Guam, it's your loan. Wilfred Aflague: It's a form of securities lending? Wilfred Leon Guerrero: Yes, but they're dealing with the bank not us. Terry Dennison: What does the bank need you for, they have plenty of money. Wilfred Leon Guerrero: The bank won't want to put up the whole money, they usually like to have it spread out. Terry Dennison: Right, but they don't need the money, they want to spread the risk, but you don't want the risk of giving money to the Government of Guam, your responsibility is to the participants, not to the Government of Guam. What's your security?

Antolina Leon Guerrero: You're asking to use funds from the Retirement Fund as security, is that what you're suggesting? What if the Government doesn't pay? Wilfred Leon Guerrero: That's why you have to tie it in with, if the Government is going to borrow the money, they use the Section 30 money as a guarantee. Paula Blas: But in terms of, like Terry (Dennison) was saying, the financial institutions, at least from our standpoint, if we were going to invest, we would have to liquidate somewhere anyway to make that investment. The bank right now, at least many of them they've seen cash issues with regards to too much cash, they're holding on, so they're trying to lend. Wilfred Leon Guerrero: So you're saying they might not be interested. Paula Blas: Yes. Wilfred Leon Guerrero: I can understand that, but it hurts my stomach when I see these banks loaning to Government of Guam at a rate of 8%, 9% and we can be earning some of that. Paula Blas: But that's with a guarantee of the Section 30 collateral for that particular loan. Wilfred Leon Guerrero: The way the bank works, before they lend that money to the Government, they usually insist that they be the depository for that Section 30 money so that they know they're going to get that money. Paula Blas: But the banks don't determine what the collateral is going to be, it's the Legislature when they're floating these loans or these bonds, like in the case of GMH, they identify a syntax to be the re-payment source, so when they issued the RFP for anyone interested in providing these loans, this is what the re-payment source was going to be. Antolina Leon Guerrero: I just don't think this is the kind of investment our fund is intended for, it's not intended to loan money to the local Government. Rosalie Bordallo: I don't think he's looking at it as a loan to the local Government, he's looking at it as the 8% rate of return that Bank of Guam gets all of the time, why can't we take some of our money and lock into this 8% if there's a guarantee from Section 30 money. Terry Dennison: The problem with that is had you done this last year, you would have gotten 8% instead of 12.3%. You're earning a lot more than right now than 8%, so you're costing the Fund money, you're taking money that we could have invested in the stock market which was up dramatically this year, last fiscal year we were up over 12% and giving it to somebody for 8%, you're hurting the Fund. Now I can't guarantee that it will happen next year. Wilfred Leon Guerrero: My frustration is, we're not doing anything and exploring it as to how we can maximize the returns of the Fund. Terry Dennison: Lending money is economically very highly correlated with the rest of our investments; we need to find things that aren't correlated with the rest of our investments. If the economy goes bad, the present investments all to one degree or another will participate in that down turn. An investment with the Government of Guam would be very subject to that down turn. The reason for the hedge funds is with hedge funds you can actually make investments that do better in down turns, they're negatively correlated with the economy. We have too much correlation with the economy, we're too dependent on the economy to do well. If we can broaden and obviously this is the required Legislation because these are strange things, they're not permitted right now, if we could do that we could invest in things as a hedge and I don't mean hedge in a hedge fund, but hedge in a sense of protection, do better in down turns than we do in up turns.



So if we have and we will have another recession, that's called the business cycle, we could protect our asset base by investing in assets that are negatively correlated with economic activity. Right now, all of our investments are positively correlated with economic activity. When things are going great like they are now, we're making tons of money, when things do badly like in 2008, we lose tons of money. If we want to further improve our risk posture, we want to be able to invest in things that either have a lower correlation with the economy or negative correlation with the economy; they actually go up when the economy goes down. Those sorts of things exist, we just can't buy them right now, we can't invest in that sort of asset class. Had we had the asset mix we had in 2003, we would have been killed in 2008, we still lost a lot of money, but realistically we would have lost even more money. We benefited from the emerging markets, we benefited from our international market, because the business cycle outside the U.S. wasn't the same as the business cycle inside the U.S., but we can do more, it's just we keep bumping up against the law.

