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Ray Tenorio
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GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

Paula M. Blas
Director

Quarter Ended 3/31/11 Performance Meetings & Annual Manager Reviews

May 26, 2011
Retirement Fund Conference Room

Board of Trustees Present:
Joe T. San Agustin, Chairman, Board of Trustees
Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
Gerard A. Cruz, Member
Antolina S. Leon Guerrero, Member George A. Santos, Member

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

Other Present:
Terry Dennison, Mercer Investment Consulting
Alice Taijeron, Great West
Kent Morris, Great West
Maripaz Perez, Office of Public Accountability

10:30am-11:15am Economic & Capital Market Development

Terry Dennison: If you could start with the book with the white cover and also have the stapled document that says, "Government of Guam 1st Quarter 2011 Capital Markets Overview." On page 2 in the white book it's pretty obvious I think to most economists that the U.S. economy has had its recovery from the worst post World War II recession. The estimate for 1st quarter GDP is down to 1.8% which is a

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Then look at the lower left on page 2, this is a graph we haven't looked at before and I'll just explain what the title is, "Real," meaning adjusted for inflation, "Per Capita," meaning person, GDP Growth. This is a measure that economists use to look at how rapidly the growth of wealth is on a per person basis adjusted for inflation. So this is the amount of wealth generated on an individual basis in real terms, adjusted for inflation. One of the things that's interesting and this is U.S. data, is the stability of that growth and unfortunately the text box is blocking a part of it, but I can assure you that those 2 lines have stayed very close with what the economists call "trend growth" has been with the brown bar, very, very stable. From 1926 to 2000 GDP grew at 2.4% a year per person, so this is productivity improvement and clearly during the depression it failed, during World War II it actually got above the growth line because of the activity in the war industries, but basically it would deviate a little bit and then converge, deviate and converge.

Look at the very far right hand edge, what you have there again is what economists call a GDP gap. GDP per person in real terms has fallen significantly below the trend growth line and the concern is it may not go back to that line, this might be a permanent impairment of wealth, that we're not going to see GDP growth get back to the line which would mean it would be growing at the historic rate or ever get above the line to begin to fill in that hole. That hole, the area in that hole between the black line and the brown line is wealth that did not get created. Every other time in the past since 1926 we rebounded and actually got above the line and filled in that gap. This is now probably a permanent loss of wealth that will never be recaptured. If you look at what's happening with the black line now, it has begun to move up but the slope of that line is a lot less, so not only are we not filling in that gap, it's now growing potentially a lower rate of growth in terms of wealth created per person in real terms. This is very, very worrisome and it has to do with economic conditions, it has to do with debt, it has to do with unemployment and let's go to the graph in the upper right hand portion and if you want to get worried, now is the time to really start to get worried. What this is looking at and we're going back here, all the recessions 1973 and beyond, so we're going back almost 50 years and if you look at those lines, they all start at zero and the zero is the peak of the unemployment for that recession all normalized to be zero. What you see with the colored lines is how many months it took to get back to the peak employment and what you see is some of the recessions the unemployment losses were steep, but we made it back in a matter of 10, 12, 15 months. In some cases the losses were a little longer to refill. Now look at that brown line at the bottom, that's the current recession, it isn't even moving much back toward the peak employment. So literally this time it is different and people have said the scariest 5 words in finance are it is different this time and it's usually meant to connote that the old rules have changed and that's the situation here. Realistically, historically after 40 months of a recession we would be back to pre-recessionary unemployment. We're still down significantly, we have 8.9% unemployment. If you look at people unemployed more than 6 months, the statistic the Labor Department calls U6, that's still over 15% and the thing that's worrisome to economists and worrisome to people who think about where the country is going, is this just isn't the result of the housing crunch this is not the result of the financial crunch, this is more structural and this has been going on for some time and now all of a sudden it's become plainly obvious. Wilfred Leon Guerrero: What are the factors that play into this? Terry Dennison: You're about to hear it. If you think about the world 30 or 40 dramatically because there was a dearth of apartments being built during the last 5 years because there was no demand, because anybody who hadn't been dead too long could get a house mortgage and why rent pay out those rent checks when you can own a house.

The houses are worthless and they're deteriorating and the problem with this is that house sales while have picked up a little bit in percentage terms are still not, in amount terms they're at a very low level. Until we start building houses again, unemployment is going to stay very high. The point here is our situation is getting very bad and our options are getting more and more limited. The reality is the economy now seems to be pretty much immune to economic stimulus. Basically in physiology, if you smell something very bad, something that's been dead a while, in about 2 minutes you don't smell it anymore because the sensors simply become inured to the smell, just like if you're addicted to drugs you need more and more drugs because your body becomes acclimated to it. The reality is every does of Government stimulus is less effective than the last dose of Government stimulus. The only way it's going to get us out of this mess is if we're able to get to a more normal housing construction; housing is a huge generator of wealth. If you look back to see what happened after the Savings and Loan crisis in cities like Denver that were very impacted by it, there was an enormous inventory of houses for sale so prices just stayed low for 15 years because there was this huge back log of houses for sale. There was no incentive to build any and there was no incentive for prices to go up so the people with the under water houses, the people who couldn't afford to move to go to a job waiting for them in a new city, so it's damage labor mobility, all of these factors are now back with us now on a nationwide basis, not this city here or that city there.

I talked to another client an engineering firm and gave a similar speech last week and they pointed out an even stronger example, the housing situation in Houston, the oil patch crash where literally houses did not gain in value for 20 years because there was such an over build of houses that houses lost such value because during the oil boom of the 1970's and 1980's houses in Houston, a big oil area, they built millions of them and they were selling for high prices and nobody could afford to live in them anymore.

Rosalie Bordallo: You have such wide spread destruction of homes right now going on within the last week or so, if you had even more of this type of disaster, you've had the flooding down in Mississippi and I know it doesn't impact the whole... Terry Dennison: .00000% is the problem. Rosalie Bordallo: Right, but the thing was if you had even greater destruction would that spur construction at least for those areas? Terry Dennison: I think if the people believe something was going to happen last Saturday were right, we probably would have been a lot better off, but since last Saturday turned out to be a fairly normal day, the problems are still with us. Realistically the U.S. has probably 50 – 80 million housing units, so you knock down a few thousand of them, it's noise. More houses are probably destroyed in kitchen fires in the last week than all the tornados and the floods have knocked down. The reality is, you're right, the very, very margin, it reduced it, but you would need monster cataclysms to really make it significant.

If we turn to page 4 clearly one of the issues that's going to become a factor and we're almost to the debt, that's where it starts to get really interesting, up until now it's all is, Germany is just raking it in because they've got a very efficient work force, they've kept costs down, they're very competitive, they have high quality products, so their current account balance is growing, in fact on a percentage basis, not on a dollar basis or an absolute basis, it's not that far behind China. Everyone says look how fast China has their current account balance rising, the reality is Germany on a percentage basis isn't that far behind China. This just shows why the U.S. dollar is losing value because realistically the current account balance, both in trade and capital flows is very negative in the U.S.

