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**Quarter Ended 12/31/09
 Performance Meetings
 & Annual Manager Reviews**
 March 24, 2010
 Retirement Fund Conference Room

Wednesday, March 24, 2010

Board of Trustees Present:

- Wilfred Aflague, Member
- Gerry Cruz, Member
- George Santos, Member
- Katherine Taitano, Member

Staff Present:

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

Others Present:

- Terry Dennison, Mercer Investment Consulting, Inc.
- Doris Flores-Brooks, Office of Public Accountability

Students: Dr. Taylor's Class

Economic & Capital Market Development:	Pages 1 to 15
DB Plan – Quarterly Performance:	Pages 15 to 28
DC Plan – Quarterly Performance:	Pages 28 to 31
Great West (TPA):	Pages 31 to 38
Other: DB Plan Items:	Pages 38 to 39

9:00am-9:45am Economic & Capital Market Development

Wilfred Aflague: The reason why I'm speaking is our Investment Committee Chairman, Dr. Wilfred Leon Guerrero is not here. Members of our Board here are Mr.

George Santos, Chairman of our Members and Benefits Committee, Katherine Taitano, Mr. Gerry Cruz, we have our speaker from Mercer, Mr. Terry Dennison, Doris Flores Brooks, Public Auditor, Ms. Paula Blas, Director, Diana Bernardo, Controller, Rosalie Bordallo, General Accounting Supervisor. (I understand you are all students from Dr. Taylor's class.) The Chairman of our Board, Mr. Joe T. San Agustin will join us later. With that, the floor is yours.

Terry Dennison: If we turn to page 4 in the book, as always we like to spend a little bit of time talking about the economy and the market environment, because they're so important in our ability to create wealth. Realistically I think the general saying is "you can only take what the market gives you" and if you look at page 4, the 4th quarter and we are doing the report until the end of December although I'll bring you up to date on subsequent developments. Clearly, the 4th quarter continued the very strong performance, we've seen starting March of 2009. The S&P 500 was up 6% for the quarter, since March it was up 42%. That sounds like a fantastic return, but just to bear in mind the losses from 2007 and 2008 were so large, that really only represents about 50% of recovery of our losses so we still have, in market terms some significant ground to still make up. For the index, the S&P 500 was up 26 and a half, so it certainly was a good year in 2009, we certainly needed it.

Part of what's been driving the strong market is the economy, the real economy has been improving and we'll talk a little about the nature of that improvement because it's uneven. The Bureau of Economic Statistics, which maintains the ledgers on the gross domestic product, or GDP, reported when we did this book, 5.4% growth in the GDP for the 4th quarter, that subsequently has been revised up to 5.9%, but most economists very quickly saw that at least half of that gross domestic product rebound was due to inventory pipeline filling. Going into the Christmas season at the end of 2009, stores and companies were loathed to accumulate inventory that they were afraid that they could not sell. So basically the supplies change the pipelines at the stores, the pipeline at the manufacturer were allowed to run dry and at least half of that GDP growth was due simply to inventory refilling, which of course is a one time thing, once the inventory has been rebuilt those final sales still are not going to be repeated. So at this point were probably looking to real GDP growth, in this case real not in the economic sense, not after inflation, but that kind of substitute GDP growth is about 3% and it gives you a sense of how muted this recovery has been, because usually at this point in economic cycles, you get a couple of quarters of GDP growth up in the sevens. With the sorts of decline of GDP we had in 2007 and 2008, you would expect a sharper rebound than this. Part of this is due to continued very low levels of consumers spending. We'll get into a bit about where the consumer is and realistically since the consumers are a very large part of our economy, if the consumers keep their wallets tight, you're not going to see a tremendous amount of growth.

The Federal Reserve continued and continues to this day to keep a very stimulative accommodated monetary policy. The Federal funds rate is still very low. In part there is kind of a stealthy effort here to make it a little easier on the banks to recapitalize themselves, because basically until very recently they were paying interest on reserves, so that you can borrow the money for next to nothing and lend it back to the Government and make money at absolutely no risk at all. That was done as a way to

get the bank's capitals position into a little bit stronger shape. There is a sense that has a negative effect on the economy, that they don't want to do it any longer than necessary, because if the banks can make easy money by borrowing for free from the Government and lending it back to the Government, they're not going to need to go and make loans to the real economy. So while it was probably necessary due to the extreme paralysis positions that the banks were in, in terms of losses involving sub prime debt and other losses that we saw in 2007 and 2008, they don't want to do that for much longer because it is actually now necessary to restart bank lending to the real economy to get some real growth.

Clearly as the Fed is beginning to become a little bit more concerned about inflation, there is a sense that maintaining very, very accommodative monetary policy to late into a recovery could lead to a surge in inflation. Inflation is always the big story because it has a very negative impact on the economy and on securities prices. Bonds of course are directly hammered by inflation, if inflation goes up, bond values go down, and for a lot of reasons we have a relatively high allocation to bonds in this portfolio, so inflation would not be good for us. Significant levels of inflation are not even good for stocks. A couple of percent is probably healthy when you get up to 5 or 6% inflation, it starts to become hurtful for stocks. So they're kind of walking a little tight rope between continuing to want to stimulate the real economy without producing a level of built in stimulation that later becomes difficult to remove from the system. One issue that the Fed is looking forward to is due to the enormous increase in their balance sheet when they had to take in a lot of this junk debt from the banks and from other investors, the balance sheet is what they used to manage the economy. There is now a question how effective are they going to be managing the monetary supply with this stuff that was not previously intended to be there on their balance sheet.

We are seeing a little bit of a pick up of inflationary expectations. I think everybody sees this enormous amount of fiscal stimulus, various stimulus programs a lot of deficit spending as well as very easy monetary policy is likely to lead to inflation in the future. One of the reasons we are not seeing the inflation is a technical factor called velocity of money, people who have money are not spending it. Because it doesn't recycle its way through the economy, its impact on the monetary supply is muted, but at some point the money is there, it's just not circulating, once it starts circulating, you're going to see a huge increase in the money supply. We're not talking here about currency, we are talking about deposits, money market funds, a broader definition of money not just green bills in your pocket. So there is a sense that inflation might start to pick up a little bit. Inflationary expectation increase to, and this is measured by return on TIPS verses the return on nominal bonds, so it basically is the market estimate of what future inflation is going to be. It's up to about 2.5% and 2.5% is not an unhealthy number, in fact it is probably not very far different from the Fed's target which is more or less around 2%.

The second thing that is reducing economic growth is unemployment. Unemployment has been very sticky, we would expect to see a couple of percentage points of improvement in the unemployment statistics by this time of economic recovery. A lot of the jobs probably simply aren't coming back because companies discovered as they slimmed down their production that they really did not need these people, that they

can increase production in response to more orders and more top line growth without less than necessarily having to hire people. To give you a sense of just how significant the unemployment level is, people tend to think just of the unemployment level, the headline number. The headline number, there are actually two ways they do it. First, they call about 2000 households and ask everybody in the household who wanted a job last month and that number is fairly volatile. The second sample, which is used to kind of validate the first, is they go to employers what has been the trend of employment in your organization, but there are other statistics also. The first the one most interesting is a statistic that does not get a lot of press called U6, these all have of course Government cryptic acronyms. U6 is basically asking the first question, but with respect to, within the last six months. If you look at unemployment, now this will include the long term unemployed, discouraged workers, people involuntarily working part-time, the unemployment statistic is about 17.5%. So if you look more broadly at the economy and people who have given up looking for a job or are simply working in positions at levels of hours that they're not seeking to do, unemployment is still very bad. In fact, one of the concerns is, even if the economy increases dramatically, what you're going to have is more of the discouraged workers filtering into the, I am looking for a job category, which means even if the percentage, or even if jobs become plentiful, the unemployment rate won't go down, because the unemployment rate is simply looking at people who are literally actively looking and there's a lot of people who stopped actively looking, because they feel discouraged and if they start to believe that jobs are becoming more plentiful and re-enter the looking workforce, you could actually see the anomalous situation of the number of jobs in the economy increase and the unemployment rate increase, because there's this reservoir of people which is huge, the difference between about 10 and 18, reservoir of discouraged workers, so you could have a very anomalous result if the economy continued to improve, while unemployment either stays very sticky or actually starts to rise.

Looking at the headline inflation year over year up 2.8% percent, there's been a lot of thinking about why inflation behaves the way it does. There are some anomalies predictably the way inflation is calculated that actually produce a little bit different numbers you would think. About 40% of the unemployment statistic comes from housing and the way that the Commerce Department calculates the housing statistic, is something called owners equivalent rent. They actually don't look at house prices per se, because most people do not buy a house every month. In order to avoid this statistic becoming meaningless volatile, they use a statistic called owner's equivalent rent, which basically is what it would cost you to rent the house you own and because of the enormous supply of houses that are on the market from foreclosures, from houses that were constructed and now are un-sellable because nobody can get financing for them, this has caused owner's equivalent rent actually to fall. While you still make your mortgage payments, actually from the Government economist perspective, the cost of living in your house is falling, because the rent you would pay to rent your existing home that you own is actually deemed to be falling. So this is actually keeping inflation artificially low. Real inflation is probably actually higher than the statistic, again raising the specter of increased inflation, because of this anomaly regarding the housing market. Now as these houses get sopped up, get removed from the market, this is going to put upward pressure on rents, which puts upward pressure on owner's equivalent rent, which again is 40% of the unemployment statistics. So you got a bunch of factors that are all pointing in one direction. You

have got enormous amount of money circulating in the system because the government has been injecting money into the economy at a fantastic rate. You have a tremendous amount of fiscal stimulus, the Government is handing out money left and right to stimulate the economy and you have some technical factors regarding how inflation is calculated that actually could cause it to blimp up. So the sense is that they've run up and inflationary expectation is still really quite reasonable. In fact, if you factor in all of these, inflationary expectations could be even higher.

We did find and it's the last bullet on page 4, one thing that is positive is the manufacturing sector of the real economy is showing considerable strength. There is a group called the Institute of Supply Managers that does a survey of purchases and orders going to manufacturers and the statistic is a unit-less number where a score of 50 means that the manufacturer sector is stable, numbers above 50 means it's growing and below 50 means it's contracting. The last purchasing manager's index was almost 56% which means the manufacturing sector of the economy is actually growing. Final sales in the manufacturing sector are growing, but as other businesses, particularly other manufacturing businesses in general have been using capital substitution for labor, it's just not had much of an impact in the unemployment statistics.

If we turn to the next page, looking at page 5, there is something that became very widely known when we had the true financial crisis in 2007 and the beginning 2008, something called the TED Spread, which is the difference in return between what's called the LIBOR-London Inter-Bank Borrowing Offering Rate and the U.S. Treasury. Basically it's a measure of the perceived risk in the fix income markets. The U.S. Treasury is considered to be the safest interest rate in our economy, a word about that later, but you saw this huge spread where if you weren't in the U.S. Treasury, the yield demanded by the market grew dramatically and this is the fixed incomes markets view of what fear looks like. What you see is the TED Spread now back to more normal levels, the difference between what a bank can borrow at and what the treasury can borrow at is down now to its more or less historical level. That is obviously healthy because fear in the economy has very negative implications, people start to behave in a manner that probably is sensible if you assume the end of the world, but the reality is it almost makes the end of the world come true by its own nature.

Page 6, we're looking at the equity version of the fear factor which is the Volatility Index (VIX), this is the applied volatility that is calculated from the options that are sold on equity securities. You can see in exactly parallel to the previous page that the equity markets also had a historic level of fear back in the months surrounding the demise of Lehman Brothers. You can see that the VIX Index is now back down near its historically levels, but in reality if you look over at the right, which is the January 2007, which we might deemed to be the kind of period of happy innocence, the VIX is still about twice that level, so there is still some equity volatility perceived in the market place.

