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Defined Benefit Plan
Quarter Ended September 30, 2012
Performance Meetings & Annual Manager Reviews
 November 28, 2012
 Retirement Fund Conference Room

Board of Trustees Present:

Joe T. San Agustin, Chairman, Board of Trustees
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 Gerard A. Cruz, Trustee
 Katherine Taitano, Trustee
 George Santos, Trustee

Staff Present:

Paula M. Blas, Director
 Diane Bernardo, Controller

Other Present:

Maggie Ralbovsky, Wilshire Associates

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Intech	Pages	21 - 35
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10:00am – 10:45am Economic & Capital Market Environment

Wilfred Leon Guerrero: That's because we listen to you. Maggie Ralbovsky: I can't take that credit. Wilfred Leon Guerrero: We want the same return for this fiscal year. Maggie Ralbovsky: Cannot take the credit for that and if it market drops I also can not take the blame for that. Paula Blas: It works both ways. Wilfred Leon Guerrero: Now you're talking like a lawyer. Right Now you're talking like a lawyer. Paula Blas: Yeah we went north so we're in good shape. If it went south we would be saying it's not my fault. Wilfred Leon Guerrero: we are praising you. We're on our knees giving you kudos and what have you and how come you don't want to take it? Because Maggie Ralbovsky: because it's not going to happen every quarter. Wilfred Leon Guerrero: but I do have a, I do have a request, can you please make sure your report matches our fiscal year, the fiscal year is from October to September Maggie Ralbovsky: I think we, yeah. Paula Blas: yes, I did ask that from the last time and I think that's what the. Maggie Ralbovsky: oh the big book. Probably did the big book. The big book has that so we do have yeah the one year for this quarter. I definitely will have them add that to this book too for fiscal year. So for this quarter it happens to be the one year. So they did add that to the big book I want to add to this book to so.

Maggie Ralbovsky: Have we started the record? Have we started ok. Ok well as the chair indicated we had a very good quarter. Actually it's not just a good quarter for the US it's a good quarter around the world everywhere risky assets rallied. Wilfred Leon Guerrero: the market itself...Maggie Ralbovsky: The main reason for this rally are three fold. Number 1 is that for the U.S. the Fed had initiated something called QE3, that's quantitative easing number 3. The third round of quantitative easing. What it actually means is that the Fed is printing money every month, it prints about 45 billion dollars every month that's on top of the twist if you remember they also have this operational twist which they have been recycle their old mature bond to continue to buy long term bond and on top of that we also started the printing program of additional 45 billion dollars a month to buy mortgage back securities to support a housing market and that's why the mortgage rate keeps dropping the housing keeps getting better and also the extra liquidity in the market place has to go somewhere to buy something and basically is spurred buying of all kinds of stuff in a financial market.

Maggie Ralbovsky: However I passed along a chart that looks like this. The reason I want to show you this chart is to show you the diminishing, diminishing effect of QE's. OK so what this chart is that..Wilfred Leon Guerrero: What is that QE? Maggie Ralbovsky: QE is quantitative easing and that is fancy name to say printing money. The reason the feds need to print money to buy bonds directly is because we are out of option to lower interest rate. Interest rate is already at zero so traditionally when the fed wants to stimulate economy it wants to increase money supply in the system and the way to increase money supply in the system is to lower the interest rate by basically buying short term security when they buy they circulate money into market place but because they don't have that option anymore that's called open market

operation historically called that name but we are out of that option because interest rate on short end is zero. So what they have done is creatively created something called quantitative easing which is essentially outright printing money to buy longer term bet and they are targeting mortgage back securities.

So for the QE1 you can see this was initiated right after Lehman went under and that has made the market rally about 100%. So that was the effect of QE1 very very traumatic because market was starving for liquidity. Now after that when QE1 expired, which we remembered it was at the beginning of 2010, at the beginning of 2011. Then you can see the market started to drop, economic activity started to falter so the feds felt they needed to do QE2, so that's what they did.

They did QE2 and you can see the market probably rallied about 50%. Much less than the first round. Now dejavou happened again. This year when the economic indicator started to falter on the QE3, and so you see QE3 is the last section of this rally okay the first part of this rally is a combination of operation twist and LTRO. LTRO is the European refinancing program, so it's the European QE basically. So our QE is the last stretch the market probably rallied like 20% which is running out of steam already. The essence of this is that QE is buying time for the policy makers to come up with something to fix the real economy.

QE is not something that you can continue to do and still get results. Results are diminishing. Every round of QE you get less less of a response because there's already a lot of liquidity in the system. You print more money the liquidity only doesn't get as much further as the previous QE rounds. However at this point it is the consensus that the Fed is going to have a QE4 next year, we already are forecasting that.

Because of the fiscal cliff which I am going to talk a little about a little later about fiscal cliff. And fiscal cliff is going to create a condition for the fed to continue the QE so that's the situation, that's number 1 reason the market rallied. Number 2 reason is also on this chart it's called "Draghi_speech", Draghi speech on the chart can you see. They also make the market rallied. Now who is Draghi? On this chart can you see under QE3 that's Draghi. Draghi is the president of European central bank and Dr. Mario Draghi and the reason his speech was so important because it is a turning point of the policy.

Historically European central bank has been in tandem step with Germany and Germany is a very physically conservative has a very physically conservative philosophy and that was based on their experience during after, during the second world war actually before the second world war when their economic condition was weak that was actually during the great, great depression when economic depression was very weak they started printing money very very aggressively and spurred a huge, huge inflation and that was the reason where Hitler actually eventually arised because there is so much discontent in the society a lot of suffering so that was a very painful experience for Germany so ever since second world war Germans have been very disciplined in physical policy really would not spend out of their means, print money

just to in their view to encourage bad behavior and during this crisis of the European union the southern European nations have been spending out of their means and they basically are you know borrowed it's a different culture.

The Italians, the Greece the Greeks they basically spent money that they don't have and Germany was against saving them unless they commit to austerity. Now that policy has been going on episodes of crisis after crisis until this past June, Draghi saw that it's not going to be sustainable because the market is actually betting the European Union is going to break up. If you recall last quarter we're sitting here we talk about terrible, terrible second quarter because the market was broadcasting Greece is going to pull out, something's happening in Europe, some sort of a tragedy. So then Draghi decided to break with Germans, he came to the market he said we are going to do whatever it takes to save the European union, which includes outright buying program, another acronym they created called a DMO Direct Market Operations, which is basically like QE, they print money directly buying Greek debt, Spanish debt and Italian debt. So that is the Draghi speech and that's why that's the second reason market become very optimistic because they think okay the European union is going to somehow create a lot of liquidity.

Now the third reason the market was very happy in the whole world was because of China. China had this once every ten year change of leadership. It is a huge event. It is very important for them to make it, make the social fabric to be I guess happy and calm. And China was experiencing a lot of issues of higher inflation and lower export. People were forecasting something called the hard landing. Now, before this once in every ten year event, China has announced a 700 billion dollar stimulus program, which made the probability of hard landing decrease. That's the third reason because of China's stimulus.

Okay, because of these three major reasons pretty much every asset class had a rally and guess what's best performing asset for the second quarter. It was Greece equity. Greek equity rallied 70% during the third quarter. Greece and Greece debt rallied 50% during the third quarter because of the Draghi's commitment to save them. So that's why later on you will see our international managers actually underperform because they didn't really put a hold. And fixed income market also rallied because the fed is buying debt and lower interest rate.

So everything was good everything was great for the second quarter. Third quarter I'm going to show you some returns in the later pages but before that I want to tell you something about fiscal cliff you probably have heard it on the news and all that and that is also the reason people thinking of QE4 is coming and that has a lot of implication next year. What is QE4? What is Fiscal cliff? Remember last year in August when the U.S. was hitting the debt ceiling, republicans and democrats were negotiating on how to reduce their our countries long term deficit so that we can increase the debt ceiling but not unlimited and not unconditionally and they couldn't agree on anything so what they did was a conceptual agreement and so okay we're going to have one and half years to work this through and if we do not have anything

done lets have this automatic program to have certain taxes, certain tax relief expiring and have certain spending being cut so that automatically we balance our books.

Now that is a very drastic threshold. They didn't expect that for the past year and a half nothing happened. Nobody was intending for fiscal cliff to happen they just have to agree on something so they can raise the debt ceiling, but as we are standing today, it's a year and a half later and nothing happened so we are facing this real possibility of a cliff and why it is called a cliff. I also have a chart to show you and the chart looks like this. This is why it's called a cliff. And this is the fiscal stimulus. Starting from twenty, 2001 so you see that the previous recession we had 2003 there was a surge of fiscal stimulus and then in 2008 we had a huge fiscal stimulus. And all that is going to go all the way down to a negative drag and that's why it's called a cliff. It's like a Grand Canyon cliff.

So the net effect, so I have a few pages here on details you can see what other taxes asking to be increased on page 5 and what other spending that's going to be cut on page 6. So the net effect is that if nothing is done. The drag on GDP is going to be 4% so this whole drop of fiscal stimulus is going to be 4% of GDP and GDP growth in the past quarter was 2%. So if this whole thing happens we are going back into recession with a 2% negative GDP growth.

If the best case scenario will be that they extend the so called Bush era tax cut and avoid most of the suspending cut. In that kind of scenario we're still going to have the 1% negative drag on GDP because there is the Obama affordable care act provision of 3.8% of additional tax on the upper income level.

Wilfred Leon Guerrero: Here's the thing. One of the things that is going to happen is that the tax are going to go up and the reason why that's bad is that businesses will not invest or expand because of the high taxes right? Maggie Ralbovsky: okay, go on. Wilfred Leon Guerrero: I guess what I don't know, I'm not, I'm puzzled about is what do people do with their money if they don't invest, reinvest? Maggie Ralbovsky: well when they say they don't want to reinvest it means that for example for the affordable care act, every person you hire you have to buy insurance for them. Wilfred Leon Guerrero: okay. Maggie Ralbovsky: And that's not something people do right now for small businesses. Like you know even some large businesses like fast food places you know so they...

Wilfred Leon Guerrero: Okay, but they are not doing it now right because the pending situation right? Maggie Ralbovsky: so they are just going to say you know hiring one person is going to cost me a lot more therefore I am not going to hire a person if I don't have to, I can just improve my technology, make it more efficient. That's why the productivity is increasing which makes the businesses actually more profitable without hiring any more people which doesn't solve the labor issue. And with regard to people paying more taxes, well if you pay more taxes you have less money to spend right so then there's less for consumption so on grand total level the spending cut will impact GDP growth. Does that make sense?

Wilfred Leon Guerrero: In other words Maggie, what you are saying is not only are the corporate people going to be hurting because their taxes are going to rise but also the individual, so that means our disposable income is going to go down as well. Maggie Ralbovsky: there is also a 2% hit to everyone. That's the payroll tax increase. So right now people who pay social security. Wilfred Leon Guerrero: Here's the thing Maggie. Joe T. San Agustin: I hope these people don't pay taxes that's going to roll back, that the reason.

Maggie Ralbovsky: So there's different paths that Congress could take, the best case scenario is going to be 1% drag on GDP. The worst case is going to be 4% drag on GDP so there's all kinds of thinking between that could happen. So basically there's going to be a drag on GDP and we have a 2% GDP right now. Best case scenario bringing us close to 1%. Joe T. San Agustin: will you think the market will be stalled.

Maggie Ralbovsky: I think the market is really nervous right now to see what the congress is going to do.... Joe T. San Agustin: would it be stalled Maggie Ralbovsky: I think next year lot of forecast with next years market is probably going to grow by 5%. It was a very minimal single digit growth. That's sort of the consensus. That's also assuming the European situation don't get worst right because there's a lot of reason to believe it may get worse. People are expecting December 15 to be the day for Spain to formally request a bail out. So if that happens that's actually good that means their actually going to solve the problem or deal with the problem. If they don't request it then the market is going to be spooked. So there's a lot of uncertainties in the market. Joe T. San Agustin: China market is not going to be affected more than the Euro market. Maggie Ralbovsky: China did you say China? You see China is hard to say because the government control so much it's not so market driven. So if you just use all the fundamental indicators to say this and that. It's hard to predict it, eventually I do think fundamentals will prevail, but China market has been selling off for years. China, I think it was one of the worst performing countries this year. So probably evaluations so cheap at the point that you have support. I kind of think that China is probably going to model through next year.

Joe T. San Agustin: Talk about Emerging markets investments. Maggie Ralbovsky: Investments? I think our emerging market investments is going to model through. It's probably going to be okay next year. I think, Joe T. San Agustin: you would have thought that reverting to domestic, the Obama election to bring back domestic, manufacturing in China losing a lot of manufacturers Maggie Ralbovsky: even if that is true, that does not mean that stocks are going to be impacted in that direction because the market probably already discounted that information. So I think when we make a decision based on macro issues you could be making and assumption to say that that information is not being discounted in the market yet and that is assumption that we can not make. So, I do think the global approach is the correct one because being the market opportunities points to that way and that's the direction we should keep. Okay so bottom line...

Wilfred Leon Guerrero: No, no, no I still don't understand this thing. If we experience this fall this cliff, what taxes are going to go up, what else? Maggie Ralbovsky:

spending is going to be cut which means mostly defense spending here. Defense and also the entitlement program, you know the unemployment, the unemployment benefit. Joe T. San Agustin: but they haven't determined the cut how is the cut going to be like social security...Maggie Ralbovsky: Medicare...Paula Blas: even like GHURA is going to get cut, housing is going to get cut...Joe T. San Agustin: its upon availability of funds...Maggie Ralbovsky: yes a lot of social programs is going to get cut, so you going to basically reduce the money that is available in the entire system which will mean that money has to come out from somewhere to fill these hole which means economic activity...