Wilfred Leon Guerrero: What percentage of the portfolio do you think that we need to invest in these things to make a difference? Terry Dennison: Realistically to move the needle, to make it worth the bother, you probably need a minimum of 3%, but if you can have any real benefits, you probably need 10%. Realistically the market goes up most of the time, but it doesn't always go up so maybe we ought to have 10% of the assets positioned to do well when things are doing badly. The problem is, in our financial state right now where we're very under funded, the plan sponsor is at least inconsistent about giving us money, if the Fund shrinks in the next down turn, what happens is almost no matter what we invest in, no matter what the rate of return is, it's being applied to such a little amount of money that we can't grow it back up again. That's the problem with being under funded, if we go from 40% funded to 50% funded, what happens is, even if the market rebounds, we're up 20%, that 20% is applied to so little money, 20% of not much is not much. What happens is we're bleeding \$12 million a month, our burn rate is \$12 million a month and it's going up, so what happens is, the principle just shrinks and shrinks until it's all gone. The analogy that I ought to use is, it's like a black hole, that, we talk about an actuarial rate of return and the rate of return necessary on the assets for that when the last person cashes their last check, they have the last dollar. There's also an arithmetic stability return, if you had \$100 million plan and you were spending \$10 million a year on your payroll, you have to earn \$10 million to keep the fund from shrinking and every year you don't make that 10%, that required rate of return gets bigger, instead of 10 you have zero return. Now after one year you \$90 million, so now in order to make your \$10 million, you need about an 11.5%. Suppose you don't make that, now 2 years in a row you have zero return and now you have \$80 million dollars and now to make your \$10 million, you need about a 12.5% return. As it shrinks, the return necessary to keep it from getting smaller gets so large that there's no creditable investment, there's nothing that you can invest in that will produce

enough money applied to that shrinking principle to keep it from simply imploding. (end of tape 4)

(tape 5) Terry Dennison: Upon whose livelihood is the success of their (Metropolitan West) survival, survival of what the firm provides, what else are they going to say, we're just going to close our doors. They were at least gracious enough not to say these people aren't important, they didn't say that, but our view is, yes they're not going to go clunk like a shot bird, but the reality is one, the guys who left, particularly Howard is very important and second of all we no longer know enough of how they're going to run the money, we can always go back, I mean if we take the money and put it in an index fund and take our time to look at alternatives, we can always go back. Right now we have no idea, we have no visibility of how important those people were, how the process may change, realistically they've got non-competes and non-solicitations and in California those are worthless and the California law doesn't allow enforcement of non-competes, its against public policy. So the reality is and one of the concerns is, are they going to lose more people, are the people for whom Howard was their leader and in these organizations often it is tribe, Howard was the thought leader, he was the mentor, he was the person who was there who built the organization. He's gone and the other people don't have to leave to go with him, they could just leave to go some place else. Do you want to be the test pilots, do you want your money invested in an organization where we have no idea how it's actually going to work. The advice is, I read you the words, we recommend you go some place else. It's your choice, we're your advisor, but it's your choice, if you want to give them the year they ask for, but of course they're going to ask for a year, if you say we can't give you a year, they'll say how about 6 months, can't give you 6 months, how about until next week. I'm not being whimsical here, I'm not being frivolous, these are tough decisions, but I can't foresee the future, maybe this is just going to roll on like it did and they're going to continue to be 1<sup>st</sup> decile performers and just absolutely continue to just shoot out the lights. But, that's basically saying the guy who invented the strategy who was the strategist, the mentor, remember they said they went from like 4 to 20, who hired the 16 people, he did, Howard did. You've been a long term customer, ultimately it's your choice.

