GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

Defined Benefit Plan
Quarter Ended June 30, 2012
Performance Meetings & Annual Manager Reviews

August 30, 2012
Retirement Fund Conference Room

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Board of Trustees Present:
Joe T. San Agustin, Chairman, Board of Trustees
Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
Gerard A. Cruz, Vice Chairman, Investment Committee
Wilfred G. Aflague, Trustee
Antolina Leon Guerrero, Trustee
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee

Staff Present:
Paula M. Blas, Director
Diane Bernardo, Controller
Rosalie Bordallo, General Accounting Supervisor

Other Present:
Maggie Ralbovsky, Wilshire Associates
Doris Brooks, Office of Public Accountability

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9:00am-9:45am Bank of Guam

(BOG: I'm --- Salas, I'm the business development manager with the Bank of Guam, Jennifer Sanchez is a Vice President and the manager at the Hagatna branch, our headquarters location, Leslie Leon Guerrero is our customer service administrator, she heads the whole customer service department, so everybody that you guys usually talk to in customer service all report directly to Leslie (Leon Guerrero) and she reports directly to Lou Leon Guerrero.

We received a letter from the Retirement Fund asking if we could come in today and make a presentation about what the RFP is that we are servicing right now, what it asks for, what we're providing and that's why we're here. Wilfred Leon Guerrero: Who signed the letter? Salas: Who signed the letter? I don't recall. Rosalia Bordallo: It has to be Paula (Blas).

BOG: We'll make it fast, because our RFP is ongoing for 5 years. This is the 3rd year. Everything is still the same with the exception of course online which we can just go through briefly. I'm just going to go over briefly what you've been online, the activity that has actually done from January to June of 2012, some of the products and services that we do offer that currently the Retirement Fund doesn't take advantage of and then we can address some questions and comments after.

So of course the RFP that we are servicing right now is GGRF064-08. The bank submitted a proposal in October of 2008 and we signed the banking services agreement in June of 2009. Currently the Retirement Fund has 10 deposit accounts and one safe deposit box. Basically under the agreement that we did sign the bank is to provide and establish of course, the Fund's depository and operating accounts, provide commercial online banking services, direct deposits which the Fund does partake in, provide check storage for all checks that have cleared through the Bank of Guam accounts, provide sweeps for the accounts that Fund chooses to manage and basically provide competitive fees or really have no fees and ensure errors and adjustments are addressed accordingly and timely and we'll just discuss briefly the cut off time for deposits that are made over the counter and transactions on IFIT.

So right now on IFIT online basically this is just the fee structure, so for the commercial banking services it's $10 dollars per account, the Fund currently has 10 deposit accounts on IFIT online that's available, however the fee is waived for all 10 accounts. Fund transfers are not charged at all for transfers between your Bank of Guam accounts. Stop payments online would normally be assed a $10 dollar fee, it's waived and ACH processing per credit or debit is 10 cents per item and then wire transfers for domestic pays are $10 dollars.

Bill payment services are $10 dollars per customer per month, tax payments also $10 dollars per tax payment. Any currency and coin requests are $10 dollars per order and per request and then of course inquiries on balances, statements, check images and change of addresses are of course no charge.

So for the new IFIT online as Rosie (Bordallo) and Diana (Bernardo) probably know, there are some changes with regards to processing time and now compared to the old cash management system. So for internal funds transfer, memos are conducted in real time and as opposed to our old cash management system where cut off time is at 3:00pm daily for transfers to actually be reflective on the account for that work day, our cut off time is now 11:00pm. External funds transfer still need to be submitted by 3:00pm on that business day in order to be processed by that same day. Stop payments are also done in real time and of course this service is available from 11:00am in the evening until 1:00am in the morning because we're actually updating. ACH transactions still must be done by 3:00pm on that same business day to be processed on that day, however ACH transactions are now pulled at the top of every hour. For wire transfers, the previous deadline was at 3:00pm daily and it is now 4:00pm.

Our fee schedule for our deposit accounts which you have, basically it's $3 dollars per account, per month for non-interest bearing checking accounts. TDOA's are basically $5 dollars if the balance falls below $1,000 at any time during the month. Interest bearing accounts are assessed a $15 dollar fee if the balance falls at any time during the month below $7,500 dollars and savings accounts are assessed a $7 dollar fee if the balance falls below $1,500 dollars at any time during the month and then safe deposit boxes range from $55 dollars to $170 dollars based on the size of the box with a $20 dollar key deposit.

Sweeps between accounts are $2.50 and cashier's checks are $12.50. Bank certifications or any audit confirmations are $20.00 dollars per request. Any return items on the account, meaning any checks deposited into any of your deposit accounts that are returned against the account for any reason, the fee assessed should be $10 dollars for a Bank of Guam check and then $15 dollars for any other bank check. Stop payment orders over the counter are $20 dollars per request and of course all these fees are waived.

Just really quickly, from January to June 2012, based on all these transactions listed, the Retirement Fund saved a little over $13,000 dollars. Stop payments, there were a total of 35 requests received online, ACH payments, there were a total of 39 payments conducted and processed online, 340 sent files averaging about 16,000 filled per file basically and 10 deposit accounts at $10 dollars per month to be available online and then the actual deposit accounts for all 10 deposit accounts, there was a total from January to June of 23,002 debits and a total of 1,083 credits.

So there are just a few products and services available that the Retirement Fund currently doesn't participate in which include the Corporate Master Card, which is available for corporate customers which is basically convenient for travel and lodging and dining. E-Customer service is available online at www.gotomycard.com and of course Government entities may require approval through Legislative/Executive Branch if they request for credit extension.

We do have our Trust Department which was established in 1985, they partake in custodial and trustee services for assets and full investment options to enhance basically the customer's portfolio performance and then we also have our BG Wealth Management Department that basically works in partnership with Money Concepts Capital Corporation and they basically service financial planning and provide any assistance for customers interested in stocks, bonds, mutual funds and any other investment products.

We do have our IFIT Mobile Banking available now which we did present when we did come in for our one on one's however I don't think anyone is set up because I don't think anyone is authorized. Rosalia Bordallo: It's not necessary. BOG: Okay, but that is available.

Wilfred Leon Guerrero: Are you using a corporate MasterCard? Rosalia Bordallo: No. Wilfred Leon Guerrero: Why not? Rosalia Bordallo: Because the Board hasn't approved it. The Board has to authorize it. Wilfred Leon Guerrero: Do you want it? Rosalia Bordallo: No. Diana Bernardo: In a way it might be good if you just want to use it to pay for conferences, etc... Not for everyone to get a card, for the Fund to have a card and for us to use it to pay for maybe for tickets, to pay for registration fees, to pay for things like that. Rosalia Bordallo: Would we like one, yes. Diana Bernardo: It needs to be controllable. Rosalia Bordallo: There are products that we can't currently obtain because when we try to order it online, since none of us have a card from the Fund, nobody wants to give up their card number and an example is verifying deaths off-island, there are websites off-island, there are website services that are being provided right now that we can't utilize because we don't have a MasterCard or we don't have a credit card that we can charge it to. Wilfred Leon Guerrero: I don't have any problem, but normally you see Director's have them and they get in trouble because they use them for personal reasons. Diana Bernardo: If it's other than that giving it to Director's then I think it might be okay. Rosalia Bordallo: If you just limit it to purchases that we can't utilize, a purchase order or we can't send a money order, it has to be a credit card... Diana Bernardo: And I think Paula (Blas) has certain subscriptions that she may use her credit card. Rosalia Bordallo: For the Chairman's Shell purchase using her credit card. Diana Bernardo: She gets reimbursed. Rosalia Bordallo: There are things that she will use her credit card for us.

BOG: How did you verify birth and death as you were describing? Rosalia Bordallo: It's a very big hit or miss. Diana Bernardo: There is an index for the desk that is free, but as far as addresses, you have to pay for that service and I know one of our staff is testing that. Rosalia Bordallo: Right and it really was helpful. Diana Bernardo: There was a free one, but you really need a credit card, you don't want to use your personal credit card of course. BOG: I'll get back to you. There is a company that the bank is starting an arrangement with, a side entity of theirs does this, they have a database all over the country. I'll find out how much it is. Rosalia Bordallo: Does it have, this one site we were looking at because we do have a lot of terminated employees that have balances in their account and we're trying to just clean out these balances and this one site would list previous addresses that the person was living at and so we could track it down the line and say, okay, he's now at this location, let's send something to him now. That's really one of the things we would also like to have. Diana Bernardo: So it's basically for internal but not for the Trustees or the Director to have. Gerard Cruz: We're not asking for it, but we're just saying for operational uses. Rosalia Bordallo: For operational uses. Gerard Cruz: Why don't you request for it then. Rosalia Bordallo: Okay. Gerard Cruz: Submit an application. BOG: I'll email it to you.

BOG: Positive pay is basically, we did have it before, I know no one has actually taken advantage of it, so we did terminate it but then we did bring it back on board, so this will be available the first quarter of 2013 if you are interested. In the RFP it is actually listed in there if you do want to take advantage of it. It basically allows you to track your issued checks against what is actually clearing through the bank daily. It's basically an internet based module that you can access so you would submit a file of X amount of checks of whatever checks that have been issued through any respective account that you do have that you issue checks on, you would send it via the module to the bank and the bank compares it to basically what's clearing daily against your account. This actually minimizes any fraud, of course there is a lot of, what we're seeing now is there is interception of checks in the mail, people are taking it, they're altering it and basically the check then becomes fraudulent or an altered item. So this will be available and we can actually let you know when.

Any questions? Rosalia Bordallo: Your new product, your online service, it's nice but do you plan on making improvements on the way it comes out? Look at your presentation right now, it kind of mimics the problem that we have online in that your lettering is really tiny. BOG: We could have made it bigger. Rosalia Bordallo: Even online, on the screen, when you print these things off the screen you need a magnifying glass. BOG: You're talking about the statements? Rosalia Bordallo: No, not only the statements, but like if I do a transfer and I want to print out the confirmation report it's tiny. BOG: On the confirmation? Rosalia Bordallo: Right. I can show you one right now. BOG: I know the statement images are really small and that's only because it is an image and we haven't moved to e-statements, once we move to e-statements of course that would be a lot more user friendly, a lot more bigger and nicer to look at but right now it's just basically a picture of a document in our system. It is small, yes. That is being addressed because it's happening to other people. We have had customers that have been able to go on there and with their browser make adjustments on a setting and make it a little bigger but it's not fixed. Rosalia Bordallo: Also your coloring, you have a real light color that makes it also difficult to see. BOG: Are you using the default or the simple? Rosalia Bordallo: The default. BOG: The coloring is the same on the simple but I find the simple is easier to read it's just you can't view the check images because it basically takes out all of the images. Under preferences you can change the setting. Rosalia Bordallo: I can see the check images. BOG: You can see the check images? Another thing is a shortcut if you press control plus and control minus it actually blows up the screen. Rosalia Bordallo: Right, okay, that's enlargement but what I'm looking more at, your color scheme for your online, it's too soft, you need a harder, you seem to be using a light gray against the black and your light gray words tend to fade out. BOG: The purple. Rosalia Bordallo: I don't know what it is, but it looks gray to me. It causes a problem really. BOG: You're not the first... Is it the coloring, the font size? Rosalia Bordallo: Right.

The other thing is our check storage, you're supposed to provide us check storage. The problem we have here is that we need to retain copies of the back and the front of checks, permanently. Gerard Cruz: The live checks? Rosalia Bordallo: The live checks. That's by law. BOG: But you guys get a CD every month. Rosalia Bordallo: Right. The problem is that the pension payroll was set up in that fashion but our operations was never addressed and we've been trying to address it now but we don't have the images from 2008 and why we do need it is because we have had members come in 20 years, 25 years later saying, I never got this refund, I want to see this refund check that you claimed that I cashed. We basically have been able to retrieve it from storage inhouse and produce it to the person and that's one of the main reasons why they require us to have it permanently, because you're dealing with other people's money and if I can't prove that they got their money and that this is your signature, the Fund might be liable to have to basically pony up again. BOG: So then the CD image that you're getting now is addressing from then forward? Rosalia Bordallo: Not from inception from the operations, it's the operations or when you signed the new contract, that was 2008 basically that you started, from there to basically to... BOG: Now. Rosalia Bordallo: Well now in the last 3 months we've been basically kind of requesting for this information and that's why you'll notice when we look at our statements and we have no picture of a check, we have been writing back to you and saying, look, we need the back and front of the following checks and you've been providing it to us. BOG: So you're asking for a CD from 2008 to 2012? What account numbers are they? Rosalia Bordallo: Their operations. Payroll is already online for that, payroll has been set up to be that fashion for some time. Gerard Cruz: So it's not the payroll. Rosalia Bordallo: It's operations because the operational checks are where the refunds come out of. BOG: Was that ever addressed prior? Rosalia Bordallo: In the last 3 or 4 months we have addressed it, we did write you a letter saying that by law we need this and you started putting that on disk, the back and the front, the signature portion and that's why you notice we've been really kind of hitting on those guys that don't have pictures and asking for the back and the front on those.

One of the things, when we're trying to reconcile the accounts as quickly as possible, what I have a problem with is that I have to wait for the final statement to see those blank checks. Your statements, when are they suppose to be available? BOG: 5 business days from the cut off. Rosalia Bordallo: I just got a statement on the 27th for July. BOG: We have nailed down the department that does that, so we got solemn promises that going forward it's going to be good. I'm keeping track of it. Gerard Cruz: Why don't you get e-statements and you don't have to worry. Rosalia Bordallo: No, that's the problem, those e-statements don't show me those checks that are blank. Gerard Cruz: There should just be a replica of the previous statements. Rosalia Bordallo: It's not. Gerard Cruz: It hasn't come out yet. BOG: We haven't launched e-statements yet. Rosalia Bordallo: And what good is that until it gets launched? BOG: But until then like for the end of August, we're going to make sure, I'm keeping track of yours. So August statement is going to cut off tomorrow. Rosalia Bordallo: And 5 working days from then. Gerard Cruz: That's quick. Rosalia Bordallo: 5 working days from the end of the month.