Now we're going to start to get into debt. If you look at the lower left hand panel of the stapled page 4 you can get to see what's going on with the debt situation. The developed countries now and this is not just the U.S., the developed countries on average now have crossed the 100% of GDP debt barrier. Obviously our economy now has got about a $14 billion dollar GDP and we've run into the $14 trillion dollar GDP and we've run into the $14 trillion dollar debt limit. It's actually much worse than that because if the UK's debt was for example, I'll pick a number, 5 million Pounds, that is the total public debt in the United Kingdom, because all the debt in the United Kingdom is issued by the Treasury of the Federal Government of the National Government in London. We have 50 states that issue debt, we've got hundreds and hundreds of counties that issue debt, thousands and thousands of cities that issue debt, none of that happens outside the U.S. London doesn't issue debt, Devon doesn't issue debt, it's a county, all the debt is issued in one place, so when we talk about the U.S. debt being 100% of GDP, that understates our problem, because the reality is that's just the Federal debt and that's just the on balance sheet Federal debt, that's not including Social Security and Medicare and all the off balance sheet debt, but that actually makes us look better than we should because obviously the states have huge debt. Cities sell a lot of debt, so the public debt in the U.S. is much greater than 100% of GDP. Now you think, 100% of GDP, is that bad, we've now got more debt as a percent of GDP than rock solid countries like Ireland and Portugal, we've past them. We've got a ways to go to get to Greece, but again the Greek debt 158% of GDP, that's all of the debt in the country. If you add up all of our debt we might be past that.

There are 2 economists Reinhart and Rogoff who have done a lot of work looking at the effect of debt on growth, so you've got strong evidence from them that once debt as a percentage of GDP gets over 90% it starts to negatively impact growth. While as the Greeks are finding out, growth is the only way to get out of this, so again the walls start to move, the trap gets deeper and deeper because your ability to grow out of the debt diminishes. What are some other ways to get out of debt, clearly demographics, we've got an aging workforce, we've got people approaching retirement. Other than inward immigration which is actually is falling because the opportunities for low wage jobs or jobs for undocumented workers have dried up, most of them worked in construction, most of them have gone home. We've got a demographic problem, we've got destructural unemployment problem that realistically even if there are jobs we don't have a lot of people qualified to do them. So this debt issue is a very serious problem for the U.S., not this week, not this month, not this year, but not in the dim distant future where only our grandchildren will live in. Expectation is that by 2020 interest alone will consume about 20% of the Federal budget, which means it will begin to eclipse all other non-defense, non-entitlement spending.

Gerry (Cruz) asked a question about QE2 and the QE2 wind down, clearly the bonds that were purchased as part of quantitative easing one and quantitative easing 2 are in that monetary base, they're in that balance sheet of the Federal Reserve and the question is, are they going to as these bonds mature, as they get paid off and most of them are actually getting paid off, is that actually going to be allowed to reduce the monetary base which would be damaging to economic growth incidentally or are they going to every time they get a dollar in they're going to buy another dollar's worth of bonds to maintain that stability. While it's pretty clear that QE2 is going to end next month, they're being coy even on the press conference; the reality is they're being very coy about the degree to which they're going to replace maturing debt dollar for dollar. Clearly their belief is inflation is not an issue so their view is they don't have to raise interest rates to restrain inflation, economic growth is still very poor it's actually slipping so their going to maintain low interest rates in an accommodative monetary policy for quite a while longer.

If we look at foreign currency reserves on page 7 upper right, this is what happens when you have a negative current account balance. Basically you're taking goods and giving people paper which are being held as foreign currency reserves and you can see one of the things that you can imagine the amount of money held in an emerging economy, foreign currency reserves is gigantic. China owns up to having 1.4 trillion dollars of treasury debt, they probably actually own something like $1.8 trillion to 1.9 trillion because they have the Swiss kind of holding a little bag on the side for them. They have a huge pile which is simply the accumulation of all of these trade deficits. The developed economies are also growing again because the U.S. is an importer of things and an exporter of money.

If we go to page 9 in the upper right hand corner we can see the official holding of U.S. debt securities and this simply matches, in fact you can see the shape is identical to foreign currency reserves. The interesting thing is it's not just the treasuries that they're buying, they're also buying mortgages and asset backed securities, so basically they have not been adding to their treasuries holdings they've been actually increasing the amount of mortgage backed securities.

The thing that's interesting and this is exactly what I was going to respond to Gerry's (Cruz) question, in the upper left hand (page 8) is looking at the Fed balance sheet. You can see and if we had shown this graph going back it was $900 billion dollars debt level for a long time. Then with the various economic crisis we started to see the Fed became the buyer of last resort, the market stopped working, those of you wondering what Maiden Lane is, the white box there on that chart, Maiden Lane is a Lehman Brothers special purpose vehicle, it was one of those things that blew up Lehman Brothers, nobody wanted it, it was a bunch of junk so in order to get it off the market the Treasury just bought it and you can see that it's not going any place because it's basically worthless and at some appropriate time they'll simply write it off.

Again the article here, "Who Will Save America From Drowning," the answer is nobody and in fact if you extrapolate out the growth of debt in the U.S. we might actually reach a point where there's not enough money in the world to finance it. The world does not have an infinite amount of money, there's actually a growing, but not growing the reality is you're going to have a huge deflationary event. All credit crisis are deflationary and basically the Fed is going to end up capitalizing the whole world, meaning the U.S. tax payers are basically going to have to bail out the entire world because that's the only source of liquidity there is. Nobody would want to own the Euro, nobody would want to own any currency that has this exposure to banks ---, there's going to be a huge demand for U.S. dollars. The only way for the U.S. to produce them is to just print them or the Fed's going to have to just push thousands of dollars out to every central bank which is going to need money. All of the central banks have accounts with each other so that they can manage the currency.

Gerard Cruz: Who buys that, who's going to purchase that? Terry Dennison: There's going to be a demand for the one safe currency. The Euro becomes un-trainable... Gerard Cruz: You can't just print... Terry Dennison: They're not going too print currency... Gerard Cruz: But you still have to have somebody buy the debt in order for the U.S. Government to increase the money... Terry Dennison: You just issue debt and issue money. Gerard Cruz: But who would buy that debt? Terry Dennison: Well, they're going to have to move gold around, it's going to be the foreign central banks. Gerard Cruz: So the U.S. is going to be the support? China? Terry Dennison: Who else. The Chinese, they're just going to wait until, they'll be around to run the ruins.

The countries will not disappear what you're going have is a period where nobody knows what the value of anything is. The countries will not disappear, they won't turn into just a blank void on the map, all the factories will be there, all the people will be there, the problem is it's denominated in a currency which could lose its value significantly. Part of the problem is and there was a fundamental design flaw with the whole Euro structure is you can't have a currency union without having a fiscal union, you can't have everybody get the benefit of borrowing at German's interest rates if you don't have German productivity and nobody wanted to have German productivity because the Germans work hard.