Now let's take a look at some economic statistics. Before we turn to page 8, which is a very short term view of what's going on, let's look a little bit at our sense of the longer view. Now again the longer view is made up of a series of shorter views and as I've often commented, both my and our crystal ball doesn't work very well and we can't

find anyone to fix it, but there are certainly some things out there that are worrisome and as it turns out most of them are negative. First is debt, the debt level in the U.S. and basically the developed world has risen dramatically, because of Government programs try to rescue the economy. The reality is, that probably was the right thing to do. An example of when that was not done was the depression in the U.S. in 1930. So nobody is arguing that it didn't need to get done, but there are consequences to having accumulated that much debt. One you can't keep doing it, you can't cure a debt crisis by issuing more debt. We're already seeing countries particularly in Europe that are running into the markets willingness to continue to finance that debt. Greece, Portugal, Spain, Italy and Ireland all of which are running into market reluctance, because where previously Government debt or at least develop market Government debt was seen relatively risk-less, now is being perceived as not being risk less. Dr. Leon Guerrero was at our client conference in San Francisco in February and he heard a very highly thought of economist speculate, because that's what it is, that the year 2020, the sovereign debt or the Government debt of developed Europe will be junk and by 2030 U.S. Treasury will be junk. This has some interesting implications, because from my perspective when we're thinking about how to construct portfolios, if you have a situation where Microsoft could borrow more cheaply than the U.S. Treasury, it makes how you construct portfolios, think about risk somewhat more complicated. Now that's an extraordinary statement, but the reality is that the rate of increase in debt and of course the debt has to be financed and as the Greeks are finding out, the problem is once the borrowing level gets so high that the borrowers demand increasing interest rates, what you have is sort of a graveyard spiral, if the interest rates are so high that the cost of financing that debt causes you to have to issue you more debt and other than default, it becomes very difficult to find out how you get out of that trap.

I think there are other countries around the world that would be in worse shape. The Japanese, which are a real mess, are only out of the figurative bankruptcy court, because only 4% of their extra other debt is owned by the non-Japanese interest, they don't have to go to the Chinese to sell their debt, basically it's bought by Japanese. So in a sense, they're running a 200% level of debt to GDP, where the Greeks are tottering 120% total debt to GDP. These debt levels are increasing around the world and there is going to be a point beyond which the market will simply refuse to finance it.

Dr. Leon Guerrero: What is the latest on Greece, looking at the Euro countries to bail them out, is that going to materialize? Terry Dennison: What you have here is widely characterized as the game of chicken, and are you familiar with the game of chicken? I am sure nobody here has ever done that. Basically, you have the Greeks saying, if you don't bail us out, we're going to default, or go to the IMF, which is politically uncomfortable for the Europeans, but the Europeans, the other European countries are basically saying, if we bail you out we're encouraging irresponsible behavior. So what you have is a classic game of chicken, because the Greeks probably can't maintain something short of a revolution and have the kind of austerity they need. If you are spending, if your debt is 4 times what the European Union Treaty calls for you to have, you're not going to do it by reducing a little bit here and a little bit there, it becomes absolutely ----. There is a lot of demagogging that the market is, basically the speculators are trying to make money by bringing down the Euro or the Government, I've heard that characterized as getting mad at the mirror because you don't like the

look of your face. Basically this is what the markets do and of course this annoys politicians because they can't control the market. It's interesting, everyone is fascinated by what is going on in Greece. Doris Flores-Brooks: What about Finland? Terry Dennison: Finland is very carefully ---, that's a very strong economy. Iceland is a special case because of the situation they had. Doris Flores-Brooks: I'm sorry I meant Iceland. Terry Dennison: That's kind of a special case, they're also sort of a side show. There's been comparisons made with Greece and California. California is in much a similar situation. Basically we have about \$27 billion dollar budget deficit and no real way to cover it and the debt's nearly down to junk level as it is. The reality is Greece is 2% of the European Union and California is 12% of the U.S. People have suggested the only difference between Greece and California is in Greece more people speak Greek and California is in the same boat with New York, Illinois, New Jersey, there are a lot of US states that are heading for bankruptcy. There are a lot of U.S. cities that are heading for bankruptcy, so this debt bomb, which of course we are leaving to our children or grandchildren to have to deal with, is going to become a real obstacle to growth. So what you have is, the only way to get rid of the debt is to grow out of it, but the debt eventually becomes so large that it actually inhibits growth making the problem really insoluble.

We talked before about PIMPCO's idea widely now emulated that we are going into a period of the new normal and the new normal is going to be decades, not a year or 2, decades of low growth, low security market returns, probably or most certainly less than we have gotten use to, probably less than are sufficient to meet reasonable actuarial assumptions for public retirement plans and this new normal is due to 3 factors that they very articulately state, is de-leveraging, the absolute necessity to do something about this debt, de-globalization, where basically countries becomes less trade oriented and that's probably hurtful for everybody. Gerry Cruz: What is the premise behind that though I don't see that one.

Terry Dennison: The de-globalization, you start to see more trade frictions, the whole issues regarding the dispute between the U.S. and China about the value of the Yuan, more tariff walls, more what the French are doing, basically saying, if you are going to sell a car in France, it actually has to be made in France and what this does is raises the cost for everybody. Gerry Cruz: But for companies like Toyota for example, where a majority of the parts and the plants of that Japanese company are made in the U.S., how do you de-globalize a company like that and that is only using a Japanese-American example. Terry Dennison: It doesn't work everywhere, but its trend away from a universal or previously near universal belief the trade was good. The actual trade was a positive some game, that you might lose a little here but you more than make it up by participating in trade. Now that's been reversed, it's now seen by, money of many outside of the Chinas of the world as being a negative some game. We open up our markets and allow foreign competitors in, but they keep their markets closed, but of course there's a symmetry here. If we close our market or have non-tariff barriers to our market either regulatory or cultural, the reality is that's an inhibition to trade and basically most people eventually start to reciprocate. You won't allow us to sell our goods; we won't allow you to sell your goods and basically you will see global trades, which I think is generally believed by most economists to be a positive-sum game. It is beneficial ultimately for everybody, to begin to slow down. Gerry Cruz: And that's a huge jump from where we are today, because you have

treaties and agreement, NAFTA and for decades we have been opening up and we have examples of economies in Japan and China who have had export lead growth models of development that have seen so much success, more so China today and so to reverse that trend I think is taking a large jump to a situation that takes us back before all this, which was an imperialistic kind of economy that has shown very little success.

Terry Dennison: Listen to the rhetoric in Congress. Gerry Cruz: I have listened to the rhetoric of Congress, but none of that has gone forward. Terry Dennison: Well, maybe they were distracted by other things. Gerry Cruz: Precisely, my point. Last year would have been the best time if their rhetoric was true to form to have passed a tighter grip around trade, but they haven't. Terry Dennison: Other countries have, the French, Europe in general. Gerry Cruz: Right and look at where they are today. Terry Dennison: Nobody is saying it's smart, it's actually it's stupid, but nobody also attributes a great deal of wisdom to political buys. Gerry Cruz: Right and I guess that's my point and PIMPCO, which in my mind is a very well respected organization, would use that one of their, I mean would bring that up as... Terry Dennison: It's perhaps the weakest of the 3. Clearly de-leveraging is a necessity that's going to be very painful. Gerry Cruz: And de-leveraging, absolutely. Terry Dennison: And re-regulation. Gerry Cruz: Which is why I think the economy is going to be slow growth for the...not only macro, but also the consumer, which is why I think probably now the consumer isn't spending, because they're going through the period of de-leveraging. Terry Dennison: Absolutely, that's what the consumers are doing. Basically, you see effective negative savings, because of mortgage equity withdrawals, turn to positive savings. I mean were not turning into the Chinese, but we're now getting saving rates measured in the U.S. in the rather high single digits, which for the U.S. in 1950's, the savings rate was more like 15%, but it's still positive and the stores are empty. Gerry Cruz: For the last year, the savings rate has grown in terms of the velocity of growth and the savings rate has been huge.

Terry Dennison: You know, people have said, I could loose my job, jobs are hard to get, that's why you see people basically slam their wallets shut. You go to the malls on the mainland and there is nobody there. I mean, you wonder how they could afford to have the lights on because nobody is buying anything and people tract the consumer confidence numbers and they're still not high and periodically go down. Nobody feels the way that they did back in 2005 and 2006, that we're rich and we could buy whatever we want because we could pay for it by getting out another home equity loan. Gerry Cruz: I agree, I just don't agree with that point, with the closing of the global economy. Terry Dennison: It's probably the weakest of the 3, but the re-regulation and the de-leveraging I think are very powerful.

If we turn to page 8, let's just look at a few of the statistics. (I am mindful of the time here, seems like we made almost no progress). It is important that you hear this, because of what it does to put a lot of what we are going to look at into context. Looking at GDP, again that current figure for the 4th quarter was 5.9%. You could see we had a striking rebound, but if you look at the area, just sort of mentally look at the area under those bars, we have a lot of catching up to do. We lost a lot of wealth creation in those 3 quarters, was very negative GDP growth. You can see the inflationary expectations and it's interesting, back in 2008 in October, which is right around the Lehman debacle, the thing that's interesting is literally the inflationary

expectation was negative, people were actually expecting deflation, but now that spread has widened back up again and you now see inflationary expectations growing.

Page 9 in the upper left hand corner looking at the unemployment rate, you could see how steeply that rose. Some earlier recessions had rolled off here, but one of the things you will see if you look at the grey bars looking across time, unemployment typically continues to rise pass under the recession. Technically in the National Economic Research Bureau, which is people who declare recessions, will probably declare this recession over probably almost at the end of 2008, but unemployment continues to rise or is very slow to turn down again and again we have this enormous percentage of people who would like to work, but don't feel it's worth the bother to try, that U6 statistic.

Again the purchasing managers index, lower right hand corner, that looks very positive and in the economy in the 1950' and 1960's where we were a manufacturing economy, that would basically indicate that boom is just here or very soon coming. You can see the 50% is break even manufacturing align, we're well above that and we are significantly above the overall economy break even, but what's happened is we've gone from being a manufacturing economy to a largely service economy, so this statistics doesn't have the powerful effect it use to.

Page 10 is just really here to show you where we are and where we are coming from; various economic events. Page 11 is looking at the Government programs.

Page 12, looking quickly again at the Federal Reserve, the left hand panel, the graph, this steep run up in the Feds balance sheet, which use to be \$900 billion, it is now well above \$2 trillion, this is going to be an issue as they try to deal with how do you unwind this. Gerry Cruz: This includes the stuff they had given to AIG? Terry Dennison: Yes. The problem is most of what is there is junk, it's worthless and everybody thinks we fixed the economy, well we haven't fixed it, all the junk is just in different hands. Somebody eventually is going to have to take this loss. The losses are there we just got them off the banks balance sheets and you're looking at who's balance sheet they're on. So there are going to be difficult times ahead from that perspective. Doris Floris-Brooks: So what will the Fed do? Terry Dennison: Well they're going to have to manage it very carefully and part of the reason why they would prefer not have to do it this year is it's an election year and the Fed as usual is constantly being, their independence is constantly being threatened by people in Congress who think they know how to run the economy better than the Fed does. So they would prefer not to have to do anything this year, because no matter what they do really is going to be unpopular, because they've already got the gas pedal to the floor and the only moves they can make basically are going to be to raise interest rates or begin to do things that are going to have the appearance of slowing the economy and that will be very interesting to see how Congress reacts to that.

Page 13, many of you are familiar with the old Misery Index from the 1980's which was inflation plus unemployment. The new Misery Index is unemployment plus Government deficits and you can see we're about in the middle of the road. Actually Greece isn't the most miserable place, partly because their unemployment rate is somewhat lower, the unemployment rate in Spain is huge. So talking about and as

you can see Iceland is here, which is only a little more miserable than the U.S., not that it is exactly the place I want to be.

Page 14, talking a little bit about the forecast of interest rates, which is a little bit like forecasting the weather, the reality is that most people think it's going to keep them low as long as they can, because they just don't want to deal with the political impact.

The dollar has strengthened on page 15 and that has an impact of course, because you have about 23% invested in non-U.S. securities. This is not really the result of the U.S. economy being seen as super healthy shape and the dollar being very desirable, it's a relative thing. The Euro is obviously struggling, because of concerns about the debt levels there and whether or not they are going to have to bail out the Greeks and the Spanish, and the Portuguese. You listen to this and some of this gets a little bit of piling on, but now you're hearing about issues in Austria and Belgium. Belgium historically has always had a lot of debts and the question is, the latest, more sort of off the wall speculation, is listening to all these problems that the Germans will leave the Euro, because they're just sick and tired of being looked at as the people who are going to bail out everybody and if you look at the polling date in Germany, the Germans are not very interested in that. They've acted responsibly and are not interested in bailing out all the people that haven't been. So the dollar is strengthened considerably against its major trading partners, not because it's doing better, but they're doing so much worse. DuPont sterling, the currency in the United Kingdom has been falling pretty dramatically, because they probably have much the same problem with sovereign debt and low economic growth and getting into the kind of cuff and corner of not being able to grow and not being able to sustain the level of debt they have without growing.