Wilfred Leon Guerrero: How about interest rate? Maggie Ralbovsky: Interest rate will not go up because interest rate is controlled by the Fed and this is about fiscal. That's why I'm saying there's a forecast of QE4 because of this fiscal issue the fed is on the side to make sure we also do not have a monetary issue because you have both of those issues then it's going to be really, really terrible so I think there is a possibility Bornanky is going to resign because there is a possibility Bornanky is going to resign but because Obama is on board for the direction that our Fed is taking it is possible if he resigns the replacement will be on board for the same sort of philosophy. Had it... Joe T. San Agustin: Who is resigning? Maggie Ralbovsky: Bornanky. It is possible, there's talk that he might but that's not to say he will or but there is talk that he will...so had it been Romney to be the President it is more likely that the person who succeed Bornanky would be a person not on board but now because Obama is there its very very...Wilfred Leon Guerrero: okay the federal spending in terms of the economy, is that the elephant in the roof? Maggie Ralbovsky: well it is not. The U.S. GDP has 70% because consumers spending however, all these government spending like the government spending flows into income to individual that makes a large part of the consumers spending because the fiscal all this fiscal stimulus money basically goes into the social programs, unemployment for example unemployment benefit in the U.S. right now is 99 weeks. Right you can get 99 weeks of unemployment so these people there's millions, 20 million people who are unemployed and they get these checks, they spend money , so if this gets cut off obviously its going to impact the consumers spending which is a huge part of the GDP. So, basically if you take this money out of the system you are hitting the consumers spending.

Joe T. San Agustin: Taking money out of the system in the form of what? Maggie Ralbovsky: in the form of, flow through payment, Joe T. San Agustin: yeah but the system, the money, you are actually going to restrict the flow of money through the system. Maggie Ralbovsky: so people have no money to spend. Joe T. San Agustin: because it's going to be stored back to the original tax bracket, all that did is Obama maintain the cut, now all that is to restore back all what they had, the Bush administration what they have been taxed less. Maggie Ralbovsky: Right that's only going to be \$200 billion. Joe T. San Agustin: that's money now will be taken out in a sense and is given to the top ten 25% wealthy people. Maggie Ralbovsky: well you know there's many many different...Joe T. San Agustin: I know, I know I'm following the scenario, 10-12% wealthy people, have to have access. Maggie Ralbovsky: Okay so let's say the Bush tax cut let it expire, that \$221 billion okay we have 16 trillion dollars of deficit. So you can tax all the wealthy all you want, it won't solve the

problem. Joe T. San Agustin: where's that money going to go? That money's going to go broad. Now the wealthy is going to be holding up. At least for the immediate impact because there's no employment. The funds they used to be paying their taxes is high. Let's say the dividend, the dividend rate, it was reduced. Maggie Ralbovsky: Reduced to 15% now it's going to go back to 20. But all these Bush tax cut is 200 billion dollars...Joe T. San Agustin: Is that affect too much of that? Maggie Ralbovsky: No it's not its make small dent. The GDP is 13 billion, it's 13 trillion. Our deficit is 16 trillion so all these things add up obviously. Joe T. San Agustin: I just wanted to get all these numbers down, they are all relative now... Paula Blas: They didn't get here overnight so...

Joe T. San Agustin: They are all relative now so, Maggie Ralbovsky: that's right, that's right. So basically we have this issue to deal with and best case scenario is 1% drag, so. Joe T. San Agustin: What is our perspective, as far as, the Retirement Fund? Maggie Ralbovsky: we need to get our law passed, we need to get our law passed, that's our focus, and I want to get it done. Joe T. San Agustin: What law passed? Paula Blas: the amendments. Joe T. San Agustin: I'm talking about the fiscal cliff, immediately what is the impact? Maggie Ralbovsky: immediately there is nothing we can do. Joe T. San Agustin: it's not going to have an immediate impact on the fund. Maggie Ralbovsky: No, well... Joe T. San Agustin: we just sit back and wait? Maggie Ralbovsky: well whatever is out there is reflected in the market pricing. Joe T. San Agustin: you are saying you are going to put the law in as an excuse because of the fiscal cliff. Maggie Ralbovsky: No, no I am saying for any sort of improvement we need to do for Retirement Fund...Joe T. San Agustin: regardless of fiscal cliff that's what I'm saying...I just don't want to use that...Maggie Ralbovsky: No, no, no that wasn't the reason. Katherine Taitano: my agency has to deal with the fiscal cliff.

Wilfred Leon Guerrero: So the effect is not going to be immediate? Maggie Ralbovsky: Well it is going to be immediate, immediate cliff unless it pushes back. Joe T. San Agustin: Immediate cliff as far as the Fund is concerned...Maggie Ralbovsky: No immediate action we can take for our investment portfolio to protect it or to whatever, there's no immediate action. Joe T. San Agustin: we just take the storm...Maggie Ralbovsky: That's right. Because it's already in the market. Pricing is already in the market. You just have to ride it...Paula Blas: You can't chase it you just have to kind of ride it out...Maggie Ralbovsky: that's right. Katherine Taitano: so you look at this as an entire world wide and then figure out how to position ourselves to... Paula Blas: and that's what the amendments to the statutes are going to do is help us improve our allocation and our diversification Maggie Ralbovsky: that's right. Right now we sort of going to really ride with the market. There are very few things we can do to hedge it or you know to take a different kind of protection on the down side. It's very hard for us to...Wilfred Leon Guerrero: well you see the other thing is like okay lets say we decide that or we're convinced that the whole thing is going to collapse. Maggie Ralbovsky: It's not going to collapse.

Wilfred Leon Guerrero: Well, question is where are you going to put the money? Maggie Ralbovsky: Well, you put into treasury bonds, government bonds even though it pays you nothing it's...Joe T. San Agustin: it's still the best investments in the

world. Maggie Ralbovsky: it used to be, I have another chart to show you that how expensive it is. Maybe we should just go there Wilfred Leon Guerrero. This page that looks like this. So this is like, if you use the PE price earning ratio this is a like a generic measure of how expensive stock markets are okay. So if you look at that the stock market right now is trading at 14.6 PE which is obviously not lowest but is definitely much lower than the previous decade we have experienced. So by that measure, stocks are actually cheap and the reason it is cheap is because people are preparing for some events that going to happen so it has been discounting the risk in the market place. That's why I am saying that we see the risk doesn't mean we have to sell the stocks because the stocks are already prepared for that. It's already built into some cushion. Now if you look at the other chart down on below, this is the treasury. Joe T. San Agustin: is the dividends is going to change even if the stock prices going down. What's the dividend rates? That's all I can say. Cause we can hold the stocks because we would lose it if we sell it, but if we hold it it's still showing that there is still some dividend growth. Maggie Ralbovsky: well that obviously is part of the return and another part of the return is the multiple which means how much people willing to pay for the earnings for the dividends. By that measure stocks are actually quite cheap. Joe T. San Agustin: Yeah, it's cheap...

Maggie Ralbovsky: On the other hand if you look at bonds, treasury bonds this is a 10 year treasury bond. It is at a level we haven't seen you know how expensive it is. If you translate that to PE it's 61 times PE. But that's not to say we're facing eminent crisis if bond goes up. We are not saying that because of the central bank activity. What has not happened in the past decade is how much the central banks are participating in the bond market. They are printing billions of dollars every month. Wilfred Leon Guerrero: is that central bank you are talking about? Maggie Ralbovsky: Fed, Fed, the Fed. Not only the Fed but also the Chinese central bank, the European central bank, the Japanese central bank is now participating, the Great Britain, Bank of England is doing that. So all the central banks in the world now huge participant in the government bond market which encourages the market is the whole Treasury bond even though everything is so expensive because you know you have a pull option there somebody that is supporting it.

So that is why you cannot rationalize why bonds are so expensive is not collapsing why the government can still printing bonds and borrow at 1.6% when they have so much deficit that's because of the central bank participation. And I also have another one for the housing, you can see that housing actually has been cheapest for the past you know twenty years. This is the cheapest time for housing. Joe T. San Agustin: But the housing inventory is still low it's not lower its still high...Maggie Ralbovsky: right, so this also includes the rental property and all that. So this is the PE is showing the housing is cheaper than the past 20 years.

So I guess going back to. Joe T. San Agustin: it's cheaper to rent than build. Maggie Ralbovsky: this is actually showing now it's actually better to buy, Joe T. San Agustin: so that's changing. Maggie Ralbovsky: that's right it's changing. Okay, so I think I was trying to answer your question on if we see a crisis coming should we get out of the market right. Was that your question? So the question is if we see a crisis coming

should we get out and where do we go? Wilfred Leon Guerrero: right. Maggie Ralbovsky: Well you shouldn't get out. You should still stay in a diverse type portfolio. Because the market is already anticipating something bad happening. It's already in the market. Wilfred Leon Guerrero: okay. Maggie Ralbovsky: You may ask is this enough? Well it may not be enough, but it may be enough. So in the market we cannot assume we are smarter than the market right because all the available information has been processed by the market participants and the collective actions of market participants is the collective result of the pricing of every asset class and that's why we should not be sitting here to make such drastic move to say we need to get out of stock market and buy treasury bonds, we should not do that.

Joe T. San Agustin: Well we haven't done that...Maggie Ralbovsky: No, no I am just saying that Wilfred Leon Guerrero: I asked a question. Maggie Ralbovsky: that's right we are not doing that. Joe T. San Agustin: I know that but we always put that temptation is always there. Maggie Ralbovsky: But if you ask me the question is the current portfolio optimal to deal with what could happen in the future. I would say no, but to make that optimal we need to pass that law. We need to make that portfolio, give the portfolio more tools to really protect on the down side. Right now the portfolio does not have the ability to protect something called tail event. Tail event is something that the market can not price in to its really really bad things. Wilfred Leon Guerrero: what would that law be? Maggie Ralbovsky: That's our amendment. Joe T. San Agustin: What's that? Maggie Ralbovsky: Remember we did the statute amendment. Wilfred Leon Guerrero: okay so you are saying the one that is going through the process right now should help us Maggie Ralbovsky: Should help us diversify our portfolio and protect on down side. Because it will allow us to get participation in many asset classes we cannot do right now. And those asset classes are going to help us protect on the down side.

Wilfred Leon Guerrero: Give me specific example. Maggie Ralbovsky: Specific example is credit remember we are going to allow 8% high yield allocations. High yield can be a very good investment when these kind of uncertainties exist. Because we know corporations are hoarding cash. They have a lot of cash, they don't have no problem paying their debt. That's right they are hoarding cash so they have no problem paying the bonds but they are not investing for the future so it's not good for the stock market for the stock holders. Because Stock holders rely on growth of the future. And if you are just hoarding cash you are not investing for the future. How can that be good for the stocks. It's very good for the bonds because for bond holder you just want to be paid back, you don't care if the company growth. You don't really care...Katherine Taitano: No you are on a contract already. Maggie Ralbovsky: So as long as they have money to pay you back. All you are hoping is that you get your hundred out of your hundred plus the interest, your hundred is not going to go to two hundred like stocks, so in that kind of very uncertain, very sluggish scenario credit will be a great place to hide while still getting great return, you know they are still paying you 6% and you just waiting for something better to happen.

So that give you another tool, another thing you could you need you will be able to do is to use the Comingle fund budget not for the straight forward asset classes but

rather for things like you know what we call risk parity. I will once we pass the law I will give a session to the board on risk parity. Risk parity is a way of allocating risk budget not by asset class but by risk. For example if you have a 60% stock 40% bond portfolio your expected risk is 10% a year okay that's just by historical average. But that does not mean that every year you get 10% a year risk. Think about 2008 you probably got 50% risk. 2009 you probably you know the risk is so wide but you are so confined as to you can you have no way of adjusting your risk allocation just because the market risk went up or went down because you are, your hands are tied you can only do 60% in stocks whatever the risk turned out to be. Now risk parity on the other hand switches the allocation methodology to a risk target so I will say our risk target is 10% that's it if the market risk goes up we reduce our allocation to the risky asset class and increase.

Paula Blas: Stays at 10. Maggie Ralbovsky: stays at 10 and stays at 10 eventually because you avoid such huge drop you don't have to have a huge upside to make up the loss. So you sort of bounce around, you have a much stable return stream. A much better way to protect on the downside. That's the risk parity methodology and right now you have no way to participate in that kind of methodology. Joe T. San Agustin: How do you.. Paula Blas: But you also forego on the huge upside. Maggie Ralbovsky: The huge upside. That's right but because you avoid huge downside you don't need huge upside you eventually actually have to make out to be better. Paula Blas: consistent Maggie Ralbovsky: that's right.

Joe T. San Agustin: How do you prepare that through the allocation of assets? How do you to actually implement risk parity? Maggie Ralbovsky: risk parity, you actually hire manager that does risk parity for you. And those managers...Joe T. San Agustin: Which we don't have? Maggie Ralbovsky: You do not have you can not have it right now. So for the risk parity managers to take a portion of the portfolio especially the stocks portfolio, they actually done better than stocks in the past ten years the strategy has been around for 10 years. They have done much better than the stocks cumulatively and much lower risk. Which is the way that helps us protect on the downside especially the tail risk. So there's these ways you know we need to participate the market has created a lot of...

Joe T. San Agustin: None of the managers can do it, the only reason why they can't do it is because the law doesn't allow it, is that it? Maggie Ralbovsky: it's because we don't have any capacity for the coming of, the law pretty much doesn't allow it. Joe T. San Agustin: that's what I'm saying but we do have the managers, so they can all they can do if the law allows it they can go into it there's nothing...Maggie Ralbovsky: no not your manager you have to hire different managers. Joe T. San Agustin: different category of managers? Maggie Ralbovsky: yes, different category of managers called risk parity managers. And the good ones are closing their strategy I really think this... Joe T. San Agustin: just one of the category if their qualified to do this.

Maggie Ralbovsky: There are two very successful managers. One of them already closed the other one is like scaling back on taking new assets, so I'm just hoping we, you know can get some good managers, pass the law and don't get all the good

managers, because a lot of money is going to...Joe T. San Agustin: requires special core of managers to do that. Maggie Ralbovsky: we have to issue RFP Paula Blas: right now, we have value managers, growth managers and we've got core and equity side so if you wanted to do this you'd have to reduce Maggie Ralbovsky: yea have to reduce allocation to them. Paula Blas: yea but a risk parity manager which would pretty much have all those types of equities. Maggie Ralbovsky: that's right have equities they also have a fixed income also they have different things in it that can help you reduce the risk and increase the return. So that's a different kind of manager, it's a different category. Wilfred Leon Guerrero: If we had this law right now in effect t is there a line or an out, at what point do you decide you want to go with this risk parity.