Gerard Cruz: I know we had an issue, was it from the receiving of our, we needed to move money to our custodial account and I guess we bumped against your ACH? BOG: Right. It's actually your ACH. Every customer has to have an ACH limit, that just has to happen. Gerard Cruz: So is that set by you, approved by us or? BOG: It was requested by you, it was $10 million and that came up as a problem so we went back and tried to review to see what we can do to increase it and the bank internally has already approved it, it's just if you guys wanted to make it formal we needed something in you from writing. Gerard Cruz: So we just need to confirm it with a letter, right? BOG: Yes. As long as 2 people sign it then it's done. Diana Bernardo: The $10 million, that is separate from the contract that we signed? BOG: In the RFP, this came up when that bond thing happened, so we were all looking at the RFP. The RFP is not specific as far as the limit, it just says that it's available, there is no dollar figure in the RFP. What happened was we have an application and in the application... Gerard Cruz: But you sent it ACH? BOG: We sent it wire. Gerard Cruz: That was expensive, I know it's expensive for us. BOG: When Paula (Blas) we authorized a temporary. There was an application that was completed and that was the application that requested $10 million and so that's how that came up. It's not a problem, we'll work with you guys with whatever you need and that's what we did in this case, going forward we can keep it permanently. Gerard Cruz: I don't know if it's going to happen often. BOG: That's the thing, it's probably not going to happen, but until we get something permanent from you guys we're keeping it at the $10 million.

Thank you for having us and if you don't need us next year...
(End of presentation by Bank of Guam)

<u>10:00am-9:45am Numeric</u>

(Start of tape 2)

I'm Ed Goldfarb: I've met everyone here. This is my 4th visit to Guam and I've been here since the start. Thank you very much for your business. I'm smiling because it's always great to be in Guam but it's also nice to have good numbers to present. So far this year the small cap index is up a little more than 10% and we're up a little bit over 14% so we are having another quite strong year bringing our total results to over our expectations, a little bit over our target that we'll talk about. I'm here really today just to give you a quick update on our firm and then introduce you to Jay Rajamony who will do the presentation. This is Jay's (Rajamony) first visit and he is the small cap portfolio manager now as you know we had a change last year. Let me just tell you a little about Jay (Rajamony) and then I'll update you on the firm and then he will take over on the investment process.

Jay (Rajamony) has I believe a very interesting background, Jay is an oceanographer by training, engineering and oceanographer, he has a PhD in oceanography and worked in that field for 2 years and then decided he always had an interest in investing and decided to go back for his MBA and went to Cornell like others at Numeric so he has a Cornell connection and then joined an investment firm in Boston at Independence and luckily joined our firm in 2004. Jay (Rajamony) has been a researcher and portfolio manager in other areas and took over the small cap book about a year ago and it's been in my mind a very easy transition. He has a team that he works with as implementers. As you know we're a quant firm so any change like this is a lot easier for a firm like ours and we're very pleased that the portfolio has continued to do quite well.

Let me just update you on the firm very quickly on page 1. Asset base is still very small, we're about $8 billion dollars, we're seeing a little bit of growth now because our numbers are strong in small cap and our numbers are very strong in emerging markets, that's actually one of our strong areas right now so we're seeing some opportunities there but in general there is a lot of de-risking going on in the markets, there is not a lot of equity opportunities and maybe other managers may be telling you the same, but we feel very comfortable at this level and it's our clients advantage that we're small given that we're not overcrowding the space, so there is really no change in the basic asset base.

As far as ownership there has been one positive change, I think from the start you know we mentioned we have a private equity partner called TA Associates and we own 51% of the firm and TA Associates owns 49%. Recently we had an opportunity to increase our ownership as the partners of the firm so it's now closer to 60/40, we own 60% and they own approximately 40%, so that's a positive change and we're excited about that. Gerard Cruz: What does their part do? Ed Goldfarb: Pure financial. At some point there will be a transaction where they will eliminate their ownership. We had an opportunity and no debt we were able to borrow at a low rate so we borrowed some money and bought out about roughly 10% of their stake so that was a positive in my mind.

Page 2 shows the organization. Mostly here all the same people but about a year ago we reorganized in a way where Rob Furdak who has actually visited Guam with me for one meeting is our CIO and head of portfolio management. Rob (Furdak) joined the firm back in 1997 and Shanta Puchtler has been with the firm since 1999, he's the head of research and now he's co-CIO and head of research, so Rob (Furdak) and Shanta (Puchtler) share that responsibility, they have just divided up their tasks. The only change on this chart is the U.S. and global side, Joe Schirripa took over the head role about a year ago and Jay Rajamony as you'll hear from again in a minute handles the small cap portfolio. Other than that it's been quite consistent, the research team is still about a 9 member team and we think operating well.

So that was all I was really going to say about the firm. You always ask about litigation and any other issues, there are no litigations or any other issues that I believe we need to disclose. Unless you have any questions I'll move from the firm to a quick reminder of the investment process. Wilfred Leon Guerrero: Do you have a change in personnel? Ed Goldfarb: Yes, that was the change from Arup Datta as the lead portfolio manager to Jay Rajamony. In the previous meetings Arup (Datta) was with me and he left the firm, he announced he was leaving the firm last October and there was about a 5 month transition officially left in March. Wilfred Leon Guerrero: Are you free to talk about why he left? Ed Goldfarb: Arup (Datta) was with the firm a very long time and the direction of the firm has gone more to a centralized process and therefore Arup (Datta) was not happy with the way that we were focusing as far as not having one person run an entire account going to a process that is more centralized as far as research and therefore the position we offered Arup (Datta) was of less interest to him. So Arup (Datta) moved on and he was interested in starting his own firm but I think he joined another firm since then. We did announce that in writing and in discussions with all of our clients.

The last comment that I'll make is on page 3 and this is the belief, the process that goes back to the start of the firm back in 1989. We're quantitative so everything is very disciplined and systematic but we insist on having fundamental underpinnings that Jay (Rajamony) will talk about. We have an experienced investment staff to make the final decisions, it's not the computer picking stocks and trading the stocks, there is a portfolio manager in between and Jay (Rajamony) and his team do that. Finally, we focus on capacity management and implementation, that's very important to us and the fact that we're small is clearly a help in the small cap area. So with that I'll turn it over to Jay (Rajamony) and he'll spend a minute on the investment process and do a portfolio review.

Jay Rajamony: On page 4 this is the same investment process framework that you must have seen from us many times over so I'm not going to spend too much time on this but I want to give you a broad overview of what it is that we do. There are 2 complimentary approaches that we take, one is valuation and the other in information flow and we blend these 2 to form an opinion on every stock. Valuation goes out in finding out which stocks offer investment opportunities and information flow is a way by which we try to figure out if this is the right time for us to explore that opportunity for any given stock so by putting the 2 together we're able to form an opinion. If you think of a pendulum that is swinging back and forth, valuation tells you how far away the pendulum has swung telling you how much opportunity that is and information flow tells you which way the pendulum is going, if it's coming back to neutral that's when you want to get on it and realize that opportunity that is available, however if it is swinging far away you want to stay out of it. Now within valuation and information flow we go after a --- idea of different approaches to gather exactly how to measure a stock or how to know if it's an opportune time so there is a variety of flavors inside the valuation flow and then we put the 2 together.

If you flip the page, there are a bunch of bullet points here that illustrate the kind of stocks that we pick. The result of blending valuation and information flow is to make sure that the kind of stocks that we pick have the following characteristics, these are usually stocks that are very attractive in value with respect to their industry peers, the stocks that look cheap with others in their peers, they can't compete with them. These are stocks that have a tailwind of both market sentiment and analyst sentiment behind them, so these are stocks to which the stock market itself is warming, they realize something good is going on, let's get on the stocks, that sort of thing. We go after stocks that generate cash through the process of regular business and not only that, those that spend that cash in a very user friendly way, so we don't want companies that raise a lot of debt and buy a corporate jet, that we think is bad management. We want companies that generate a lot of cash through regular business and are able to hold the cash for dividends or something of that sort, in a very user friendly way. We go after companies that post good earnings without any accounting ---, so without managing their --- or inventories ---, we go after companies who have good accounting practices. Finally, we look at industries that take a lot more --- risk than the --- investor and we want to make sure that those industries because we're taking more risk, we want to see if they have a good opinion about the stocks that we pick and because of the added process.

Wilfred Leon Guerrero: Remind me again what is small cap core. Jay Rajomony: This is managed against the Russell 2000 Index, so among small cap indices they have core index which is the Russell 2000 Index --- and then you have the value index and the growth index. So you can have your portfolio managed against either the core index in the middle or something that's managed against value or growth, so small cap core is managed to this benchmark. It doesn't have any kind of growth orientation or value orientation, it's just sort of the bread and butter of small cap stocks.

So a little bit more of what I've been saying with the kind of stocks we pick basically, Cabela's is an example of a stock so we can very briefly walk through the kind of stock this is just to get an idea of the kind of typical stock that is in our portfolio. This is Cabela's, they sell equipment for outdoor camping, hunting, a lot of tents, guns, rifles, you name it, anything to do with outdoor life. On this page what you see is you have value, momentum, quality earnings, informed investor, so in every category this is either very attractive or recently attractive. For example it's cheap compared to it's peers, most analysts have a very good opinion about it, the stock has been up in the recent past meaning the market is also warming to ---, they've paid off over 1/3 of their debt, they manage the inventory very well and so on. What all of this means without boring you with too much detail, is that this stock falls within the top 10% of it's peers and that's what makes it a really attractive stock. We bought the stock in April and it's done very well for us since then. This is the kind of stock that will get into our portfolio and so as Ed (Goldfarb) mentioned earlier, everything we do has a fundamental underpinning and you can sort of see why we buy various stocks, they're cheap, they have a tailwind and they manage their earnings well.

So that is the brief update of our process, I'm sure it's familiar because you've seen it all before. Let's look at page 8. On page 8 is the portfolio specifications, exactly what is the mandate of this portfolio here. The portfolio is designed to deliver 4% return with a tracking error of 5% per year, that is the expectation. We are very happy to report that we delivered to you slightly over 4% return since doing business with us, but at a tracking error that is much lower than the 5%, the real tracking error is more like 3%, so we have done slightly better than what we had hoped to do. Everything else on this page such as universe or what sort of constraints do we use, nothing has changed so it's all the same, so I'm not going to read through all of these numbers here. So those are the specifications of the portfolio.

Page 9 is a snapshot of --- portfolio at the end of the 2nd quarter. There is a chart on the top left which shows sector exposure. What you will see is you have the green bar that shows how much money the portfolio has in each sector and the blue bar is the weight of the benchmark, the Russell 2000 benchmark in each sector. The main takeaway from that is that these bars are very close to each other, they are neck and neck, that is because we don't take sector bets, our expertise lies in picking stocks within sectors and we are staying true to that philosophy, that is the takeaway from the top left chart. The 2nd chart on capitalization right below that also shows that we don't take too many bets in terms of either being larger than the benchmark or smaller than the benchmark. We are on average about the same size of the benchmark in every size category. On the right side you see a table with a bunch of valuation and other metrics and what that goes to show is the kind of bias we have in the portfolio. Look at the top 3 rows here, price to earnings, price to book and price to sales, among each one of those metrics we are more value-y than the benchmark, value is a significant piece of our stock selection process. What is interesting is that we are able to deliver this value to you without an anti-growth or an anti-quality bias, so if you were to look at the forecast growth --- or the dividend yield ---, you can see that we don't have any kind of, a typical devalue process will have an anti-growth and an anti-quality bias, because we blend valuation and information flow we are able to deliver value without any biases. Ed Goldfarb: Can I interrupt you for one minute? Quants were very consistent, so one thing that I did just before we got on the plane is print off a year and a half ago the same page and I'll just pass this out just to show you that it looks very similar to what you see today. So while we may not be the most interesting at cocktail parties, quants are very consistent, you're getting what we told you the portfolio looked like almost 2 years ago and if you just look at the numbers it's just very similar.

Jay Rajamony: If you look at the extent of the value bias or if you look at the magnitude in difference in dividend yields, because the benchmark of course evolves over time, but if you look at it in relative terms, what is the gap between the portfolio and the benchmark, it's pretty much the same over time and that is really something that we work towards because we make sure our process is consistent over time and this was actually a very good point that Ed (Goldfarb) brought up, but it will be very boring, quarter after quarter it's going to be the same.

Maggie Ralbovsky: What happened to REITS? Jay Rajomony: The way we construct the sectors, the way we think of the sector peers has slightly changed, we know now fold REITS into finanacials, that's more of a --- definition, we are going into that because it seems to be the standard definition these days. Ed Goldfarb: And when we show you this 2 years from now you'll see something very similar, so that's what you get with a quantitative manager. Jay Rajomony: Exactly.

Page 10 is the all important performance page, so all the time I've taken in talking about it, let's actually look at it this investment process. There are a lot of numbers on page 10, there is a table up on top that shows year by year performance since the time you've been with us and also since inception, annualized numbers. Let's take a quick second to look at that. Since inception annualized, net of fees the portfolio is at 13.88%, the benchmark is up about 9.8%, which means that we have beaten the benchmark or we have added value on top of the benchmark by over 4% a year since inception. This year as I've pointed out earlier, we are up about 14%, 14.1%, the market is about 10.5%, that means we've beaten the benchmark by about 3.60, that is including the numbers from today. What you see on the page here is through the end of July, so I'm very happy to have seen this performance especially if you think about 2010 and 2011, these were years that were punctuated heavily by what was going on the market, Europe, the market was very bipolar in terms of thinking about whether it's a good time or a bad time, it was a very difficult kind of time or a very evolving period of time. Through this entire time period, the fact that we were able to post consistent returns is something that we were very happy about.