One thing that is interesting is on page 16, when we look at the asset classes, we're going to see how strong the return has been for distressed debt investments. This was an asset class that we suggested many of our clients look at in 2007 and particularly 2008, because at the absolute peak of the fear about debt, the assumptions about the percentage of losses that the market was pricing in were just ridiculous. The market was pricing subprime debt as being forecasting 50% default rates and we just saw a tremendous opportunity to make enormous amounts of money. If you could make fairly rapid investments distressed debt programs and basically you could see that the yield on people who were able invest in these debt programs was huge. Literally in 2009, the distressed debt gained more than 125%. So if you were in a position to be able to invest in the distressed debt, you more than double your money last year. Interestingly assuming we are looking at the worst of the default rate about now, if you look at the bottom of page 16, bottom left, you can see the default rate got up to about 11%, which is about typical on the bottom of recession. So what you had was the market was pricing debt as though half of it was going to default and in reality a little bit more than a tenth of it defaulted and as credit spread have come in based on the reality that it's not going to be that bad, that is how you ended up with the 125% return and we'll also see that when we look at high yield bonds. Gerry Cruz: Didn't that help the Treasuries holdings of stuff? Terry Dennison: Actually, the Fed, which actually report earnings, the Fed is not the Government, the Fed is again one of these sort of funny creatures, it's actually making record profits, because it took a lot of this debt onto its balance sheet, at 20 cents on the dollar and it's not worth 100 cents on

the dollars, but maybe it turns out to be worth 60 cents on the dollar. That's a 300% gain, so actually while the Fed is struggling and what you have now is sort of a perversion of what the Feds are to do. The Feds are there to manage the money supply, to have, if you look back at the original Humphrey Hawkins Legislation, unlike central banks in Europe whose job is to not have inflation, they have two jobs which are actually contradictory, not have inflation, but promote unemployment and actually they now have, they've become a profit making enterprise. So all of this just makes running it much more complicated, because while this debt is still sitting there, much of it they bought and/or took onto their balance sheet are at very low prices.

Page 17, housing which is probably the ultimate reason why it's going to be a slow recovery, is still very, very distressed. Now if you look at the graph year over year on the Case-Schiller Home Price Index, you finally see that little upward hook. In some markets you're starting to see house prices actually creep up, particularly those markets we didn't see the over building. The non-industrial Midwest, some of the areas around Boston, still in California, Florida, Nevada, and the areas around Washington D.C. and Virginia, and Maryland were there was just excessive over building. House prices probably are if anything, just sort of leveling out but we're not seeing a big increase. Until house prices increase, people are not going to feel rich again. Now I have said before that it was probably good, ultimately that we had the crisis in 2007 and 2008, because if we continue behaving the way we did for another couple of years, there wouldn't be enough money in the world to fix the problem. I mean we think it is bad now, another 2 years of basically terrible mortgage underwriting this ridiculous securitization process, basically the economy would be dead with no signs of it ever recovering. We were very fortunate it crashed when we did.

Let's quickly look at asset class performance. Page 19, you can see again the quarter was great, pretty much across the board, growth continues to do better than value and large cap continues to do better than small cap and that reflects for the one year period also, but if you look at the 3 year returns, we've all heard that the decade of --- or whatever you want to call the decade from 2009 basically had no return for stocks at all, you made nothing in stocks, because of 2 declines. You can see even the 3 year returns are all negative, it's just not a very good time to investing in stocks.

If you look at page 20, you could see while the stocks did very well, some places in the market did extraordinarily well. Now most of these are the places that had the worse losses in 2007 and 2008. The things like NASDAQ, a lot of gross stocks that were just absolutely clobbered, rebounded almost 50%. Now the reality is they probably need another 50% gain to get back to where they were, because remember the mathematics, if you lose half your money in one period, you have to double your money in the next period to get back where you started from. So a 50% return is certainly nice, but is no where near recovery in the losses.

Page 21, must sound very bleak, but there are some positives. This is looking at performance at the sector level and where previously we saw the best performing sectors were consumer staples, the last thing people do when they're out of money is stop eating. Now we are beginning start to see some growth not just in the consumer staples, but in the consumer discretionary. There is now a belief that people would

have a little excess money to spend and a lot of the consumer discretionary stocks, the luxury goods, the high end electronics, the sorts of things that people simply stopped buying totally in 2008 are now seeing substantial growth. From my perspective, the fact the material sector, which is the very unglamorous industrial metals, coal, copper, iron or these very unglamorous things, are leading the market performance as positive, because the only reason you buy this stuff is to make something. These are the raw materials that go into industrial production. The only reason you buy them is to make something and the only reason you make something is you think you can sell it. So the material sector if you look at the large cap, was the best performing sector in the Russell 1000, up 62.5% half percent, nosing out information technology and the reason that the growth stocks are doing so well is the tremendous strength in the IT sector and that's been a sector frankly that has been relatively poor since literally the build up before Y2K. So basically what you're seeing is the materials sector tells me that some of the recovery we're seeing is real. If it were just people think they're going to buy more luxury goods, I would be skeptical, but the fact that people are buying more copper and coal and things you make things with tells me that this growth is more real.

Dr. Leon Guerrero: Is attributed to the stimulus thing... gone yet? Terry Dennison: Well, I think the stimulus is complicated, because clearly it would affect things like cement, steel for reinforcement rods for construction stuff, but most of the stimulus will probably hit this year. Doris Flores-Brooks: Guam hasn't really got anything yet, (it's because of DOE, because of the high risk.) Terry Dennison: But this tells me that you are looking at it as a potential for a moderate recovery. The big negatives are still there, but we're not getting into it Japan style, 20 years of nothing likely. If we go outside the U.S., some of these numbers are truly breath taking. The eye is drawn to emerging markets, up 80% last year. Most of that frankly in the Pacific, although if we flip to page 25, there was also a lot of strength in Latin America. The Latin American segment of the market was up over 100%. Things are going great in Brazil, partly because of a thriving manufacturing environment, plus they're an oil exporter. They're an oil exporter without all of the political baggage and uncertainty about legal and share holder rights that you have in Russia, but you could see Russia was up more than 100%. So what is interesting is while the developed world kind of struggled, in fact much of Europe was still having negative GPD growth in the 4th quarter, the Emerging Markets basically hardly slowed down, which gives you a sense of why we think that as an organization, that people should significantly over weight the Emerging Markets compared with their weight in traditional indices. Gerry Cruz: Even today? Terry Dennison: Even today. Just some valuation issues, but the reality is the growth is there and we questioned whether or not there is growth in the developed world.

Looking at Domestic Fixed Income page 26, the Fixed Income counter part to distress debt is high yield bonds and you can see the high yield segment of the market was up 60%, which is pretty good money for fixed income and the high yield basically trades a lot like equities, because most of these are not paying any interests. The reality is it's more like a stock if they make money, they survive and you get paid and if they don't, they don't, you don't. So it's not surprising that the high yield market in distress did so well, because again we had a period in 2008 where there was a belief that everything was going to go bankrupt and as soon as it became apparent that was not

the case, you had these credit spreads, the difference in yields between high yield bonds and treasuries close dramatically and that produced a huge return in the high yield sector of the market. That's not going to repeat itself, unlike equities, which can go up in theory forever. This return is not coming from interest payments, this is going from changes in market values. So what happened was when these credit spreads shrank, you had huge gains. Well the only way you are going to get huge gains again is if the spreads widen producing huge losses before you get the huge gains again. So there is no sense of looking at this as an investment opportunity, all this is, is an opportunity to lose money for the next half of the cycle, but there a lot of organizations certainly many of our clients took our advice, you can't incidentally, because of the way your laws are set up, but the people who were able to invest in high yield bonds, it looked like a complete no-brainer. In fact we made 3 recommendations to our clients to buy distressed back in the battle days, buy distressed debt, because we saw the opportunities as gigantic, buy short term credit securities, some of them distressed, because we saw spreads being unrealistically wide and convertible bonds and the problem with convertibles is that as the market rebounded, the trade literally lasted like for 2 months, you really had to be able to hack to the 2 months period, because the convertible bonds is the bonds rose in value, the conversion premium no longer looked as active. There was a period at the end of 2008 where these convertible bonds, which could be converted into equity, were actually selling for less than the bond value, because the spreads were so wide, which means you got this equity option for less than nothing, but as the market rebounded, it stopped being a workable investment.

Page 27, again good markets for international, partly because of the decline of the dollar for most of the year. Again, Global high yield did super great also.

Let's take a quick look at (page) 30, because of your real estate investment. You're probably in the nice place in real estate, which are the REITs. The REITs you could see have done pretty well, around 4th quarter up 4.4 %. On a year over year basis, the REITs were up in the 30's, non-REIT real estate is still in a very bad place. Commercial mortgage back securities, the inability to refinance a lot of these commercial real estate deals is going to make really for a bad couple more years for real estate. There are a lot of real estate deals that are going to need to be refinanced in the next couple years. Not only are the banks short of capital to make the loans, a lot of these loans doing look very bankable anymore. Rents are down, occupancy is down and tenant improvement allowances as a cost are up, so, anybody who fooled around with owning real estate is, in the process of getting killed yet again.

And, with that I'd be happy to answer any questions. Gerry Cruz: Where do these guys go, these real estate investors who need to refinance their loans, what do they do? Terry Dennison: They go bankrupt. Gerry Cruz: They just go belly up? Terry Dennison: They just turn it over to the lenders. Gerry Cruz: So the lender who owns the paper, where does he go? Terry Dennison: Nowhere if it doesn't make, maybe it takes him down. I mean you saw this, because a lot of these deals were down at the absolute top of the market. There was a very large apartment complex in New York that was sold at the top of the market for something like \$6.4 billion and basically it's now been defaulted and they just turned the keys over to the lender and it looks like about \$4 billion dollars in losses. Some of them are good friends with Calpers,

basically wrote their substantial, like several hundred millions dollars investment off completely, so 100% loss. Everybody thought real estate was the future riches and people discovered that you can lose money in just about any place you can imagine, but there are a lot of these programs now that were done with enough leverage where the equity holders are just going to get wiped out. There are a lot of large pension funds on the mainland that had an unhealthy appetite for this stuff. They bought with a lot of money at exactly the wrong time and these things are not falling 20% they're falling 100% and are totally worthless.

Gerry Cruz: So has that been priced into Government subsidies, TARP, anything to bring about some sort of safety for that... Terry Dennison: Well the problem is if you insure everybody against their losses... Gerry Cruz: Then you pay nothing. Terry Dennison: Well there's no such thing as the Government, the Government is just us, you know either they take the money in taxes, or they borrow the money, which means they are going to take the money in taxes some other time, but no, there's no support. They had to protect the system, that's why they made some politically difficult decisions to bail out AIG or not really AIG, people basically borrowed from AIG. They had to protect the system but all these losses, the money is just gone and you're not going to get it back from anybody. Gerry Cruz: So does the threat of a collapse in the commercial mortgage backed market pose a large enough threat to again threaten the system so the Government has... Terry Dennison: No, because what's happened is what they called systemically important organizations, basically don't have much exposure to this on a relative basis. The part of the market that is the most threatened now are the regional and the smaller local banks. Gerry Cruz: 36 have been taken over just in a day. Terry Dennison: Yes. You hear numbers that the secret FDIC, these people are wobbly list is in the hundreds and the problem is that real estate historically, other than these other mega projects, has been largely a local phenomena. The local developer goes to the local bank and borrows money basically based on, we're going to support the community and make these loans and create jobs so this risk becomes geographically very concentrated. This is a lot of problems they had in Phoenix where there was a tremendous amount of real estate development housing projects where there weren't any ready buyers, so there wasn't anybody waiting cash in hand to buy it's just everybody knew they'd buy, because housing is such a wonderful investment and these risks now were concentrated, but these are not systemically significant organizations, if some bank in Cleveland or some bank in Kansas City folds, they will find somebody to buy the assets, they'll take the liabilities. The FDIC is in rocky shape too, because they have the right to go back to the Treasury to replenish their reserve fund, but the reserve fund is running out of money. Gerry Cruz: So they're assessing all the banks. Terry Dennison: They're assessing all the banks which of course is expensive and they're loathe to have explicitly risk based insurance ---, because the insurance is a little more expensive if you are risky, but it ought to be like twenty times as expensive, of course that will just push them over, but the real threat for the commercial real estate now are the regional and local banks that had enormous concentrations. There was a story in the Wall Street Journal couple weeks ago, Georgia seems to have either very poor regulation, a lot of stupidity or a lot of evil doing, but you see these banks committed more than a 100% of their capital to one developer. I was in the banking business in the 70's, the most you can lend to one credit was like 20% of your capital, but in reality is a lot of these banks just really became creatures of developers and so I think it's part of the

commercial real estate, still a lot of residential developers, although most of that stuff has been washed out.