Maggie Ralbovsky: I want to go there, I want to go to risk parity, there's not no line to stand I already crossed the line, I want to go to risk parity but I cannot go right now. Wilfred Leon Guerrero: Right now, you will do it? Maggie Ralbovsky: Oh yeah absolutely, absolutely right now absolutely. Joe T. San Agustin: Why, why you solely speak you know is pushing that? Maggie Ralbovsky: because I think it's a better way to manage your risk budget... Joe T. San Agustin: based on existing allocation resources? Maggie Ralbovsky: this is actually for everybody for anybody who has a...Joe T. San Agustin: So, what you are doing is shifting a group of people a group closer to this manager...Maggie Ralbovsky: that's right. Joe T. San Agustin: at the expense of other people...Maggie Ralbovsky: Well, we'll have to reduce allocation maybe consolidate maybe consolidate some of the options. That's right we probably have to consolidate some managers and populate these new managers. But I do think it is important way to control the risk so that we don't see 2008 kind of scenario again and improve the return.

Wilfred Leon Guerrero: Where are we on that? Paula Blas: The statute actually the final just got completed. I just got a copy of it from Joanne, Maggie put her last final on...Wilfred Leon Guerrero: Oh we haven't sent it down to the Legislature yet? Paula Blas: We just got the final copy back last week right before Thanksgiving. Maggie Ralbovsky: Does the board need to have a final look? Paula Blas: Well I want them to look at it one more time just to make sure that this is what they are willing to actually support. Wilfred Leon Guerrero: I thought we already the board approved that...Paula Blas: You did. Maggie Ralbovsky: Yeah you approved it but you did not approve the intent the legislative intent. Paula Blas: There's a legislative intent that Joanne finished which I don't have any issues; I thought it was well written. Maggie Ralbovsky: yeah very well written. Paula Blas: and then the limitations. The limits that were set for asset, Maggie Ralbovsky: were approved. Those were approved.

Joe T. San Agustin: It's the clause, the dots, what I'm concerned about, the semi-column, with the dots what not in the law itself. Because once you get down there, you have to be able to explain it to them. What is this is this anything different from what you got in the law. Paula Blas: Well the final copy I have shows you where what was taken out and what was put in. So you can see...Joe T. San Agustin: it will be able to show them, you got to show them the pros and cons on that. Maggie Ralbovsky: That's right. I think there's momentum there because they said we didn't

make enough money then give us better tools. Joe T. San Agustin: Well that's a rational discovery, just because it's not in there, there really could be money, but you know it doesn't mean that they're going to rush into it, I'm not the one to rush it. Paula Blas: I actually have the final copy that I was going to give the investment committee meeting tomorrow. Joe T. San Agustin: we need to discuss that law and we need to get together with key people at the legislature to really understand what we are talking about. It's too bad I didn't see Doris Brooks in here. What happened to Doris? Maggie Ralbovsky: Is she in legislature? She is? Paula Blas: No she's the Maggie Ralbovsky: She's the auditor right? Paula Blas: yeah.

Wilfred Leon Guerrero: Maggie you are going to have to do more explaining cause I'm still not...Maggie Ralbovsky: ok I'd be happy to do any, I love talking about this kind of thing. So I'll be totally happy to do more explaining. So once the law passes I will do a huge session a whole session...Joe T. San Agustin: Sell the bill. Maggie Ralbovsky: That's right sell the bill. And I'm going to talk about risk parity because I know risk parity needs a lot of education because it's very technical thing, it's if you have finance 101 it's called the tangent line. It's the tangent line that crosses the efficient frontier so, should I maybe I'll just do this so little seed that we can talk about that more lately.

Wilfred Leon Guerrero: I'm glad you going to use that board. We hardly use that board. Joe T. San Agustin: It's about time. Maggie Ralbovsky: This is the efficient fund here, right. We know this all by heart now right. What does this say? This is saying here's the risk, here's the return, and here's all the different asset classes you could get in the market place okay. So we know that risk is not created equal because this has a class and here's another one they have the same risk but they don't have the same return. So there's a big better pay off to this one, however your best chance in the traditional sense is to combine these asset classes you get from here which is your efficient frontier. Which is to say at every risk level with this combination of assets this line combined of the different possible combinations that will give you the best chance okay? So this is the portfolio you can get with the opportunities that you have. This is in the traditional sense. Risk parity says you know what I can actually this is what you want right in terms of risk. For this risk level I can get you, for this risk level I can get you a tangent line that crosses the efficient frontier and get you the same return at this risk level. This is risk parity which is the tangent line investing in finance. Now how do you get here? Well you have to be able to borrow at this rate and lever it up of certain asset classes that have low risk. For example there is asset class that has 4% risk and 4% return this is basically of government bond. You have your stocks at 16% risk. This is stock, this is risk, and this is return. 16% risk and 8% return. Now in a traditional sense you can combine these all you want and you get to somewhere here and so 60-40 will get you 60% of this 4.2 plus 4, 1.6 will get you 5.8% return right so 60-40 and your risk is probably somewhere like 10%. Now risk parity says you know what if I lever this, if I lever this asset class up 4 times I get 16% risk right and I get 16% return too. Isn't this a better asset class than this? You see it? It is better, right. It has the same risk level but better return. But I have to be able to do that by leveraging this up. And how do I do that there are different ways to do that. So I want to provide an education as to how you can get here without increasing

the risk because leverage is scary. You think about it has a lot of bad incidences in the past, right. So okay there is a way to do this without come to that risk without going to the bad side. Leverage by itself doesn't have to be more risky, it's how you manage it.

Wilfred Leon Guerrero: You know when you say leverage, what does that mean? When you are saying leverage what does that mean? Maggie Ralbovsky: Leverage means you have one dollar you buy four dollars in stuff. Joe T. San Agustin: What? Maggie Ralbovsky: you have one dollar you buy four dollars in stuff. Now how do you do that? Well, if you know how future's work, how future's work I'll save that one later I don't want to create some fear before we push this legislature through. The theoretical basis is the tangent line that gets you better portfolio. And the practical application has been around for 10 years. There's a manager called Bridgewater. They had this portfolio for they closed probably 5 years ago for their all weather funds doing so successful.

Wilfred Leon Guerrero: Have you done this for other funds? Maggie Ralbovsky: Oh yeah every pretty much every public fund is doing risk parity now. CALPERS just got into it. Pretty much every. Joe T. San Agustin: CALPERS is doing this? Maggie Ralbovsky: Yes, CALPERS just got into this. Risk parity right now is really one of the most you know San Diego made their whole plan to be risk parity. So there's a lot of this kind of momentum in the public funds space for this. That's why I'm saying a lot of good managers are closing because they have too much money. I wanted to get us done. Paula Blas: their entire portfolio is risk parity? Maggie Ralbovsky: yes, yes, San Diego did that. Katherine Taitano: How long ago? Paula Blas: since last year. Maggie Ralbovsky: No after 2008, so 2009. Katherine Taitano: risk parity has been around. Maggie Ralbovsky: Yes it's been around long time. Paula Blas: instead of splitting it 60-40. Maggie Ralbovsky: That's right they did the entire portfolio. Paula Blas: risk parity has more than one bucket. Maggie Ralbovsky: That's right 4 different buckets.

11:00am - 11:45am DB Plan Performance

Maggie Ralbovsky: Okay, so I'm actually going to move to tab one to talk about our portfolio. The portfolio tab one. This quarter was a very strong quarter as mentioned earlier and you can see that total fund was up 4.77% and that out performed the benchmark of 4.36. The different composite we do have a couple of underperformance but very minor so not significant at all. So I don't think there's anything alarming here. It's a pretty good quarter. We ranked about 50 percentile for this quarter. You can see the next page is a graphic next page is a graphic representation of our portfolio versus the benchmark and the same graphic representation for longer term is on page 23 you can see that's the total fund. And since inception we are very close to 7.5 which is a very good track record and we passed 7% for ten years. These are annualized numbers and the fiscal year Dr. LG is the one year number it's 20.1%. This is for the fiscal year and I will definitely add another column for the future to show the ongoing fiscal year number. Paula Blas: I thought this was the one year. Maggie Ralbovsky: Yeah, the one year is for the fiscal year. That's right I'm saying for the next quarter we'll, the one quarter I'll make it a fiscal year so just make it clear.

Paula Blas: okay. Wilfred Leon Guerrero: How did you this inception of December 1992, how that came about? Maggie Ralbovsky: That's since you have data. You have performance data. We loaded your prior consultant's data. So this might be. Wilfred Leon Guerrero: What happened to the years before that? Paula Blas: I don't think it was automated prior to '92. Wilfred Leon Guerrero: oh this is just because of the data gathering. Paula Blas: yeah and being able to transfer it over to the consultant and then rolling over to Mercer, then rolling it over to Wilshire now, Maggie Ralbovsky: That's right so we got the stock data from Mercer. So, Mercer probably had some rollover from...Wilfred Leon Guerrero: So the reason why we got the December inception of December 1992 because that's when the data gathering started Paula Blas: that's right Maggie Ralbovsky: and the portfolio active performance also has been very strong as you can see that most periods would be the benchmark as well. It's been a very good result but as we say historically successful portfolio...Wilfred Leon Guerrero: No, no, no we want the same thing this year. We want 20% returns. Paula Blas: He's not taking anything less. Katherine Taitano: Is that where you say it's not an indicator of future performance? Maggie Ralbovsky: Yeah because history does not repeat. Wilfred Leon Guerrero: no, we want another 20%. Maggie Ralbovsky: Okay, I am not going to do preaching. No preaching. Okay, so the universe comparison is on page 24 and this is comparing all the public funds and comparing the public fund universe. You can see that some periods are better than other periods but all in all it's been quite a good favorably comparing to the public fund universe.

Wilfred Leon Guerrero: What this is one of those things again on the ranking the higher you get the better. Maggie Ralbovsky: 50. The smaller number the better. The smaller number the better. This is the percentile. Wilfred Leon Guerrero: okay. Paula Blas: So right now we are the top 50? Wilfred Leon Guerrero: so we just went by the by the flow right none we are in that middle because of the, that's where the index was. Maggie Ralbovsky: No. Wilfred Leon Guerrero: yeah I think so because if you look at...Maggie Ralbovsky: 50 is your performance. What do you mean the index? This is compared to the universe of public fund. Wilfred Leon Guerrero: No, if you look at page 23, that one year the index and the composite and the fund are about the same. Maggie Ralbovsky: Yeah that's the percentile. So it's the top 13 percent for the past year. So even though there's a difference in return it still ranked 13 so maybe 13.1 versus 13.8, 13.4 didn't pass 13. Wilfred Leon Guerrero: but to explain the results of this performance, I'm trying to look at it in terms of whether it was because of asset allocation or because of the performance Maggie Ralbovsky: this is mostly asset allocation the difference between your composite return and policy return is the active performance so for example for the 1 year period your active performance was added value of 30 basis points. Right but the 20%.

Wilfred Leon Guerrero: Wait, wait, we are on page 24. Maggie Ralbovsky: Page 24 if you look at the one year number your total return was 20.1%, that's your actual return right? Wilfred Leon Guerrero: Right. Maggie Ralbovsky: The index return so if you have been passively managing it, it would have been 19.8% right. So you did 30 basis points better, right. Yeah, 0.3% better. So what's driving the 20% is not active management it's the asset allocation. Correct? Because 20% is the... Wilfred Leon Guerrero: No you missed me, you lost me. Maggie Ralbovsky: Where did I lose you?

Wilfred Leon Guerrero: Well, how did you arrive at that conclusion again? Was it asset allocation? Maggie Ralbovsky: Because 20% is bigger than 0.3%, your active management is 0.3% value added. So the impact of active management is 0.3 but impact of 20% is asset allocation. Wilfred Leon Guerrero: Where's 0.3? Maggie Ralbovsky: it's the difference between 20.1... Wilfred Leon Guerrero: 20 and 19.8 right? Okay.

Maggie Ralbovsky: Therefore in conclusion asset allocation explains the result more than active management. Okay so in terms of asset allocation, page 26 has the graphic representation, I know Diana has a more recent update but I think there's still, isn't MetWest still a little bit very close to the upper? I think I was, I have another page to show the end of quarter result. I think the one manager that is very close to the target upper maximum target is MetWest. Diana Bernardo: is the second lender 7.3% versus 6. Maggie Ralbovsky: Yeah, the maximum is 8 so it still has a little room. Just want to reach the upper. Okay so Page 26, is the asset allocation in graphic format. We have the actual and we have the policy and we have the difference calculated in the bar charts. The current actual has an over allocation to U.S. Equity and I assume when we need cash we will do the rebalancing in that manner. All of these are within the policy target range so there is no mandatory rebalancing but natural rebalancing should take place. Okay, so the history started at 29 you can see we only had the total return numbers up until Mercer became the consultant and at that time we got more details, you can see on page 32 we no actually is that when we became consultant? That's when we become consultant. We only have the details of the flows since we became the consultant. Historical numbers we only have the total returns. Wow, so we started with \$1.1 billion ended with \$1.3 billion and during this period we paid out \$96 million, that's just since we started. That's how much we paid out. We made \$135 million so that's a very good number.

Okay, I'm going to move to the next section which has the different highlights of the different composite. Page 35, this is U.S. Equity I did have a summary here. On the chart as usual we have the asset allocation, targets, minimum and maximum and actual. I highlighted in yellow that is the one that's very close to the maximum. Then we have the notes about whether the managers have outperformed or underperformed, you can see most are green, that's good. Most managers outperformed. We have two managers who underperformed but by a very small margin and Intech underperformed slightly and MetWest underperformed slightly. Both of these managers are still ranked quite strongly so I have no concern here. The recommendation from my side is to remove the Numeric from the watch from watch list. We put them on watch give them a one year period after Arup left, Arup used to be the portfolio manager for this account, what was also the research director for the small cap, small cap strategies. We thought his departure was quite significant.