Now if you look at the shaded region below the table I was just talking about, you can see there our performance is broken up in time periods. The first row is the first full year since investment began and the rows below that are for every quarter after that. The first year we were off to a great start, you can see that quarter after quarter since then has been good. Q2 of this year of course was a problematic time period, but since then it, especially if you include performance since through yesterday, we made all that money back in Q3, so quarter one and quarter 3 of this year were sort of risk friendly time periods when the market was willing to award anyone who was wiling to look for opportunities, quarter 2 was a very risk adverse period when they decided they don't want to take any kind of risk, so anyone who looked for any kind of risk got punished a little bit and that's what you're seeing on this page.

So now let's move on to page 11, what you see on page 11 is a little bit of detail on how exactly we added value this year, how exactly was it that we were able to beat the benchmark by 3.4%, rather than where did that come from. What you see on page 11 is a sector-wise contribution that we do, all the sectors are laid out, the first 2 columns show you how much weight is of the portfolio and how much weight is of the benchmark. Because we don't really take any sector bets, all the value addition comes from selecting stocks within sectors, the last column that you see on the page, rather than any kind of sector allocation. If you scan your eye up and down the last column you can see that we've added value and we've been able to beat the benchmark pretty much in every sector, 8 out of 10 sectors we've added value. Energy really stands out as a place where we've added value, so 150 basis points just from energy itself. Healthcare was a little weak, we had a little bit of struggle there in terms of what is going on. Now this chart is just year to date, January through July, there is a similar in the appendix later on in the book that shows the same kind of numbers but for entire time period of your investment and you will see that broadly speaking, the value is added in all sectors, it's very broad based valuation process, it's not that we're good in one sector or bad in another sector.

Page 12 gets into a little bit more detail about what are some of the names that we are able to add a lot of value to and what are some of the names that we retracted from, so it might be worth well for us to spend a little bit of time here to get a feel for what was going on in the portfolio. Take for example the first one, the upper half of the page lists a bunch of stocks that were beneficial to the portfolio. Let's look at Western Refining at the top of the page, this is a refiner in the West Texas area. Because of all the --- and extracting of gas and oil from Shell, it's in the news, we've heard a lot lately, There is a lot of crude oil production going on in West Texas, but the pipeline infrastructure to transport this crude oil to the refineries has not yet been build up. What this means is that for any of the refineries in that region, they get a whole lot of crude oil for cheap, Western Refining makes use of that cheap oil and they sell refined products such as gasoline to Arizona and California which are very high demand markets for these kind of things, meaning they are in a very sweet spot to extract a lot of money from the simple advantage of this --- build up. It's a name that's been very beneficial to us, we've been holding on to it for a long time, this year it's added over 40 basis points to the portfolio.

Another name that might be worth talking about just picking from this list here is Quest Software. That went to a bidding war, they make these enterprise software, disks, that sort of thing and so on. It went through a bidding war, --- that company and finally it was beneficial because we were --- the benchmark with that name.

If you look at the second half of the table, these names are some of the names that already lost money in the portfolio. Healthcare was an area where we struggled and Vemis, not on this list, it's a biotechnological company, they make drugs that are geared towards fighting obesity. One of their drugs got approved and that mean the stock went up remarkably, it's in the benchmark but we did not own it so that was a little bit detrimental to the portfolio.

Another healthcare name Sucampo Pharmaceuticals which is on the list on the bottom of the table, they make drugs that are dedicated towards gastrointestinal diseases and they lost an arbitration dispute with a Japanese firm and that was very bad for the marketing plan because gastrointestinal drugs is an area where there is a lot of competition, so marketing is very critical for people making drugs like that and because the arbitration had to do with marketing when they lost that name the market really punished that name. So in healthcare, some of the losses this year have been really ---, more like drug approval or disputes and so on. Hopefully this gives you a flavor for what kind of stories that underlie the performance numbers in the portfolio.

Maggie Ralbovsky: You never held Biotech, right? Jay Rajomony: We do, but hold onto that thought, I was going to say something about Biotech a little later. Ed Goldfarb: We'll talk about that in a minute.

Jay Rajomony: Page 13, this is to give you a feel for the life of a stock in the portfolio, what happens, how do we buy and what happens to the stock afterwards. In this particular stock, Multimedia Games, it's about a $500 million dollar company, they have about $200 million dollars in sales, they are based in Texas. What they do is they make computer systems for the gambling industry, all the way from video computer companies on the front end, all the way to back office software and computers for anybody in the gambling industry. They're primary market is Oklahoma, they sell a lot to native American tribes in Oklahoma for their gambling and they're expanding. We bought this towards the tail end of last year primarily based on valuation, the fact that they were producing their debt and the fact that they had very good momentum. Since the time we bought the stock it has almost doubled. What you see on the chart is there is a red line that goes from sloping up on the ---, that is the price of the stock and the axis for that is on the right side, so you can see that back towards the end of last year what was a $6 dollar stock is now more like a $16 dollar stock, that's the red line. The green bars on the page, that shows you the weight of the stock in the portfolio. You can see that in the ---, we do not quite own the portfolio, but somewhere these green bars begin to pick up and that's when we started owning the stock and how much we own in the stock, that is the left axis, so the height of the green bar shows you how much we own in the stock. So we started buying towards the end of last year, we bought a little bit, we held on and then we increased the investment, but from about March of this year you can see that that stock has continued to go up and we had a good size position in it, so we made a decent amount of money in this name. This is sort of a typical investment story for us, we buy a name and you can see there are 2 certain periods where the red line, the price line jumps up, that's when the market really realizes that this is a good stock and then we make money when that happens. We continue to own the stock because even though it's run up in price, it continues to be an attractive story for us.

There are a few more examples in this book, over the next few pages you will see more examples. I'm not going to dwell on those unless you want to come back in the end and if we have time we can come back and talk about some of these stories. Ed Goldfarb: Let's talk about a loss. Jay Rajomony: So everything I've said so far is that we always do things right, but I want to point out an example of a case where we've got it wrong. On page 16, True Religion Apparel, Inc., they make a lot of denim apparel. Again, a very similar chart that you've seen before, the red line is the price of the stock and the green bar is how much we own in the stock. We own the stock probably from early last year, so coming from into the tail end of last year we owned a good chunk of it, we owned about 80-90 basis points of it. Around February of this year they announced earnings and it was very disappointing, apparently they were unable to keep their product --- up and that was disappointing and the market punished it and you can see that we took a beating. Wilfred Leon Guerrero: What is the product? Jay Rajomony: Denim apparel. Wilfred Leon Guerrero: And their name is True Religion? Ed Goldfarb: They're expensive. Jay Rajomony: But you can see we do get some things wrong, we think it's a good stock but that is a reason why it is not good. Eventually we sold out of this name by May because all of the numbers were showing that, a little too late for us but we did get out of this name. It may be of interest to know that towards the end of this page you can see that by July it was time for them to announce earnings again and once again they disappointed and the market punished them again, but luckily by that time we were out of that name so we didn't get hit twice, so that wasn't so bad.

Page 17 is a quick summary of performance for this year, exactly what has happened. So the main story for this year is that it's been a good year for bottom up stock selection based on the approach we have, value and information flow. What was helpful is that it is good to have this diversified approach that we have, the market changes its mind about what it wants. Early in the year, the first quarter the market really rewarded value. In the 2nd quarter of the year the market rewarded information ---, but even within these time periods the market kept changing its mind about what flavor of value is good or what flavor of information flow is good, so the fact that we had a diversified process with different kinds of tools helped. It's particularly interesting to note that in the 1st quarter and in the 3rd quarter so far, these risk on quarters in the market that like to take some risks and reward opportunities, so these are times to be made some money. In the 2nd quarter which is a risk off period when the market became very fearful, in that quarter, yes we lost some money but it was good to note that it was not like 2 steps forward and 2 steps back, it was only half a step back. So we do have time periods when it is not favorable to that approach, but what is important is that in good times we --- and in bad times we at least hold on to those returns, so that is exactly what has happened this year, so we're happy to note that. As I pointed out earlier, the returns are not due to any sort of concentration, but is very, very broad based which is exactly what we want to see in a quantitative process like ours.

On the next page is a little bit of an outlook on, especially from an investment perspective, plus I wanted us to step back and look at our record in investing in small caps. We've been investing in small caps since 1991, we have a very consistent and long standing good track record of getting good returns in small cap. We've made some enhancements to the process, by staying true to the value information frame work, we've made some enhancements. Most of these enhancements are actually in the portfolio by the time you have invested with us, but those enhancements have really held us in good standing during the tail end of 2010 and during the full calendar of 2011, so we were very pleased to see that our research had actually paid off. We did implement a risk model in this strategy, but that was a full year before you came on board and that does help us mitigate tracking error and boost the information ratio by up to 25% so that was also on our end very positive in terms of bringing new online research and daily value for our clients.

Now here Maggie (Ralbovsky) is where I'm going to talk about Biotech. So just to give you a feel for what new research is coming down the pike that will impact your portfolio, we are currently looking at some industry specific models for biotechnology, for REITS and for retail. Together they make up about 20% of the portfolio, so I think they are very beneficial in fact. We have done the research in house and sleeves that are dedicated to these industries based on these new models that we have developed, those are already running with live money in our portfolio. What I've actually done in the process of evaluating is to see if those ideas can be imported to a long running small cap portfolio like this and whether I can make that initial value to the clients. Research is almost completed, it looks very promising and most likely by the end of the year these new models will be in place. These are not any kind of really new approaches, they are very much value information flow, from what we are trying to go after is very relevant and new data sources that are specific in these industries. What can we can we do, how best can we look at value for the REITs specifically with the new databases and so on, so that is what we're going after here and hopefully by the end of this year that should be in the portfolio.

Maggie Ralbovsky: With regard to Biotech, so much is dependent on whether the drug will be approved, it just seems to me that it's very hard for your process to capture that. Jay Rajomony: That's absolutely true. If you were to think of simple value and momentum or something like that, you can see some of these biotech companies don't even have sales, so how exactly are you going to evaluate the value of a biotech if they don't even have sales, right. So the kind of things that we're going after, especially with this new process, is you may have noticed back when I showed you the information, sorry, the investment process, there is a section called informed investor, that difference in option data and it goes after short interest, these are hedge fund players, we want to look at what they are doing, so that is a significant piece of the biotech puzzle. We go after biotechs that are spending on --- because that we think is a positive. So we go after some metrics that is a liability and we de-emphasize metrics that has really no economic merit, so sales is not really a good --- because half of them don't even half sales, so you can't use that for a plausible comparison, so that is how we're approaching this problem.

Maggie Ralbovsky: You mentioned this is a new model that has not been used in the small cap yet? Jay Rajomony: Not yet. Maggie Ralbovsky: So does the small cap right now hold Biotech? Ed Goldfarb: It uses a traditional model, so this should be an improvement to the process.

Jay Rajomony: I've done some transaction cost of various simulations of comparisons between the existing and the new and the new is decidedly better going all the way back to 2006, but we have to make sure is that the new and the old sort of work well together and we don't want to, we want to be very cautious --- any new research and that's exactly the process we are going through, we want to make sure we understand exactly what is going on before we put it in the portfolio.

Ed Goldfarb: So this is really the end of the planned comments in the portfolio review. We always add some slides and additional quantitative slides and marketing environment, it's really up to you if you want us to spend any more time on that, but this was the end of our planned comments on the portfolio. Jay Rajomony: I just want to quickly mention that in terms of market outlook, if you look at what's happening in the market place today, on the one hand the market seems far too complacent, the VIX is all the way down to 17, the market seems like there is nothing going on these days, but if you look at it, the U.S. elections are coming up, the fiscal cliff is coming up at the end of year, Euro countries are unresolved, estimates are way too high for the rest of the year so I'm sure there are going to be some corrections there. The market is behaving as if QE3 has already been approved because small caps are up 3.5% this month itself, so at the end of the Jacksonville conference at --- tomorrow, if there is no announcement there may be some adjustment to the market. So there are a whole lot of things that we've been keeping our eye on and I don't think the market is going to be any less volatile going forward as it's been in the last couple of years, we're in for a rough ride, but from a stock selection perspective there are a lot of positives that we see so with small caps if you look at it, about 20% of the benchmark is trading on --- of 10 so rich opportunities in terms of value. Whether you look at it in terms of cash to cap, again 15 - 20% of small cap stocks are trading with about 1/3 of the market cap in cash itself they have a very rich balance sheet which is good from a quantity perspective. In terms of leverage, these are not leveled names, historically speaking, small cap stocks are a lot less levered as they use to be. So there is a lot of good opportunities --- activity is clearing picking up, we've already benefited from that in some names like Quest Software as I mentioned earlier and there is going to be a lot more of that as we take in the cash on the balance sheets . We think this is going to be a great environment for stock picking whereas the market itself, it will continue to be volatile.

As Ed (Goldfarb) mentioned, the rest of the book contains some slides that might --- out some of these stories a little bit more. If you have time I can hit a couple. Ed Goldfarb: Or just take questions. Gerard Cruz: So are you saying that your process then going forward is a little indifferent to how the market will play out? Jay Rajomony: Yes. By and large it is because we believe in bottom up stock picking and we want be an --- strategy because we don't want to change our stripes with the market it is a very difficult game to play. Maggie Ralbovsky: You do change your factor significance in the model depending on some of these... Jay Rajomony: Not with any frequency. We do have one model on information flow called style momentum where we look at evolving preference in the market for style, but that's a relatively small piece and that is our attempt at trying to capture the markets evolving sentiment towards economic risks that are evolving, but that is by no means a big piece of the puzzle and in terms of simply just trying to time between value and information flow, that is a very difficult game to play and we don't want to be in that business, that is not our expertise.