Gerard Cruz: How did they get Greece in? Terry Dennison: They cheated, they cooked the books, they never were eligible for admission. Portugal probably was never eligible for admission, they just cooked the books. It was so attractive if you think about it, imagine if you are in --- up to your eyeballs and you can borrow somebody else's visa card, whatever it took to be able to get that visa card would be worth a lot to you. Gerard Cruz: And then promises of reducing your debt load. Terry Dennison: Right. One of the things that was interesting, one of the economic reports I read is one of the strategies that Greeks have is to privatize and sell a lot of Greek Government property, the problem is they actually don't have a land registry, so they're not even really sure what the Greek Government owns. Their tax collection is a joke. In Athens you pay tax to have a swimming pool and something like 14 people pay the tax and if you go on Google earth and count the swimming pools there's like 15,000. People joke about tax evasion being a national sport of Italy, they're amateurs, they've got nothing on the Greeks. They've got use to high living at someone else's expense. Gerard Cruz: So does it remain a sovereign country? Terry Dennison: Sure, the country is still there. The country is not going to disappear. In this article it was very well thought through how the dominos all fall if this stuff all happens and if you look at it critically it isn't obvious how you make it stop.

If you look at page 12 in the upper graph, you can see that it's very uncommon outside the U.S. for growth to out perform; it only out performs for very short periods of time and typically not by significant amounts. Contrast that with the lengths of the periods and the magnitude of the difference and that's the area of the blue. We're in a period where very oddly growth is continuing to out perform value internationally. Because the portfolio probably had reasonably, who could predict this, an over weight to value because that's the better place to be long term, we're probably not doing quite as well because we're seeing the unexpected. The other thing at the bottom of page 12 is striking. The length of time that emerging market values have out performed versus the developed non-U.S. part of the world and the fact that it's now going back quite a distance of continuous emerging market out performance and when the emerging markets out perform, look at the area under the blue lines, not just in terms of time, but in terms of magnitude emerging markets are the place to be. Interestingly even with that growth, emerging markets is a percentage of global indices on a capitalization weighted basis, only about have the proportion of global GDP. If they had the weight in the market indices, it is the same as their weight in global GDP that double in value.

Go to page 14, China which is everybody's sort of poster child for massive growth and massive performance actually has been a bit of a lager and it's been a lager for quite a while. China has some issues, China has inflation issues, China has some social and rest issues because obviously the wealth has been unevenly distributed and there's been some fairly egregious mis-use of Government power that is beginning to annoy people in terms of seizing farm land for factories and homes. China has issues; long term China is going to be very negatively impacted by its one child policy. It sounds amazing that China is going to run out of workers, not next week, but 20 years from now China is going to run out of workers.

If you think about one way that you create GDP, it's a combination of work force times productivity. If you've got a shrinking work force and this is the demographic problem the U.S. has that more and more people are leaving the work force, they're getting old enough to retire or they're filing for Social Security or applying for disability, they're leaving the work force. So even if the jobs come back, the workers won't be there. One of the interesting things that demographers will tell you and obviously if you think about it, it's obvious, if you want a 20 year old worker in 2030 they have to be alive today. So if you have a diminishing work force and you have 9% or 8% GDP growth, basically think of the rule of 71, realistically every 8 years you're doubling your national wealth, well at some point you're going to consume what all your workers can make, you're going to consume your work force in the sense of them working at their maximum productivity level that there's no more potential for growth. One of the reasons that the U.S. is in better shape than Italy, Spain and even the UK is we have a little bit of inward immigration, that's part of the problem in Japan, Japan is aging at an alarming rate and that means that there's fewer active workers supporting people in retirement and realistically fewer active workers to produce what it is that the country does.

So China has some issues, but if you look at this the growth is in places like Korea, Taiwan, South Africa, Russia, Mexico, Malaysia, Eastern Europe and the Middle East.

expensive index fund. In fact it looks just like the market, there's no value added and the fees are high. We presented a search, we had 4 candidates, the Allianz RCM Large Cap Growth, the Harbor Capital Growth Fund, the Nuveen Winslow Large Cap Growth Fund and the T. Rowe Price Large Cap Growth Fund. Let me read the minutes, "according to Vice Chairman Leon Guerrero, he is not ready to make a recommendation, this item was deferred to the Investment Committee." So that is still an open item, we have it listed on here and it really ought to be attended to. It's not doing hideously bad, I don't have a situation where the participants are going to beat down the door saying you are not mindful of the performance, but long term we don't see a potential for this really out performing significantly.

On January 14th a number of funds from the Maxim series which is provided by your record keeper Great West were added to the fund. Right now they hold minimal assets. In addition to the Lifetime Portfolios which are fine, you now have active set with the Maxim Funds and a passive set, BlackRock remember the implementation of that is all using index funds. The Balanced Fund, I wasn't involved with this decision but the Balanced Fund is a bit confusing to people. I think we had this discussion about Balanced Funds that they really don't represent the best option for anybody because it is a manager's idea of what the allocation within a very narrow range between bonds and stocks should be today. It's much better to move people to the Lifecycle Funds because the Lifecycle Funds have an asset allocation to attempt to have the appropriate mix of risk and non-risk assets for somebody in a particular stage in life as they move towards retirement. So we recommended to our DC clients to eliminate the Balance Fund option as simply a confusing situation and strongly recommend people go to the age appropriate Lifecycle Fund. I suspect these were added because limited expense ration coverage for the record keeping cost because such a huge amount was mapped into the Lifecycle Funds and there may not be enough revenue support, but I needed to make that statement.

On page 35 looking at the asset allocation for the plans combined, two thirds of the assets of course because they were mapped, are in the Lifecycle Funds, on a goodness scale you're terrific, that's what we want to see because the reality is the Lifecycle Funds and this is the joke you've heard every quarter, is the right investment vehicle for the 80% of the participants who know they don't know anything about investments and the 20% that think they do and are wrong. The advantage of it is it's broadly diversified and it can also have in it potentially asset classes that you would not want to allow a participant to invest in directly. We're starting to see in some of the more thoughtful families of target date funds things like small allocations to private equity, small allocation to risk reducing sort of hedge funds that you would not want to make available directly to a participant because they wouldn't understand the risks, they wouldn't understand the behavior of the returns, but as diversifiers. One of the things that people are beginning to look at is they look at the economic situation, is we need to be a lot more diversified and a lot more dynamic in our investments than we did historically. I think before very long the old model of having a static asset allocation that you rebalance to made up of ordinary traditional securities is going to be replaced by much more dynamic structures where you give a manager and I have a client that just gave 20% of their assets to a manager that basically can pretty much can go anywhere and do anything. It's not just any old manager obviously, but the reality is the market has become so unpredictable the opportunities for gain and the areas at risk for loss are so rapidly evolving that you can't do it anymore with strategic asset market. The options that were in that search are funds that we think are long term will out perform.