The watch was to see if there's any continuation of that turnover so sometimes when a person left that is only the tip of the iceberg that actually shows certain more fundamental flaws in the structure of the organization or you know dispute or something sometimes when somebody leaves some other people will follow and eventually the corporation will start to experience very significant turnover. And that

has not happened. So I think the one year period is over, we see the performance continues to be strong and we have met with them quite a few times and I'm comfortable with the fact the organization has pretty deep bench. So I'm recommending removing Numeric from the watch list.

Now, during this quarter I also met with Nancy Tooke from Eaton Vance. They actually out performed this quarter. Nancy, if you recall we put them on watch because they significantly under performed. They have underperformed by 4% since they were hired 4.3% annualized and for the past year they underperformed by 5%. It is she continues to believe that the market swings in the small cap space is very irrational because there are stocks that just makes no sense for them to perform well, stocks that makes no money, stocks like in the Biotech sector for example was the best performing sector in small cap. But, Biotech is something that you cannot predict. For example, the reason is this, because they may have one drug in the experimental or phase and if it gets approved by FDA they will have a huge successful drug that they can sell and they will have revenue. But if not they are going to go bankrupt. So it's like this kind of buy mode kind of company but those companies had huge rallies in the past period and the reason is this because those companies are considered most levered companies because your outcome could be huge and they have all you have is debt basically they have no revenue to support they all have is that. And if debt is cheap these companies if they are successful can be very very successful.

So it's almost like a lottery kind of payout that attracts people and these companies are also in something call ETF. ETF I know you have ETF in the portfolio. ETF trading has made a huge impact in the small caps space because certain securities are selected to be certain ETF and people just want quick in and out they just buy this ETF's which makes pricing very erratical during the trading period and a lot of small cap managers were impacted by this kind of phenomenon. So she continues to believe the fundamental pricing for certain parts of small cap makes no sense and she stays put she will make it out to be better. So I really hope she is right. That is not a thing that we have not heard from other managers, we do hear from other managers especially small cap managers. At the same time you also see other small cap managers outperform which I think there are people who are more adaptive to the changing mentality in the market. There are also people who are more steady to stick to their philosophy. So there's eventually hopefully both will win and so far Eaton Vance is still underperforming significantly since inception so I'm still wanting to put them on watch. I don't want to pull the plug or anything but I do want to highlight why they believe they underperformed and why we think it's logical. At the same time it also doesn't mean that because it's logical it is something eventually you will win right because sometimes at some point you may have to incorporate the fact certain securities are in ETF's and you probably should treat them differently. So, if somebody actually has done research, let me think who, oh actually JP Morgan has done a research they actually divided up the small cap universe into securities being held by ETF's and securities not being held by ETF's and controlling them differences is in liquidity and all these other things. After the control effect has been removed the ETF's securities have performed tremendously better than the non ETF's securities

which is to say that there are many many people will just chasing ETF's they are not really researching why these companies should do better. It makes no sense.

So, as a small cap manager I think if you have come to a conclusion that securities being held by ETF's just have better liquidity, you may need to treat them differently. They may deserve to more expensive multiple or something. Just like stocks are that's in doubt 30 tend to get a lot of attention, tend to do better than stocks were not in doubt 30 because everybody knows those 30 stocks. So there is some revolution going on in the small caps space because of ETF's. Okay so that said we want to keep Eaton Vance on watch. I have some write ups, I think I mentioned most of it. We knew about Wells, we knew about Robeco's possible sell.

Wilfred Leon Guerrero: Remind us again what Focus List is. Maggie Ralbovsky: Oh, Focus List is our Wilshire manager research analyst conviction list. So it's their best pick. So they really liked Robeco even... Wilfred Leon Guerrero: You want all your managers to be on the Focus List? Maggie Ralbovsky: No, we have another one, we have 2 managers. Wilfred Leon Guerrero: Yeah I see it. That's on the ...Maggie Ralbovsky: Yeah, Intech. Wilfred Leon Guerrero: INTECH. Maggie Ralbovsky: Intech is also on the, Robeco there's no new development with RaboBank intention to sell to sell Robeco. So that's still pending. We have confidence that it probably will turn out to be good because Robeco has always been quite independent from the parent but that obviously the event you want to watch. So Intech is good. Is a very good manager. It's actually one of our focused managers. Winslow is one of the one that have more swings in terms of returns. I know they are going to present to us but they are very growthy. Ultra growth can of profile right now. I'll show you in a page or two.

So Numeric, Eaton Vance, we talked about them. Okay, page 39 is what we call a style map. This is to measure if the entire portfolio or the managers have a style that's not intended by us. And the type of portfolio is represented by the cross x, you see the greenish x, that is the collection of all our managers and this one has been demonstrating a growth bias. I think it has been doing that since we start tracking. And the main reasons you can see is that the R and M your large value managers are not very value they sort of are core value what we call. They are in the value space but they are not as value as your growth managers is growth. You can see growth manager W and I, they are both very growth, especially W very, very ultra growth which is Winslow. As a comparison the small "u" is the growth benchmark the Russell 1000 Growth is the small "u". You can see how much more growthy your managers in growth space is and as a contrast the small letter "o" is large value benchmark on the left hand side. The "o" is Russell 1000 Value and you can see how much less value is your value manager and as a combination of all these effect you can see that "x" is towards the growth side. We did correct a portion of that growth bias by having an index fund in the middle. That obviously was not enough to counterbalance that. So, this is something I want to revisit sometime in the future but I don't think its urgent matter right now.

I do think I want to prioritize our tasks and main thing I want to prioritize is to get the law passed and move on from there and when we after that...Joe T. San Agustin: You

have a one track mind. Paula Blas: that's going to kind of be the start of everything else that she is we're going to be cause that's the biggest restriction...Maggie Ralbovsky: that's right. Joe T. San Agustin: Be very careful. Don't try and hedge on getting that to move. Maggie Ralbovsky: Well I do. One way or the other someday...Joe T. San Agustin: I admire that fine, but you can't you don't go down town you can't tell that...The whole thing depends on that law passing. If we don't do this what's going to happen? This is necessary to make sure that our funds are well managed. Maggie Ralbovsky: Yeah, so I do want to hopefully next year we get that ability to...Joe T. San Agustin: The selling point of this is to make sure to maximize the fund, the management of the fund and not make it totally dependent on that law, you can't do that, can't sell that. Maggie Ralbovsky: I'm counting on you Mr. Chair. Joe T. San Agustin: You can't sell that be careful nobody likes to be pushed.

Maggie Ralbovsky: Yeah, okay so I do have a vision...Paula Blas: they do defer a lot of the decisions to what the fund is going to support. Joe T. San Agustin: Oh yeah they do defer, right now they are in a dilemma now, they don't know what to do... Paula Blas: Editorial today's paper do not use the fund as your bail out basically. Find other ways to fix the governments general fund situation. Wilfred Leon Guerrero: I see that the vice speaker is kind of backing away from recommending the...Joe T. San Agustin: He's not going to recommend nothing. It's not even on the floor. He's not even pointing it out. The bill. Wilfred Leon Guerrero: He's not recommending that they adopt the governor's recommendation. Paula Blas: Yeah, it hasn't been it's been reported out by committee but it hasn't been placed on the session agenda which, well session is over for November, but December session is tentatively scheduled for the week of the 10th or 17th. So, it may, it may not be put on that agenda. Katherine Taitano: Ours or Adelups? Paula Blas: No 507. No, ours never really went into an actual bill itself. You mean our alternatives didn't go into a bill itself. The 507 bill 507 is going in exactly the way the governor wrote it with the exception of the removal of GFD's cuts.

Wilfred Leon Guerrero: How is the government operating right now if they don't have a budget? Paula Blas: The government has a budget. It passed in August. Wilfred Leon Guerrero: I thought part of the budget was this using the Retirement Fund as a.. Paula Blas: No, no, no, no the part of being able to help them I guess clear the deficit and also provide some additional..Maggie Ralbovsky: pay the refund. Paula Blas: and being able to set aside the cash needed to pay 2012 refunds. Wilfred Leon Guerrero: that's for fiscal year 2012? Joe T. San Agustin: Yes. Paula Blas: 13 we're in 13. Wilfred Leon Guerrero: We're in fiscal year 2013 right and part of that budget includes reducing the contributions to retirement fund right? Paula Blas: No. This was a separate bill that was actually submitted and considered after the budget was passed. So this bill even the early retirement proposal is not to take effect until October 2014. 2013 I mean fiscal year 2014. October 1st 2013. But the reamortization that they are also proposing the 10 year, if it passes they want it effective immediately. Wilfred Leon Guerrero: Immediately? Joe T. San Agustin: That means right away they're out of cash shortage. Wilfred Leon Guerrero: But the governor doesn't have a sponsor down at the legislature right, for this? Paula Blas: I'm sorry sir. Wilfred Leon Guerrero: The governor does not have a sponsor for this.

Paula Blas: for bill 507? Joe T. San Agustin: no one is challenging it. Wilfred Leon Guerrero: Yeah. Paula Blas: yeah, no one down there is really, I mean as far as the Republicans...Wilfred Leon Guerrero: yeah. Paula Blas: no one is really pushing it. There is quite a few I think one or two republicans that aren't here currently, they are off island. Joe T. San Agustin: Well they are pushing the early out. A lot of employees are looking for early out, we can do it. You can do an early out now. All you do is sign up, of course you get penalized. You have retirement deduction. Paula Blas: The ones that want the early out are the ones that are over 30 years. They want 36. They can retire without a penalty. Joe T. San Agustin: They can do what they want but it's the amortization... Paula Blas: No, the actual waiver on...Joe T. San Agustin: That's what I don't want. No waiving on that.

Maggie Ralbovsky: Shall we, shall we finish this? Joe T. San Agustin: I'm sorry...Maggie Ralbovsky: No problem. So the international composite only a couple left. The international composite, you can see on page 44. 3 out of 4 managers underperformed and as I said earlier that international asset was the best performing class this quarter because of the ECB's actions and because of some of the countries like Greece actually return totally from debt return from debts. So a lot of managers did not position for that which is understandable. So, you see that the underperformance in the case of Fisher is a little bit large but since inception the managers still outperformed and Fisher is a manager that actually relies a lot on macro assessments so in their process they have a macro overview which has a lot of weight in their performance history so obviously we didn't make macro call correctly but who could right with that kind of a change of mind by their central banks head. It's pretty hard to predict. Katherine Taitano: don't hold it against them Maggie Ralbovsky: That's right. Since inception their performance is still quite strong so.

Okay, so I do want to show you the style map on page 47 so we know where all the managers are positioning themselves and you can see Fisher is the one that positions itself on the growth side. On the right hand side is the growth side and is pretty much the only manager that positioned there which could be good because we want managers to have diversified style. The total composite that the gold football is placed pretty low on the scale of the market cap. So it is has a smaller cap bias in the total portfolio. Although I think that's not alarming because international indexes are comprised with many stocks not included because there's a different definition of what's to be included in the bench mark. And many managers find that as an opportunity to get participation in inefficient part of the market because there are certain securities that's not included in the bench mark and they are not being paid attention to by many analysts and if you are fishing in that pond then you tend to be able to add value. So I do not think that's an alarming effect but I do want to point out we do have a small cap bias in the portfolio. Eventually I do think it makes sense to have index funds in EFA in the large caps space to be the anchor of the portfolio but I don't want to use up the comingle fund budget right now. So this still has to be pending for the law to pass. A lot of things pending that...Joe T. San Agustin: Yeah you should be handling all that.

Maggie Ralbovsky: Okay, page 51. Page 51 is fixed income portion which we do have one manager on watch and that is Franklin. I still want to keep them on watch because since inception they are still underperforming but this quarter all three managers have outperformed. So it's a pretty happy 4th quarter for the portfolio. Now, page 55 has the details, you can see the only manager for long term underperformance is Franklin. Although it is not alarming but still. Okay the REITS, page 57. We have one manager underperforming another one outperforming, the total composite is slightly underperformed but also is a small margin. Now, there is a change that took place in July for Cornerstone which I summarized on page 58. They had two analyst resigning and these are two analyst who are not who are not super senior I guess is the words, they are contributing to the portfolio but they are not the most super senior people on the team for managing your portfolio, but we do think it is something that worth paying attention because when you have two people leaving that are not being replaced, you are increasing the work load for the remaining people. So we want to make sure the remaining people are not super extended and still can do work good work. They did outperform this quarter which is a good indication. So we do want to watch this closely although I am not recommending putting them on watch list yet. So,

Wilfred Leon Guerrero: What's a manager's score? Maggie Ralbovsky: what is what? Wilfred Leon Guerrero: Managers score. Maggie Ralbovsky: Oh that is the score in our system by our analyst. You can see the score is still above average. Our average score is 2.5. So they're not superbly well scored, not like Security Capital, we actually love them. They are our Focus List. Cornerstone is on the borderline at this point. I do want to we are paying we are following their development after these two analyst departure. Hoping we can find replacement pretty soon. Now, so that concludes my prepared remarks on the managers.

There are two remaining fact that matters I think we are having that discussion oh yeah okay tomorrow. Wilfred Leon Guerrero: You promise us a lecture on security lending and that's going to take place tomorrow. Maggie Ralbovsky: that's right. Wilfred Leon Guerrero: and I don't know what the other one is. Maggie Ralbovsky: Directed brokerage. And we also have the guideline on changes requested by the managers. If you recall we have the Security Capital ones to increase cash holding. Eaton Vance wants to increase the cap range to be relative to Russell 2000. So those two managers have submitted proposals in your packet, so we can talk about that tomorrow on the agenda. So that's that. Wilfred Leon Guerrero: Okay.

1:30pm - 2:15pm Intech

Wilfred Leon Guerrero: Okay, very good. Thank you very much gentlemen for being with us today and we turn the floor over to you. Ivan Fong: Thank you. Well I guess you all know Christian, he's been here for the past few years and you probably haven't seen me before, I joined Janus around a year ago, I'm from Blackrock, I'm based in Hong Kong and I look after clients or institutional clients in the region together with Ellen Li whom you probably have met last time as well. So between the two of us we

try to make sure everything is going okay with the investors over here as well. And so I'll leave a card later but if you need anything please reach out to me and I'm here to facilitate what you need. But I'll turn it over to Christian.