Rosalie Bordallo: We would have to first tell Metropolitan West that they would have to either liquidate or terminate them and as such that we want the portfolio liquidated and once the portfolio is set for liquidation, the next day we could buy... Wilfred Leon Guerrero: So this is something we can do right away? Rosalie Bordallo: It could be, yes. Wilfred Leon Guerrero: I don't think I want to be around when they're experimenting....we get out of them... Wilfred Aflague: I agree, yes, I just wanted to hear Terry's (Dennison) lecture to us. Terry Dennison: One thing that is interesting and I will always tell you not to pay attention to a quarter, but if you looked at the data, it was first 10<sup>th</sup> percentile, 5<sup>th</sup> percentile, 8<sup>th</sup> percentile, 38<sup>th</sup> percentile, the last quarter was very out of character, the last quarter they dropped to being kind of average. If you wonder if, yes it was announced at the end of November, but if you wonder if

people already had one foot out of the door or were no longer were committed to what was going on, that was the other thing that I felt a little tricky about. The quarter from July 1 to September 30<sup>th</sup> the performance which had been stellar dropped, maybe just a bad quarter, maybe they're positioned wrong, but maybe they weren't interested much anymore.

To be fair, just to give you all the possible options, you don't have to take all the money. Given we don't have perfect foresight, if you want to take two thirds of the money, leave them with something, we'll see how it goes and if you keep growing along we'll give the money back. Realistically we don't have to find another active manager, we can leave it parked in the index fund because the index fund is giving us the performance of the asset class they're invested in. If they're dropped down to index like performance, we're getting index like performance for a lot lower fee. They have to be adding a lot of value for us to be losing opportunity and that is an option.

Wilfred Aflague: What do you recommend now that you gave us all these opportunities? Terry Dennison: I really think that we ought to completely exit, but I'm sympathetic that you've been with them a long time, I'm not sympathetic that they have an on-island presence, for our purposes we can't consider that, but they've had stellar performance, we don't know what the future is. I would pull the plug and find someone else, but I'm not going to pound the table, I'm not going to say, gentlemen, ladies, you must do this, something evil is going to happen, I don't have that level of foresight. I think as the word is said here you should look elsewhere because we send people in there to sit down with them, talk to them, really understand the process. This isn't just somebody that read the letter, this is somebody who knows these people very well, their advice was look elsewhere. But, to give you the full opportunity set you could take two thirds of the money or half the money and just take some of the risk off the table without taking all the opportunity off the table. I have to tell you all the options, I can't play with your heads, I shouldn't play with your heads by just telling you one argument, telling you all the reasons you should do what I want you to do and all the negative reasons that would happen if you don't do what I want you to do, I want to give you all the options because it's your decision. Wilfred Leon Guerrero: The reason why their presence is important to us is because there's not many animals like you on island where we can go to and talk to about stuff. It's important to us to be able to ask questions in such a way... Terry Dennison: Yes, I understand that. To be fair you could reduce your risk in half by two thirds and still maintain some opportunity... Diana Bernardo: If your recommendation is to get out, how could the Board in their fiduciary responsibility, say we're going to take some out and leave some in, would it be prudent... Terry Dennison: Yes. Your job is not to just do what Terry suggests you do, your job is to use your own judgment. If you want to drop it by two thirds and take two thirds of the risk off the table and still maintain some opportunities, I'm not going to pound the table. If everybody left, it would be a different discussion, it would be a different story.

Wilfred Leon Guerrero: I think the written recommendation is that we should look at options. Terry Dennison: Yes. Rosalie Bordallo: I think what Terry (Dennison) is saying is that he doesn't have a crystal ball to say with 100% certainty that this firm is going to implode and what happens to you guys now if you say, let's take everything away and they have stellar performance for the next year and a half. That's the risk you have to take and I think what Terry (Dennison) is trying to do is just balance it out and say, look, we're going to take a lot of money from them and still keep some so that in the event they do, what they're saying is true, at least we can still have them and we just put the money back in at some future date. Terry Dennison: Realistically the fact that it's parked at an index fund that is tracking the performance of their benchmark, if their benchmark does really well, the part that's in the index fund will do really well. Now they could have added more value above that or they could have detracted value from that, but at least if that part of the market does really well, you're there, we're not taking it and putting it in cash, we're just basically saying at this point we have concerns about whether or not the process will continue as it has but take some of the risk off the table, some of the opportunity off the table, because we're doing both, you can't take the risk off without taking the opportunity off. It's not fair for me to say, I still, if the words are what the words are, but it's not fair for me to manipulate you by not telling you that obviously there's another option which is to take part of the money, that's not the right. If you wanted to take two thirds and keep one third, I can understand that. That's a very stern form of watch. The other thing that does is it documents a concern on a part of the Board about uncertainty about the future. It puts you to do nothing and just basically accept that all will be well, do not worry. Somebody could later come back and say, you guys are all asleep, you drank the kool aid, you weren't paying attention. This is a good fiduciary act in terms of taking a positive affirmative step to react to what happened. You always have to worry about how people might interpret how you act.