In terms of the compliance table on page 42, generally the funds are doing well. Again the life path, the target date funds for BlackRock are lagging for a couple of quarters particularly in the longer end, this is really due to their positioning of their glide paths which we'll talk about, but there isn't anything here other than AMCAP that we think is a matter of concern and you have a number of funds that are doing really well.
(end of tape 1)

(start of tape 2)
(On page 44) The Stable Value Fund basically provides pretty much a real return, you don't get anything adjusted for inflation. The benchmark here is a very easy benchmark, it's treasury bills which are virtually zero plus 100 basis points, so relative to the benchmark they're doing very well, relative to other Stable Value Funds the performance is a little bit weaker. Stable Value Funds are a very tough area in the defined contribution business now, a lot of the Stable Value wrap providers, people who are providing the insurance coverage that allows it to be a book value transaction have left the market place. One of the measures of the health of the Stable Value Fund is a measure called market to book and your fund is actually now fairly healthy, the book value of the fund is less than the market value, in fact the market value is 101.44% of the book value, so the reality is there's more assets than there are liabilities which is healthy.

Looking at the 2 total fixed income funds, the Hartford Total Return Fund, the performance there has really been quite good, it's been improving. If you go to the blue covered book and go to page 28 in the lower right hand corner we're looking at performance on a rolling basis. This fund like a lot of bond funds got nailed very badly during the market decline, but has generally rebounded pretty well so it's dug a bit of a hole for the 3-5 year period, but it's working itself out of that hole. If you look at that red line which is the accumulative return on a rolling basis, it's moving back toward the benchmark. We're not uncomfortable with the performance of this fund and it certainly should be retained.

The next fund is the BlackRock Treasury Inflation Protected Security Fund, you're really one of the innovators to add one of these funds, we're now seeing it added to most DC Plans because participants do have a concern about inflation and this would give them some protection against inflation. If we look at the performance particularly on a relative basis, the numbers that are the fund rank in universe, performance has been excellent. If you look at the blue book on the bottom of page 30, you can see that with the exception of one really hideous quarter during the market decline which was very quickly recovered, the performance here has been generally positive relative to the benchmark. So this fund is doing very well for your participants.

You also have an international bond fund, the International Fixed Fund which is the Dreyfus/Standish International Fixed Income Fund. The performance here has been extremely volatile, for 3 and 5 years the performance has just been absolutely outstanding, literally the 7th percentile, top 7% for 3 years more than double the benchmark, 7% a year return, the benchmark is only 3.2%, for 5 years 32nd percentile, top 3rd of the universe and a 300 basis point out performance. If you look at page 32 plans subject to ERISA, the Department of Labor is going to require a great deal more communication to participants about the nature of target date funds, they're going to require that the target date funds be more explicit about the nature of the glide path, how far into retirement and retirement's generally perceived to be 65, how far into retirement, you still have high allocations to risk assets because the timing was very bad for people who had significant dollars in the 2010 fund, 2008 they lost 40% of their retirement assets.

Let me illustrate the difference. Go back to the blue book and look at page 34 and hold it against page 40, page 34 is the target date glide path, basically the proportion that's in cash, fixed income which are the 2 non-risk assets; domestic equity and international equity which are the 2 risk assets and page 34 is for BlackRock and page 40 is for the Maxim Secure Foundation Funds, the new funds that were added. One of the things that strikes you is that actually the BlackRock becomes more conservative quicker than the Maxim does. If you look at the proportion that is light blue and gold in say 2012, 2020, you have to kind of interpolate there, there's more gold at the 2020 mark for the Secure Foundations than there is for the BlackRock. So not only do you have 2 different management styles, one active, one passive, you have 2 different philosophies about the glide path for risk and if you look at the income fund, which is in effect the 2010 fund, it's the fund for people who have retired, you could see the risk assets for BlackRock are down to under 40%, that the gold is almost gone and the blue is diminished very much. The Secure Foundations doesn't have an income fund, but you can see that if you extrapolated that curve it would have much more risk assets than you would have with the Maxim. So there's a different philosophy being expressed here, that the BlackRock is more conservative, it's getting the amount of risk assets down quicker, the Maxim is much more aggressive.

Clearly these are funds of funds, they're made up of the 2015 fund or the 2020 fund is made up of other funds mixed according to this glide path. The underlying expense ratios, the money that the managers get is higher for equities than for bonds, higher for risk assets, lower for non-risk assets, so there is an economic incentive for the managers to maintain higher amounts of risk assets later into retirement because they make more money. I can argue it both ways, I can argue that most people are going to potentially retain these funds after retirement inflation is an issue but it also does expose you to a significant amount of risk. If you're in the income fund and you still have 40% risk assets, that's quite a bit if you have another significant market decline, these are people in theory post retirement, they're no longer working. So they would not be in a position to restore their balances with contributions, they would have to have the market rebuild the balances. There's a huge debate right now in the industry and with the regulators in Congress weighing in about these target date funds because there's a belief on the part of the regulators that the fund providers, that's not you guys, it's the fund providers who are playing a little loose with what the dates meant. The original idea behind a 2020 fund is in 2020 it would be entirely risk-less and they kind of went through this through retirement without really educating people that we no longer consider the horizon date to be entirely risk-less. They said, we've got these other inflationary considerations so let's make it only half risk-less and given the time that it takes things to go through the court system in the U.S. we can still see some law suits coming out of this because for those people who didn't get their balances back, maybe they got panicky and took the money out, they're probably looking for somebody to pay them back. I think there is a lot of concern in the industry about

If you look at page 42 the prior page, it's a very well diversified fund, it's a sub-advised fund, it has about 6 different sub-advisers, so Vanguard isn't running it, Vanguard is choosing managers and we're familiar with all these managers, we think very highly of them. It's a very attractive fund for this kind of space, the large value. The American Funds back to page 47, it's lagging the benchmark particularly for one year, the other periods it's fairly close. It's just sort of mediocre, the best years are behind it, if you look at 3 and 5 year numbers, the numbers are pretty decent.

If you look at page 45, you can see it's now looking just like the market and that's the reason that we raised the question and I would just point out the question of what to do here is still on the floor... Diana Bernardo: There were 4 options for replacement, which of the 4 would you recommend? Terry Dennison: You have a Winslow fund in the DB Plan which has done extremely well, I have that same fund with another client, a corporate plan that I just saw last week, they are sort of super naturally good. Gerard Cruz: This is a mutual fund? Terry Dennison: The one you have in the DC Plan it's actually marketed by Nuveen but it's sub-advised by Winslow and that would be our first recommendation. We're also comfortable with the T. Rowe Price Fund; we think less of the Harbor Capital which is actually run by Jennison and the Allianz RCM. Gerard Cruz: We just thought because we were trying to get them to do work on another fund and they said they were closed to new business. Terry Dennison: In this space, in the Large Cap space? Gerard Cruz: Large Cap Growth. Terry Dennison: It's interesting because when we did the search they were open. Did they just close? Gerard Cruz: About end of February. Terry Dennison: Typically now, in this case we might have to talk to them, typically if there's an ongoing search they'll honor the search, but that means that you have to decide here pretty quick otherwise they're going to say, you guys are playing us. You need to make a decision. We can show them that they were in a search, they may not honor it. We have leverage with them, you have some leverage with them, if you just walked in off the street, they're closed. I will check back with them. Paula Blas: Is it the same portfolio? Terry Dennison: It should be the same team, they just use Nuveen as an access to the market, they're doing all the investments, all that would be explained in the book. Gerard Cruz: I remember that being an issue when Nuveen became part of Winslow when we first hired Winslow, not an issue but that was a topic that was brought up.