Doris Flores-Brooks: What about the health of the states, because I was reading an article the other day that the states are starting to do that what Guam is already doing, hold back on paying tax refunds. There was an article that a dozen states are starting like Hawaii, Arizona, are starting to hold back. Terry Dennison: They have to conserve cash, they're in very bad shape. I mean California was basically paying people in IOUs for six months. I guess they have now redeemed all the IOUs and some modest amount of interest. They have horrible cash flow problems, because basically the states allowed their cost structure to grow on the assumption that the highest level of variable pay that the tax payers got would perpetuate forever. We saw it in California in the late 1990's where all the dot.com billionaires were paying enormous amounts of taxes. In California 50% of the tax comes from 1% of the taxpayers. So the variable pay that those taxpayers get is absolutely critical to the state doing well or dying and in a period of low variable pay, there are not stock options, people stock markets, capital gains are low, people aren't getting giant bonuses, so they allow cost structure to grow and the same thing with New York. I mean every one of those bankers are getting huge bonuses, don't know how bad it is. New York is desperate for Wall Street to get these monster bonuses, you don't hear any complaints from states about all these huge bonuses because that is a critical part of their tax base, but no, the states are in horrible shape.

Doris Flores-Brooks: When you say normal, meaning go up, are we going to be in this for the next, the rebound, unlike in past recoveries, let's say within 24 to 36 months, this is going to take even longer. Terry Dennison: I would say, their argument is decades. Now that's their analysis. You can find any number of analysis, if you asked 5 economist their opinion, you will get at least 12 answers. If you look at the underlying factors, this enormous amount of debt, the reality is either you drown in it or you have to raise taxes and not just taxes on the rich, but taxes on everybody to pay this off and that's going to reduce growth and the problem is, there's a tipping point beyond which it becomes unrecoverable.

Doris Flores-Brooks: What about passage of the healthcare? Terry Dennison: First of all nobody knows what it really means. It's 1800 pages and I'm still on page 3. I'm not even sure they know what they passed. The reality is that these problems are so big that, that's a side show and you end up with a situation where that's just one noise term at the end of the equation, it's one more air term at the end of the equation. Any further questions?

(End of Economic & Capital Market Environment presentation)

Defined Benefit Plan

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

Terry Dennison: Let's get back to the performance for the DB Plan, turn to page 40. As we'd expect with a good performance, we've seen pretty much for every asset class, 2009 was a great year. For calendar 2009, our total fund return was 26.1%, which is

12/31/09 Performance Meetings and Annual Manager Reviews

March 24, 2010

Page 15 of 39

one of the largest numbers I've ever seen for an annual return on a total fund basis for a pension plan. Compared to other public funds that put you at the 12th percentile which means only 12% of public funds in our universe did better than you did for the annual 2009. Doris Flores-Brooks: Is that based on the size of the fund or relative to, overall? Terry Dennison: Overall which is percentile ranking and I would say frankly that your numbers are believable because everything you own is quoted everyday. The performance of some of your "competitor's," is probably actually worse than they reported, because they have investments like real estate funds where nobody knows what they're actually worth, they're done on an appraisal basis, private equity funds, again that aren't price on a daily basis, but probably are not worth what they're carrying them at. So while you did extraordinary well, in economic terms, you probably did even better, because a lot of the people who are reporting numbers stronger than yours are using assumptions about what some of their non-publicly priced assets that are almost certainly to be overstated, so you're in a very, very good place.

Your asset allocation is shown on the second paragraph, 38 and .8% domestic equity, 23 in international equity, which is part of the reason you had the good luck of basically having an excellent asset allocation for this part of the market as well as good manager performance, 34.7% in fixed income. You are, and I took a quick look at the reports that the staff provided, you are over your range in developed market fixed income, which should be attended to. You're not out of compliance with statute, but you're in a sense violating your own policy which needs to be dealt with.

There a couple of managers that we want to talk a little about. First is Intech, which is a relatively a new manager for you. This is one of a number of managers that are called quantitative, there are two general styles for managing money. One are fundamental managers that use research analysts and try to develop models of the behavior of companies, look at things like growth and earnings, look at the new products, make qualitative judgments about how well we think the management is. They basically try to really understand the companies that they invest in. They meet with management, they talk to competitors, their suppliers, they develop a fundamental view about a particular stock.

The other style is quantitative, where they don't really attempt to understand the companies in any meaningful sense. They develop models that try to forecast the future from the behavior of the past. You have a couple of quantitative managers, you're primarily fundamental, which I think has served you well in the last five years. You have a couple of quantitative managers, AXA and Intech, quite different. Intech has a very unique style. Basically rather than trying to look at factors based on history that would indicate future performance, they look at volatility and effectively build an index fund that is re-weighted rather than market weights, they weight it by volatility and history has shown that over the long term that produces a positive performance. We think highly of the strategy, but we have growing questions about exactly how well the model works in every environment. We've actually down graded the product from an A to B, which is one move, which is a pretty substantial move for us.

The performance for you has been okay. So we're not making and some of our consulting competitors have made blanket get out of INTECH statements, we're not

suggesting that, but we do have concerns that the model may not work quite well as it appeared to work. The larger concern we have with quantitative managers is with AXA, who will be with us tomorrow. AXA is also a quantitative manager. They attempt to look at an enormous number of factors, at fine factors that historically have indicated good future performance and a lot of the quantitative managers had very poor performance in 2007 and 2008 and in many cases did not rebound as strongly as expected in 2009. They had previously from 2002 to 2007 just stellar performance. One of the things about what drives stock market performance is it's a little bit, it's a technical word, be recursive. Many of the quantitative managers were looking at data bases and found factors like cash low per share or growth of cash low per share that predicted good future performance when they bought those stocks and now I am surprised any of those stocks went up. So that reinforced their belief that this particular factor was very significant. So more people bought quantitative managers because they were successful, that caused them to buy more stocks of the type that they liked and everybody was making money until 2007 when a lot of these stocks were clobbered, really for unrelated reasons. There is nothing wrong with the companies, but what happened was the hedge funds started to do the same thing that they were doing except they were doing it with borrowed money and when the hedge fund prime brokers basically told the hedge funds, we have to reduce your debt or you have to reduce your debt, they sold what they could sell which were these same stocks and anytime time you have forced selling where a particular owner of a stock has to sell it and is forced to take any price that was available in the market, that caused the prices of these stocks to fall. So what you had effectively was the bon fire of the quants, the quants which previously had done the effectively market equivalent of a free lunch, excess return with market level volatility all of a sudden had very negative returns and a great deal of volatility and that caused a lot of the quant managers to question whether their models were working and what we've seen with a lot of the quantitative managers such as LSV and AXA, to a degree of an Intech, begin to do what are called manual overrides. Basically if the model says something that they don't like, they fiddle with the model, they adjust the dials until the model says something that they do like and we just question and we are particularly concerned, if you read the notes in here, we're particularly concerned about the level of manual overrides to the models and really question whether the AXA model works prospectively as good as it has retrospectively. So AXA basically figures now twice, decision was already made to liquidate the now Schwab, formerly AXA Rosenberg, some advised product and now the focus of attention is on the directly managed AXA Rosenberg International Small Cap product and it's really involving the concerns about the model. Dr. Leon Guerrero: How much of the override, what is the percentage? Terry Dennison: It's hard to really assess the percentage of it, it's probably under 10%, but the theory behind quantitative management is not that people just give the money to a computer and walk away, but basically it has a discipline to it. If you have a quantitative manager and a fundamental manager debate, the quantitative manager will accuse the fundamental manager of being emotional, of falling in love with their stocks, refusing to understand that they're not as good as they thought being reluctant to sell, falling in love with whatever is hot this minute. The quant manager will say we are disciplined, we have a model, the models have been tested, the model has successfully identified attracted situations and we are free from that emotion. If you remember the original Star Trek series Mr. Spock, the

quantitative managers are Mr. Spock, there is no emotion, the motto didn't fall out of the sky, they built the motto.

Dr. Leon Guerrero: The reasons why they were selected are because there are certain ways to do it. Terry Dennison: Yes, there are certain ways to do it. Now they don't like the results, their performance has not been good and rather than stepping back, and they'll be here tomorrow, rather than stepping back and saying, let's re-examine the inputs of the model, you get this with of panic, the motto is saying do this and we are getting antsy about the fact that we're losing clients or clients are becoming skeptical of how well this works, let's go in and grab the controls. The issue in our mind is not whether or not their correctly grabbing the controls or not. The questioned is they are evidencing a lack of believe in their own model, which in a quantitative management organization, is the whole process, the process is the model and the model is of course evolving. Joe T. San Agustin: Do you think they panic? Terry Dennison: Well, a lot of quantitative managers have been fiddling. LSV which is a manager you don't use, very similar process, they been fiddling with the model and the concern is that the model is the reason we hired them. Joe T. San Agustin: Maybe the --- thing, they deviate from the model, they start panicking and they get afraid they might lose some customers, clients. Terry Dennison: Basically the efficacy of the model, the effectiveness of the model that it works is the whole central theory behind the quantitative manager. The reason you have the bonfire of the quants, is they all were developing in their models independents. The models did not fall from the sky, they built these models, they're very complicated, they look at fundamentals economic factors like, what's the trend in earnings and what's the trend in revenue, these models have hundreds and hundred of inputs and in fact AXA's models are probably some of the most sophisticated, lots of inputs. So somebody sat down and figured how much to weight that factor and how the factors interact. So it's not just that this program fell from the sky, they built the model and the model evolved over time, you expect the model to evolve, the market environment changes if the model is static, it is going to stop working as well. It's this manual override process which instead of saying we found this factor isn't working the same way it use to, we're going to change the model. Now their just saying we don't like what the model is saying let's do something different, which in our mind calls into question the fundamental theory behind the quantitative management. We no longer know how the money is being run, because there's this model and if they like what it says, they do what the model says, if for somehow they don't like what the models says, they do something different and that's trouble.

The fundamental managers of course just are a 100%, they don't have a model, they're not grounded in a model that provides 90% of the input. Theirs is totally subjective, but in a difficult environment where history does not necessarily repeat itself reliably, maybe the fundamental strategies which are predominately what you have. One of the reason you have done so much better than other people is lot of the public funds drank a little bit too much of the quant manager kool-aid. Doris Flores Brooks: How? Terry Dennison: And you had a balance and in fact your balance is actually tilted more toward fundamental managers and a lot of your "competitors" or other large public funds had, did a lot of LSD, did a lot of AXA, did a lot of these quant managers and had them fall all on their face at the same time and you had not only more diversity in style of management, but have actually tilted more toward a fundamental style. The quantitative management works well in more stable periods

because the past is a pretty good indicator of the future. But in an environment that we had in the last 3 years where the quant manager's basically are assuming the relationships between these factors and future prices are stable, is much less tenable, I mean everyday is a new surprise. I think you have been well served by having fundamental managers who basically say whether it's the new normal or you know we can't play by the same rules that we use to, where the models evolve, in a quantitative sense, a fundamental manager could change their mind totally overnight.

So these are the two managers the reason they say discuss, I think at this point we would probably recommend parting company with AXA, because while we fundamentally appreciate their research and their thoughtfulness, the practical fact is we're really uncomfortable about whether or not they've actually lost faith in their own and you should read what is in here, faith in their own model.

INTECH in part because performance has been okay, the issue is not them overriding the model, they basically are modifying the model, but they're doing exactly what the model says. We think to run them out given their performance has been ok, is premature.

Joe T. San Agustin: Schwab has been with us for so many years already. Paula Blas: No, they just recently took over AXA. Terry Dennison: The Schwab thing is, you were in a fund because of how we had to structure your portfolio and AXA was the sub advisor and then they basically merge the fund with the Schwab fund. As the note says, it's a complete --- team and we just basically said... Joe T. San Agustin: The name sticks to it, because it's been since the early 50's. Terry Dennison: Yes, so that's discussion.

If we turn to page 42, I have a note to myself here, is something subsequent that's happened, but apparently has not, I'm just looking at the staff big spreadsheet. In terms of the asset allocation, you are fine every where except with the develop market where you are over it. You are over it not because somebody pushed it over, it's because 3 months ago when we re-allocated and increased the allocation to merging markets, we took some of that money from the develop markets. So what happens is not that somebody pushed the number up to high, we move the ceiling down, but that should be doubtful.