Christian McCormick: Okay, alright, does everyone have a presentation? As you know because you've been forced to listen to me for a couple of years now, give you an update on the portfolio. It's always good as a quick refresher and the way we manage assets is quite a bit different but starting on page 2, what we've started to show or put together is just kind of a high level snapshot of our investment process across all our products. Just to give you an idea really of our focus and the way we manage money.

So we use a mathematical model approach. A quantitative approach and the whole aim of that is to put together a very diversified portfolio which in essence we are just trying to reweigh a cap weighted benchmark. So in the case of your portfolio, the Russell 1000 Growth, what Intech does really with any cap weighted benchmark is we take a look at it, we go you know what the only consideration that's being made here is you're ranking stocks by how big they are. Alright, so nowadays Apple's the biggest stock so it's the biggest holding the benchmark, second biggest, third biggest and no other consideration is being made and our approach is that well that's not a very efficient way to use our industry speed to put a portfolio together. And we think there's a better way to put it together to where we are not really taking that much more risk but we can produce an excess return over time by just reweighting the components of the benchmark based on certain characteristics that we like.

And page 2, what we are showing you is a snapshot of every single product that we have. So we only invest in large cap equities. We don't do anything else. We've used the same mathematical process, we've made small tweaks along the way, but in essence it is remained unchanged since we opened our doors in 1987. So what the graph is showing you is we took a look at every single rolling 3 year period. This is rolling 3 years on a quarterly basis across all of our products domestic international. Again these are all large cap stocks and we just asked did we beat the benchmark over that rolling 3 year period or did we trail a benchmark over that rolling 3 year period.

So you can see here firm wide that the frequency of our performance is tremendous. We've out performed about 80% of the time. Again, this is since 1987 across all of our products but for us the more important thing to take away from this is even the period when we have underperformed, and these are those red dots, is we always track very close to the benchmark and that is a paramount important to us is the consistency of our return. We don't like to put our clients' capital at risk relative to the benchmark return. So even though we do underperform, those periods are going to happen. Really the first year you were with us, 2009 was the year we underperformed. We don't stray too far from the benchmark. It's that we don't have a lot of ground that we have to make up. We would much rather not participate and see a screaming out market and really hold on the downside because we think that's going to lead to better returns over time. And really this graph plays that out quite a bit.

So a quick organizational update on page 3, as of September we were about \$42 billion of assets under management. We finished the year 2011 at about \$39 billion of assets under management. So we've had a growth of almost \$3 billion there, really across several products. Page 4 gives you an update on our investment professionals. Really not a lot has changed organizationally. You see Jennifer Young there is our CEO, Adrian Banner is our CIO. The folks in green on the far right are really the folks of primary importance to you and that's our research group in Princeton. So they are charged with running the model that puts the portfolios together as well as doing ongoing research in to tweaks our enhancements we are going to make to the process and also many new products that we are going to launch.

And most of the folks that you see in yellow are based at our headquarters in West Palm Beach, Florida. There are individuals such as myself that are based elsewhere really for geographical reasons I am actually based in Denver. And I work with all our public accounts including yourself in the U.S. and outside the U.S. But no major changes there at all. Really, I'll bring it up because it's an executive position, now it has nothing to do with the management of the portfolio, but if you see below Jennifer Young there to the left John Brown, we hired him a couple of months ago our head of global client development. What that really means is that client service reports to him, consultant relations reports to him, and Ivan and the rest of the folks at Janus are our distribution folks and he is the primary liaison between Intech and the distribution team at Janus. It's not meant to be a succession position to Jennifer Young. John Brown is actually older than Jennifer, but really some of the duties that Jennifer had when she was President before she became CEO is really what John was taking over. So we certainly want to make you aware of that hire as it is in the executive level position, but no bearing on the day to day management or the portfolio or the model itself.

Alright, so if you want to turn ahead to page 9, before giving you an update on performance, both through the end of September then I have another update for you through the end of Friday of last week, just to give you the most up to date numbers. Just a quick review of how we go about putting together those portfolios. So I mentioned that we think that a cap weighted benchmark is just an inefficient way to invest your money, an inefficient way to put a portfolio together. So, how are we reweighting it, what exactly are we looking for? Well we use something called the volatility capture product and the nice connection to make is to what you do, Maggie in the asset allocation level as a board.

So if you start with your mixed asset classes that you can choose from, you know you have your targeted actuarial rate of return you are trying to achieve, and you want to get that targeted rate with the minimal amount of risk possible. So the pieces that you have to put that together are stocks, bonds, real estate, commodities, private equity hedge funds, whatever else you can choose from and you are trying to put those together in the best combination to achieve your targeted rate then minimize the amount of risk that you take to get there.

Well in a nut shell, that's really what Intech is trying to do. Except that's how we look at individual stocks. So we're trying to find that right combination or best combination of stocks within the benchmark and we put them together in a way that we can achieve an excess return over the benchmark, that's our goal. But minimize the amount of risk that we take to get there. And when we say risk, I mean again tracking error. Just how far are we straight from the benchmark in putting that together. But the big difference with what you do is you're looking at return and risk as your characteristics of those asset classes, for us we look at volatility and risk. So we're really analyzing how these stocks move up and down relative to one another. And our goal really our two goals that we have is we want to find stocks that have more volatility than the benchmark itself. So picture this as over time we have the benchmarks moving up and down. We want to find stocks that are move up and down greater in a greater magnitude than the benchmark itself. And then by rebalancing we can use that greater volatility to generate an excess return.

And the second thing we look for or what would make a stock attractive to us is to find one that has lower negative correlation and this ties in again directly to that asset allocation example is ideally you want your stocks and your bonds to move opposite of each other. So if one goes up one goes down and you get some protection through diversification and that's exactly what we are looking for. We want to find stocks that don't move and lock step with each other because we use that as our primary diversifying tool to diversify risk across the whole portfolio. Alright so we would fairly similar the benchmark yet at the same time we are producing excess return over the benchmark.

So on page 10 we have a performance update. This is through September. So third quarter on a relative basis, we were down a little bit but still year to date we were up about 2.3% ahead of the benchmark on a gross basis. And you can see since inception that number is about 68 basis points ahead, so the market has been great. The timing of your investment has been fantastic in terms of the equity market, which you can see strong absolute returns. We've been able to produce on a gross and net basis excess returns above that.

Just to give you an update and I'll give you this verbally, so as of last Friday, quarter to date, so this is all of October and 2/3 of November, your fund is down .99% and the index is down about 2.08% and what that does to the longer term numbers is now the one year number for your fund is 24.8% versus the benchmark of 21.9 and that has pulled the since inception number up on a relative basis, so you're now at 19.95% since inception and the Russell 1000 Growth is 18.95%. So through last Friday you are about 100 basis points ahead of the benchmark annualized since inception. So it's been nice again, with the market down to provide some good downside protection there because it seems to be pulling back a little from this spectacular year that it had at least on the growth equity side.

On page 11, just a snapshot of where you are again, this is through the end of the 3rd quarter. Through the actual value of the fund, so you started at about \$61.3 million, that was your initial investment with us in February of '09. And that has grown to

about \$93.9 million in total assets, and that's also including about \$17.6 million that you've taken out in terms of redemptions and no additions to that. So it's been nice growth to the portfolio, very much so even despite the withdrawals, so very happy we can generate that for you.

Page 13, a quick snapshot of the portfolio that really ducktails into what I mentioned of how we select these stocks so, if you look at the top left hand corner, you see the benchmark has about 567 stocks in it, your portfolio has about 208. From a market cap perspective, they are very very similar, meaning that a lot of the stocks that are left out tend to be the very small names within the benchmark. And if you go down that list there you can see we are very similar to the benchmark. We actually have a lower beta from the benchmark so a little bit lower absolute risk but our characteristics tend to look very similar to the benchmark itself and that just adds to we tend to be very similar. From a risk perspective, we don't put your capital at additional risk, but we are trying to squeeze out more excess return just by finding a better combination of stocks within the portfolio. The big difference that you see is that second to the last number, that weighted average market cap, we're about \$81 billion and the market itself is at about \$121 billion.

And if you move down to the lower portfolio market capitalization table you can see a better breakdown of that. So what you see consistently amongst all of our strategies, whether is growth value core, or even our lower risk strategies, is that we tend to overweight the smaller names within the benchmark. So if you look say with that \$2 billion to \$25 billion range, those are two different sets of numbers. You can see that our overweight versus the benchmark is fairly substantial. We're about double the number that the benchmark has and that \$2 billion to \$15 billion range and about a 4% overweight that \$15 to \$25 billion. And you can see most of that capital comes from underweighting the big mega cap makes, those 100 billion plus stocks. And that really makes sense. Going back to what I had mentioned of the primary thing we look for is we want to find stocks that have more volatility than the benchmark itself. The bigger a stock gets the more it tends to behave like the benchmark. The more it tends to drive the benchmark itself. So we don't really get a lot of that differential volatility in say in Apple, or IBM or Microsoft. So we are going to underweight those mega cap stocks and overweight the smaller ones because we tend to get a lot more movement out of those smaller names. These are still in the benchmark. We cannot go outside the benchmark. They are not small cap securities but just smaller large cap names or you can even call them larger mid cap size names, all within the benchmark.

And then just on the right, the top ten holdings, just a quick snapshot of that. And it's pretty remarkable when you think about it. I don't know if you have already peppered Maggie with questions about this, what it means, but for a thousand stock index, for one stock to be 8.6%, which is what Apple is, it's pretty remarkable. That it's grown to be that much and it just you can tell by that is how much of a driver of the benchmark return Apple is all by itself.

I will mention one of the risk controls we have is that we have to be within 2½% of whatever benchmark weight is. So, for example if Apple is 8.63% of that benchmark,

we have to be within plus or minus 2½% of that number at all times. So we have to own a minimum amount of some of these bigger names, no matter how much the math may like or dislike them. And that's primarily at risk control, in terms of tracking. I mentioned we keep our tracking area very tight to the benchmark, so we have to own a lot of those bigger names in some proportion.

And then on 14 and 15, mainly 14 is more relevant to because 15 shows numbers since inception, but 14 just shows you our returns versus our peer group. This is through September 30th. So we are well above median, for 5 or 10 years since inception this product but more relevant for you since you invested with us just a little bit over 3 years now. You can see our 3 year number, we are in the 11th percentile and the 1 year number, we are almost the top quartile versus other large cap growth managers. So, it's been a difficult environment I think for a lot of our peers overall but it's been more of an attractive environment for us. And one reason it's been I would say the primary driver is that there's been a lot of this volatility to capture which you guys have seen which is really the driver of our returns.

So, as these stocks are moving up and down, we're rebalancing as they go down we buy more of them, as they go up we sell some of them, and because there's been so much movement this year, so much volatility to capture, that is translated well in excess returns for us, which can explain why you may hear that it's not a good stock picking environment but for those of us that aren't stock pickers it's a good diversifier because that is the type of environment that we thrive in. It's usually one that they don't do very well in.

If you want to turn ahead to just to give you a little bit more of a snapshot or breakdown of returns page 22 and 23. This is showing you the year from January through September on those pages. So we have the sector attribution, traditional sector attribution on page 22 and then the stock attribution on page 23. I think you know well by now, as I mentioned, we are not stock pickers, we don't do fundamental analysis, so you know this type of attribution is insightful to learn at least over the short term what affected performance but really any sector allocation we have or any individual stock allocation we have is just a by product of how we look at stocks on just that volatility and correlation basis.

So you can see that for the year for example, our underweight information technology has been a detractor to performance for us over all. But which is that beige bar, about 2/3 over to the right. But overall on the stock selection stand point, we've actually done very well across the variety of sectors. So you can see consumer discretionary, consumer staples, really that leads to this notion of volatility capture. So some sectors help us, some hurt us but overall even if we've had an underweight or overweight to this sector, there's been a lot of volatility for us to capture. Really across the board, across all of these names and that has lead to a very good year for us. And that breaks down further to page 23, the top 10 contributors and detractors. We usually expect both of these numbers to roughly wash out with each other. One standout as you can notice is Apple. As I mentioned if you look at the bottom on the right hand chart, all by itself it's been about 1.07% of negative performance. Which is very, I

wouldn't say it's highly unusual but, it's infrequent that one stock has that much of an influence either on the upside and especially to the downside, but really not only because of the return it's had 66% for the year, but again going back to it's average weight on the benchmark has been 7.6% when you look at the entire year.

Wilfred Leon Guerrero: What is your turnover? Christian McCormick: Turnover. Turnover for this product will be about, we'll finish the year probably about 110%. Gerard Cruz: it's high. Wilfred Leon Guerrero: It's high huh. Christian McCormick: It is, probably very high. Gerard Cruz: that's their model. Wilfred Leon Guerrero: In a way you are you're going against one of the things that you are told as an investor you don't what you might call it...Maggie Ralbovsky: find hope. Wilfred Leon Guerrero: Huh? Maggie Ralbovsky: find hope. Wilfred Leon Guerrero: Yeah, yeah. Maggie Ralbovsky: Depends on what kind of investor you are...Wilfred Leon Guerrero: Because you are relying on the computer right? Christian McCormick: Well yeah, and there's...That's a really good point. And the nature of our turnover is a little bit different so, you can actually make the case that for a lot of the names we are buy and hold, it's just the size of the hold is kind of is kind of is moving over time. So what I mean is we're not really, we don't say like, to do an example, we won't like General Electric for half the year and then sell it all, sell it all and invest in a new stock. So we're not you know owning a stock, exiting the entire position and then adding to it. We are more just adding and subtracting a little bit of each holding over time. And that's going to lead to a lot of turnover because we rebalance once a week, we rebalance very frequently. But it's usually the same names just held in different proportions within the benchmark.