Terry Dennison: Nuveen is, you don't buy a money manager unless you're Bank of America and go mess them up. Bank of America doesn't operate by that, they direct everything they touch. Generally their interested in, they have distribution, Nuveen has a large number of brokers, they have distribution, what they don't have is product and Winslow has product, they have no distribution, so these sorts of sub-adviser marriage kinds of things really work for both sides, it gives Winslow another outlet to the retail market which is very expensive to service, they have institutional sales people that talk to folks like us, but to get access to the retail market place, you have need a front end like a Nuveen, like a Harbor, all of Harbors are sub-advised also, they're just a front, they just provide a channel to the market place. I'll check on my end but that would be our recommendation and basically if they say, tough cookies, the door is closed, we would not be uncomfortable with T. Rowe Price, we would pass on the other 2.

Terry Dennison: The Balance Fund is a Maxim Fund, the 4 Target Date Funds, 15, 25, 35, 45 and the Balance Fund all appeared January 14.

Gerard Cruz: That was brought on because there was an option for... The Secure Foundation option in general was a decision because it provides an annuity, it created a floor so there was no down side potential. Terry Dennison: Okay so it's not strictly a target date fund. Gerard Cruz: No. Terry Dennison: See we couldn't find any information on it, the fund only appeared in November. The fund is brand new and we couldn't find any information on it. Antolina Leon Guerrero: We thought it was something worth offering while we looked at these other options. Terry Dennison: If it does have income for life, if it does have an annuity aspect to it, that changes things dramatically. So instead of being a target date fund with an asset allocation that shifts, it's got some kind of income for life. If we sound like we don't know what we're talking about, we don't know what we're talking about because we don't know where it came from and there's not a lot of information on the system on it at this point.

Why don't we do this, why don't we just listen to them. It's very possible that this makes a lot more sense than it first did when we said, where did these come from. Income for life is the hot topic now in DC land. Gerard Cruz: It was suppose to be an option before we considered the Hybrid as an option. Terry Dennison: That changes things a lot because like I said the whole idea for income life as opposed to you get a balance when you retire and you figure out what to do with it, that's the big thing that was lost with DB plans was the idea that you got income for life. There are a lot of firms now offering some kind of annuity type.

Rosalie Bordallo: Gerry (Cruz), for clarification, in regards to the replacement for American Funds, we're going to wait until we find out from Terry (Dennison)? Gerard Cruz: We can go ahead and create the motion. Terry Dennison: I should be able to get the answer to that by 2 or 3 in the morning, your time.
(End of discussion for DC Plan Quarterly Performance)

<u>1:30pm-3:00pm Great West (TPA)</u>

Kent Morris: You can see on the table of contents here we have got sort of the high level overview in section one which we'll go through and then sort of the separate plans, the Defined Contribution and Deferred Comp and the Alice (Taijeron) will touch on the Strategic Plan. The rest I'd say is really just collateral information, I don't know that we need to really cover anything else in there. We do have some new investment options sheets for the participants and then we do have the fund reviews. Did Terry (Dennison) go through a fund review today? We have ours which is required by contract so we'll just look at the high level page which it all looks good so just a validation tool for you.

If we turn to section one on page 4 which is the high level, at the end of 2010 $255 million in the plans combined, prior year end $209 million. So a gain of $46 million dollars which is probably the biggest gain we've seen to date. Contributions for the period $29 million, distributions $10.6 million, net investment gain obviously the market came raging back as I'm sure you heard earlier today, almost $28 million so that's how you get to the $46 million.

about $7,000, so your longer term employees you see balances, I think the highest balance in the plan is $243,000 in the 401(a) Plan, but the overall average is the mid 70's, about $75,000, if you look at anybody with 10 years of service and greater. You look at it and say, $21,000, what good is that, but it's really distorted, obviously with the DC Plan being new, you don't have necessarily the 10 year employees in there so you haven't had years of contributions. I think it's better than just looking at this number, but this number represents the $11,200, people with an account balance, there's currently about 8,500 that are contributing, so it segmented that out and your averages start going up when you take out the non-contributors and if you look at years of service, you get better balances more in line with what would be your expectations.

Wilfred Leon Guerrero: Are you providing us with that, you said you looked at that? Kent Morris: I was actually working on it because we pulled some different reports, we didn't include it here, these are system generated so we're doing a little extra work, we might have something we can share even tomorrow. Wilfred Leon Guerrero: I would appreciate that. Terry Dennison: Would you also have it by age cohort? Kent Morris: We have that in here too, the age breakdown, but it doesn't separate active and inactive, separated from service. The information isn't always 100% accurate, we have some on the system, some of the hire dates are the employees birth dates, I don't know why that is if at some point we didn't get a hire date to populate that field. I don't know if Alice (Taijeron) would know, I'm sure it's information that's been there years ago that were not past and if we didn't have, we might have had a default procedure that it's the birth date versus leaving a blank field.

Average number of investment options decline slightly, but that really is a bit misleading because the Target Date Funds are considered one option even though they might have 6 or 8 underlying funds. Detail here, year over year nothing significant stood out for me to comment on. The accounts as far as where people have their money have been pretty consistent year over year. Terry Dennison: In that same area do you have information about the number of participants who have balances in non-adjacent target date funds, meaning they don't get what these are about, they have balances in the 2020 and the 2040. 2020 and 2030, not adjacent ones that are logic, they're making they're own 2025 fund, but non-adjacent means that they don't get it. Kent Morris: I don't have it at my fingertips, we could pull it. Terry Dennison: That might be worth knowing because that might be a communications issue. Kent Morris: And I think that, let's put it this way, because it's only sort of a year, April last year and all the mapping was done by default and people haven't been able to run the --- on it yet, it's actually pretty clean.

On the 457 Plan, 1,342 again in the box on the left, average account balance $14,000 and then a little greater diversification just because the participant direction and less default there.

Contributions on page 15 you see a pretty nice progression, both plans 457 has gone from $2.13 million in year 2006 to the end of last year $3.12 million, so up about 50% on contributions there. On the DC Plan roughly $20 million to $26 million so a little smaller in percentage terms, but again on both of those record year as far as contributions.