Let's talk a little bit about some of the manager's specific things. If we turn to Atalanta, performance here is fine, this is not a deal, but they have decided to sell 49% of themselves to a strategic investor and there's a letter that was passed out today. Because the SCC requires, the Security Change Commission requires approval of investors when there is a significant ownership change in investment manager, the question was should we approve this or not. If you don't approve, you're not changing their mind, what you're doing is actually saying, we will permit you to reassign your contract to this new entity. If you refuse basically they just give you your money back, they can't work for you with out this. You're not saying, no, you're not allowed to do the transaction. So approval is simply approval of the assignment, which is a technical term, assignment of your contract to the new entity and we sent a letter to Paula basically saying we need to talk to our research people, these are very routine now. Many investment organizations were founded in the 1970's and 1980's and the group

of people who started them many are banks trust department are now reaching retirement age and the problem is that they would like to, to the extent they can, transfer the ownership to the next generation. The problem is that these firms are now worth so much money, that there's no way the next generation can afford to buy them. If you started the firm and you own 50% of it, you're Mr. Sosnoff, Marty Sosnoff and you own 50% of the firm and that firm is now worth \$5 billion dollars because they're priced on the basis of multiple cash flow and the firm is worth \$5 billion dollars and you want to retire and turn to liquefy your holdings, the ideal situation would be to sell that to the next generation of people in the firm an incentive to have the firm to continue on. The reality is that these people don't have \$5 billion dollars. So what's happen now with a lot of investment manager organizations is they find a strategic investor presumably a compatible one who's not going to wreck the place, but they also realize that the value of the firm, what the strategic investor is paying for is not the office furniture, but rather the, not just the brains, but technically the future cash flow, what they're paying for, they are paying a multiple of the revenue. Well if the clients who of course can walk away in a moment say, we don't like what is going on right here the cash flow that they just paid millions of dollars for, becomes worthless. So they go to very elaborate, very standard efforts, typically the investment team will sign long-term contracts that basically says, we won't leave for 5 years. They may get a graduated pay-out where they don't get the money from sale immediately, they basically have to earn it out. They get like, every month they work there they get like a hundredth of what they would get, so that they're strongly incented to stick around, otherwise, nobody in their right mind would do one of these transactions. You would never pay this kind of money for something where everybody could just get up and leave tomorrow, leaving you with the office furniture.

So our sense is that this not a troublesome issue, they're selling it to a very thoughtful organization. The ones that you have to be on the look out for this actually harkens back just a little bit to the Intech situation, is where the strategic investor's not really hands off, the strategic investor has their own ideas about how things ought to run or is more of an asset gather or distributor of product that's simply a strategic investor. Intech is now largely owned by Janis, the mutual fund complex and the problem with this is this becomes a little bit more tricky and they're actually the two key guys at Intech, Bob Garvey and Bob Fernholz have been selling shares over the years to Janus which now I think owns about 80% of the firm. The problem now is and this is another issue with Intech that we're watching very closely is, Intech of course makes its money managing assets. So their interest in gathering as many dollars as possible and the way you gather dollars is you have lots of products. So one of the concerns we have with Intech if you read the notes that were in this previous book and the previous book is that Janus is apparently telling Intech, start lots of products, start a global version of the model, an international version of the model, a small cap version of the model, an international small cap version of the model so we have more things to sell. The trouble is that these firms have a certain amount of brains and the more products you have the more different models you have to have, the more spend time you have to spend figuring out what the right way to work the model is with the same brains. The same 25 PhD's are now instead of working on a couple of models basically trying to figure out how to develop and maintain twenty models.

So one of the issue we have with Intech is not just model fiddling, but the question of whether Intech is forcing them to dramatically increase the number of products there supporting. It's not like you can just call up an employment agency and tell them send us ten more PhD's. I mean literally this model is so secretive that you have to work there as a full-time employee for, at the PhD super brain level 2 years before they actually let you see the computer code. So when you walk in that door you don't get to see the secret sauce. This is the absolute essence of the firm. This is not a bunch of really smart people who have a vision about what stocks to buy, this is a computer program and computer programs can walk out the door.

But the reality is that the Intech issue is part of the concern about the piliferation of products. Getting back to Atalanta, this is a strategic investor, it's basically a private equity firm. They don't run a mutual fund family they don't have others, there's no incentive for them to go in and start telling Atalanta to do something different. So the long and short of this, which is more time than was needed, is we're very comfortable with approving the assignment of your contract. Now having said that, we keep an eye on Aatlanta. If it turns out that things aren't as they had been represented, then people leave because the atmosphere has changed.

You know that all of a sudden it's instead of a collegial organization with a long term view, it's now you know earning per share on a quarterly basis and something bad happens if you miss your earnings for the quarter. You know then we're back to you, that is why we come and visit you every quarter, but at this point, they've been a long term manager, one of your longest term managers. They've done a good job for you. You know this is not something where we can point to a smoking gun a ticking bomb, these acquisitions happen all the time, they're probably necessary and this looks like much more benign than most.

There is a similar issue although not something we're going to raise, just point it out, with Winslow, because with their acquisition by Nuveen, Nuveen is not the kind of mutual fund player that Janus is, but in this case we're not worried about product piliferation, we're worried about asset growth. This is an issue that we talked a lot about with the CAP Guardian Funds. Now this is in a perfect part of the market to not have this issue which is very large cap highly liquid securities, but they're getting alot assets that they have to manage. Eventually they can't do what they used to be able to do because they have too much money. You can only buy so much of a stock before you start to change the way the stock market prices are. This is much more of an issue of small caps stocks where literally you don't want to for some legal reasons, own more than 10% of the stock because at some point you become some kind of a control shareholder.

Well if you only have like 20 good ideas and you don't want to own more than 10% of the stock of a company and your target stocks are a billion dollars or less, well that means that say \$2 billion dollars and you don't want to own \$200 million dollars worth of the stock of any company 10% of the \$2 billion dollar market cap and you only have 20 good ideas, the fund can't really get bigger than \$4 billion dollars, because once it gets bigger than \$4 billion dollars, you have to buy either ideas that aren't quite as good or you have to find other places to go with the money and neither of those are in your interest.

Doris Flores Brooks: Is that why some mutual funds closed? Terry Dennison: Yes, the responsible ones closed, the irresponsible ones just keep piling in the money. This was the issue many years ago with the Magellan Fund. The Magellan Fund got to be so large it had 3,000 thousand stocks in it. Well they couldn't beat the market they were the market. Nobody has 3,000 good ideas, in fact very few people probably had more than twenty good ideas. So were not worried right now about Winslow, but Winslow illustrates this issue of, that size is not really good as an investor. There is a note in here about Janus with actually Intech's ownership by Janus is now up to 95%, so they basically control the whole place.

There is a note in here page 48, about Robeco, person leaving, Patrick Regan resigned and is actually joining a competitor. If you read the Mercer view here, we do see it as a loss, this is on page 49. The Mercer view, we see it as a loss, we have got people going to spend time with the replacements. At this point no action is suggested, but this is something we're keeping an eye on. If there seems to be a lot of this, there is a lot of this. There is a lot of turn over now in money management firms. Doris Flores Brooks: Where are they going, are they just moving around? Terry Dennison: Some retire because they are burned out. This guy is leaving to go to a competitor, to go with some friends. People do retire, people die, and people get hit by buses. When they leave, these organizations are remarkably stable. I mean basically if you've achieved a senior role in a money management firm, it's very unusual for you to leave, because you have got a lot of deferred pay that is at risk if you leave, your identity in the business is associated with this firm. So it's quit extraordinary. It is one of those little signals that we follow up on to make sure there's not something going on that is more troublesome. You do end up with a zipper effect sometimes or a domino effect where somebody leaves, particular a senior person who is seen as the mentor of a group of accolades and very soon the accolades leave. So you end up with a domino effect, literally a person leaves and their accolades leave. The other senior people say, we just lost our future, you know maybe I need to leave and pretty soon the place in front of your eyes falls apart. So I am not saying that is the case with Winslow or any of the others, Robeco, but it is I think the Robeco case. It is something we have to keep an eye on because people don't leave these firms. Now they do have a probationary period where they do have to produce some good results or they kick you out. If you're pass that probationary period, you have tenure unquote if you're a shareholder, for somebody to leave and walk away from, because often you have to sell your stock back at book value. So you own a stock in a company, you borrowed the money to buy because you probably own \$50 million dollars worth of the stock, because these are companies that are very valuable and you borrowed \$5 million dollars to buy your \$50 million dollars worth of stock, you have to sell it back at book value, plus you walk away from the effective market value of the stock, all of your deferred pay that's an extraordinary step.

Now you do have people on page 45, who are totally burned out and decided to join the Peace Corps, but to leave and join a competitor is rare. It's something we point out because it is so rare.

There is a discussion on page 51, continuing onto page 52 about our friends at Fisher, which we will see also tomorrow. The last time they were here we had what was called

a diplomatic communicate frank exchange of views about some of their outside activities. They started a mergers and acquisitions business looking for other money management firms. They started a publishing business and what worries us is these are all distractions. Who is running them, the people who are running them, what are they doing with the investment process before they started running them and we came down on them pretty hard and they came back and said, well maybe our people a little bit overstated what the usual vast covering..... They also discovered that other people reacted as we did and became distressed that they weren't focusing on their core business which is running your money and they stepped back, they closed the mergers and acquisitions part of the business, moved those people back to wherever it is they came from. The one thing they kept is if you read on page 52, Fisher Press, which to my mind is simply an ego trip for Ken Fisher who is an ego maniac and also not a very nice man, but I am sure he likes to see his name every where. So the reality is we got a little...he is a regular columnist in Forbes magazines he's on CNBC a lot.

The concern we have is we bought some of these books that they published and these are not trivia, these are very, very well done. They're very thoughtful, they're very insightful, this is, as we said here, not something that is thrown together over a long weekend. So they have got their key people who are spending a lot of time writing these books and these books are excellent. You know that is not what we have working for us to do. So while we'll be professional, we will probably ask a bit tomorrow about how much time really is being taken by this activity and why they see it is to the advantage of the existing clients like you and in effect, what's in it for you.

Rosalie Bordallo: Can I ask a real quick question? Your thing says written by analysts as an educational service for the client base, I haven't seen a book from them. Isn't this suppose to be an educational service, what educational service have they provided to the client? Terry Dennison: Go to border prompt down twenty five dollars and be educated. Maybe I'm just being difficult about this, but to my mind they sell these books commercially, you're a client, you have not seen one, maybe they're going to come with an armful of them tomorrow and you'll all go home with a stack of books. I don't want to make light of this, I don't want to make light of this because it's serious, this still bothers us a bit.

We talked about the quant discussion act. Let's get to the good stuff. I have been keeping you in suspense to long. Go to page 61, look at the bars to the left, the first five bars on the left hand side because there is cumulative periods quarter 1 year, 3, 5 and 7 years and then the annual periods and basically one of the things that I think is gratifying is for every cumulative period for 3 months to 7 years, you are out performing your blended index, affect your benchmark. This is the first step of being really good and really good performance is you are beating your own benchmark.

If you go to page 62, the graph on the left hand side, here we are looking at excess performance. Excess performance is your performance above the benchmark, so zero is simply matching your benchmark it's not that you are getting no return, it's whatever it is your benchmark is, you're matching it. The green line is the rolling excess return, how much better you are doing on an accumulative basis, look at that green line, it just shoots right up. Now the thing that is interesting is there is a chart like this is for every excess class, which we won't go through in this book, that same

pattern exists for virtually every excess class across the board. The performance not just the total fund, but of each of the individual asset classes is showing that tremendous improvement coming out of the bad market we had in 2007 and 2008 period. Doris Flores Brooks: Is that because of what the market is doing...? Terry Dennison: No, this is relative performance, so if the market is up 30 you're up more than 30 and when the market is down 20, your down less than 20.

Now you go to page 65, this is not looking at performance, this is looking at asset allocation. We have had this discussion before and a part of this is driven by the Board's comfort level with certain kinds of risky investments, it's partly driven by your Legislative environment. But if you look at, this again, this is not performance, this is allocation versus other public funds, you are way over allocated versus other public funds to non-U.S. stocks, which have done very, very well and to fixed income, which has been a good investment in the down market. You are significantly under weighed in the real estate because you are really just starting out at it and you really don't have any alternatives at all which is probably would be difficult in your regulatory environment. So you look a little different from other public funds, which is part of the reason that you have done well. Now let's look at page 66, how well have we done in each of the asset classes versus our competition. Again for 3 years you are in the 10% percentile, which means 90% of the funds didn't do as well as you did. In U.S. equity in which you are over weighted, you are even weighted, you're in the 2% percentile hardly anybody in the country did better than you did in U.S. equity. Only 14% of the public funds did better than you did in non-U.S. equity, again a place you are over weighted. So you are not only over weighted in the places that are good you're doing even better than other people are in the places that are doing good in which you are over weighted, that is how you get to be good as you are showing up.

You're little weak in Fixed Income, which is a negative factor. Now you have got so much of an advantage in the equity non-U.S. equity that over came it, but you are a little weaker in fixed income and because you have more fixed income, that would be a negative, factor but the fact that you are in the 10% percentile is basically saying, the fact that you are doing so well in your stock picking and manager picking in equity and are over weighted in the Non-U.S., you are doing terrifically.