Diana Bernardo: What's your recommendation, what do you want? Wilfred Leon Guerrero: Reduce the risk by taking two thirds and putting it in an index fund. Paula Blas: So retain the manager... Terry Dennison: But reduce their allocation by two thirds. (end of tape 5)

(tape 6) Terry Dennison: Clearly the huge amount of over weight is in the I Shares EAFE Index, \$60 million there. Diana Bernardo: Only \$26 million is going to the new manager. Between Fisher and the new manager, once that contract is signed Fisher has like \$94 million and the new manager is getting \$26 million, are you okay with that? Rosalie Bordallo: I thought you were supposed to split it 50/50. Terry Dennison: I see \$26 million reserved for the new manager, so what are we planning to do with this \$63 million that's in the I Shares? Rosalie Bordallo: I thought that's also supposed to fund this new manager. Diana Bernardo: This category is only at 9.25% and Fisher always had 7.25%. The change in that is I believe we took out a portion of that

category and put it into Capital. Terry Dennison: But didn't Capital get the money because right now they're almost exactly on target. I see \$26 million reserved for the new manager, so what's going to happen with the other 2.82, is that going to the new manager too? Maybe I just don't understand the formulas here. Diana Bernardo: The 9.2% percent is the target allocation for that mandate and its split 7.25 for Fisher right now and 2% was previously AXA. Rosalie Bordallo: But I thought once we picked up the new manager, the allocation for Fisher would drop down so that we were going to split that mandate to 50/50. Terry Dennison: I don't see any reason why if we have 2 managers they don't have approximately the same amount of money, because to say that means we have more confidence in one manager than the other, given the fact that Fisher has been all over the place. Rosalie Bordallo: Right but I do recall your concern was that Fisher did have too much money. Terry Dennison: That's what I'm saying. Diana Bernardo: It has been, but I'm saying, the change in the actual... Rosalie Bordallo: Was not official. Terry Dennison: You have nobody to give it to right now because the total would be \$154 million, so maybe each manager ought to have \$77 million. So we'd be taking \$15 million from Fisher and giving it to the new managers as well as the \$63 million that's already there. Antolina Leon Guerrero: Weren't you going to take some of that money for cash flow? Paula Blas: If we're going to be on target by... Diana Bernardo: It would be 61...Rosalie Bordallo: \$60 million. Antolina Leon Guerrero: And the difference would go to? Rosalie Bordallo: Cash. Terry Dennison: The difference would be 2.5 to about \$30 million.

Diana Bernardo: So my thought on that is basically do we want it such that upon signing the contract with Earnest Partners, they get funded 50% of that mandate and Fisher is trimmed. Terry Dennison: Fisher should be trimmed, there's too much money with Fisher and too much money in the asset class. Diana Bernardo: So when we get that new manager we'll fund up to 50%. Terry Dennison: Right, that would be good. Diana Bernardo: What about DFA, do we want to just leave that alone? Terry Dennison: I would leave that alone, that's minor. We'll be back in a couple of months. Diana Bernardo: I just want to make sure we address it.

The next item is the next meeting date. We're going to have 3 managers, Capital, DFA and Fisher.

**3:00pm-3:45pm DC Plan - Other**

None. (end of tape 6)

**Respectfully submitted,**

**Affirmed:**



**STEPHANIE A. HERRERA**  
**Recording Secretary**



**Wilfred P. Leon Guerrero**  
**Chairman**