Ed Goldfarb: Are there any other questions at all on portfolio or results? Gerard Cruz: No, I think the results speak for themselves. I was just curious about what your view was going forward hearing that you're a little indifferent on what the view is going forward, the process --- stock --- a large part of the economic ---. Jay Rajomony: Right, if you just look at, even with small caps for example there is actually a slide in here that shows you how much --- even small cap were paying to what was going on in Europe, so an interesting fact is you can look at the volatility of the stock when the market is open and you can also look at the volatility between the closing of the stock market and the next morning's open. The funny thing is even small caps are so focused in Europe that a lot of the volatility was happening over night between the close and the open. I think it is impossible for us to sort of prepare for when these things will suddenly hit the market place. When is the market going to wake up to the fact that the fiscal cliff is coming, nobody quite knows. We are to some extent indifferent in what we hope to build and what we think we have built is the --- that in most times the risks are being rewarded it lacked value and in difficult terms we hope to tread water and sort of wait for the next opportune time. Gerard Cruz: Is there a way that your model and maybe some of the new concepts can address, but maybe I wasn't listening, take away falling into a value trap? Jay Rajomony: So that has always been part of the positive okay, we award it in 2 ways, a very broad way is we have value and information flows so the simple fact that we have about 50% weight in each, the information flow will guide us out of the value trap. If you think about a typical value trap, it's a name that's been going down forever, after a while information will say market sentiment is really negative on this, we don't want this, get out of this name. So that's one way. The second way is within value itself the kind of value we look for is what we call fair value not devalue by which I mean, we adjust for things like the market demand, the market always demands a premium for growth, the market always demands a discount for risk, but how much it demands growth and how much it penalize risk changes from day to day. We get a measure of that by running --- on a daily basis and we adjust our value score for that. For example, Apple, not a small cap stock but a well known stock, might seem expensive from an absolute perspective, but if you account for the fact that it's a very growthy stock and for the fact that the market actually likes growth, then maybe it's not so expensive after all. So that works both on the expensive side and on the cheap side and that also helps us to stay out of value traps.

Wilfred Leon Guerrero: Just so I'm understanding this correctly, you started out with an initial investment of 35 then we gave you another 19.6 and the value of the portfolio right now is 67, so you made 11.9 in the 2 years. Jay Rajomony: Because the market itself has been up and plus we've added value. Wilfred Leon Guerrero: Right. I'm just pointing this out. You made $11 million dollars in 2 years time. Ed Goldfarb: That is correct. Our whole focus is the value added above the index because we can't control what the market does, but we've been fortunate that the market has been up and we've added value.

Maggie Ralbovsky: Can we take a look at page 26, does that mean emerging markets by this measure is more expensive than developed markets? Jay Rajamony: It is not. What you see on this page is actually, each one of these has been normalized with respect to its own history, so this chart should not be used to compare regions. The purpose of this chart is in the history of any region by itself is it now a good time or a bad time, so if you standardize it across its own history you get a standardization measure. Ed Goldfarb: The whole idea is what we'd like to see is when valuation stretch is high it's a pretty opportune time, it gives us a lot of opportunity. Normally it's painful though when valuation stretch rises, we've been fortunate that we've been in a period where valuation stretch has increased and we've done okay or made a lot of money in this case. Maggie Ralbovsky: So in this case this chart means Japan has never been this cheap. Jay Rajomony: Well except for the global financial crisis period, but it is by any metric it's actually a very good time to be... If you look at how things are done in Japan this year, value has actually had a bad run and many of those companies to a value trap point especially those companies like Sony and Panasonic, they keep going down so they look like more value every day and that is what is reflected in this chart, they become more and more value-y the stretch keeps opening up. So anybody who goes for devalue listing is paying the price but the reason why we have not paid the price as I've pointed out is because we have this mix of information flow as well. The opportunity yes, that's a very good point, it's one of the most opportune time from a value perspective to be in Japan now. Ed Goldfarb: We do a lot of these charts, they're not directly used in our portfolio management, it's call the chart book and I'm going to leave some copies here with you. There are just a sub-set of them here but in the book is the full chart set, it comes up quarterly and we're glad to send these to you going forward, but it's not directly part of our portfolio management process. If you have any questions on those charts please call us and we're glad to go through them. Some of our clients like to look at these, it's kind of a quantitative perspective. Gerard Cruz: These are good.

Ed Goldfarb: Thank you very much. We appreciate your business, we appreciate your attention and we certainly look forward to our visit again.
(End of presentation by Numeric)

<u>11:00am-11:45am Eaton Vance</u>

Kristen Gaspar: We are going to dial in like we did last year to Nancy (Tooke) who is the portfolio manager for the strategy. Paula Blas: So did you want to dial her in right now? Kristen Gaspar: Sure. (conference call placed at this time) Hi Nancy (Tooke) it's Kristen Gaspar calling you from Guam. Nancy Tooke: Hi. How are you doing today? Kristen Gaspar: I'm doing great and I'm here with the (Government of Guam) Retirement Board. Gerard Cruz: Good evening. Kristen Gaspar: Good evening to you, it's 9pm in Boston. Nancy (Tooke) was on vacation part of this week so thanks for taking the time for the call, we appreciate it. Nancy Tooke: I'm glad for the opportunity. Maggie (Ralbovsky) from Wilshire is also here joining the Board. Wilfred Leon Guerrero: Who is going to do the presentation? Kristen Gaspar: A little bit of both. Nancy (Tooke) is clearly the best person to be talking to about the portfolio, the performance, the positioning, the outlook, the longer term perspective of her portfolio and how she does things, we thought we'd give you a quick reminder on that. I can talk about the firm and any updates you have. I have a few updates I can give you on the firm, but I thought maybe with Nancy (Tooke) being on the phone we'll jump right to the portfolio and the team and then we can let her go and then I'll stay and then we can continue the conservation. Wilfred Leon Guerrero: That's fine. Nancy (Tooke) we're looking at a 45 minute discussion and you will lead us but we have the option of interrupting. Tell us about the portfolio, how much money did you make and what can we expect from you next year.

Nancy Tooke: Thank you. Can you all hear me? (yes). Thank you again for the opportunity to speak with you and review the portfolio. I'd like to start on page 7 which is the listing of the small cap equity team at Eaton Vance. Because there is a new member of our team Griffith Noble joined us in May of 2012 and he replaced Dan Curtin who left the team in February of 2012. Dan (Curtin) had been covering energy and industrials for the team and he was offered a job with a local hedge fund in Boston and he's a 30 year old guy with no mortgages, no wife and no children and he thought that this was something that he really wanted to do, he wanted to try and it was the opportune time at his point in life to do it. We were very sorry to lose Dan (Curtin) but on the other hand it's an interesting time in Boston because there are a lot of small, smid and mid cap equity managers in Boston who have been laying off people or closing down their products or consolidating products with other products elsewhere. Griffith (Noble) had been actually working at BlackRock for a smid portfolio covering industrials and materials and a few other sectors and he was actually available the same week he found out they were going to consolidate his product with a product that BlackRock had located in Princeton, New Jersey and he didn't want to relocate to Princeton, New Jersey and so he was out looking. We had a lot of very high quality applicants but Griffith (Noble) was a really good fit because the BlackRock process was very fundamentally driven as much as ours was and he came with the ability to add materials to the industrial and energy coverage. We're very, very pleased to have Griffith (Noble), he's been adding new names to the portfolio and he's also taken us out of the few names in the portfolio that he thought that we should exit because he had better ideas. The transition has been very smooth but I did just want you to know about it.

If we go to page 8 I just wanted to review our philosophy, objectives and our process. We love the small cap market space because we believe it's inefficient and we believe because of the pricing inefficiencies it gives one the opportunity, if they do their homework, to make outsized rewards and returns for the shareholder base. We seek to exploit that inefficiency through intensive fundamental research and bottom up stock picking. I just wanted to briefly summarize our process, as we've gone over it a couple of times but just for review, we start with a screen that is looking at peer companies for mis-pricing and we put the peer companies into sub-sectors and we're looking for the ones that we think have a lot of upside reward and not much down side risk. When we identify the suspect we visit the management and when we go see a company we want to interview as many members of the management team as possible. We want to come away with an earnings model that gives us a good deal of confidence in tracking and road mapping the company progress. We are also are looking at their balance sheet and we want to make sure that they're a cash flow generator and that they're going to be not in need of a lot of outside financing to foster their growth and we're also looking to identify catalyst that will cause other investors to want to eventually also invest in this situation so that we're not the only ones that are seeing the under valuation in the stock but that there are others who come to appreciate that it's under valued too because that's how we do make money for shareholders.

And finally, when we're visiting the management we're assessing whether they're an A management. We consider A managements one that we believe can execute to the plans that they articulate. Our process is very disciplined and we use to build the portfolio one name at a time from the bottom up. Our process works in fundamentally driven markets, it falls behind in speculative momentum driven markets.

With that as a background, page 9 does show the Guam portfolio since its inception on October 1st of 2010 with an additional investment in January of 2011. Its market value at the end of July 31st its market value was $58,271,000. Its market value as of yesterday's close was $61,142,000 so we have had a good month of August, we've had a good 3rd quarter. You can see that the portfolio has been behind the Russell 2000 Index which is our benchmark in the 4th quarter of 2011, in the 1st quarter of 2012 and then it was quite far behind in the 2nd quarter of 2012. The market has been quite momentum driven and speculative, it's been a very difficult period of time since last September when the market began to rally for actively managed portfolios mainly because the portfolio leadership, the market leadership has been in companies that don't earn money, the ones that have very low returns on equity, the ones that have poor balance sheets, so it's been a pretty speculative market. This is the opposite of what we do, which is looking for fundamentally mis-valued companies. I am happy to say that since the 1st of July the market has shifted more towards fundamentally driven companies and a lot of the companies that we've owned have rebounded very well, some of the sectors that we have been invested in like energy and materials and technology have come back over the past 2 months.

Kristen Gaspar: Let me just stop you there and give you some quarter to date updated numbers through August 27th, the portfolio is up 3.91% gross of fees versus the Russell 2000 Index at 1.66% quarter to date, so just to put that change she (Nancy Tooke) is saying into perspective for you. Nancy Tooke: What's striking is what's working in the 1st and 2nd quarters is not working now and what's working in the 3rd quarter is what was under so much pressure in the first half of 2012. It's hard to say whether this turn is going to be sustainable or whether it's just the market had over sold these fundamental companies to a point where there were just too cheap and they are catching up to some degree with where they should be trading. I think that it's been kind of a relief in markets that Europe takes the month of August off and so we haven't had dramatic headline after dramatic headline every day as we have had during the Spring where one country or another having extreme distress and so I think that has definitely helped particularly small cap companies get out of the way of those macro driven headlines and just trade on their own fundamentals at least temporarily.

Kristen Gaspar: When you look at your portfolio historically, you've been around a long time, doing this a long time, you've probably seen this type of environment before, can you talk about maybe another time this has happened and how that played out? Nancy Tooke: Yes, actually that's a great question for the next page. If you flip to page 10, this is the institutional performance of the small cap performance of Eaton Vance back to 1999. This period of time since last October through July 1st reminds me a lot of the period dot.com boom in 1999 and into the 1st quarter of 2000 where again fundamentals didn't matter and companies that were cheap just getting cheaper and in fact towards the very end of that dot.com boom companies that were really unbelievably cheap in our portfolio were getting sold down more aggressively as people in kind of a frenzy state were just throwing money at the dot.com stocks. The dot.com stocks didn't really have any fundamental under pinnings, they were selling at price to sale ratios. Price to sales ratio of 20 times to 40 times are something so stratospheric that fundamental analysts just kind of laugh at that kind of valuation tool and it all came --- in March of 2000 and when that turn came the market went back to these very depressed fundamentally driven companies and they started scooping them up and if you look at our performance it's very telling of what happens. If you see in 1999 our portfolio was up about 5% and the Russell 2000 was up 21%, but it all reversed in March of 2000 when the dot.com went bust and for that year cheap fundamental stocks ended up being 33% against a minus 3% return against the Russell. That same thing happened again in 2003. In 2003 it was we went into a rock and the market took on a speculative flavor again and all of those kinds of companies started to take off again in March of 2003 and they sustained that momentum through March of 2003 when they were just so over valued that people began to go back to the more fundamentally driven companies again. You can see that we under performed in 2003 by quite a bit, we were up 32%, the benchmark was up 47%, but then again it reversed in 2004 and our fundamentally driven portfolio was up 30% and the Russell was up 18%. Then you can see from 2004 to 2007 that the fundamentally driven stocks were the leadership for the 4 year period and this too shall pass, the speculative and volatile nature of the present market will begin to come back to fundamentally driven companies because they get just too cheap and they aren't valued properly. That's what's been going on, the market has compressed and all price earnings ratios have been compressing for the past year and you can buy companies much more cheaply than we've seen them in quite a long time or growth rates that are generally above those compressed PE's and we're talking about companies that have a lot of cash and they have no debt and they have good managements and they have good catalysts, the market will come back to them.