Gerard Cruz: I hear you use the word volatility quite a bit, and I guess what you try to do is capture I guess return within the volatility. But is there a band of volatility that you do better in or is greater volatility a better place for you to make money? Christian McCormick: It's actually not greater or less, it's all how fast it changes between the two. Gerard Cruz: Yeah, because I remember back in '09 when you were underperforming and the comments were that the market was shifting. Christian McCormick: Yes. Gerard Cruz: Quickly and your model wasn't able to capture notwithstanding the volatility that I guess we hear that your model likes, it was too volatile. Too quickly and so there was underperformance.

Christian McCormick: Yeah I mean, if you go to page 20, that gives you the best snapshot of it. You know what we like, all else be equal is stability. So, I'm taking a step back, so it can be a high level volatility, or it can be a low level volatility, our model will adjust over time by itself, so this you know, mathematical model we're just looking at, I'll show it to you in terms of page 20. If you could just use your hand as best you can. We use a 4 year look back period of data. So in that 4 year look back period, the only thing the model is looking at, this is something that differentiates us from a lot of other quantitative strategies is just stock price. That's it. So over that 4 year period we are looking at the daily stock price of all the names within the benchmark. And within that 4 years we're just assessing again how they are moving relative to one another. We want to find the highly volatile stocks and the stocks that lower negative correlation to each other.

Now that 4 year look back period that the model uses is moving forward a week at a time. So that old week of price data drops off and the new week of price data comes in, thus you can imagine over 4 years it's a very slow adjustment. So we purposely do that because especially given how volatile markets can be, we don't want to be whipsawed. And have the portfolio do just and have the market move to a different type of environment right away. So we are willing to give up a little bit of return to protect on the risk side. So as you can see with that 4 year look back period moving forward over time, these bars are quarterly and especially in 2009.

You know an ideal period for us is say the last quarter of 2009, as you can see through you know the end of 2010 because really it didn't change that much. Or also say 2003 to 2007. Now volatility is at a low level but the reason why we liked these environments is because they are stable. There's not a lot of movement up or down and you contrast that with 2008 and 2009, the global financial crisis. It's this huge spike that really historically is going to be on its own especially in that 4 year look back period.

And so volatility is stable, it shoots up at the beginning of '08, comes down a little and then you know almost triples all the way up and it comes down almost just as quickly. And you can envision that as how the models looking at it is the model steps back trying to give its personality to math which is very hard, and it's saying you know what am I supposed to do with this data? You know I have a couple quarters here where it's just nothing in the 4 year look back period looks like that, it's just a lot of noise, how do I make sense of this relative to all the other data in there? And so that's what we mean by quick shift. Gerard Cruz: So how does it make sense of all that noise and how, how does it differentiate what happened in '09 to something that maybe is a little more permanent? I mean how would the model, how would the model account for a couple of quarters of or maybe more than a couple of quarters of what happened in '09 which was something pretty drastic and immediate and then kind of corrected itself over time versus something that maybe isn't quite as drastic and not immediate but permanent?

Christian McCormick: It's a great question. So it's always within the 4 year look back. That's always the measurement tool that it's using. Before this, it's a good question because it's an enhancement that we made after 2008 and 2009. Gerard Cruz: Really? Paula Blas: And there were changes to... Christian McCormick: yeah and so the most recent data... Gerard Cruz: Paula pays attention, I don't. Christian McCormick: it's not evenly weighted. So, the most recent data is always more heavily weighted anyway. Now these are all in mathematical terms, so you know in how it looks. So, years 1 and 2 have a heavier weight anyway than years 3 or 4. So the portfolio is going to adjust a little bit more rapidly and you can see, so I'm sorry and this is my fault I didn't articulate this, the three solid lines you see above the graph, that's showing you the active weights. So, think of that as how far we deviate from the benchmark or how close we come to it.

So if it's a low volatility environment, you'll see the size of the active weights expands. And this is what I mean by adjusting is if there is not a lot of relative volatility in the environment or in the market itself, you know think of that as the market is not really helping us out. So we have to take more risk. Our portfolio has to work harder to try to capture what little is out there.

But then the opposite happens when volatility shoots up, you can see the size of our active weights comes down very quickly, depending on how quickly it shoots up because now the market is giving us more volatility than we know what to do with. So we can take very little risk in the portfolio. So part of it is that is our active weights how quickly they can adjust is going to be thrown off by how quickly the market is moving up or down. But to your exact question, what they noticed is that the quarter like the 4th quarter of 2008, lets just take that top bar, is all by itself even though that's only one quarter out of the total of 16 quarters they are looking at. It is it's so dramatic, and so tremendous especially versus the other loan numbers that you see that is going to influence the entire 4 year look back period all by itself.

You know the analogy I like to think of, relevant keeping all that political talk now a days, you know if I'm trying to figure out the average net worth of an American, I have to figure out what to do with Warren Buffet and Bill Gates, they are Americans but by themselves they are so bizarrely wealthier than the rest of us that they pull the whole number, you know it's 3 hundred million people in the U.S., by themselves they pull that whole number up. So they're still Americans. I still want to include them in the data set but I probably want to minimize them a little bit if I'm trying to get a true sense and that was the enhancement that we made. Is and it's there was a proprietary piece on how you define outlier. But when you get outlier events like this, the model now minimizes the effect that it has on the overall 4 year look back to prevent the portfolio from adjusting to quickly. And again and the risk that you run, the risk that you run, and here's the tradeoff and why we are comfortable running this risk is that if this jump up in volatility what if it were to continue on and be at that high level permanently, is we're going to be later to that game, or we're going to be a little bit late to that game. Because we're willing to take the risk that you know what we'd rather make sure we will adjust to this high level only to have it come down again and we'd make the bet that it's not going to stay at that high level.

And if you look at the financial crisis or the tech bubble you can see that it tends not to stay up there. You know may gradually come down, which it did a little bit better in the tech bubble, but it usually extends not to stay a very volatile level. You know you got a couple of quarters of craziness but then it calms down so that was the enhancement we made.

Gerard Cruz: And that was after '09? Christian McCormick: Yes, that was actually in 2010, once the research was done. That was the driver but it was the financial crisis was the driver of that. Gerard Cruz: I see. Christian McCormick: Yeah. Wilfred Leon Guerrero: What is your definition of long term? Christian McCormick: For, in terms of how we look at stocks or in terms of performance? Wilfred Leon Guerrero: Effective, to be most effective in the long term. Christian McCormick: To be most effective over

the long term given the state of the U.S. Markets, we would like to add a 10 year it seems to be a reasonable data. I mean it's a 4 year look back but the question everyone is asking now and we're asking ourselves is you know if you look at this entire period, are these periods of bubbles now going to happen much more frequently?

So, and I apologize for making you guys jump around so much, but if you go back to page 19, you know the longer we have data the more important. So Intech was founded because we could go back we actually went back to before the great depression and ran our model, but the S&P 500 for example, goes back to 1966. And that's in terms of data that we feel comfortable with. When you run simulations or you look back at history, finding accurate data is the biggest issue. So we go all the way back to 1966 and that's what we ran our models on back in '87 to feel comfortable launching a live product. But you can see this is the same type of measurement of volatility that was on the previous graphics and this is annually.

So you can see on the right hand side the financial crisis and the tech bubble. Really the only similar type period we had was the nifty fifty back in the mid 70's. So you had from 66 all the way up to lets say 1997, you didn't have these bubbles. And even the one that nifty fifty that happened in the mid 70's wasn't nearly as dramatic as what we've seen recently this decade. So the question and this is why we've expanded our definition of long term is are these bubbles that you are seeing or lets say spikes in volatility, which is more relevant to what we do, are they going to be more frequent and happen every 3 to 4 years or will be more like history, we just happen to hit a couple of bad spots.

But it's exactly why we have the strong risk controls. I mean I can not emphasize that enough. We are willing to give up some return even be below our target return if it means we can protect on the risk side that's our concern. These environments, you know you'll get your returns if you need it but they have they're going to be much more damaging to you in terms of losing capital especially relative to a benchmark. If your portfolio doesn't have those strong risk controls. That's where we want to balance ourselves.

So I know trading came up last year and I brought some additional data on how we trade, but I wanted to open that up if there's additional questions on that or concerns. But otherwise that's I pretty much finished my formal comments, so more than happy to answer any of your questions.

Maggie Ralbovsky: This relative volatility is not fixed, right? Christian McCormick: Right. Maggie Ralbovsky: Can you explain? Christian McCormick: Sure the two tend to move, have a pretty high correlation that's actually only about .5, 4 so the Vicks which is become the most popular measure, if you look on CNBC that's all they talk about really, I mean the Vicks, I don't know how relevant it is, I think it's one of those catch phrases that catches on and not a lot of people you know understand the relevance. So the Vicks is just measuring the expected volatility of in most cases the

S&P 500 over the next 30 days because it's an option. So how volatile do you expect the Vicks to be over the next 30 days?

Now amazingly that tends to have a very high correlation with what the actual standard deviation of the benchmark is it's looking at the same thing. So how the benchmark is actually moves over time tends to be highly correlated to how the Vicks thought it was going to move, so there's a high correlation. Relative volatility or what we look at is more akin to what's going on underneath the hood, so just a good example is if every single stock and the benchmark lets say moved up by 20% on Monday and down by 20% on Tuesday, you turn on the TV and see that market moved up by 20% on Tuesday, on Monday, sorry down by 20% on Tuesday, there's no relative volatility there because every single stock is moving the same as the benchmark. So we're talking how stocks move relative to the benchmark.

The opposite extreme would be lets say that half the stocks by market cap go up by 20% but the other half in the same day go down by 20%, then you turn on the TV and look at nothing happened, the market was in volatile, will not move at all, but yet when you open up the hood there's a lot of individual movement in the stock. That would be an example of extreme relative volatility. So it all averages out to zero at the market level, but stocks are having a lot of movement individually.

So, what we're looking at is really that that individual movement underneath the hood. The two tend to be correlated with each other. That means that when the Vicks is high when market volatility is high, there actually tends to be a lot of individual stock movement that's high as well. When it's low it's low, but they can diverge from each other.

Maggie Ralbovsky: So this is not a ratio, this is you said this is the weighted average? Christian McCormick: Weighted average variance. Right, right and there's yeah it's an internal measure of volatility we use and it's meant to be a snapshot. Right, I'm looking at stock dispersion around the benchmark. Maggie Ralbovsky: But it's not a weighted average variance it's a weighted average relative variance? Christian McCormick: Right. Right. Maggie Ralbovsky: So it is a ratio. When you say relative, is that a ratio or a difference? Christian McCormick: When we say relative just right so the variance of, I'm trying to think of the variance of the stock minus, the stock volatility minus the benchmark volatility square. Right, think of it that way.

Christian McCormick: Now I do want to ask if you don't mind, how are things going for you guys overall? The portfolio and all. Gerard Cruz: We've done well. We did 20% last year. Christian McCormick: Is that calendar year or the fiscal year? Gerard Cruz: Fiscal through September. Christian McCormick: 9/30 Okay. Gerard Cruz: So it's okay. Wilfred Leon Guerrero: Makes it rough on Maggie because we expect the same result. Gerard Cruz: Actually we expect better results. Paula Blas: Maggie is not taking the credit for the outside, she doesn't want to take the blame for the down.

Paula Blas: She's like I'll just stay right here and take whatever the markets willing to give me. Wilfred Leon Guerrero: She said it was on you that made the thing 20%, she

doesn't want to take credit for it. Paula Blas: And he wants a repeat. Gerard Cruz: You should do it Maggie. Come on. Joe T. San Agustin: yeah Maggie go, go for it. Wilfred Leon Guerrero: That's not good news you know, I think she's thinking of something that's going to come out this year. Paula Blas: You mean next year? Maggie Ralbovsky: QE4. Paula Blas: QE4 exactly. Joe T. San Agustin: Hey, can only go up can't go down. Paula Blas: That's the talk now right? Gerard Cruz: I don't know there's a lot. I don't know. Maybe not, election is over.

Christian McCormick: So you are sticking with your current asset allocation then or are you going to shy away from equities? Wilfred Leon Guerrero: This is what she was talking to us about. Gerard Cruz: If it were up to Maggie, yeah. We are going to be invested in CD's.

Paula Blas: Maggie's fiscal cliff. Right there. Ivan: Looks like a double diamond ski slip. Maggie Ralbovsky: Grand Canyon. Paula Blas: Grand Canyon. Gerard Cruz: Cliff is an accurate word for it huh. Christian McCormick: Yeah. Gerard Cruz: I didn't see that one. Is that earlier this morning? Maggie Ralbovsky: You have a copy, you should. Christian McCormick: Page 28. Paula Blas: I think that's your set Gerard Cruz, the one in front of you.

Gerard Cruz: But our portfolio is doing well. That's for sure. Maggie Ralbovsky: Yeah but on the other hand I also showed this page as to why you shouldn't... Gerard Cruz: Shouldn't what? Stocks remain attractable. Maggie Ralbovsky: Pricing. Maggie Ralbovsky: You know a lot is pricing stocks...Christian McCormick: Stock price pretty much shows what's already priced in there. Wilfred Leon Guerrero: Who is the person responsible for this model? Who did this? Ivan Fong: Person responsible for this model is Adrian. Wilfred Leon Guerrero: Jennifer Young? Christian McCormick: He's retired now, so Dr. Furnolds was the founder of Intech. And he actually, I'm sorry and you know so I should mention that, I realize, just the timing of it, just got so used to talking about it earlier.

I mentioned this in November of last year, so if you want to turn to page 4. I was just thinking of recent changes and forgetting that I haven't seen you in a year. So we've had a succession plan in place for about 3 years. So if you were to look above or just right in above Jennifer Young, so we had our current CEO at the time, his name was Bob Garvy, and then above Adrian, we have the founder Dr. Furnolds. So back way back at the end of 2008, we announced that both Bob Garvy and Dr. Furnolds were going to be retiring at the end of 2011. They would stay on with Intech but not be in their current, you can call it supervisor role, their current roles.