Here's where we see increases year over year on page 24, which would be the distributions. We notice on full withdrawals year over year from $6.4 million in 2009 to $7.7 million so an increase of $1.3 million dollars there, so I don't know if that would be consistent with employment trends where there are a number of people retiring and separating service. In a DC plan because they don't have to take money out it could be prior people who separated service that because of economic hardship or whatever decided to take out money so it's not necessarily a trend in unemployment but we do see more that are categorized as retirement that went to $1.1 million with 37 participants, so that's roughly $40,000 which drives down our average account balance as well because those are decent amounts. Separation of service, we had $5.9 million spread across 618 participants which those are smaller amounts, they would be roughly about $10,000, so that was up a little bit. Partial withdrawals we see an increase in both separation of service, partials as well as retirement partials. Hardships were down slightly and the probably significant was the number of hardships from 121 to 88, so I guess good news there, but up a little bit as far as overall distributions. The way that breaks out if you look on page 25, one of the areas where we do see more would be under the loans for the 457, so we went from $429,000 to $800,000 in loans.

Page 26 is just combined; last year roughly $10.5 million was paid out. On page 28 the key talk stats which would be those calling in, I think here things to note would be the highest percentage, 34.8% were calling to request a pin which generally so they can use the website and order a pass code, essentially the same thing. So those are 80% of the callers are so they can access the system. That was on the 401(a), on the 457 a few more folks who use the system on the 457 are calling and getting their account balance, as well as requesting a pin. A little different there so some people are actually getting their balance.

We're changing our system, you're going to be, I think its June 22nd is a date we're going to a new voice response which sort of in line with the name voice response, you don't have to just push the phone you can say whatever it asks you, so you can talk and it will talk back. It's a nice system because it does have what we refer to as smart call routing, so if you call and you always want your balance it will recognize that is where you go to so it's dynamic menu system, so it will say, do you want your balance on this call as opposed to if you're somebody who just gets a unit value or a share price then it would prompt you first with that, it's not like a set menu, it goes to some prior history to try to get people to what they want quicker. On the Key Talk combined on page 30, nothing really to note there.

Page 31 internet statistics, obviously a lot more touch points that we can capture data on the web. The key things you see just sort of looking at the double digits percentages would be inquire account balance 5,200 hits on account balance page, scrolling down a the 11.9% would be inquire on funds transferred so people maybe taking action looking to see if it's occurred or what's happened. Another popular one is personal rate of return which is a pretty common page on the website, there's default parameters already put in there but you can select different range of dates to see how your account has performed, transaction history at 5,200 inquiries there. So the people who use the web are pretty active, like I said somebody logged in 218 times

Our fee from a contractual basis is .24%, so just a little bit less than a quarter of a percent. Without throwing out a bunch of numbers and making them up in my head, on $250 million on a quarter would be 625,000, so if you divide it by 11,000 accounts you could say that it's roughly about $57 per person, but you pay us for that amount, but you recover some if not all of that amount from revenue sharing from the funds. For example like the BlackRock pays 4.5%, so their .85 that they would be charging participants the Fund receives .45 back which all goes into a --- to pay the Great West fee. So at a participant level participants don't see anything, but I can give you what those averages are. I don't know if that's answered your question? Wilfred Leon Guerrero: I'm just trying to get a feel for what kind of fees you charge this account. I'm not sure I know what I'm asking for, I just think that's one of the things that as Trustees we should be worrying about. Kent Morris: I can tell you what Great West is getting, roughly $57 dollars per person. Again, coming out of the reimbursements from investment options, if somebody had $100,000 account, they're not necessarily being charged $57 dollars, so if you average it out that's what it would amount to, but if they were in the Vanguard 500 Fund there's no revenue sharing that Vanguard pays to the Retirement Fund and they're charging 6 basis points on the single shares, so that person on operating expenses to a mutual fund, they might be paying 60 but they're not contributing anything or Vanguard is not contributing anything back to the Retirement Fund to offset Great West fees.

Alice Taijeron: May I ask for clarification, are you talking about coming directly from the participant? Wilfred Leon Guerrero: One of our fiduciary responsibilities is to ask about these fees and I'm doing my part and trying to understand it. Alice Taijeron: We just want to be sure and be clear. Kent Morris: One thing certainly for ERISA plans, more the corporate sector there are disclosure requirements and we're going to be compliant certainly for that sector, but make that available for plans like yours as well so that you'll be able to see both the operating expenses that fund companies are charging, any explicit fees that Great West would have. All that stuff is available now to the Fund and I'm sure the finance folks here have all that. Think about it as we go through this if there is more information that you want us to pull. Wilfred Leon Guerrero: I'd like for you to help me understand it because I read some place that's a responsibility for a Trustee to have and it makes sense, I don't have any control where they put their money, we just provide the platform.

Kent Morris: On this next document which is for the 401(a) DC Plan, you asked about age, page 4 a couple of things to note on page 4 you see here in the call out box, the average age of your is 40.77 which is a little bit less than the average age of adults in the U.S. at 45. In the bar chart you'll see sort of an unknown, we have 52 participants that don't have a gender on the system so we need to go one on one and see if by name we can pick one, that's what that is, it's a very, very small percentage.

Page 5 has the balances and the only thing I'd want to comment here is that the 2 graphs, the larger ones on the top and the bottom, the top one says, Average Account Balance – All Participants, you see the ranges there. Average Account Balance – Contributing Participants and this is what I was referencing earlier, contributing participants have a slightly higher balance than participants on average so if you were to look at the 49 to 55 year old age group, the blue bar being male is just under $40,000 but the contributing ones, over $40,000. So the active participants have slightly greater balances.

A little bit more detail on page 26 and 27 on Website and Key Talk and here on the call out box on page 26, 334 distinct web users that had 20,000 log ins, so the people who use it use it a fair amount and on the Key Talk, 37 Key Talk users that made 947 calls with roughly a little over a third of those transferring to a customer service rep.

Finally on page 28 is the combined and we heard from via the Website or Key Talk 371 participants. I would say and Alice (Taijeron) has some numbers on the local, I would say here we probably deal with a lot more of the participant issues than those who are going on line or calling client services, so they're taking care of business locally.

On tab 10 this is our fund performance review, page 6 is our snap shot, for us suffice to say green is good so this validates what you heard from Terry (Dennison). The first green bars you see our the fund complex ratings that was something we added 5 or 6 years ago with the mutual funds scandal so not much has been going on there. The overall rating for us we look at return as well as Sharpe which is a measure of risk and then we rate the funds. If they're above rating they get a green and then we do a long term analysis on the right which is looking at what's happened over the last 12 quarters. A fund doesn't get in trouble unless it's under performing 4 quarters in a row or 7 of the last 12 quarters, but everything here no issues in our opinion with your fund line up and I wanted to show you that as sort of validation of what I'm sure you heard earlier today.

Tab 10 was for the 401(a) Plan and tab 11 the same type of report and the options are almost identical in the 2 plans, so good line ups in both plans.