Kristen Gaspar: Nancy (Tooke) let me stop you, Maggie (Ralbovsky) has a question. Maggie Ralbovsky: Based on the traditional growth value measure, the portfolio is currently is quite growthy, is that a constant bias or this just happens to be more growthy in this particular period of time, for the past couple of years it's actually been quite growthy. Nancy Tooke: That is a great question and what I like about being a core manager because when growth is cheap as it is now, I want to lean growth, when growth is expensive then I want to lean value and so over the past couple of years growth has been getting cheaper and cheaper and so we've been leaning towards growth because in this kind of an economy which is very sluggish, you want the companies that can grow their top lines best because their the ones that are going to be able to show you sustainable earnings improvement. Maggie Ralbovsky: So historically has the portfolio been more value oriented? Have you have periods where you think you were value oriented? Nancy Tooke: Yes we have and you know the dot.com period would actually be a good example of that. In 1999 we were buying the companies that were being left by the way side so that people can take the proceeds from those companies and put them into these very, very growthy technology companies and so every other sector was unbelievably depressed and so very well managed industrials for example just got dirt cheap and so that was a time when you wanted to lean value and those were the stocks that really did well when the market turned and the dot.com busted.

So if you turn to page 11, this is the page that we show our sector distribution and we don't manage to a sector distribution but it does give you a good idea as to what the names in the portfolio are by and which sectors compared with the Russell 2000 were under weighted and where we're over weighted. One of the things that's happened since I last spoke to you is that we have had 4 acquisitions. The first one was in October of 2011 and it was Brigham Exploration which had its holdings in the Bakken which is an oil shale play in North Dakota and it was taken out at a 30% premium. In the 2nd quarter we actually had 2 more companies acquired, one was Catalyst Health System which is a pharmacy benefit management company which was taken over by another mid sized pharmacy benefit management company at a 40% premium and then one of our industrials Elster which makes smart meters was also taken out by a British company again for about a 36% premium and then on July 1st, on this first day of the 3rd quarter, a fourth company called

MModal was taken out, that one for about a 15% premium. So MNA is beginning to come back into --- and I think it's because there are a lot of larger companies that have large cash positions and they're looking to use those cash positions to invest in growing their portfolios and one of the easiest places to do that is in the small and mid cap market space. We never buy companies because they're about to be acquired but it tends to be a nice benefit when it happens and MNA tends to move in cycles, it's been a long dry spell, we haven't had much MNA in the portfolios over the past few years, this is the first time we've had 4 companies in probably the last 2 or 3 years acquired over a year span and I suspect because the possible tax law changes at the end of December there may be more MNA activity before the year is up just because there are a lot of smaller companies that do have one significant shareholder family that maintains a good size position in the company that for tax purposes might want to cash out this year rather than after the tax laws change.

Your largest position in the portfolio is a company called Cirrus Logic, it's a good example of this PE compression and what is growth, what is value? Cirrus Logic is a company that makes the Semi Conductor chips that go into the audio part of Apple IPhones and Apple IPads and so as a small cap portfolio you are participating in Apple's success through Cirrus Logic. Cirrus Logic is actually up 14% in the month of August, it's up 41% in the 3rd quarter, it's 165% year to date. This company has about $3 dollars a share in cash, it has no debt, it's generating gobs of cash and in addition to serving Apple, it also is serving others in the smart phone and tablet market and it's also got a smart Semi Conductor chip that goes into LED lighting and that is beginning to be picked up and used, it's propriety because it helps dim LED lights. LED lights come in just one brightness, but their chip allows their brightness to be altered with a dimmer chip and General Electric and Siemens and others in the light bulbs industry are beginning to incorporate that chip and it's going to be a very large growth area. So with that said, the company is going to earn about $2 dollars a share this year and it's going to earn almost $4 dollars in 2013 and it's currently selling at about $42 dollars a share, so it's selling at a little over 10 times projected earnings but the growth rate here is north of 30%. You can call it a growthy name but it doesn't have a growth valuation and so those are the kinds of situations that we're seeing a lot of in the small cap space as we pick over these fundamentals stories and it's a really great time to be investing in high quality small cap companies because you're buying them very cheap, you just have to have patience for the cycle to come back and appreciate fundamentally driven companies.

The top 10 holdings are shown on page 12. These companies constitute about 30% of the portfolio and you see Cirrus Logic as our largest holding. The list of the other 9 companies are very diverse in a bunch of different industries but they all share the same thing, they're all fundamentally cheap and they're very high quality. Our portfolio characteristics on page 13 again show what I like to show in every one of my presentations to you that we're paying a forward price earnings ratio that's lower than the Russell 2000 for projected earnings growth on a 3 to 5 year basis that's higher than the Russell 2000 and so at the end of June we were paying 15.6 times forward earnings for about 18-19% projected growth compared with the Russell 2000 at 16.8 times for about 14-15% growth. You'll see that our return on equity was 16.5% compared with 8% for the Russell, these are very, very high quality companies that are selling at really good valuations. We continue to be invested in what I consider to be the upper tier of the Russell 2000 market capitalization. Our average weighted market cap was 1.8 billion at the end of June compared to 1.2 billion for the Russell 2000. We have been very cautious about investing in small caps under the 5 or 600 million dollar market cap area because the liquidity in the market place over the past year has been very, very poor and having lived through October of 2008 when the market sold off because core portfolios had to be liquidated, we don't like the risk of holding very small market capitalization stocks that might just have 2 over the counter market makers in a period of crisis because in a period of crisis those kinds of companies because its illiquidity can sell off very, very dramatically and nobody actually cares about the valuation, if they've got to get out, they've got to get out and they can really pull those kinds of companies down to the floor so we think that as part of risk litigation we prefer to be in companies that 750 million in market cap and up. We do have a couple of exceptions to this in what we consider to be very exceptional companies but we prefer to be in the more liquid ones.

Kristen Gaspar: Why don't I open it up to some questions. Do you have any? Wilfred Leon Guerrero: No, I don't have any. Does anyone have any questions? Gerard Cruz: No sir. I'm okay. Kristen Gaspar: So maybe Nancy (Tooke) just any last words from the portfolio, your outlook.

Nancy Tooke: The portfolio at the present time is a portfolio that I consider to be bar belled. I've got defensive names and I've got cyclically depressed companies that are very cheap and I feel that it's a good time to be bar belled because I think as we come into September/October and the Europeans come back from their holidays a lot of the problems that we were battling in the Spring haven't really gone away, they've just been simmering this summer and when they become headlines again along with perhaps the fiscal cliff that we're facing, we could again come into a fairly volatile market environment until perhaps the U.S. elections are resolved and so I think it's a good time to continue to be in high quality companies and to have the bar bell where we own some good consumer staples and healthcare and property and casualty companies and REITS that do very well in a volatile market environment but still have good positions in depressed more cyclically sensitive companies that will come back when the economy begins to grow slightly more favorably than it is now and so we really do like a whole bunch of these technology companies like Cirrus Logic where you don't have any debt and you've got a lot of cash and you've got very strong growth characteristics in --- markets where these small companies can be dominant.

So that's the way we're positioned at the present time. I don't think that we're out of the woods yet because of all of the uncertainties out there, but I do think that perhaps once the elections are resolved that we are going to be a better footing in all equity markets and when all equity markets are in favor small cap usually tends to out perform.

Maggie Ralbovsky: There is some performance dispersion of this portfolio versus the composite, not significantly but there is some. Is there any guideline issue that may have caused that or is it just a natural dispersion? Nancy Tooke: I think it's probably just a natural dispersion. The only thing that we have not done in this portfolio, there was a hard line at $3 billion dollar market capitalization for purchase and I think that last year when the Russell 2000 crept above 3 billion there may have been a couple of companies that we had in the other portfolios that we didn't have in the Guam portfolio. The one that comes to mind when we were starting the Guam portfolio, Cabot Oil and Gas which was a tremendous winner for us was too big a market capitalization so it never went into the Guam portfolio, subsequently we took our profit in the other small cap portfolios and so the Guam portfolio looks exactly like our other portfolios at the present time.

Maggie Ralbovsky: Are there any things in the guidelines that you wish to be changed or is it okay? Nancy Tooke: I prefer the guidelines to look like the guidelines of our other portfolios in just that definition of what is small cap and so we consider for all the other portfolios something is small cap if it is at the high end of the Russell 2000 when it's rebalanced each year in June. This past June for example, the Russell 2000 the largest market cap in the rebalance was 3.3 billion. So that in our other portfolio guidelines becomes the limiting number of where we can buy up to if we're adding a new name to the portfolio. That's the only thing that I would change and if you don't feel comfortable changing it I will continue to just work around it and frankly in the volatility that we've been having in recent markets it might not hurt you that much because what the volatility does is it takes things down to extremes as well as up to extremes but when they're selling off sometimes you can get them below 3 billion whereas the buy point for the other portfolios might have been 3.3 billion.

Maggie Ralbovsky: So right now there is a definition of 3 billion absolute number, not relative to the Russell, is that correct? Nancy Tooke: I believe that's correct. Kristen Gaspar: I can look into that as well for you. Wilfred Leon Guerrero: Are there any more questions? (No.) Kristen Gaspar: I'll let you go (Nancy Tooke) and thank you for participating. Nancy Tooke: Thank you very much for your interest and have a great day.

Kristen Gaspar: We can go back to the firm, I know you always ask me if there is any litigation and SEC filings and anything like that and I can report good news that there is nothing of that nature and the SEC is in there regularly. The other aspect of that is that we're a publicly traded company so we fall under certain regulations, REG D, REG FD it's called so if we had to report anything it needs to be publicly disclosed you'll get a call from me as well as we'll publicly disclose it so there is no way that you're not going to know if something major is happening at a firm level regarding any sort of litigation. Nancy (Tooke) just updated on the firm from our perspective which we would have sent around but we recently entered a partnership with Hexavest, so we've done a few strategic partnerships (it's in here on page 3) in the past with Atlanta Capital Management down in Atlanta and also Parametric which is based up in Seattle and the way we've operated those is really looking for very unique firms that can be additive to the product line that Eaton Vance has already. There is a pretty broad in depth equity team platform at Eaton Vance so that includes a lot of fundamental equity strategies, large cap, small cap, mid cap, so forth. One of the areas that we didn't have a lot of capabilities in was global, global investing so Hexavest is a $10 million dollar Montreal based investment management firm and their focus is global equity management and they have a unique approach, so we thought it would be a nice fit. It's a little different from what we do, it's a little different from what Parametric does which has an emerging markets strategy that's had a lot of interest. How we structure the deals is we require a 49% interest in that firm so the folks that have been running that firm it's a little investment boutique, it's run by 6 senior people, there is only 39 people at the whole firm and they're going to continue to run it the way they were the day before we required a 49% interest. Where we're going to help them is the distribution network that Eaton Vance has both on a retail side and an institutional side in the U.S., they have a lot of success internationally and also in Canada but they haven't really been in the U.S. market place too much. More to come on that, it's a 5 year deal and at the end of 5 years if the partnerships working, Eaton Vance is going to have the opportunity to acquire a majority stake. For now it has no affect on your portfolio, it has no affect on Nancy (Tooke), resources, everything is completely separate from that perspective. We just wanted to make you aware of it that Eaton Vance is thinking and using their cash wisely and continuing to grow where it makes sense but not forcing growth for just growth sake.

Maggie Ralbovsky: Is this deal similar to the ones done with Parametric? Kristen Gaspar: Parametric we acquired majority, both of these we acquired majority stake from the out set, so this is one step beyond that to do a trial run scenario. The folks at Hexavest just felt like this is their baby and they weren't ready to totally hand it over which is fine with us, I think it is just a function of who's at the helm at the different underlying investment managers. Parametric when we joined with them in 2003 they had 4 billion in assets and since then through organic growth but also through this partnership they're up to 40 plus billion in assets under management, so that was a good success story, Hexavest.

Kristen Gaspar: Are there any other questions that I can answer on the firm level? (No) Wilfred Leon Guerrero: Thank you. Gerard Cruz: Thank you for your time. Kristen Gaspar: Thanks for having me.
(End of presentation by Eaton Vance)

<u>1:30pm-2:15pm Northern Trust</u>

(Start of tape 4)

(Conference call placed with Justin Miller) Robert Ernst: We're going to get started and if you don't mind at the end we'll address the securities lending part of the presentation. Justin Miller: Sounds good. Robert Ernst: Okay, great. It's a pleasure being here, thank you all for the opportunity to come back again, I always enjoy these once a year trips out to see you all.

If you turn to page 2 I have the agenda I was hoping we could try to follow but obviously would like this to be as interactive as you would like. I'm here and Justin (Miller) is here to answer any specific questions you may have, but I though what I'd do is first just a quick update on a reminder of who Northern Trust is, give you a quick look at our current financials and then talk about custody services, give you an update there, show you some recent metrics that we've put together related to your fund and then also I wanted to spend a little time talking about foreign exchange and class actions, I know certainly foreign exchange has been a topic that has been hot in the press, if you will, in the U.S. and obviously a lot of public funds like yourself have been asking questions about execution and how do we know what our managers are doing, so I wanted to spend a little time talking about that. Then we would hopefully then wrap up a review of securities lending with Justin (Miller) to review your participation in our program and to talk about a few new ideas that we would like to put on the table going forward.

Just as a reminder if you flip over to page 4, Northern Trust has a rather unique but a very focused business line that we are in. Essentially we provide services to institutional investors like yourselves on a worldwide basis and then we also provide personal financial services to high net worth individuals mostly in the U.S. but we recently started to branch out and are offering some of those services in Europe out of our London office, but essentially to these 2 types of clients we essentially provide asset servicing products which we are obviously providing to your fund and then we also provide asset management products as well. Supporting all of this activity is one single operating platform that we use worldwide so whether you're a client here on Guam or a client in London or a client in the U.S., you're using the same system, the same platform that all of our clients worldwide are using.