On page 68 I want to look at the asset allocation, as I said if you look at the little dumbbells on the top upper right hand corner and again the circle is where you are, you are a little out of the range in develop markets, which I think is something that is on the agenda for this afternoon to address. The other place if you look in the table on the bottom on the right hand side where it said within Investment Policy Statement range, the other no is in cash and you actually have a target in a range of zero for cash, which is probably a little unrealistic since you always have some. If you simply want to not be looking at this all the time, you may want to make a tiny little allocation change and say, you know we have a tenth of 1% target to cash with a range of zero to point 2, just so that you know wants you get this other fixed so you're within policy.

Many people do asset allocation they assume they won't hold any cash, in part because cash typically is not a very attractive asset, in fact right now it is turning nothing. Return for cash is basically zero, but in reality you always got contributions

waiting to be invested, you have benefit money that has been set aside for a month or two benefit payments, you always have cash. This is a neatness thing, you know if you simply want to be within in your range, make the ranges so you have a little bit of cash.

On page 69 is looking at what is call performance attribution. We just said you're great and the question is, why are you great and we break this down into two effects, one is asset allocation, are you invested in the right places, which means you are also under weighted in the wrong places, same thing and then what's called the manager effect, are the managers helping you or hurting you and there is something called interaction effects which just has to do with the mathematics. Now this is looking at it for 3 months so this is not 3 years, this is looking at it for 3 months, why we looked so good in the 4th quarter. If you look at the asset allocation effect it's hugely positive, nearly a hundred bases points simply because we are invested in the right places and actually the managers added to that so if you add the asset allocation of the manager, the total effect is nearly a hundred bases points contribution. Total equity of the managers hurt just a little bit for the quarter, but the asset allocation was great, again very positive result. Fixed income, very positive result both the managers and the asset allocation contributed. In the real estate it also was a good place to be and your managers contributed a little bit to that. So basically this about as good as it gets, I usually tell people at this point try to remember this day, because not all the messages I have for you are always quit as good.

Page 72 really quickly for the quarter on pure investment returns alone you made \$46 millions dollars, which I told the Chairman as he was looking at those graphs, if we upgrade the graphs through the middle of the fiscal year they would look even it better.

Go to page 73 looking at the performance and all this does reinforce everything you've heard. For the quarter would be the bench mark by 100 bases points, we're up 3.7 versus 2.7 for the bench mark. For the year we were almost 10% above the bench mark, 1,000 basis points putting us in the 12th percentile. For 3 years we beat the bench mark by 100 basis points, the 10th percentile. For 5 years, just to show you just something that happened, for 5 years we beat the bench mark by 90 basis points, up 4.5% versus 3.4%, 16th percentile. So basically you have been in the top 15 or better percent rank for most of this period and certainly for all the longer period.

If you look at the performance of the managers we talked a little about Intech, again it is a new manager with you just starting in January 2009. If you go on the far right hand side Intech is 3rd from the bottom on page 73. (I am going to jump around a little bit it's an old school teacher trick) They started out not too well, since January 2009 the growth the market has been up 44.1, their up 37.6, under performance, but the performance lately has been right on the bench mark for the quarter, which is the only period ending complete that we have right on the bench mark and nearly first quartile. So one of the reasons despite the concerns we have about them that we are suggesting that we keep a strong eye on them is the fact that they are not doing too badly.

Dr. Leon Guerrero: You know one of the things I think that happened and I don't know ... we basically had our own local stimulus because of that we didn't draw any money...up or down and I don't know how much I contributed to this... Terry Dennison: When you measure performance, this is a little bit of a technical discussion, there are 2 ways you do it or two ways you can think about it. These numbers are once call time weighted, which means we don't weight them by the amount of dollars involved, this is measuring the performance of in effect the management that you for asset allocation and the managers for the individual asset classes and their mandates. What you are talking about is in effect called dollar weighting. You are in a good place because what you did was you had more money participating in the rising market, which in dollar weighted terms was very beneficial. If there were no flows in and out dollar and time weighted would be the same. In your case a dollar weighted return is even higher than these numbers, because you had more money participating on the upside.

If you had less money participating in the downside, that would also be a benefit. The negative result obviously is more money participating in the down market or less money participating in the up market. So you were helped in the economics terms, but these statistics aren't done on a dollar weighted basis, you don't control you that, you didn't decide not to have to make any reductions. So you should not be accessed with the responsibility for the money going in and out of the fund, that's somebody else or just the nature of things. So we have adjusted the numbers for the fact that there's money going in and out. So this truly is your real performance, you are really this good, it's not just that you had more money participating when the market went up, we have adjusted for that, you're as these numbers say.

Robeco which we talked about, again a fairly new manager, May '08 good performance it's inception by not loosing as much of the index and pretty much right on the bench mark although for the quarter, for the year ahead of the bench mark by a fair amount of 25.8 versus a bench mark of 19.7 and little bit above the median.

The newest manager one of the new manager, one of the new managers is Thompson Horstmann & Bryant, who he just funded very recently, not off to a terrific start, about 90 basis points behind the bench mark, 84th percentile, but I would attached zero significance to that, that's not an indication that things have gone badly or anything, they may simply have been funded at a relatively high point in the market and that happens sometimes where you've got a manager who gets funded in low and looks like a genius or gets funded in the high and looks like a fool. I would not attach any significance to that.

There was period a couple years ago where Fisher was doing very badly and you can see that there is still 11, Fisher's down in the international developed. Fisher is nearly 12% of the total fund, they are a very large manager and there was a period when they were not doing well. Well they've certainly erase that, for one year they were up 43.5% which is about 1,200 basis points better than bench mark, which put them in the 18th percentile and if you get 43.5% return with nearly 12% of the money, that is going to have a big impact on wealth production and even for 3 years they beat the bench mark by 290 basis points actually by losing less money and in the 36th percentile. So Fisher despite the concerns about some off court activities, is actually

doing very well. This thing called the International Equity Composite Account, if you are wondering what that is if you go down to the little footnote, because the performance of AXA and Schwab didn't do the entire quarter, this is basically you got rid of them in the beginning of December, we have to include them in total fund, because what they did impacted the fund, but it is any identify manager for the particular period, it's a little stub period, we can't lose the history of it, but it is no longer tribute to any single managers and you probably haven't seen that before.

The one that we raised issues that's again here tomorrow in the afternoon is AXA in the small cap space. You can see that this is just not worked out well at all and if you wonder why they're getting a little panicky, look at the one year performance, the market was up nearly 60 and they were up 25. For 3 years the market was down 5, they were down 11. If I was sitting running the model, I would probably get little antsy myself. Now this is not much money, this is 20 basis points 2 tenths of 1% of the total fund. Their actually impact on the wealth is kind of a side show, but you can say, well they've improved slightly for 3 months, but that takes a fair amount of imagination. Well they missed it by less than a hundred basis points, which is a lot less than missing it by 3,500 basis points I think for the quarter, for the year. So this one is not working, they have actually been with us for awhile, this go back since December 2005. This is a manager that has been with us for awhile and historically has actually not done too badly, but it does show you what happens if you are doing extraordinarily badly in a fairly very short period you can destroy a good performance record pretty quick.

The emerging markets capital research top of page 75, again this has been a staggering level of performance, for the one year the bench mark was up 78.5, they were up 77.8, which is to my mind a tie. But actually despite the fact they were up 77.8%, that only put them in the 62nd percentile. Two thirds of the manager did even better than up 77 %. But you really get a sense if you look at accumulative bases goes back to August 2006, they are up solidly versus the bench mark, but clearly other people, but whether other people took a lot of risk or just were investing in other places, despite the fact they did well, they left some money on the table.

The Fixed Income all is basically doing very well. If you look at IRM for one year and I'm just cherry picking some numbers here, IRM for the year was up 12.9% versus the bench mark up 5.9 and for fixed income performance and this is nearly 10% of the asset this is enough to make things move, so if you look at the one year, IRM beat the bench mark by 70 basis points 39th percentile. Davis Hamilton Jackson another 10% of the assets nearly tripled the bench mark, they were up 14.1 versus the bench mark 5.9 middle or 33rd percentile, so the only straggler in the fixed income category is Franklin Templeton, which didn't participate as strongly, but Davis Hamilton Jackson and IRM holding about 20% of the asset between them for the year, just shot out the lights. You can see why you are so good, it's not just somebody did a spectacular job, everybody was pretty much great.

The REITs again it's been a very pleasant place to be, you look at Cornerstone, the index up 29 for the year, they were up 31.5, even for the quarter the index up 9, they was up 9.3. Over to the security capital on page 76, they lagged bit for the year, only up to 27.1 versus the index at 29, but for 3 months, nearly 100 bases points ahead of

the bench mark, 9.9 versus 9, the REITs have worked very well for you also. So that is what you need to know on the DB Plan. With that if we are ready will go to the DC Plan, (that's the book with the blue cover.)
(End of DB Plan Quarterly Performance)

Defined Contribution Plan

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

Terry Dennison: We'll skip the economic stuff on the front since we've heard that. Page 7, again this largely here for documentation, because again one of your responsibilities is to provide a sufficient level or sufficient number of asset classes to allow participants to construct portfolios to meet their individual risk return requirements. You did recently add a TIPs Fund and apropos, the discussion we had about inflation, I think that puts you in a good place. I think your participants are, if we assume that more choice is good, presumably use it intelligently. I think your participants are blessed by having some funds, fund types and streams of asset class returns that other funds typically don't have. It's unusual to have an international bond fund, but that provides a good diversification against changes in the dollar. It's unusual to have an emerging market stock fund, because many plant sponsors believed it's simply to volatile and participants will chase returns or lose hope if they have a couple of bad quarters. Looking down this on list page 7, again we also changed out the target date funds or 2 target date funds from the target risk funds. You have a good set here and we no recommendation for fund additions.

There is some asset information for both 401(a) and 457 (b) plans on page 8.

Couple comments about the performance of the funds on page 9, on the Dodge & Cox Balance Fund, Dodge & Cox is a very highly thought of, more value orientated manager, a very frequently used, particularly for the equity fund, frequently used option in 401k plans. They're a long term investor. They see themselves as owners of the companies they buy. They're not a trader, they are not a speculator, so they will buy stocks they think would appreciate over the long term and occasionally they're will be periods of under performance.

The Balanced Fund is about 60% equity fund and about 40% bond fund and we did have one of those periods in coming out of the recession where their performance wasn't as strong as we would like it to be. For the last year that performance has improved substantially. We still like to have them on watch list, but the performance is definitely moving in a more attractive direction.

The Thornberg International Value Fund does have allocation to merging markets. A lot of the international funds were used both by the DB Plan and DC Plan, used a small portion of emerging markets in order to provide some diversity. We are expressing here as we have in the past, a fact that they're very much value oriented, meaning if they can buy a stock very, very cheaply, they find that attractive and that is fine, but there's something called a value trap and a value trap is where you find very attractive a company that is selling at a very, very cheap multiple earnings, but there

is no reason why it will ever stop being a cheap stock and the usual reason why things stop being cheap is quality and just a cautionary note, not enough to change our view, which is to retain them. Just to document that they're probably not as sensitive to quality as some other managers might be. Quality here is not just good products, but basically good balance sheets, not too much debt on the balance sheets, the appropriate amount of reinvestment in the company, looking at things like a research budget in the light.

The last one I want to talk about is specifically is Pioneer, the Emerging Markets. Performance has been okay, not spectacular, the asset class performance is what's been spectacular. It is very aggressive, we are comfortable with its retention in the array, it's not drawing a huge amount of assets and presumably the people who are using it understand what they are doing and would probably be unhappy if you took it away. But just to note, that it's not a common asset class to make available to participants.

There are some notes about Thornburg regarding a sense of whether or not they also have got a capacity issue where they have been gathering assets and whether or not they can wisely manage those assets. They have to take a view similar to Fidelity that they don't like to close things. The asset growth has been very strong because they have been one of the relatively better performers during the market down turn and just been expressing a concern about capacity issues. Those are the only real concerns we had to express about the funds about the DC Plan.

Pages 14 and 15 in the asset allocations, nothing really striking there, a little bit of a movement away from Stable Value, which is not uncommon. I think most of the participants have been reacting to the good market we saw in 2009 by moving out of Stable Value toward more active more risk assets.

Page 16, again one of your fiduciary responsibilities is making sure that you're not paying excessive fees. Here we are looking at the fees relative to the median of funds in that same assets class and of course things like stable value and bond funds are relatively cheap and things like international and small cap and emerging markets are expensive, because of the expense involved in literally just going places to research them. We don't find any of the fees you are paying grossly excessive. Pioneer is at the high end at 186 basis points, which is about 50 basis points ahead of the median, but that's probably still within a comfort zone. It's a little at the high end, but probably within the comfort zone.