Alice Taijeron: Tab 4 2011 Annual Strategic Partnership Plan, I'll just give you a brief summary. Starting on page 4 as you know I'm the Regional Director, we have Melanie Mendiola who is our Account Executive, she handles all the retirement education, counseling, going out to sites, Jean Reyes and Elizabeth Duenas who are our Administrative Assistants and then we have Kent (Morris) and Travis Englert for our National Accounts Managers.

On page 5 is an overview, Kent (Morris) went through a lot of the numbers. As of 12/31/10 we have 401(a) eligibles 8,515, those are your actively contributing DC members receiving both the contributing and employer contributions. Total participants, those would be inclusive with all individuals with an account balance, all DC members with an account balance but not necessarily actively contributing. Participation percentage of course that's 100%, plan assets as of 2010 $236 million, annual contributions $26 million and the average annual contribution about $3,076 and the average account balance $21,100. As you can see here the average number of investments per participants is 2.6, that is based on the contributions, the number of investments that contributions are going into. Number of investments offered for the 401 is 16 and 17 in the 457 Plan; there's just one additional international fund in the 457, but all other fund line ups are the same.

Are there any questions with those numbers? Wilfred Leon Guerrero: Just a comment, I think you're trying to make an attempt to contrast the local situation versus the national average and it's not doing it. Alice Taijeron: This is just for informational purposes. Wilfred Leon Guerrero: It would be nice if you could just plant the seed and get people to start thinking about saving more for retirement, so our staff has been trained and they've been doing that. New employee seminars were increased to 2 times a month, that's been working out very well, we have smaller group sessions, individuals are a lot more comfortable in smaller groups so they tend to ask more questions, there's more participants interaction with the smaller groups, we're looking at 10 to 15 per month, it depends on the agencies that hire a few weeks earlier. Opportunity for increase in 457 enrollments and then at these smaller group meetings our participants attend soon after processing so that way they won't forget and it minimizes them from missing the meetings, even though the letters we provide say mandatory, there's no way of enforcing it without the agencies taking action on that, so meetings twice a month closer to when they enrolled. We conducted approximately 144 employee agency meetings and that came out to over 1,600 employees met and 750 individual employee meetings at the agency as well as at the office here. Just information about Website and Key Talk, we're trying to encourage individuals to become much more active and be interactive on the Website. We do keep a sign in sheet and for 2010 we saw about over 2,600 walk in employees and we approximately spent about 15 minutes with each employee, we address many issues from new enrollment, death claims, we seem to be also functioning as a Government of Guam agency HR to some degree and we get a lot of participants that come in and they're lost, they don't know where to go after processing, so we do that as well, the staff has been around for a little bit, we kind of know the processes so that helps the participant. Retirement plan expenses, no fees for the addition of the new funds that the Board approved, no pricing for addition for the Maxim Secure Foundation Lifetime Funds.

On to page 7, Item 4 industry best practices and where does the Government of Guam Defined Contribution retirement system stand. Consolidated record keeping, it's been implemented, we have the open architecture platform, operational efficiencies and outsourcing partially implemented, employer match implemented, plan governance partially implemented, your custom/institutional funds partially implemented. Fee and disclosure transparency, targeted marketing and communications, the four dimensions to reach out to participants in the DC Plan all implemented and your retirement benefits and annual plan report card.

Rosalie Bordallo: Who does your annual plan report card? Kent Morris: You can do a report card for us, but it's really the annual plan review.

Page 8, overview of industry best practices, the Retirement Fund is considered to be a best practice in the areas of open architecture platform, your employer match, your fee and disclosure transparency, targeted marketing and communication, the four dimensions, integrated retirement benefits. While not addressed in detail in this strategic plan, Gov Guam may wish to further evaluate enhancements in the following areas, auto enrollment consider that for the 457, increase employee and/or employer contributions in the 401, qualified automatic contribution arrangements in the 457, possibly employer match in the 457 contributions, investment advice to your participants, we still get a lot of requests for that, gap statements and the introduction of 457 Roth. Wilfred Leon Guerrero: What kind of contribution would you like to increase it to? Alice Taijeron: It's whatever the Board decides, but I can provide... Paula Blas: That's what I was trying to get at in terms of what the national average is obviously critical, given a choice and that's what we're trying to do is to assist and get more voluntary dollars into the 457 Plan because we would say 10% of pay is not sufficient to have a comfortable retirement, you could still retire, what are you going to retire on. I sat through the new hire orientation this morning and it's really more like okay, 5%/5% employee/employer, not you should match yourself with another 5, so we're encouraging employees to get to 15%, that's sort of the goal out of the gate.

Antolina Leon Guerrero: Alice (Taijeron) what is the 4 dimensions? Alice Taijeron: Participation, education, implementation and then monitoring, data gathering. Kent Morris: That's sort of our day to day action, increase participation as well as contribution, asset allocation, educational overall and then retiree outreach. The key things sort of under what we would say what do you need to do, I think obviously this discussion on what's the right contribution going in and what's the right plan, that's a bigger discussion, but I think on our list here we would say a couple of things, the gap statement we do have the ability to take a participants balance, we know their income here or we can back into the income based on contributions and we can do a projection statement similar to what somebody would get from a defined benefit plan to say based on your current balance, your current age, hire date and if you worked until 65, here is what we would project out.
(end of tape 2)

(start of tape 3)
Wilfred Leon Guerrero: So all these things are going to be answered by the hybrid plan. Paula Blas: The increase in employer contributions, the employer match 457 contributions was talked about but I think it was a no, strictly mandatory 1% employee only in the hybrid, these were the recommendations M&B was going to move forward, it got approved at the Board meeting and now it's just a matter of working out the details...introduction to 457 Roth was just that, an introduction because it just came out, it's not even included in our plan to offer yet so we can look at it but like Terry (Dennison) explained if it's not going to cause an administrative nightmare to us then we should just go ahead and offer it but we have to restate the plan before we can even offer it. The gap statement that's something Kent (Morris) was going to talk about, investment advice; this was something that was brought up from 2 or 3 years ago. Kent Morris: It was part of your RFP and something that we make available. Paula Blas: We decided not to do it, the plan on board decided not to move forward with it. Wilfred Leon Guerrero: This investment advice, quit bringing it up because we're not interested. I'm sorry but I'm looking at these things and we're spending quite a bit of time on it and you just pointed it out that for 3 years we've been looking at this and a recommendation for investment advice... Paula Blas: The reason Alice (Taijeron) brings it up is because we do have participants that are continually asking for us to offer this. Kent Morris: The reason we have it is the advisory service the thing that offers to a participant goes beyond telling someone they should go fund a, b, c and d, what it does I think ties into what your need is to identify to an employee how much are they going to have in the future. The gap statement is like a one shot deal, you send out an annual statement and say, here's where we think you're going to be, here's where you're at, you need to put in another $100 a pay.

Wilfred Leon Guerrero: You're trying to explain the plan and my point is when I look at this review we go through I tend to treat it like an audit, if it keeps occurring this recommendation and what have you at some point along the line someone is going to employee… Rosalie Bordallo: We can basically weed out the files to say, these people already have 25 years, we're projecting just on the DB side $20,000 as income and they're 50 years of age, to me that's not very good. Kent Morris: Right. We would just capture them as zero balance in the 457. I want to give you samples so you can see what I'm talking about as opposed to just conceptually just describing it.