Currently assets under custody are just under $4.5 trillion dollars, I'm sorry, $4.5 trillion in assets under custody, assets under management are just over $700 billion. I think when we're talking about Northern Trust it's always good to remind people of some of the businesses that we're not in because I think that you'll see there a list of financial services that obviously a lot of the big money center banks have been involved in and have caused a lot of issues particularly since the crisis of 2008, but needless to say Northern Trust is in none of these businesses, we don't have intentions of getting into these businesses, we are a very focused institution in providing custody and related services to clients such as yourselves.

If we flip over you can see from an asset servicing standpoint starting at the bottom of the pyramid, asset processing, asset administration, asset reporting, asset enhancement, asset management, these are all of the types of services that we provide to our institutional clients on a worldwide basis. Certainly the safe keeping of your assets, the settlement of your trades, the income collections, that's all core to what we do and certainly core to the services that we have been providing to your fund since 2008.

If you look at slide 7, I think an interesting fact about Northern which you probably appreciate is the fact that we have been undiluted by mergers and acquisitions, we are the same institution today as we were when we were founded in 1889. That's not to say that we haven't made acquisitions over the years, but typically when we do make acquisitions they are product related acquisitions to augment and to be able to allow us to provide additional services to our existing clients, they're not acquisitions to buy scale or to buy assets, they're acquisitions to buy capabilities.

And then flipping over, just continuing on a quick view of our current financials on page 11, we continue to perform fairly well. Obviously the last few years in the low interest rate environment continues to offer institutions like ours challenges but we continue to increase our assets under custody, we continue to increase our revenue, we have been particularly successful actually here in the Asia region in winning new business, Australia is a market that we have been in for the last several years but it continues to be a high growth area for us as well as other parts of Asia as well.

I think what's important here is that we continue to be able to invest in the business, we continue to invest in our technology, invest in our people, our infrastructure and that ultimately I think is what should be important to a fund such as yours. Gerard Cruz: You have offices in Asia, don't you? Robert Ernst: We do yes, so in Asia we're, I didn't bring a map to show you where our offices are, we all have a large operations center in Bangalore, India, we have also a strong presence in Singapore where we have a client servicing office, we also do foreign exchange trading out of Singapore. We are also located in Australia, we have an office in Melbourne, we have an office in Hong Kong, we have a representative office in China, so we are kind of scattered throughout the region.

Gerard Cruz: But our account is serviced out of Chicago? Robert Ernst: Your account is being serviced out of Chicago, we set that up originally because it seemed to be, at least at the time, our understanding that it was your desire to be serviced by our public funds business segment out of Chicago so I work in a group that is responsible only in working with our U.S. public funds so obviously you look and behave and act very much like a U.S. public fund. So you are serviced from Chicago but again the servicing platform is the same whether you would be serviced there or in Asia. We could always look about the possibility, if you so desire, to be serviced more locally out of Singapore or out of Melbourne, but I think given our current servicing arrangements it seems to work well from my perspective and I don't see any reason to change.

The other benefit that we have is Ramon Valenzuela who is a name that you all recognize, he works very closely with me on the day to day activities of supporting your relationship. He also is responsible for working with the State of Hawaii, so he obviously needs to get on at the end of the day to see if anything has come in from either yourselves or our other clients in Hawaii, so I think it works well from that perspective.

Moving on, just a quick discussion on page 13 of our credit quality, we're not a huge credit bank although we do offer credit. When we offer credit to our clients it's mostly to offer a credit to those clients who are our custody clients, so typically in the corporate ERISA space where the corporate clients have their pension assets in Northern Trust maybe looking for us to do credit with them, but essentially you can see that we do have exceptionally high quality credit and very much on the low end of the range as it relates to the top 20 U.S. bank average and that has historically always been the case.

Flipping over to page 15 you can see our stock performance for the first half of the year has performed reasonably well with a 16% return in the 6 months compared to our 2 main competitors, State Street and Bank of NY Mellon, we are slightly ahead of them for the half year, but obviously again our strong financials our very strong credit quality and capital levels really allow us to reinvest in business, to reinvest in the technology and I think that's ultimately, hopefully what you see in the service that we deliver to you.

So with that and no questions there, just flipping over a quick recap on the custody services that we provide to you on page 18, trade receipt, trade settlement, the safekeeping of assets, whether they be your U.S. assets or your non-U.S. assets, the collection of income, the process of corporate actions the process of class actions, facilitating the proxy voting services that you're using from Glass Lewis and then obviously providing you with the accounting and reporting that you need in order to keep track of the performance and the accounting needs of the Fund.

We have on page 19 just a few statistics in terms of our global custody platform, we're currently operating in just over 102 markets, we are processing as you can see, 18.6 million trades on an annual basis and it's a 24 hour processing stream, one global platform that essentially operates around the clock to facilitate the needs of our clients in whatever time zone they're located.

Again on page 20, just some more statistics in terms of how we perform overall as it relates to trade settlement and collection of income and I have some specific details for your fund and a couple of pages here, but that just gives you a sense for the volume and the size and the types of activity that we're processing across the globe.

On page 21 I've listed a slide here that essentially talks about I think some of the trends that we see amongst our U.S. public funds. Some of these trends are also seen across other client bases, but particularly amongst the U.S. public funds where we kind of slot you in, obviously funding ratios continue to be a challenge, there continues to be pressure on reducing costs or increasing revenue and that's obviously one important reason where the factor of securities lending comes into play. Also from a regulatory standpoint obviously new GASB reporting, new requirements that we're prepared to assist with. So again just a few ideas there in terms of what we're seeing amongst our other U.S. public fund clients.

Flipping over to page 22 I thought it would be interesting to share with you some of the statistics about your fund that we've seen since we've been your custodian, we were hired in October of 2008. I put together some statistics here, general metrics as it relates to some of the key activities around your portfolio. As you can see the market value is up and down but glad to see it's up as of June 30th. Your number of accounts, your number of managers that you hired has remained relatively stable. If you look at your trades you can see a steady increase over the years. The interesting thing there is that one manager, Numeric actually represents nearly half of that trade volume in both the first half of this year and for the year ending 2011. In the first half of the year they had 5,200 trades compared to your total of 9,500 trades.

The other statistic that I was actually quite pleased to see is your settlement rates, you can see that we have exceptionally high settlement rates both on the buy and sale side. We typically expect to see a higher settlement rate on the sale side because we have greater control over the delivery of the assets. The buys are typically lower percentage only because they're typically at the mercy of the brokers having the stock or the bond in their possession to deliver to us, but typically higher than the bank averages as we see as a whole so I think that's good news for you.

From an FX perspective and I have more details on your FX trading further on in the presentation. Wilfred Leon Guerrero: What is FX? Robert Ernst: Foreign exchange. You can see again a steady increase both in number of trades as well as the amount traded in U.S. dollars. Income collections fairly constant over the years of about $35 million collected on an annual basis. Also there you see the class action proceeds. Gerard Cruz: These are all in dollar amounts? Robert Ernst: Yes, these are all dollars. The class action proceeds you can see that for the most part these are all class action proceeds that were collected by your prior custodian and as you probably appreciate, class actions have a very, very long tail on them and we're only now getting to the point where Northern Trust can actually start to make claims on your behalf, because typically once it goes through the court systems it's probably in a 3 to 5 year period and then once you file it's generally another 12 to 24 months before you actually receive the funds. So all, not all but almost all of the dollar amounts that you see here were collected by your previous custodian and then forwarded on to Northern Trust. The interesting thing there is that the Enron class action suits, there have been many over the last several years, as you can see represented a very signification portion of the class action proceeds that you received. Gerard Cruz: So Enron in 2009 represented 1.4 of the 1.8? Robert Ernst: That's exactly right.

Diana Bernardo: For those flowing from First Hawaiian Bank, is there a separate report online that we can pull it to get that because I think it's buried. Robert Ernst: It is buried. I did bring a spreadsheet that I can leave with you that can give you the details on those. Diana Bernardo: But it's not a separate report? Robert Ernst: Right. We can only give a separate report for the ones that we've actually collected on your behalf, but I'll leave the spreadsheet that I ran to create these numbers and you can actually see the names of the litigation items that have been collected. Diana Bernardo: I know Rosalie (Bordallo) tracks them annually but we're just wondering if there is anything. Robert Ernst: Once we finally start collecting on your behalf you can start using our traditional class action report. Diana Bernardo: Because I've seen that and I've seen maybe 2 or 3? Robert Ernst: Yes, that we've collected ourselves.

Wilfred Leon Guerrero: How are you helpful to the process of class actions? Robert Ernst: Why don't we skip ahead to page 30 of tab 5 and we can talk about class actions for a few minutes. We have a team of individuals in Chicago that are responsible for monitoring all class action events that are occurring across the market place, we subscribe to a number of different vendors who provide us with information and the details about the class actions that are going through the court systems and have settled. Once a class action has settled, we then will go through our records and make a submission on your behalf based on any sort of qualifying activity that you may have had during the last period. So as long as we had the transactions occur while we were your custodian, we will automatically file on your behalf unless of course you specifically tell us to opt out. We will occasionally have clients tell us to opt out, particularly if they are taking a lead in the class action suit and they want to file separately but if we don't hear from you we will automatically file on your behalf. Then there is a waiting game, waiting for the claim's administrator to evaluate all the filings that have been submitted and then ultimately pay the funds out on your behalf. Wilfred Leon Guerrero: How is that different from the lawyers that we hire? Robert Ernst: I think the lawyers that you're hiring potentially are looking for opportunities, if I'm not mistaken, where you can become a lead plaintiff. When we're filing on your behalf, you are just part of the general class. You need to make a decision whether or not you want to become a lead plaintiff and in some cases it may make sense and in other cases it may not, but nonetheless... Wilfred Leon Guerrero: Do you monitor the transaction to see whether there is any fraud? Robert Ernst: Not the ones that are being filed on your behalf by your attorneys, the only ones that we'll follow are the ones that we're filing on your behalf going through the traditional class period.

Wilfred Leon Guerrero: Somebody files a law suit and where you become helpful is where you see that some of our stocks are part of that law suit? Robert Ernst: Right. So a law suit will be filed, we'll learn that through the sources that we have, so we'll be tracking those through law suits that have been filed and where we really kick into action is when where the law suits have been filed and a judgment has been rendered and it has been determined that there was a class that was heard by the company and that if you own stock or have had transactions that during the class action period then you eventually you're going to be entitled to a claim and that's where we will file on your behalf. Essentially what we'll do is we'll submit your transactional information and your holdings information to the claim's agent to prove that you were affected or part of the class and then depending on how much the court ruled in terms of the settlement amount you can then share that settlement amount along with all the other investors that have submitted class action claims for that particular class action. Wilfred Leon Guerrero: And whereas in the other case, our lawyers when they are looking for the lead position, came about that position to file a law suit because they're monitoring the transaction? Robert Ernst: Right. They make the instigators if you will, of the transaction, you are assisting in that process, you're becoming a lead plaintiff in that class action. Ultimately, any other investor it becomes a true class action in any other investor once it is ruled by the courts that it was a class that was harmed by this, every other investor has the opportunity to... Wilfred Leon Guerrero: So you come into the picture once the court makes the decision? Robert Ernst: That's right. Once the law suit, the class has been settled and the rules have been set in terms of qualifying period and the types of transactions and the types of holdings, that's when we will then make the filings. Wilfred Leon Guerrero: How much do you charge for this service? Robert Ernst: That is considered part of our core custody service, so there are no additional charges that we assess. Wilfred Leon Guerrero: Do we have cases? Paula Blas: Yes. We've actually received stuff sometimes and I'll run it to Blair (Nichols), Bernstein and he'll say, "no, go ahead and make them make a claim." It's a case already, they're pursuing something else. Same company... Gerard Cruz: But just a different angle. So I think you are covered because you are using us to file for all of the class actions whatever they are, but also you're using a third party attorney, but many of the public fund clients use these same attorneys, you're kind of covered, you have the best of both worlds because what you're doing is you're ensuring maximum benefit, that you're making as many claims as you possibly can to get these class action proceeds back to your fund.

So flipping back to page 22, just one last item. So we talked about the class actions, most of the ones that did collect up until this point have been collected by First Hawaiian for those funds to us but you can see class actions filed by Northern Trust it's a slow and steadily growing number and I would expect it to continually grow as we get to the point where we have all of the records that would potentially be needed in order to make a submission because remember it's a 3 to 5 year tail by the time the courts have ruled and then the filing needs to take place, so it's a very long process before you can actually start to see the proceeds, but rest assured we're actually very active in this regard.

So moving on, let's talk a little about foreign exchange if we may and then we can turn it over to Justin (Miller). On page 24 you have a slide that just generally talks about our global capabilities as it relates more and more to the foreign exchange rate. We operate a 24 hour trading desk in Chicago, London and Singapore, we currently cover 74 different currencies, but foreign exchange trading practices, obviously a very hot topic particularly in the U.S. press as I'm sure you are aware, many U.S. public funds have issued law suits against their providers for what they perceive to be offering bad rates on their deals. Fortunately we can say that Northern Trust has not been called into any suits with any of our clients on foreign exchange trading practices, so I think we historically have operated our trading practices perhaps a little bit differently than everyone else. We recognize it's a service, we recognize that we have to be competitive, we have to earn the business of your investment managers because ultimately it is your investment manager's decision in terms of who they are going to trade with. Northern Trust as a custodian does not force our clients to use us for foreign exchange and your investment managers are free to use which ever trading counter party they want. So we very much believe it's an investment manager decision, we believe it's upon the investment manager to monitor execution and ensure that they're getting best execution, because ultimately it's going to drive their performance and hence it's going to drive their fees. They have a vested interest in ensuring that they are monitoring this activity.