Let focus on page 17 (we'll jump a little bit around from here), you have got in this compliance table pretty strict test, because we are looking at the actual Investment Policy Statement requirements, which is out performance for 3 years and 5 years, which mean if you had a bad couple years, it takes a couple of years to turn that around and let me illustrate that with Dodge & Cox.

If you go to page 18, you can see that they've been failing to, go back to page 17, we have got X's for 8 and 6 consecutive quarters, so they have been under performing our IPS guidelines for a year or year and a half. Go to page 18, again if you are looking at

these, it's quite appropriate to look at the long term, if you're looking at long term performance and you have a bad period, it takes a fair amount of time to dig yourself out of that hole. So if you look at for 3 years, the Balanced Fund was down 4.6% verses the benchmark down only 0.7%, again it wasn't the market that was attractive to their particular style that puts them in the 91st percentile similar for 5 years, but look at it for the quarter and the 1 year. For the year they were 1,000 basis points ahead of the benchmark, in the 20th percentile. So those people and it's 5.2 % of the assets, it's not trivial, those people who stuck it out are now seeing their style come more back into favor and if they did not bail out on bottom, which is always the concern we have about participant's behavior, we think very highly of Dodge & Cox and they will be back. We're keeping them on the watch list and part of this we want to document your due diligence that you didn't sit idly by while they underperformed, that you made a wise decision not to remove them, but you also acknowledge the fact in case somebody later questions it, you acknowledge the fact that they are underperforming the guidelines that you had set.

Contrast that for example, the Dreyfus Standish International Fixed income, the line above it on page 17 and go up to page 18 and look at them in detail. Not only has this been an extremely attractive asset class, up 7% a year for 5 years or the asset class was up 4.8, they were up 7, their performance has been outstanding both relative to the benchmark and on a relative to other international fixed income funds. So you have got an asset class here that's unusual in a 401k plan or a participant directed plan, it's an unusual asset class. Doris Flores Brooks: You say it's unusual because? Terry Dennison: Most people don't want to have to explain to participants what an international bond fund is because not only do you have to explain the behavior of bonds, for example if interest rates rise, prices goes down, you also now have the currency effect. You could have the prices appreciate in local currency, but because the dollar gain strikes, you end up losing money, that's hard to explain. So you have got an excellent manager here that's in a great asset class and doing very well.

The Domestic Fixed is another case, this is the Hartford, if you look on page 17, it's behind although for a couple of quarters, but again they seem to be improving. For the year in fixed income they were up 13.3 verses the benchmark of 5.9. That is pretty good money for fixed income, so they're in the process of digging themselves out of that hole.

If we look back to page 17 and look at the American Funds, another one that has underperformed on the benchmarks more on an index basis than relative basis. You can see for 3 years we have been reporting them underperforming for 3 years for 2 ½ years, 10 quarters. If we go to page 34, one of the things that you have to bear in mind and look in the lower right hand panel, American Funds again is one of these that has not closed the fund, they're just letting the assets grow and grow and grow, if you talk to Cap Guardian, the manager they will tell you that were not as sensitive to size because we have a multi-managers structure, we don't have a single person or a single team managing the assets, it's managed by multiple teams, which we kind of buy. If we look at the lower right hand panel a couple of things come out at you. There's a lot of stuff in the lower right hand panel, let me just remind everybody what we are looking at, this is excessive returns. So zero simply means you match the benchmark, it's not that you produced a zero return. So we're looking at how well

they did relative to the benchmark. The green bars are periods of down market performance. So if the green bar is above the zero line, that means the market was down, but they did better, they lost less money. The blue bars are periods of the market rising. So, if a blue bar is below the zero line, they made money, but they didn't make as much money as the market. The red line is the rolling 3 year excess return. So what we are doing is we're looking at 12 quarters on accumulative bases and you can see trend and you can see that the trend there got very, very negative. They got clobbered when the market declined in 2007 and 2008. The thing that's interesting is if you look at the little dotted lines the 3 dotted lines (page 34), the graph in the lower right hand corner, if you look at the dotted lines, the dotted lines, the middle dotted line is the median of funds in this space, the top line is the 25th percentile or 4th quartile, the bottom line is the 75th percentile. What you see here is not only have they done relatively badly lately, but so has everybody else and in fact their performance in the last 2 years from May 2008 through the end of 2009 has basically been improving relative to the benchmark. The red line has been moving up toward zero and they have gone from being at the bottom of the 4th quartile, absolutely the worst up to now getting a little bit above the median. So while they have been behind the Index on a rolling 3 year basis for 2 ½ years, which is actually is quite a trick, we're pretty comfortable, we still have issue with there size, but we are pretty comfortable with them.

The last one I want to talk about is Pioneer again a row of X's. If we go to page 44 and again their performance on an absolute basis is terrific, they're up 77% for the year, but here we have got a little different pattern than what we saw with American Funds. In lower right hand panel, we're looking at that red line and basically that red line has gone from being 1st quartile above the top dotted line to 4th quartile below the bottom dotted line in that same space from about May 2008 to the end of December 2009, they took a huge hit. Again they're investing here in the Emerging Markets, so this is not people who got clobbered holding Citibank, this is Emerging Markets, but you could see they had 5 quarters in a row of bad performance in down markets. The market, the 5 green bars hanging down there, really, really bad performance in 5 down quarters. So they were in the wrong place at the wrong time and they've struggled to make it back. The last couple of quarters, which have been a positive market, 2 of them were down, one of them was up, but you do have a question there about whether or not their participating as fully, that's why we have them continue on the monitor. The issue here is relative, clearly on and absolutely basis, they're pretty much matching the Index for the quarter again or for the year rather, up 77 % with the benchmark up about 77.

That's what you need to know about the DC Plan and I'll be happy to answer any questions. Your participants should be happy, they should save more.
(End of DC Plan – Quarterly Performance)

1:30pm-3:30pm Great West (TPA)

Mike Perez: Open your binders to the first tab on page 3, the bulk of what we're going to talk about is in the first tab, a lot of what is attached are just supporting documents. If you look at the table of contents on page 3, we will talk about how we

12/31/09 Performance Meetings and Annual Manager Reviews

March 24, 2010

Page 31 of 39

create the strategic plan for 2010, your service plan, the plan report card where we measure your plan based on other state and Government funds in the same industry, we will look at best practices, proposed strategic plan, program level objectives based on your plan level and at the participant level and then on page 18 we will go over our communications strategy for 2010.

Let's go over the appendixes, on page 5 we did provide you with the 2009 NAGDA Defined Contribution Plan Survey Report, a lot of the statistics in your report card are based on that so that's there for your records.

On page 4, in creating your plan for 2010, you can see it's like any other plan where we gather data and the data in this case is gathered from your annual plan reviews both for the 401(a) and the 457 plans. We look at the results, we evaluate them, have your plan elements improved or if not then we reset the objectives.

Step 2 we take that information and develop a strategy for your plan. We look at some of the target initiatives and what we're really trying to do is measure the 4 dimensions of your plan and we will talk a little bit more about that but basically you are looking at participation in your 457 plan, we're looking at providing education, how the participants have their assets allocated and retiree retention, to implement your strategy and how we will execute that for 2010 and your annual report card, we will measure and evaluate that.

On page 5, this is your team, who will be working on your plan.

Page 6 is your plan report card for the period ending 12/31/09. The Government of Guam 401(a) and 457 is broken up into two columns. Eligibles for the 401(a) as of 12/31/09 were 7846....(Recording ended at this point)

Dr. Leon Guerrero: What percent of the population is saving money? Gerry Cruz: The savings rate in the U.S. has gone up 6%. I don't know really about Guam, Guam doesn't really track that. Our deposits have grown. Rosalie Bordallo: Is that due to the market? Gerry Cruz: It's due to a number of things. Rosalie Bordallo: How many new accounts have opened? Gerry Cruz: A lot, but that's not really an indication. Some of our deposits are from people cashing out their stocks and moving it into a safe haven. Overall savings has increased though. This one is slightly different because people don't initially look at this as a savings to the extent that they have, or they shouldn't be, but initially they don't look at it as a savings to the extent that they have liquid funds when they need something for emergency uses. They should be looking at this as a retirement plan that they're not going to touch for the next 20 or 30 years. Dr. Leon Guerrero: The two are related because if you're talking about putting money aside, they're going to look at it as a savings. Gerry Cruz: Maybe that's the kind of mindset that we need to work on changing. Mike Perez: There's actually an interesting statistic on the younger employees. Terry Dennison: One interesting thing that I see here that is a little unusual from a corporate plan perspective, on page 14 they list the deferral as a percent of salary, while you have low participation in terms of the number of people deferring, the people who are deferring, are deferring a lot. That's a much higher percentage that you tend to see in a typical 401k. People typically defer enough to get the employee match and that's it. So you have only 10%

12/31/09 Performance Meetings and Annual Manager Reviews

March 24, 2010

Page 32 of 39

of people deferring, but those people are deferring 10% of their salary on top of their already mandatory contribution to the 401k. You don't have a lot of people deferring but the people who are, are doing a good job at it. Gerry Cruz: Those are the ones that are probably going to the meetings.

Mike Perez: When we put the objectives and initiatives together, if you go back to page 12, we encourage the Retirement Fund to look at some sort of hybrid or increasing the contribution. Kent Morris: We know that's the answer, we just can't create it, we need to work it out with you to figure out what it would be. Mike Perez: When we talk about our initiatives for 2010, we're limited to what the plan is now.

On page 14, we do have a 4 stage approach to getting them aware of the 457. At 401(a) enrollment, they should be getting the information and a brief explanation if they want to participate in the 457. Gerry Cruz: When they ask you about this 457, how much should they contribute, what is the standard response, is there a percentage? Mike Perez: We can't really tell them how much they should contribute, we sit down with them and we do an evaluation and tell them this is how much they should contribute if they want this much. Right at 401 enrollment, they come in to process because they don't want their contributions being rejected or their HR saying you need to go there, so they're given the information and the opportunity to participate. Part 2, they show up to the new employee orientation and 3 are the meetings and 4, the target market.

How do you measure the objectives, the current percent of the eligible population is 8.52% contributing and as Terry pointed out, the average contribution is \$2,964, which is about 9.5% of DC employees' average annual salary. New enrollments in 2008 were much higher than 2009. In 2008 there were 142 and in 2009 there were 61. Gerry Cruz: Why is that? Mike Perez: I'm thinking in 2008, the market dropped so everyone wanted to participate. They way participants think, whatever just happened, they feel is still happening. We still get participants concerned about the economy and the market even though that already happened.

What we want to do is increase it from 8.52% to 10% participation but that would require 170 more new enrollments. So if you look at 61 this year and 142 the year before that, there was actually one year where we did over 200 new enrollments, so it's not inconceivable. Gerry Cruz: What happened there? Rosalie Bordallo: There was a year where Judicial, I would say at least 40% of the people who went into the 457 because of the loan provision. Mike Perez: As far as education goes, again it's the meetings. What we would really like to do is get people to go on our website. If you go to the website and click on the education section, there is a virtual classroom and the E-learning. We want to increase the new employee orientations from once a month to twice a month. This might make it easier for people to come because typically only 50% of the new employees show up. And then you have your quarterly newsletter.

So our objective here with the education is to increase the number of participants actively managing or monitoring their plans. How we can measure this is the number of individual counseling sessions. In 2009 there were 525 counseling sessions and the distinct users to the website were only 311 for the 401 and 169 for the 457. What we want to do is increase the individual counseling sessions from 525 to 650. People

tend to act more if they are meeting one on one than if they attended classes. So that's what we want to do, increase the individual counseling session and increase the utilization of the website, we want people to use the educational information on the website. Kent Morris: But if you look at the numbers, 311 distinct users out of a population of 10,000, that is off the chart low. I know there are some plans that are 20/25% utilization, but here the population is just not active at all, they're not interested in checking their account balance at all. Mike Perez: The reason the number of people visiting the field office is so high is because they would rather drive to the office to get a print out of their statement than call the toll free number or just get online. Dr. Leon Guerrero: I want to consider changing the terminology "counseling sessions."

Mike Perez: The 3rd dimension, the asset allocation, you are fine with that. The target date funds are coming out and we are already getting calls about it. Basically our objective here is to maintain the high utilization of the pre-arranged portfolios. If you look at the stats now, 64.6% of 401 assets and 27.5% of 457 assets are invested in asset allocation funds. Contributions are a little higher, 71.5% of 401 contributions are going to the asset allocation funds and 34.3% of the 457.