And we promoted Dr. Banner to be Co-CIO at the end of 2008 and Jennifer to be Co-CEO at the end of 2008. And then so in December 31 of last year, that transaction actually took place, so Adrian became the CIO and Jennifer became the full CEO. Bob Garvy still works for us. He's that position's a little bit more has to do with semantics the title, but consultant for Intech. He's actually in the office every day, he's no one reports to him, but his primary job is dealing with clients and consultants and kind of being out on the road being the face of Intech.

Dr. Furnolds actually still has a formal role. We don't list him here just because it is still that same consultant position and he could step down any time. But really Adrian had been the fact CIO for probably 4 or 5 years in terms of running the model and the office and Dr. Furnolds had really dedicated most of his time to research. So when we make those tweaks and enhancements, that's the type of research that we mentioned. And if you wanted to add another box at the bottom, below say Dr. Furnolds, he still comes in to Princeton everyday but really just doing ongoing research in the process. So he's not in charge of anyone, no one reports to him. Adrienne certainly loves having them in there to bounce ideas off of, sits in on all the meetings but his role is really purely a research one. But both he and Bob Garvy are still involved with the business but again I apologize and I think I had mentioned it last November but that actually did take place at the beginning of this year, the succession which we have in place for about 3 years.

Wilfred Leon Guerrero: Other than that, there aren't any major. That's the complete change, nothing has happened since? Christian McCormick: No except for that hiring of John Brown. You know we hired over in the right, in Princeton, John Hanke. A new member of that Princeton, a very junior member, junior research member just to that Princeton research group. Wilfred Leon Guerrero: Okay, any issues with any of the regulatory agencies? Christian McCormick: None, we're happy to say. Maggie Ralbovsky: This is a new one right? Christian McCormick: Yes. Maggie Ralbovsky: We had one but that was, so you do this once a year? Christian McCormick: We tend to update it quarterly if we can. Maggie Ralbovsky: So this is you have a third party firm measuring attaining cost or transaction cost. It shows it's slower than up here. Gerard Cruz: Yeah, it has to be right otherwise this wouldn't would it work if you? Christian McCormick: Well now so a few things, we don't cause issue of trading a lot or turning is an important one. Maggie Ralbovsky: Soft dollars? Christian McCormick: Yeah, we don't do any soft dollars, which is important. We only pay hard commissions. Maggie Ralbovsky: That's relevant to our topic of directed brokerage as well. So maybe we can explain what is trading cost, is it just commission? Christian McCormick: Oh sure, actually we do have it in the book. Maggie Ralbovsky: He's doing part of my work now. Gerard Cruz: It's okay.

Christian McCormick: If you go to page 32, so trading cost we you know even though we trade a lot, we hate trading cost. In our view, trading cost are kind of this insidious piece that you don't really think about but it eats away in the returns. It just you know from trading cost one basis point and on, that's going to be a knock on your returns on your net returns overall. So the most that you can minimize that, you know the better and really there's three components to a typical trading cost you will see with most managers. The hard commission what you call hard dollars, and that's the actual fee you pay to a broker to make your trade. So it'll be no different than if you were trading on your Schwab account at \$7 a trade or whatever happens to be that hard commission you pay them.

The second commission piece that you find frequently is soft dollars. Now soft dollars is can take a variety of forms but that's an additional commission that is paid with the

expectation that a manager will get some sort of benefit that benefits them in managing the portfolio back. So if my hard commission say is 10 cents, I may pay 20 cents to the broker and that extra 10 cents is supposed to come back, lets say I'm trading with purely hypothetical say Merrill Lynch, you know Merrill Lynch is going to provide me as a manager economic research reports, economic reports, some sort of benefit that I use as a manager to manage your portfolio.

Well with Intech we don't use trading cost cause as you can imagine economic and research reports are useless to us, we don't look at them. That and we just don't agree with them, we don't think that soft dollars makes sense. We think they benefit the broker and ultimately do not benefit the client. So we only pay the hard commission.

The second piece and this is the more important one in terms of its effect is market impact. So you know and I think you all understand this very well, just the more you buy and sell into the stock and the greater the amount you buy and sell of it, the more you are going to move the stock price. So, you know if I Christian go out and buy 5 shares of Apple, I'm not going to move the price of Apple one iota. If I go out and buy five hundred million shares of Apple, I'm probably going to move the price up. So the greater you are moving the price by buying or selling that stock, the greater your market impact is. That's a form of cost. You know if our model wants to own Apple at 30, because we are buying a lot, we move it to 31, well that's you know that's a big price movement that we caused all by ourselves.

So how that breaks down to Intech? So the commission is the hard basis points. That's 5 basis points cap that we pay to our brokers. So we don't pay them anything more or less and we pay them for the whole kind of basket of trades that we have them do. The second number of market impact is the one that we try to minimize as much as possible and keep low. So you can see what this graph is showing, both annually on the left and quarterly on the right. This is how that third party group that evaluates our trading cost, this is how we rank versus about 46 other large cap managers that cover about 365 billion worth of trading. And we're towards the bottom, which is where you want to be.

So you can see our trading costs are highlighted in that yellow highlight with the red numbers below. The commissions 5 basis points so subtract that and you can see what the market impact is from year to year or quarter to quarter. But we trade less expensively or more cheaply than about on average 75, 80% of our peers, if we're not towards the bottom. And that's regardless of market conditions so you look at like 2009, where trading cost were all over the place, we tend to be at the bottom. And that's very important to us. The way we do that is although on a certain day, we're trading on average more than most managers. The average trade meaning the average we are trading one stock tends to be the lowest and about the bottom 1%.

So we're trading a lot of dollars but we're spreading it out over hundreds of names and therefore it's a very small order size and that goes to what I mentioned to you about you know we're not buying or selling whole positions. We're just I'm adding or

subtracting just trimming or adding slowly or slightly to various positions of the portfolio.

But to Maggie's point, in terms of directed brokerage, I don't know which side she falling on this so I got to be careful here. We've actually been told by several clients so you know they ask us to direct brokerage we won't do it, what we can do is always produce a report after the fact that tells you who we traded with and that usually makes sense but our trading cost are usually cheaper on a total basis than even..sorry step back here. So if you have a directed brokerage and you are getting some sort of commission recapture program through broker A, we're probably trading cheaper with broker A even after the commission recapture program. Because going back to that example, if you're paying 10 cents hard commission 10 cents soft dollars, maybe you're getting back 7 or 8 cents of that hard that soft dollar. You're not going to get it all back, we're only paying the 10 cents, so we still come out cheaper even without the commission recapture and the directed brokerage. And to the bottom line, that still matters because that means your return for us will be higher with us will be higher on a net basis.

Maggie Ralbovsky: What's the market impact if the broker probably wouldn't be as careful about market impact would cost us. Christian McCormick: Yeah, our trading is cut throat. So we have a list of 12 brokers, and again they only get paid that hard commission and we tell the broker where they are on that list. You know if you're number 1, number 2, number 3, you get more of our trades. You're purely evaluated on market impact. So it's the closest thing to a free market system I think we have in the U.S. Is you're told, look you're here at the bottom, you know, if you stay at the bottom consistently, you know you are not going to get anymore of our business. The only way they are going to improve it, because we don't care about cheaper commissions is that market impact. Trade cheap or more effectively or you're going to lose more of our business.

So and then we find this the same 12 that we move up and down the list and switch places with each other but it tends to be a very stable group. That's all they're focused on, it's market impact. Maggie Ralbovsky: No recaps. Christian McCormick: Okay. Wilfred Leon Guerrero: Any more questions? Gerard Cruz: No sir, good job, thank you. Wilfred Leon Guerrero: Thank you. Gerard Cruz: I'll remember the answer, I don't want to ask the same question. I'll just ask Paula. Paula Blas: Or just read the minutes.

Christian McCormick: I got to be honest with you, if you are listening to a replay of an Intech presentation on your free time, Gerard Cruz: No it's great, Holly, Carl in Manila. Christian McCormick: Oh, for the conference, you heard Carl speaking. Ivan Fong: Yes, I was out there as well. I think a lot of I was speaking to another guy, he said you know it was a Intech in general is very dry, it's a mathematical it's very boring but I he was saying that.

2:30pm – 3:15pm Winslow

John Maschoff: When I drove to the airport on Monday the 26th to head there my car thermometer registered 14 degrees Fahrenheit so a little bit of snow on the ground so this is a nice change. Joe T. San Agustin: You can take off your coat now. John Maschoff: Yeah right. Wilfred Leon Guerrero: Where you coming from? Minneapolis? John Maschoff: Minneapolis right. But Wilfred Leon Guerrero: Surprised that you made it out. John Maschoff: Yeah. The flights went well everything was on time. And that's great. But this is my 4th visit to Guam, having coming here with Clark when we made our initial presentation, then I know I came back and then Michael and I were here even Clark was here last year. And Clark sends his regards to everyone and everyone at Winslow is pleased to have a chance to work with you. So I know that Diana sent us an agenda. The booklets that we have cover all the information that you asked us to cover. And so Michael and I will share those responsibilities and certainly we want to respond to all of your questions relative to your portfolio, the investment process and the firm. So anytime you feel you'd like to pop a question our way, just feel free to do so. So any other thoughts from anyone before I get into the booklet? Michael Palmer: Anything you most want us to focus on or least wants us to pay attention to? Gerard Cruz: No, we'll let you go along.

John Maschoff: Okay look on page 1 and let's just do a quick update on the firm and a couple of things I want to focus on but again just to update everyone. I think the biggest message here is that we continue to focus only on large cap growth. That is the only investment process we do. All the resources and energy of everyone in the firm is focused on that process. Clark founded the firm 20 years ago so this past summer we celebrated our 20th anniversary. We now have 28 employees. We manage money for 79 clients and about 110 portfolios.

As Clark mentioned last year, when Mike and I were here a couple of years ago. We had taken steps to limit the growth and assets under management from new clients so we on certain channels, Maggie knows this well as the people at Wilshire do. We are close to new separate accounts such as yours, we continue to have two Nuveen sponsored mutual fund and collective investment trust that's open primarily for defined contribution plans. So they're only open to you know 401K plans or you know the risk qualified plans or things of that nature.

No individuals in those funds whatsoever, it's been the same portfolio management team of Bartlett Wear and Justin Kelly, with Clark serving as CIO's for the last 13 and a half years. You are aware that we are subsidiary of Nuveen, it's a wonderful partnership. We have all sorts of independence. The firm is managed by 5 person operating committee. Clark, Bartlett Wear, Justin Kelly, Jean Baillon, she's our chief financial officer, and Michael Palmer who joined us over 3 years ago as president of the firm.

And you could see the numbers there on the page where we finished the quarter managing about 34 and a half billion dollars in assets for once again the clients that I

have mentioned earlier. You know our priorities here have been in closing is to preserve the ability for us to generate the outfit that we have historically for our clients, maintain again the consistency that we have, so again we talked about that in our closing and such. The one thing that I think is very important that we put in place in the middle of the year, July 1st it was effective in working with Nuveen our parent company, the operating committee has put in place equity ownership for every single employee at Winslow Capital Management and we are talking from Clark down to our receptionist.

It was in the money at the time of the grant. It vest between now and December 31, 2018. It pays an annual dividend and again it allows other individuals, the next generation of people to have an opportunity to share in the success of the firm but the firm can only be successful if we continue to be successful for our clients. Since we're closed the formula for the evaluation there is not based on growth and assets under management but maintaining you know the profitability that we have with our existing client base and obviously growth and asset management through market appreciation is beneficial to everyone there.

We did add two staff in 2011, Clark probably mentioned this last time he was here, Michael Hoover in October covering energy working with us there, and Mitch Kaiser covering consumer discretionary. Mitch joined us in April of 2011. There have been no departures of any investment professionals and there are no plans at this point to add anyone and there have been no departures at the portfolio accounting administrative level as well. So, again same team, same process, very consistent organizational structure and a lot of support from our parent Nuveen. Michael Palmer: And if I would just add as John mentioned the date 2018, when Nuveen acquired Winslow the terms of that arrangement were a 5 year period of time. There were contracts signed and none competes in the standard assurances that people would be in placed those would come to an end at the end of 2013. It was always our intent well before that point, to create the next generation. And that next generation not only would extend the period, but as John mentioned also broaden the participation and so I think what you should take away is all the stability that John talked about in the team that processed the portfolio, people are all engaged through 2018 and so really all that means is continued stability over the forthcoming years.

John Maschoff: Lets flip on over to page 4. Just want to refresh you on the investment process there. Again, we have integrated the research and portfolio management process so the decision makers, the people that are doing the hands on fundamental stock analysis are making decisions in the portfolio, portfolio construction process led by Bartlett and Justin. What we're seeking here is to find companies typically that have earnings growth in the 15 to 20% range, but through our own fundamental research are going to grow faster than Wall Street consensus earnings expectations if we know we can find companies like that and the way we construct the portfolio relative to the benchmark, we can have both an absolute winner and over time relative winners against our peers and the benchmark.

We also distinguishing characteristics, we want to look for growth and have a wide aperture for opportunity so we're looking for growth in three types of areas. The quality of consistence sustainable growers and again there's a list of those companies broken out here in the back of the book. We also want some quality cyclical companies in the right part of the cycle and but newer businesses newer and more rapidly growing industries. We want to pay attention to evaluation. It's a quality portfolio, you'll see very low leverage, free cash high, free cash flow, things of that nature from a valuation metric stand point.

Portfolio construction guidelines, we want to make sure that we construct a portfolio in a very intended manner, just not have a collection of stocks we like so we have some guidelines there in terms of our sector weights plus or minus 10 percentage points of a sectors weight versus its weight in the benchmark. A variety of earnings growth weights, a variety of P.E.'s there and we look for opportunities again across the markets spectrum. It is a large cap growth portfolio but looking at names such as a big winner for us that we bought back in 2007 an Intuitive Surgical which we still have in the portfolio. We bought that as a \$6 billion market cap stock and it's again up in the, you know mid range now in terms of market cap and again, exercising ourselves, disciplines very, very important, we know that we need to you know sell stocks when the reason we bought it have changed. Valuation is imported on the buy side it's also imported on the sell side. We think a stock has reached full evaluation over value; we want to trim that back put it into a name that we think can perform better from that point forward. And again you know a good P.E. to growth weight in the portfolio in terms of the price earnings ratios and we talked about the market capitalization there.