If you look on page 6, you can see for the last 12 months that the 3 investment managers, that have traded foreign exchange deals over the last year, Fisher, Eaton Vance and Earnest Partners. The Eaton Vance deals are only U.S. dollars or Canadian deals. They seem to be fairly insignificant, so really the 2 main managers that you have that are trading foreign exchange are Fisher and Earnest. You can see that Fisher trades exclusively with us and likewise Earnest is trading almost exclusively with Brown Brothers. I had confirmed with Paula (Blas) earlier, a few months ago she had raised some questions about foreign exchange, we do have historically for the last several years provided time stamp reports to Fisher to allow them, to assist them in ensuring them that we are giving them good execution on their deals, so we believe that's ultimately the best way in which you can earn, an investment manager can know if they are getting best execution is if you are giving them actual time stamp reports, so we are doing that for Fisher.

For the third party deals, the Brown Brother deals that Earnest (Partners) is doing, because we're not a party to that deal we're only settling the deal, we can't be of much value in terms of time stamping, but where we can add value is the report that we are just in the process of rolling out to our clients on page 27 and you have a sample here... Wilfred Leon Guerrero: Before you get to page 27, Eaton Vance, it seems that they prefer State Street Boston as opposed to Northern Trust and it's just the opposite on the next manager, why is that? Robert Ernst: A lot of it just comes down to relationship, a lot of it is down to what foreign exchange counter parties a particular investment manager likes to deal with, I think it's typical that you would see that a manager would have a handful of approved counter parties that they're dealing with and a lot of it comes down to operational efficiency, it comes down to the relationship, it comes down to automation and the ability to trade easily with the counter party and also making sure that counter party is giving you what you believe to be is best execution. So it can really vary across the board, you'll see many investment managers with a lot of active foreign exchange trading going on in their portfolios are producing multiple counter parties, a lot of them will bid every deal out competitively, but it just depends on how that investment manager wants to structure their trading best in the trading partners that they work with. Wilfred Leon Guerrero: And this is the call of the manager? Robert Ernst: Right. Wilfred Leon Guerrero: Why are you telling us this? Robert Ernst: Well I think that it's important to know the role that we play as your custodian, but also in this case we're acting as a counter party to those foreign exchange transactions. I think it's important to note that foreign exchange trading practices and ensuring best execution has been a topic in the news particularly on the mainland over the last year or so, I'm sure Maggie (Ralbovsky) can attest to that, many U.S. public funds there has been a tightened awareness of making sure that there is a due diligence and there is an ongoing evaluation as it relates to trading to ensure that you are getting good execution on the foreign exchange transactions.

Wilfred Leon Guerrero: Help me understand what the problem on this thing is because you're talking about due diligence and I don't understand what I'm looking out for. Robert Ernst: What you want to make sure is that when your manager is buying a foreign currency or selling a foreign currency that they're doing it so at competitive rates and you're not losing money on a deal that is either outside of the days trading range or at the low or the high depending on what you're trading at. Wilfred Leon Guerrero: How do I know that? Robert Ernst: Partly you can know that by this report that I've given you here on page 27 where you can see your transactions against the Reuters range for the day and you will see you will at least have a sense for whether the deals are falling within the Reuters range for the day that's been published by Reuters. Gerard Cruz: But they only do this for your trades, the trades that are settled by what goes through you, right? Robert Ernst: No, we can do this for third party transactions. Gerard Cruz: So that's how we can check. Wilfred Leon Guerrero: So who is monitoring it, you are? Robert Ernst: No, we would give you the information for you to monitor, we would expect that potentially when you're having your investment managers here for their due diligence meetings that particularly for Earnest and Fisher... Wilfred Leon Guerrero: From What I just heard you say, they're the fox, they're the people that we should look out for. Maggie Ralbovsky: Well, their performance is impacted by it, so if they get a bad deal, their performance is punished, so they actually wouldn't be evaluating who would be a counter party to what they're doing. The whole attention on this matter was because of a couple of very high profile law suits against State Street and Bank of New York by the State of Connecticut, the State of New York, maybe CalPers as well. So what happened is that they did some spot check and they realized that all of the foreign exchange transactions they did with their custodians were executed at worst time of the... Wilfred Leon Guerrero: Who did the monitoring on that? Maggie Ralbovsky: I believe they did an audit. Robert Ernst: They would have done an audit of some sort and at some sort realized that they had foreign exchange transactions that fell outside the days range which obviously shouldn't be the case. If you're trading a currency today, you should be trading somewhere within the range and depending on how the currency moves during the day and the time of the day that you're trading will ultimately determine the range that you got. Maggie Ralbovsky: Then everybody evaluated to look to see if this illegal and they realized that historical custody agreements were set up in a way that these things aren't exactly illegal. They are not setting up as to say that, "you're my agent," but rather to say that, "you're my counter party," therefore saying that as the counter party, you have the right to make the money, right? Robert Ernst: Right, that's right.

Maggie Ralbovsky: So, I don't know for your arrangement if it is under an agent kind of arrangement. Robert Ernst: We are under an agent arrangement and we do actually clarify this in our custody agreement that foreign exchange is a service that we provide, but we are acting as agent, we are taking the risk on the other side of the currency. Yes, it is a revenue source for us, we don't hide behind that fact, but what I think what's important is that we need to ensure that if you or your managers are trading with us that we're giving you good execution. Maggie Ralbovsky: Like a fair deal. So I think that in some of those historical contracts that some of those entities had were not set up this way so the counter party was actually making a huge spread in that transaction and they would come back to, when they did the audit they realized that lose all of those trades or either the highest end worst case scenario for the client where it's actually falling out of the range for that day. Wilfred Leon Guerrero: I've seen our audit for the day and does he even talk about... Gerard Cruz: But wouldn't the managers talk about that? Maggie Ralbovsky: Yes. Robert Ernst: Yes, the managers absolutely should be and I would suggest if you don't already, when particularly Fisher and Earnest come for their due diligence, you ask them how do they manage their foreign exchange counter parties and how do they track to ensure they are getting good execution. Rosalie Bordallo: So officially we don't really have to ask them since you do almost 100% or you do 100%, Chicago and London, so Fisher if there is a problem its going to be you. Robert Ernst: Right.

Rosalie Bordallo: But who is Brown Brothers Harriman? Maggie Ralbovsky: It's actually a pretty significant foreign exchange counter party, it's another bank. Rosalie Bordallo: It's another bank? Maggie Ralbovsky: Yes, it's another bank. Rosalie Bordallo: As Brown Brothers? I've never heard of them, that's why I'm asking. Rosalie Bordallo: Are they U.S.? Maggie Ralbovsky: They're U.S., yes, they're New York. Rosalie Bordallo: Because I'm looking at your chart here and I'm wondering where do they fall in your chart? Maggie Ralbovsky: They're a partnership, they're not a publicly traded company. Brown Brothers Harriman is a partnership, it's actually one of the last partnerships on Wall Street, it's a very solid company. Robert Ernst: They're a solid company, a boutique firm, but they do a lot of foreign exchange activities. Maggie Ralbovsky: Yes.

Robert Ernst: So this new report we're rolling out, we'll be making it available it out to you fairly shortly here, we're just doing some final testing to make sure that the data that we're getting from Reuters is actually correct and once it is, it will be available and you can run it now only against your Fisher deals but you can also run it against the deals the Brown Brothers Harriman deals that are being done and it just allows you oversight and if your constituents are asking you how are you monitoring this, this is a way to show. Maggie Ralbovsky: Are these numbers flipped or are they like that? The 44 trades? Robert Ernst: Yes, because the deals that we've done are smaller ones.

Okay, unless there are anymore questions on custody, I'll turn it over to Justin (Miller). Are you there? He's out of Asia. The securities lending support that we provide to our clients in Asia is out of our London office, so Justin (Miller) has the honor of working with a number of our Asian clients, hence the reason he was assigned to your relationship to support you from a lending perspective. Gerard Cruz: It's about 5am there. Robert Ernst: Is it 5 in the morning? Justin Miller: It's about 5:15. Robert Ernst: Well, I guess I'll direct everyone to tab 6, which is the securities lending presentation which we wanted Justin (Miller) to run through with you and make sure that we can answer any questions that you have about the securities lending program that you recently joined. So with that Justin (Miller) if you want to kick it off.

Justin Miller: Yes, thank you very much. Before I start I just want to thank you for the opportunity to present today. As I'm not in the room, if there are any questions, please just interrupt me and I'll answer them as they come up.

Looking at slide 34, what I thought we'd do is look at an overview of the program and I'll give you a brief rundown of what securities lending is just in case you have any questions. I'll look at your performance since you've joined in late 2010 and then finish up with a proposal of ways to generate more revenue.

So flipping to slide 35, I want to talk briefly about what securities lending is. Securities lending is effectively a transfer, a temporary transfer of your securities to a borrower, whereby the borrower wants to borrow the securities for any number of reasons, whether it's a settlement related issue they have on the other side, they may have a client that has a particular view on the security or there is an arbitrage opportunity. This process is fully collateralized on a daily basis, we mark to market to ensure that you have sufficient collateral and by that I mean at least 102 or 105% of the market value of the loan security, so you do have you collateral, you are receiving income for this and we'll go over that in a few minutes. Northern Trust acts as your agent, so we are matching up the demands with the supply of the Fund.

Looking more specifically at slide 35, at the end of June, we had 358 clients participating in the program and these clients represented $645 billion or there abouts of lendable securities and we had $91 billion out on loan. Generally speaking, we will average any where from 10 to 20% of securities out on loan at any one time and each client's participation will vary on the type of assets they have in the program or the type of collateral that they're willing to accept.

We are trading in 50 markets worldwide, that's a combination of equities and fixed income, with the U.S. being the largest market in the world, it is also our largest lending market. We started in the business in 1988, so we have been in it for quite some time. Our trading desk, or our trading desks I should actually say, are located around the globe, so our day starts in Hong Kong, we passed the book over to London and then we pass it finally over to Toronto and Chicago and when Chicago ends their day that's when our Hong Kong team is getting in. So we're operating on a full 24 hour trading desk.

We have 42 different borrower parents approved in the program and you can see some additional statistics down below that I'll go through briefly in a minute. And then finally from a collateral perspective, because we have $91 billion out on loan, we have $92 billion or there abouts of collateral, so you see that we have more than the market value out on loan.

So in talking about our counter parties, I think the most, not interesting, but the most important change to note is what I presented to the Board last time, the ratings of the counter parties are very different and as you have no doubt seen, the rating agencies have taken a different view on banks and those are our primary counter parts, where they have lowered their rating requirements for these banks. So, currently speaking about 21% of our 42 borrowers or there about 8 or so, have a double A minus rating or higher, 6% of the borrowers have single A and bout 2% have triple B plus and that 2% they're actually Nomera and they're an important counter part from a Japanese equity perspective.

Looking at the top 10 borrowers, they represent from anywhere over the course of the year from 75 to 85 % of all of our lending activity and you will recognize all of the names there, but they are the large banks, the large broker/dealers of the world. Should the Fund or any one of our clients for that matter want to restrict certain borrowers, we have that ability either from a total restriction perspective or from a lending cap perspective and we can implement that on the system should that be a priority for that fund.

If we flip over the page to slide 36, I just summarized the performance of the Fund over the fiscal year 2012, 2011/2012. As I mentioned, the Fund started participation in the program in November 2010, the collateral that we accept for any of our loans is U.S. treasuries and U.S. treasuries alone, that is the most conservative type of collateral that we could accept in the Fund.

Since inception you see here that your participation has generated $446,000 dollars back to the Fund which is very good performance from my perspective. The fee split is 70/30 whereby the Fund receives 70% of the income and Northern Trust as the agent receives 30% of the gross revenue. I will go into the details of what generated that revenue, but as you can see your top 10 securities generated 48% of the total revenue which traditionally that's right in range of where we would expect a fund to be, you generate most of your revenue in the top 10 to 15% of the assets that go out on loan. Of that 48%, special activity or assets that come in high demand whether it's a merger and acquisition such as Glencore in the UK or Kinder Morgan for example, which was a big merger in the U.S. which has just gone through back in May, those type of assets generate a significant amount of earnings.

Finally for the Retirement Fund, yield enhancement trading generates a majority of the income and by yield enhancement I mean where there is an arbitrage around the Fund's underlying tax rate for an asset in say, Germany or France. The ability that we have to extract additional value is what we consider yield enhancement through dividend arbitrage.

Before I continue are there any questions? Wilfred Leon Guerrero: This $446,000 dollars that was generated, what was the value of the security that was loaned? Justin Miller: On average over the first, I think it's 10 months of the year, we have had about 15 to $16 million dollars out on loan of the lendable base that we see on average about $950 million dollars. That's the report that I have available and you have available as well through Passport. Wilfred Leon Guerrero: Okay, so this was generated by about 15 to $16 million dollars, right? Justin Miller: That's correct. We loan out at any one time if you look throughout the year, the Fund would have on average about $16 million dollars of securities out on loan which represents about 1.7% of what is actually lendable. When I say lendable, I mean stocks and bonds. If you have an investment in a pooled fund, we cannot lend those securities, we lend purely stocks and bonds. So from a revenue perspective, by lending out a very small portion of the Fund, 2% or there abouts, you've generated $446,000 of income coming in to the Fund which is a fairly good return from my perspective.

Wilfred Leon Guerrero: Do we have a cap on how much we can loan out? Justin Miller: Not currently, but it is something that could be put in place should you want to put it in place. Robert Ernst: Can you check that because they think that we have set a cap of $300 million? Justin Miller: Okay, one second if you can just bear with me I will pull it up on my system. While my system is loading, if there aren't any other questions, I'll continue and just come back to that point.