On page 17 what we want to do is maintain that trend because they tend to go in and just stay in even if things are happening with the market, they're not trying to see which fund is doing better than another.

As far as the retiree outreach goes, even though there haven't been a lot of DC retirees, there is going to be more and more, so we're going to have to start doing more outreach. Our objective is to reduce the lump sum distributions. If you look at the report I gave you last month from inception of the plan to January of 2010, 80% of employees that were retiring got a lump sum distribution. So for 2010, whoever takes it out we're going to try to reduce that by 10%. Gerry Cruz: How are you going to do that, because the balances are so low, so is it even reasonable to suggest that? Mike Perez: \$18,000 is still \$18,000 and to me it's better to put that in an IRA than having 20% cut off at the top. We can't say because 80% do it, just not try to change their mind, our goal is to try to change their mind. Kent Morris: Or at least postpone it. Some people might say, I'm leaving today, I want my money, we like to tell them to see how it goes and talk to us the first of next year, then maybe they would forget, unlikely, but if they can at least postpone it a bit and they can try to get by on something else. Gerry Cruz: So you want to put this as an objective to reduce the number of lump sum distributions to 70%? Mike Perez: Yes, for 2010 instead of having 80%, we want to reduce it to 70%, even if we just have them put it in an IRA.

On page 18 is a summary of everything we went over. Tab 2 is the services we are offering and not offering with the recommendations. On page 20 under your investment services, the only thing that's standing out is you're replacing your risk based profiles with target date funds. Tab 3 is a summary of meetings we do. Tab 4 are some of the examples of the marketing campaigns we use for the different departments. Tab 5 is the NAGDCA survey.

Tab 6 is your annual plan review for the DC Plan. In section 2, page 3, what we're showing here is the trend should be when you're under 26, 26-33, 34-40, you should

see it going gradually from blue to orange to green to yellow to red. What you're seeing is you have a lot of younger employees that are in yellow, people are invested too conservatively throughout all ages. So the nice thing about changing this to the target date funds is that all these people will be put in the appropriate portfolio based on their age, so you would have a much nicer looking graph, so that's one of the things that is good about going to the target date funds. Kent Morris: So a year from now this will be substantially different and then the only thing that will start flushing out is if somebody makes a decision because they're in the 34-40 group and by default they will go into the 20/35 fund but they might end up picking the 20/55. We will be able to see people do things because of returns that are inconsistent with their age group and the target date so that's how this graph will change. Starting out it should be pretty pure through the age groups; it should all be in one fund.

Mike Perez: Another thing that stood out, if you go to section 3, page 3, total plan withdrawals by age group, a lot of the distributions are coming out of your younger employees. Gerry Cruz: Does this include those that transfer to other employers? Kent Morris: If you go back to the beginning of the section, to answer your question, roll over to another qualified plan is 2.5% of the \$6 million that went out. This really stood out to me, knowing that these are the DC participants, I would say this leads to, if I were to interpret it, people are staying here, they're not getting in and staying in until retirement, so you have a fairly transient population. That's what I read into this, but that could be wrong, but the fact that it is a DC Plan which is for retirement and you see people who are at the peak age, 34-40 and 41-48, that's where the bulk of the distributions are. So people aren't, when you look at it, going in and studying what kind of plan they should have and a hybrid and all that. It's almost like people aren't necessarily staying here to retirement anyhow. Now that doesn't mean that you shouldn't do something, maybe if the benefits were different, maybe they would stay. The distributions are certainly not people of retirement age, so this means people are leaving and not working for the Government until it's time to retire, which would be opposite of generally what the perception is when somebody goes to work for the Government, but that's not what's happening with the DC Plan.

Mike Perez: The 457 Plan, Tab 7, section 2, this is showing you that the employees in the 457 Plan are more in tune with their risk. For example, the younger ones are in moderately aggressive or aggressive strategies and as they get older it's more into a conservative. So this shows that members that are participating in the 457 are just more in tune with what they're suppose to be doing.

Kent Morris: On tab 8, we got most of Terry's investment fund review and as part of our agreement, we provide an annual review. If you look at page 5, just looking at the colors consistent with what was shared, we would have rated the Pioneer Emerging Markets fund below, but if you look at the far right, which is a longer term analysis, there's no failing funds in there so it maintains status quo.

If you go to tab 9, we just introduced earlier this year and it's sort of what you're hearing a lot about in the financial press, but the sort of guaranteed retirement income, the GLWB, guaranteed lifetime withdrawal benefit, we've come out with a product and thought it was opportune to share with you how this works because there's a lot of chatter with respect to should participants in DC Plans be forced to

annuitize some of their accounts so that they will get some form of retirement check for their lifetime, so I wanted to just give you some of the high points. Participants ask the same stuff they always ask of us, how much should I save, where should I invest and what am I going to get at retirement. This particular product is designed to cover some of those needs.

If you go to page 4, participants in general want somebody to tell them what to do, plan participants want advisory service. It talks about how half of defined contribution participants are interested in receiving advice. Plan participants want a target date fund. That's sort of a conclusion drawn by the sub bullet point which says, half of retirement plan participants cannot explain the difference between a stock and bond. The last one, 61% of pre-retirees rate the lack of guaranteed income as extremely or very important.

Page 6 is what we call this particular product, the SecureFoundation. Page 7, what this does is essentially is protection of your retirement check when the market goes down. So as a DC participant, obviously market fluctuation will impact the balance of your account and depending on how you're distributing your money, would certainly impact either how long your income would last or what the check was depending on the payout option. Guaranteed floor for paycheck, what we call a benefit base, benefit when the market goes up, so essentially if there is upside, participants would want to reap some of those benefits. Outliving a retirement paycheck, this does offer a guaranteed income for life and market returns risk, there's a flyer that talks about the unpredictability of returns, if you were one of the unfortunate ones that retired at the end of 2008, when the market goes down, you're not going to have money as long as you like, versus somebody who maybe retired at the beginning of 2009 and then the market comes back 50 or 60%.

If you go to page 8, the question was asked, the willingness to take above average or substantial risk and this is a percentage and the colored lines are based on different age groups. As you would expect, the younger age group, not all the way, are generally willing to take much greater risk than the 65 or older. So as people obviously approach retirement they are less willing to take risk.

Page 9 is a graph of how this works. What we're really talking about is the SecureFoundation is a target date series of funds much like what you're looking to go to. The underlying strategy is 100% passive, so it's all index funds. What happens is the green line is somebody's account balance fluctuating over time and then at 65 they would start withdrawing money and eventually could run out of money. What this guaranteed benefit does is once the benefit goes into place, it actually starts 10 years prior to retirement. So if you have a target date fund that is a 20/25 target date fund, 2015 is when the guaranteed comes into place. What it does is it looks at your contributions, the balance of your account and every year it looks once a year and says, is your balance higher or lower, so you see what's referred to as the upside benefit, the blue line. As the account goes up, you lock in this benefit base which is the value that's used to calculate your retirement income, so even though your account is fluctuating, there's this benefit base which is used to take retirement income. If you just cashed out, you can get your account value, but the benefit base which is used to calculate. So in this example, this is showing somebody who ends up

at the peak who had \$150,000 in their account and it shows leading up to retirement, their account value went down but their check for retirement, they go to monthly income, their check is based on this blue line and the way we have the structure of this, if you're under the age of 65, you would get 4% of your benefit, from 65-69 you get 5%. So this is assuming that if somebody retires at 65, they would get 5% of that \$150,000, so they get \$7,500 a year and that would become their annual income for life. You look at what happens and we now track the account value, obviously taking out the \$7,500 a year, money runs out in the account but your retirement checks continue, so that's where the guarantee is. Unlike historical annuities issued by insurance companies where if somebody said I need some money, it's like too late, you're getting income stream and you can't get any money, here they do have access to their account value so they could take what we refer to as excess withdrawals and that would reduce their benefit base so their future monthly retirement would be or annual income checks would go down if they did a lump sum withdrawal.

You will be hearing more and more about this but we wanted to give you some of the high points. One is either a target date fund or a balanced fund which it talks about the options on page 10. The management fees are 10 basis points than what we're showing in here so in the lifetime or target date funds, they go from 68 – 78, .68% to .71%. The guaranteed benefit fee is the cost of the insurance that kicks in 10 years prior to the target date and that's at .9%, so that's what would be charged to the account. The guaranteed benefit calculation is what we were talking about with the 5% at age 65 times the benefit base value. This annual ratchet is just the annual looking at to see if your account value is above or below the benefit base. Contributions would be any money going in and that would be how your value is established. The GAW, the guaranteed annual withdrawal percentage, you can see 4-7% depending on your age, the excess withdrawal, anywhere above that 4-7% that you would withdraw. You can reset, let's say you started this when you were 66 years old and now you're 72, we can run a new calculation and say, based on your age, we would pay out 6% of your benefit base, so even though your benefit base might be lower today for your account value, that could result in a higher payment, so your future checks could go up.

Page 14 looks at the different target date funds, what the allocation is. One thing that would be different and I'm not sure with the Black Rock Fund you're going to, but with this because there is this guaranteed feature on it... on page 16, what happens at age 55, the glide path straight lines to 60% equities, 40% bonds. So we don't have to continue going down the glide path, so essentially the accounts are being invested more aggressively because you have that guarantee, where the typical glide path continues to down slope approaching the target which here is assumed to be 65 and then most funds now go somewhere between 10 and 20 years past. At 55, maybe not aggressive as some, but more aggressive and in the future years be invested more aggressively because you have the benefit base build up, that's one of the advantages of it.

We did want to expose you to it depending on what happens, either changes to the DC Plan or if some hybrid is put into place. As a component what DC Plans are really missing, we don't hear much about the pay out side and guaranteed income. Even though GreatWest, we're an insurance company, I couldn't tell you when the last time

we annuitized someone with their payout, which would be the DB type of pay out. So this is really being brought back into the fold of the DC Plan.

Tab 10 is a brochure and tab 11 are questions and answers. The last tab 12, a couple of illustrations that show even though the average returns over these 30 years are the same, somebody who has good market returns right when they retire, they're really set for life, versus somebody who was unfortunate to retire right when the market dropped and so obviously when they started their distribution payments and depleted their account money much faster and they ultimately, this shows in the 22nd year, their account was depleted, whereas the first investor with the timing of the returns ended up still having \$800,000 in there. What this is trying to illustrate is having something with a guaranteed benefit could make a substantial difference in somebody's future.

This is something that we just rolled out at the beginning of the year and it's just another strategy of planning for retirement. I would do some research and pass it down to Mike on what could be done on our legal end for sort of an auto enrollment in the 457 Plan.

(End of Presentation by Great West)

3:15pm- pm Other: DB Asset Allocation/Funding of Managers Securities Lending

Dr. Leon Guerrero: Let's talk about this rebalancing. We're recommending to hire 2 small cap managers and fire one. Rosalie Bordallo: Are we going to add .1%? Terry Dennison: I'd like to, it looks messy not to be within policy, so somewhere I'd like to scare up one tenth of 1% so we can actually have a policy allocation to cash with a target of .1 and between 0 and .2 just so that we're within policy in ordinary operations. Gerry Cruz: So we're talking about assigning a target allocation to cash? Terry Dennison: Right, because we always have cash and this would save us from being out of policy. 20 basis points and it doesn't have to have a target really although it might be useful because we can tell if we're above or below something. Gerry Cruz: Why don't we go another quarter because that will give us another million. Terry Dennison: And probably because it's a large allocation, I would take it out of fixed because it is fixed basically. Gerry Cruz: If we're not going to have a target, we just want a minimum and a maximum, we don't have to reduce any one of the other allocations. So just set a maximum because we already have a minimum.

A motion was made by Committee Member Gerry Cruz, seconded by Committee Member Wilfred Aflague to set a maximum of .25% for the item discussed.

Terry Dennison: For THB, I believe I am very happy with it, I just want to look one more time to make sure there is nothing that would be problematic, I do not believe there would be anything problematic. Gerry Cruz: So absent any issues, we're going to move to replace them, so moved. Paula Blas: (The other 2) The selection panel is going to make a recommendation to the Board. We're recommending an action for AXA, to terminate. Terry Dennison: We have issues with how they're executing their strategy and their performance is hideous. Now their performance shouldn't drive the decision, the performance is the past, but the performance does cause questions

about how well their model actually works and they're doing some things in terms of basically manual overrides, their model, which make us uncomfortable. Diana Bernardo: (Last item, for Atalanta) accepting Terry's recommendation. (Securities Lending is on hold)

(End of meeting for March 24, 2010)

Respectfully submitted,



STEPHANIE A. HERRERA
Recording Secretary

Affirmed:

Gerald A. Cruz,
Acting Investment Committee Chairman