The trend in the industry, in our business is getting away from saying, you need 100, you need a $200,000 whatever the amount is but to say, here's what you're going to get. Like our new website it will be showing the bucket is not quite there yet, but it will say based on your account balance you're projected to get $422 a month and hopefully the bright light will go off and say, what am I going to do with that to increase contribution. So the industry up to this point has been more let's accumulate this money, now it's like let's show you what you're going to get and work backwards to motivate people.

Diana Bernardo: I just have one more question. The QACA, is that referring to mandatory QACA in the 457? Kent Morris: Yes, there's different, these auto enrollment plans and I'm not the expert on them and 457 actually you don't have to have a qualified but these QACA's and EACA's what they refer to is whether you're talking about, when you do auto enrollment have to at a point decide is it for all new hires or is it for all existing employees who aren't in and that is sort of where is it a qualified or just an automatic enrollment. There's different varieties whether you're looking at your existing population or is it just on a go forward for new hires. Diana Bernardo: And you're making it mandatory for a certain group? Kent Morris: Right, if you say, we want 457 to be 5% of pay then it's okay for who, just for new hires after July 1 let's say or is it for everybody who is in there today. Depending on what plan you select or option there's also when someone can get their money or when they have to opt out and sorts of things. I think it does all tie obviously into the discussion, what plans whether is 457 or 401(a), DB and how much has come in, you ask, the question is the contribution level. I'd say particularly where it's DC, if it's a defined contribution environment its greater contributions than 10% is required to be comfortable.

Alice Taijeron: On page 10 we're looking at the plan level objectives which ties into what we were discussing earlier time-wise. This is not set in stone, this is something that we will continue to work with. For example your online enrollment working with the plan and other plan designs, that's just the time frame 12-18 months for the initiatives. Our participant level objectives and proposed initiatives remain the same, we work to increase 457 awareness and participation that's ongoing, increase 401(a) asset retention, we're looking at the number of individuals who leave and take their distribution, our goal is to encourage individuals to keep their money in the plan especially if they aren't vested, continue to provide as many meetings as possible, for 2011 we're looking at 120 employee meetings that's here at the Retirement Fund and at the agencies. Direct mail/target marketing to your Government agencies, we're looking at June to work with your HR personnel, we sent out introductory mailers already to those agencies and that will be ongoing I'm trying to make that an annual event. Rosalie Bordallo: You have this annual introductory mailers to agency heads, you're saying to department heads, isn't it easier to call them, I mean, not just to call them, I think what I'm trying to get at here is agency heads if they're new to the Government should be made aware of exactly what the Retirement plan is all about in seminars that we put on, power point presentations, it's a good site. Our goal this year is to conduct a minimum of 650 individual counseling sessions and those would be by appointments and cold calls, calling participants. Roll out a specific marketing campaigns a minimum of 4 times a year depending upon what's going on in that quarter maybe or that month there's specific marketing tools that we use and that's in the marketing campaign tab. Conduct eLearning seminars, in addition to our new employee orientations we plan to conduct additional eLearning seminars that actually just concentrate on the website and the virtual classroom and that would be for smaller groups. Rosalie Bordallo: How does this work, conduct eLearning seminars and virtual classroom seminars? Alice Taijeron: We can actually put on a seminar that shows participants, get them to be comfortable with using internet and what's on the internet and on the internet there's these power point slides with the investment fundamentals, asset allocation, so there's seminars that we can put on for them. Rosalie Bordallo: I think I was looking more on this virtual classroom seminars on investment fundamentals, I was thinking you go to your website and you would get these links that you could go into a class scenario. Kent Morris: That's exactly what it is. Rosalie Bordallo: You're saying you have groups, can you do this on an individual? Alice Taijeron: Yes, I was just going to say we actually had several people coming in and we introduced them to that and had them sit down with our computers and go through it with them and get them comfortable with the internet. A lot of our participants are not internet, tech savvy and they're afraid.

Wilfred Leon Guerrero: On the DB Plan we do reviews and what have you, that's something that if people want to learn more about investments they could sit, UOG students are sitting in. Alice Taijeron: For DB members? Wilfred Leon Guerrero: You don't have to be a DB member. I'm just saying if someone is asking to learn more there is the resource available that you can use. Alice Taijeron: For 2012 that was actually one of our goals to reach out to DB members. Wilfred Leon Guerrero: How did you do the year before in meeting your goals? Alice Taijeron: We did very well. With the exception of increase in participation, our goal was 10% we made it a little over 9%, we went from 69 employees enrolled, new enrollments in 2009 to 171. Our communications, we exceeded the number of meetings that we had originally started out with, we've exceeded the number of participants, our in-house visitors 2,600 employees in a year for 2010, so I think we did very well.

On page 12 and 13 and continued on page 14, these are service opportunities offered by Great West. That just goes back to our recommendations and proposed initiatives tying into that part.

Tab 5 is employee meetings for 2010 and 2011.

I think Terry (Dennison) had a question on tab 6. Terry Dennison: I suggested that it might be good to spend 2 minutes on what's going on with participation level and plan level and communications fees. Kent Morris: We can do that. In tab 6 and I guess as a question, do you get these Paula (Blas)? Paula Blas: Yes. Kent Morris: Electronically? Paula Blas: Yes. Kent Morris: I don't know, do you disburse them or distribute them to the Board? Paula Blas: I get this from my own personal as a 457 member. Kent Morris: We have like an email subscriber list, if anybody wants it just give me their address or give them to Alice (Taijeron) and we can add you to this. Focus on 457 as it says here is a newsletter on Government defined contribution

In tab 12 we have what participants would get, the investment options at a glance so they can see all the difference options, how they have performed, what the expense ratios, the tickers if they're so inclined to follow that. After the numbers in the IOAG, we just introduced in the last few months new fund data sheets, these pages which are much more comprehensive than they were in the past where we show the Morning Star style boxes as well as pertinent information, the risk return potential, where the money is invested, etc. so good information for the participants.

Tab 13 just had the limits comparison of the different limits for different types of plans 401(k), 403(b) and really just a backward look at those over the last several years since many of the contribution amounts that are permitted have been increasing through the years there.

On tab 14 we don't need to talk about it but because we haven't visited it with you on it for a while we've included an updated brochure on the advisory services.

The final tab 15 just was issued from 2010 Recordkeeping from Plansponsor Magazine just to show where we rank in the industry based on participants, we're 4th. Recordkeeping for 457 plans we're number 1 and the other 2 numbers are sort of defined contribution and 403(b) assets.
(end of tape 3)
(End of presentation by Great West)

3:00pm- Other

(no other issues discussed)

Respectfully submitted,	**Affirmed:**
Stephanie A. Herrera **Recording Secretary**	**Wilfred P. Leon Guerrero** **Chairman**