So looking at slide 37... Wilfred Leon Guerrero: You've been giving us the wrong page. Robert Ernst: I think you're 2 pages off for some reason. Justin Miller: I'm sorry about that. Robert Ernst: That's alright. So the net earnings slide is our page 39. Justin Miller: Okay, sorry about that. Slide 39 it should say, "Performance Summary (Net Earnings). So what we've done here is I've run a report that shows the Fund's earnings over the 2 fiscal years that you have participated in the lending program and what you'll see is a nice increase from 2010 fiscal year to 2011 fiscal year where in 2010/2011 we generated a net income of just over $200,000 dollars to the Fund and now for this fiscal year that revenue has actually increased quite substantially to $241,000 dollars and you can see that the primary driver of the additional income has been the U.S. equity portfolio. There have been a few securities that the Fund holds that have been in quite high demand over the course of the year and these are as I mentioned earlier, Kinder Morgan, it's an energy company that was going through a merger and as a result of that merger there were arbitrage opportunities, there was question around whether or not the merger will go through and it was quite a drawn out process. That merger actually closed in May but throughout the course of it, we were averaging any where from 10 to 20% in terms of lending fees associated with that merger.

The other top, and I'll come to these on the next slide, MolyCorp and ColFax in the U.S. were also merger related securities. When these mergers come up they're often are a strong generator of potential opportunities of potential income.

The Fund as I mentioned earlier, generates a significant amount of the earnings through what we call yield enhancement trading or dividend arbitrage trading. In April and May is when you actually see the largest spike in income and that is primarily associated with what's called European dividend season where many of the European companies pay their dividends and in April and May in this year, 55% of the revenue or $132,000 of the $241,000 dollars that was generated. This is a very seasonal flow and it is expected to continue. The only way that revenue will tail off is if there are new tax treaties or basically new tax treaties put in place between Guam and the respective country of origin of your equity holding.

If there aren't any questions I'd like to ask you to flip to slide 40 which is a brief overview of the top 10 earnings. As I mentioned before, MolyCorp and ColFax are your top 2 generators, they've generated roughly speaking, about 13%, I'm sorry, about 20% of the overall revenue. The rest of the top 10 securities from BASF down to AXA excluding the ADR Mindray, these are yield enhancement type of trades that I've gone over previously. The strongest markets in terms of revenue for you, the United States has been the strongest in terms of net revenue and that's primarily because of mergers and acquisitions that have occurred but the also Germany and France around yield enhancement tradings.

Are there any questions around this type of information, the top 10 earnings or should we move on and look at collateral? Wilfred Leon Guerrero: You can move on. Justin Miller: Okay, great. Thank you.

So just briefly looking at slide 41, I wanted to show you who you are lending to and what type of collateral you're taking. If you look, a majority of your loans, over 50% are out to Credit Suisse and this is as of the end of July. I know I mentioned earlier on average you had about $16 million, as of the end of July you had roughly $11.5 million, so this number will increase and decrease depending on time of year. The collateral as I mentioned before is and will be in U.S. treasuries, that's what you permitted us to take in as collateral and that snapshot is just showing that yes, it is all Government U.S. related securities.

If I may ask, if you could flip to slide 42, we did an analysis of the portfolio in order to present opportunities to increase the revenue should you want. So looking at this slide on the left hand side on the very first column, U.S. treasuries, this is what we project the Fund will earn over the next 12 months and we're projecting just under $400,000 U.S. dollars, that's if you don't make any changes whatsoever to the program. What we would like to propose and what we are proposing is that you look to expand that collateral and this is primarily because in the new world that we're operating in borrowers are looking to reduce their cost of being in this business and in order to reduce the cost of being in this business they are looking to reduce the cost of the collateral that they're pledging.

So U.S. treasuries believe it or not, are the most expensive form or it is the most expensive form of collateral for a borrower to pledge. Treasuries hold a significant amount of value in terms of collateral throughout the financial industry and to use this collateral in the securities lending business may not be an optimum use of those treasuries for our borrowers, so they are looking to pledge additional sovereign debt so primarily Germany, France and the UK, Austria, Finland are other examples as well as equities, so we're looking at S&P 500, Russell 1000, German Dax 40, a number of other type of indices. So that second column is where we're looking to extend the Fund or extend the acceptable collateral to a full sub-set of OECD Government debt, plus treasuries, plus equities.

Now this type of collateral is and would continue to be covered by the indemnification parameters that are set forth in the agreement in the event of a borrower default and by expanding, the Fund would look to generate, we would expect to generate approximately $435,000 U.S. dollars per annum. That's an increase in terms of gross basis points but return of .6 basis points, so that would be a direct increase for the Fund. Now from that point on, we're looking at the Fund to take in cash collateral and cash collateral has additional risks that I wanted to highlight to you. Effectively what we would do is we would expand the Fund or we would look to expand the acceptable collateral in U.S. dollar cash and this would be important primarily from a U.S. equity perspective as well as a U.S. fixed income perspective. These 2 asset classes, generally speaking, are lent against U.S. treasuries and historically speaking, about 90 to 95% of all U.S. trading is done against U.S. dollar cash. Now as the Fund is primarily weighted toward the U.S., there seems to be a very nice match up of what the Fund holds as to what borrowers want to pledge. Should the Fund be willing to expand to what we call our basic collateral section, this would be a pooled vehicle whereby you would take in dollars and investments with other additional clients of ours, you'll see a significant increase in the potential earnings.

As I mentioned before, there are risks to be aware of, there are primarily 2 risks that come out of this would be what we call cash collateral re-investment risk whereby the assets that we're investing in there is always a potential as you have no doubt seen that the issuers of the debt could face financial difficulties and there is always a chance that the investments don't keep their full value as you undoubtedly know. The 2nd risk is around interest rate risk whereby if the interest rate that we agree with the borrower cannot be met through the re-investment of cash collateral, there is a risk that there could be negative earnings. In terms of interest rate risk, Northern Trust shares in that risk, however in terms of cash collateral re-investment risk it's generally market practice that's investment risk and that risk fits with the Fund. If we look at the basic collateral section. That risk is in terms of re-investments of cash collateral are the conservative side of re-investing cash collateral. To give kind of an overview of where this fund trades versus the next fund that I want to talk about, Core USA, we project and we earn, generally speaking, Federal fund effective in the U.S. plus 4 basis points, so on any cash that we bring in we earn Federal fund effective plus 4.

The last collateral section that I wanted to highlight as an opportunity is the Core USA collateral section. This is our largest fund, it has roughly $21 billion dollars of cash collateral in the fund as of the end of June. This fund generates approximately Fed fund effective plus 12 basis points. So that is generally speaking where you look to increase your revenue and you can see on this page from the non-cash all the way to left to where we project roughly $390,000 of gross income, the Fund could generate $800,000 of gross income should you introduce cash collateral through Core USA.

Before I continue, I just wanted to stop here to ask is there are any questions to see is this a realistic possibility? Wilfred Leon Guerrero: I have to tell you, you're speaking way over my head, I don't even know what OECD is, what does that mean? Gerard Cruz: Those are just large developed country debt. Wilfred Leon Guerrero: What does that stand for? Justin Miller: It's the Organization of Economic Development. Gerard Cruz: On the cash collateral, can I ask a question because I think that's where you're kind of pointing us to or at least that one you're making a case and the case I just want to make sure I understand the additional risks because those risks don't exist on the non-cash basis. So for collateral re-investment risk is that you agree with the counter party, you agree with the interest rate that you're going to pay and if your investment vehicle doesn't achieve that rate of return, you and I share in the difference? Justin Miller: That is correct, in terms of the interest rate risk, yes. Gerard Cruz: So in that case, so in that instance the indemnity agreement doesn't apply? Justin Miller: Correct. Gerard Cruz: In the case of the interest rate risk, we bear the full risk of that? Justin Miller: We bear the full risk of the re-investment, the principle of the re-investment. If we buy a commercial paper from say, General Electric... Gerard Cruz: Okay and General Electric from the time that you hold securities and something happens and they're no longer a security, we bear that risk? Justin Miller: Yes.

I did include, if you wanted to look at in more detail, a snapshot of the different funds that we're looking at here. Core USA and Basic (Collateral Section) are in slide 47 and 48, it's a snapshot of what the fund looks like as of the end of June. Gerard Cruz: On the program option that included sovereign debt, U.S. debt and equities, under that collateral program relative to the sovereign debt issue, would we be able to remove certain countries? In other words, if we don't want sovereign debt for one particular reason, could we narrow the range? Justin Miller: Yes. To start off, if you were to stay in the non-cash, we would continue to operate a custom fund for you whereby you can select the type of collateral that you want. The way that we have relationships with borrowers is that we operate in basically collateral sets. The primary set that we would like to turn on is what we call the EMU triple A set or now it's EMU double A minus after some of the down grade that has occurred, but the countries are Austria, Finland, France, Germany, the Netherlands, the United Kingdom and the United States. They form what I mentioned was the EMU that was triple A, now double A minus collateral sets. Gerard Cruz: Do we bear any credit risk in the way of the countries for whatever reason... Justin Miller: The indemnification that we have in place with you would not need to be change. If the borrower goes into default, we would liquidate the collateral and repurchase your securities. Should you expand to the sovereign debt, plus equities, we would still liquidate the collateral and replace your securities. You have what we call our enhanced indemnity and my lawyers would not be very happy with me if I give you any advice about your indemnity, we would direct you to your lawyers as well, but basically what it means is that in the case of a borrower default or filing for default, we would liquidate the collateral and put you back in the same position you were prior to the default. Gerard Cruz: Okay. For the non-cash programs, even if we moved to the next less risky or less conservative program I should say, the enhanced indemnity agreement would still apply, the only program where it won't is if we start moving into the cash collateral programs? Justin Miller: That's correct.

Maggie Ralbovsky: How about in the case of the OECD, the same case, when you have the equity, what I heard you say is that you sell the collateral and buy into the position with the collateral proceeds. In the case of equities there is obviously a chance that collateral will drop in value, so does that mean that the indemnification does not cover that portion of the market loss? Justin Miller: That's correct. Now, the important thing about equities is that we aren't looking to take equities against fixed income securities first of all, which therefore when we take in equities we're going to be taking them in against other equities and there is a good correlation between the movement of equities in Germany versus the movement of equities in the U.S. and the best case that I would look to is what happened to the Lehman Brothers default situation.

We were taking some debt from Lehman, we were taking equities from Lehman. What we found was over the 2 to 5 days after the borrower went into default, 95% of our client securities were purchased back and then the subsequent 5% of securities were purchased back over the coming day, but none of our clients lost any money as a result of the borrower going into default. The collateralization process that we have in place and continue to have in place works and we've had a very recent live stress test of the process. Gerard Cruz: Right. And those are in the cases where the collateral was something other than cash? Justin Miller: That's correct. It would have been Government debt, it would have been equities primarily. Gerard Cruz: I understand, I understand in those instances. I think it's just important that if we're moving to a different collateral program that we understand that there are going to be risks and that the potential revenue numbers are not going to come, the increase is not going to come with some form of additional risk, that's all the point that I'm trying to put on the table. Justin Miller: Absolutely and you're asking the right questions and should you want information following this meeting, I can certainly provide that to you. Gerard Cruz: Okay.

Robert Ernst: The other thing that I will add is that if we look across our U.S. public fund market, nearly all of which still are participating in our lending program, almost all of them, at least in our client base are going to be in the Core USA collateral section. If you were to compare yourself to what I would define as your peers, being U.S. public funds, a majority of them on our client base are going to be in the Core USA collateral section. Gerard Cruz: Okay. The reason why we moved to the conservative extreme was because of initially, not a full understanding of how the securities lending program works and our Chairman enlightened at one conference. Maggie Ralbovsky: Well there was a real risk in 2008 when the collateral pools were locked up because of the issue so there is real risk. Don't you also have a law suit on the table with L.A. County? So there is real risk out there. Gerard Cruz: Right. Robert Ernst: There is and I think that Justin (Miller) can attest to this better than I, in 2008 that was an unusual financial situation.

If you look across are client base, the clients that participated in lending in cash collateral, none of them lost any money if they were participating in the Core USA. Maggie Ralbovsky: They just got locked up. Robert Ernst: They got locked up, but we made them whole, we made a contribution to their fund to offset the losses that were incurred and we enhanced a lending split for a 12 month period so if you look across those clients, none of them actually lost any money. Maggie Ralbovsky: But they were locked up. Robert Ernst: They were locked up. They could not exit the program if they wanted to.

Maggie Ralbovsky: Then what is the case for L.A. County? Robert Ernst: I'm not familiar with that situation, so I really comment on it here. I don't know what the situation is. It could have been invested in a more aggressive custom collateral fund that had different investment options that were more risky. I think that could potentially be the case, but again I can't comment on it.

Justin Miller: If I can add a little bit, as Bob (Ernst) was saying, as a pending suit we wouldn't be able to divulge anything even if we were privileged to the information. What I can say is that they are actual clients is not the party to the law suit, the law suit was brought by the state's attorney's office, it was not brought up by our client and again, I can't comment because I don't know the full details of whether or not the client lost any money as a result of it. As Bob (Ernst) was saying, Northern Trust at the point of distress back in 2008, we made relationship gestures to our clients and actually paid back past

earnings to clients that were impacted through the cash collateral investments. I can't sit on the phone and say in every single instance if that were to happen again Northern Trust would make the exact same decision, but Northern Trust is a client driven organization and should that instance come up again, obviously the times may be different, but we are a client driven organization, I think that's to the extent of what I can say. I can't promise that we would do that again, but as being client driven, we would look to help.
(End of tape 4)(End of presentation by Northern Trust)

Respectfully submitted,

for **STEPHANIE A.H. LIMTIACO**
Recording Secretary

Affirmed:

WILFRED P. LEON GUERRERO, Ed.D.
Investment Committee Chairman