But also if we see a stock fall from 20% from where our cost are recent high that would trigger a full review there. And again we limit position size to 5% of the portfolio, that's one of your guidelines however we do have some exceptions to that for some client's portfolio where we can have a benchmark weight plus a hundred basis points. We put that into place at the end of 2011, first part of 2012 basically we have a reflection of the huge market weight that apple computer was on the benchmark.

At the end of the quarter, September, Apple was 8.63% of the benchmark. So being underweight of that obviously would create negative attribution for Apple computer in the benchmark. Your portfolio performance from it's inception and specific periods through the end of October and the 3rd quarter stand alone are represented on page 5 there, you can see that the 3rd quarter was one where we had some modest out performance versus the benchmark. If you look at the full year to date and the one year number, a challenging period for higher growth earnings managers.

We saw going back to the 4th quarter where we underperformed the benchmark, we actually were ahead in October on a year to date basis, but again the big concerns that you saw at the end of the year with what had gone on in terms of people fearing a double dip in the recession concerns over will China have a hard landing or soft landing. All the issues that were predominant in terms of the challenges that are being faced in the European Union in their peripheral economies, what's that going to

lead to for global growth as well as U.S. growth and the impact there. So we basically underperformed on a one year basis last year.

But you know again, the first year was great, excuse me the 1st quarter of 2012, we were up ahead of the benchmark significantly and had a 1st quarter return near 18%. Again those global macro economic fears resurfaced again in the 2nd quarter and again because we have had in the portfolio really since the beginning of the economic recovery in March of 2009, what we have called in term a pro-cyclical bias in the portfolio. And meaning that is that we felt that the U.S. economy would continue to grow and recover in the recession although at a very low pace but a moderate pace but recovery none the less. So we have always positioned the portfolio for that and that obviously was a detriment to us in the 2nd quarter of 2012 when again these macro economic fears such as China and Europe. Our own fiscal cliff, what's going to happen, what would be the results of the election although those things distracted from the performance and portfolio.

The 3rd quarter as you see at the top of the page there, some of those issues were you know lessened fear in terms of Mario Draghi, you know the head of the ECB there making some statements and Angela Murko perhaps being a little more accommodative there. That was helpful for the market overall and we continue to see things that were improvements in the U.S. economy we know that housing starts have popped up here. A little bit of improvement in the unemployment numbers, housing prices again and profitability of the individual companies that we invest in were showing promises there so the 3rd quarter was a good quarter for your portfolio.

We have continued to improve upon that here in the 4th quarter. Year to date, your portfolio was up 13.8% as of yesterday's market close and versus the Russell 1000 Growth of 14.2% so year to date your portfolio is about 40 basis points behind the benchmark so we have closed the gap. And again if you kind of look at and carry out that 4th quarter performance there, if you were stridulate that since inception numbers, your portfolio's up about 87.5% versus 88 for the benchmark. So you know maybe about 50 basis points cumulative underperformance and annualized. Again you'd be about 10 basis points so 1/10% underperforming since your inception date and you can see the market valuations there. What you gave us, there has been some withdrawals in the past, and I think Paula correct me, didn't we have one here recently in the 4th quarter? I believe there was a slight small withdrawal. Paula Blas: Yeah. John Maschoff: There was but it's not reflected here on this particular page. From a guideline compliance we are in compliance with all of your guidelines that are specified. Any questions at this point?

I think what's really important is to go really forward and look at page 8 in the attribution and the other numbers in the pages in between that are just representations of our overall long term composite portfolio but I think in the interest of time you can read the numbers but we don't need to dwell on that here.

What we've put together here in this the 4 quadrants here are the sector the performance attribution by sector, some individual stocks highlighted. The year to

date through the end of October. The top left hand ones there you can see that no materials consumer staples again by virtue of some good stock selection there but also near our maximum underweight of consumer staples has benefited the portfolio. Telecom services, you know industrials you know not really contributed but not detracted either. Financials have been a tough place given the challenges in that particular sector. Technology energy has pulled back, health care consumer discretionary again reflective and this is also on the 1 year basis on the right hand panel at the top right, this reflective the fact that is a you know a cyclical sector there in our pro-cyclical positioning there did not payoff when there was periods of challenging to growth and lower economic expectations and that has led to some of the one point of major underperformance on a one year basis through the end of October there.

Visa if you look on the year to date, that's been a winner for us versus the benchmark on both a you know 10 month period ending the October of 2012, but for the full year we bought that in 2008 on its IPO and continues to be a major contributor of the portfolio salesforce.com. Again a long term winner in the portfolio, Express Scripts has pulled back here in recent weeks but again a very long term contributor on a year to date basis and beyond that. FMC Technologies which is an oil service company working in the subsidy infrastructure for off shore drilling and things of that nature we trimmed that back as it is pulled back here.

Facebook we did buy that on the IPO, we sold part of that initial allocation we see there on the day of the issue and subsequently sold as the market sentiment moved against Facebook, but again we did an awful lot of research upfront and feel that's going to be a very, very successful company. And in this latest quarter reports some of the metrics that we expected that would be seen early on in terms of monetizing their area their business in the mobile phone applications and things of that nature have begun to materialize. So we actually bought about a half percent weight in Facebook back here in 4th quarter. So and we've sold out Cognizant Technology Solutions completely because again some challenges in the financial markets sector which is a large portion of their client base.

Year to date again we've talked about Visa, American Tower benefiting from again the build out incapability for smart phone transmission. It became an REIT at the beginning of the year, it converted to that purpose for tax reasons but continues to be a strong player. Union Pacific a cyclical stock, one that has been able to experience some very significant renegotiation of some long term contracts at higher prices and higher margins. It continues to do well. Abercrombie and Fitch again the challenge that you have in consumer discretionary by due, this is not in your portfolio because of your international limitations but the fact of the matter is from a composite stand point it has some challenges from a new competitor in China and some loss of market share there. So we exited that stock completely in other portfolios but you never owned it. Any questions about performance at this point?

Wilfred Leon Guerrero: Not performance, but I'm looking at your page 6 and your objective, we've been in existence 20 years right? John Maschoff: That is correct.

Wilfred Leon Guerrero: And your investment objective is supposed to be 300 basis points annually and you really haven't met, that have never met that except the 13½ years, maybe you better rethink about your objective. John Maschoff: I think if you would again if you were to look at the point in time you know prior to the current year prior to 2011, 2010 you would see that we were achieving that objective over the longer term. It has been a very challenging environment for active managers over the last 2-1/2 you know 3 years basically because of the high correlations in the stock market so an active style looking for these higher growth companies when growth is suspect by other investors you know that actually has you know had a meaningful impact on these you know more recent numbers in terms of achieving that 300 basis points of positive alpha ahead of time.

Michael Palmer: John, maybe just past that the ruling chart as well, I think it's easier to see there, you're absolutely right if you look at you kind of look at cumulative period of time the results are not as strong as one would expect given the objective that you just stated. And much of that is weighted as is always the case, by the recent period so if the recent period is really strong you see very strong results, and if you see the recent period weak, and it's been weak you'll see you see more disappointing results.

This is a chart showing rolling 1 year results and the average over those rolling one year is this dash line here at 3.4%. So what that's saying is that over most periods of time, this is every 12 month period rolling quarterly right, now you can see that there have been periods when it's been well above that and there've been periods fewer but none the less there have been whether we are below that. But on average we've been able to over a rolling 12 month period of time generate returns in excess of 3% ahead of the benchmark. So, I don't want to say it all depends on how you look at the numbers right, but of course in a way it does and the very difficult disappointing result over the last 12 months have influenced the longer termed cumulative results.

John Maschoff: Good point if you understand it. Michael Palmer: No, it's absolutely a fair point. And if you were to look at this chart a year ago, you would've seen something very different and I expect that if you look at it a year from now you will see something very different, and that's the challenge of cumulative results its that they are very much weighted on or dependent on the most recent period of time and by doing rolling periods I think you get a little better sense of the consistency result. And you can see that even on the right side of page 7 which is in your book. That's looking at calendar years and again you can see that there have been periods of time when we underperformed but they've been fewer in number than the out performance and the magnitude of the underperformance has been smaller than the magnitude of the out performance. And so I think that you...

Wilfred Leon Guerrero: As a client Mike, I look at this thing and good grief these guys only met this thing one time. Met their objective one time. You know just looking at this page 6. Michael Palmer: Well, I would say looking on page 7, we met it in 99, 2000, 2001, 2004, 2005, 2007, we met it many more than one time. And to your point, yet think about that, what that says is over 13 years we've met it for the...Wilfred Leon Guerrero: but this is annually, this is quarterly right? Michael

Palmer: No annually as well. This is cumulative. That means that means 1.9% compounded every year over 10 years. Wilfred Leon Guerrero: okay.

Michael Palmer: That's what that means. Not for 1 period of time or for, I would suggest that it is far better than what you're insinuating... Wilfred Leon Guerrero: No, no I'm not insinuating anything. Michael Palmer: but what I would also suggest is that you're fair and right and we from the last 12 month perspective, you look at when you hired us, you hired us in the end of 2008. 2009 was a pretty good year, 2010 was a pretty good year, 2011 until end of October was good but then the full year of 2011 was disappointing because of the 4th quarter and 2012 has been disappointing, although as John mentioned, we've been making up some ground there. We're approaching even but we haven't out performed by the objective and so the last 12 months has clearly been a period where we have under delivered on our expectations for you and your expectations for us. And there's no way to say that any differently. And as John said, why was that? A big part of the reason for that is that we were positioned for economy that was growing we believed is going to grow a little stronger and that in fact did, and in that environment our portfolio sucked.

Now I don't want to move off this until we're ready to move off this but that does beg the question so how does the portfolio position today in an environment where the true trajectory of growth is slower than it has been and we have taken some steps and made some changes on the portfolio but I don't want to move off of performance until we're ready to go on.

Wilfred Leon Guerrero: Did you have a question to ask? Gerard Cruz: No, no. I'm just. That was my next question. Where do we go from here? They have, Winslow has a very different style in it. Their style of investing and the way they look and pick stocks compliments our other manager who's a pure quantitative manager and so though the line up that we have for our growth mandate is well complimented I think by Winslow and Intech serving as the alternate manager. And so you would expect a little bit of negative correlation between the two managers to the extent that their styles are a little different and it actually both welled for the portfolio and that you don't want two managers... Wilfred Leon Guerrero: yea, they're coming in with the same result...

Gerard Cruz: I'd be more worried some if your portfolios look the same and the way you pick stocks look the same because of the fact that there is a difference I think is good. But I think the question that our Chairman is asking is, you have a mission statement and then just based on the numbers that we see if looked at on its most basic presentation, it doesn't appear as though you are making it, so maybe there is something underneath that we need to take a look at.

Michael Palmer: Sure. Let me try to address that in 3 ways because I think that really is the heart of it right. Is there something different about us today than when you hired us because when you hired us we were generating those kinds of returns. You believed that we would not only be able to out perform the benchmark that compliments your existing you know your other manager well, and to the extent that

has not been the result at least over that full period of time, and why is that, what's going on? And let me add one other point to the issue of the longer term of 3% out performance benchmark.

And again, I don't want this to sound like an excuse at all, but I think it is an important reality is that in a period where we have weaker absolute returns, it's going to be harder to generate the same level of relative returns. So let me tell you what I mean by that. If you look at over long periods of time you've seen stock returns in the market of about 10%, 9%, 11% let's just say 10%, in that period of time we would expect to be able to do 30% better than that in terms of adding extra returns say 13% versus 10% that gets us 3% out performance. If you look at the period of time, you know 5 years, 7 years, 10 years is a little closer to 10% although notice that the benchmark was only up 7 for 10 years, 5½ for 7, 2% for 5 years adding a full 3% on top of 2% is not a 30% premium, it's 130% premium right, so it's a lot harder to get 3% out performance in a 2% market than it is in a 10% market. That is something that is true for all active managers, so I think you know a fair statement would be why is it that all active managers on average, have had some challenges over recent periods of time. Part of it is simply that the absolute levels of return in the market have been small. I don't mean that to be an excuse, we continue to believe that over time we should be able to generate a 3% out performance of the benchmark but it is a little harder when you're getting smaller absolute returns in the market.

The second point I would make is that if you look at this page that John passed out, this rolling 1 year return, as I mentioned on average we have been able to generate in rolling, it's just add a quarter drop a quarter, but it's just a full one year rolling 12 month period of time we've been able to generate returns of about 3½, 3.4%. There have been periods of time where we've done worse than that, we've highlighted those in the red here, and the most recent period on the far right you can see is one of those.

The point I would make is that they are although not unpressidated they are also not common, they are relatively infrequent, they have happened before so this isn't something that is unique now. The fact that we've underperformed over the last 12 months, is not well what's different about the firm have we've changed our process or approach. The answer is no, we're the same firm, deploying the same discipline, and the results over time have been consistently positive but there have been periods in the past where we've underperformed as well.

Each of these periods by the way are a little bit different in terms of the explanation, but nonetheless we've been in this situation before and what you'll notice we don't linger there very long. Generally when we've been in a period of underperformance it bounces back quite quickly and in quite positive territory.

In the third point I would just make in terms of this is harder to see in the numbers right but it gets to the heart of what we do. We build a portfolio where our research is convinced that the stock can deliver out performance of its earnings growth. Not so much the price of the stock that ultimately will come. But what our research analyst is looking for is can this company do better than its peers and better than the market

believes it can do in delivering earnings growth going forward and we measure that across our portfolio. And the question is, are we doing that as well today as we were historically? In a way its saying our research is good today as it was historically. And the answer is yes, that on average this is our estimates, not the markets estimates but stocks exceed our research estimates 2/3 of the time. And if you look at that it's been relatively consistent between 65 and 70% over the last number of years.

So, the fact that we underperformed in 2012 is not because our research has been less accurate in forecasting companies that can beat their earnings expectations. It's been really two things one is we were positioned for a world of slightly faster growth and that didn't happen and therefore a number of our more rapidly growing stocks got hit harder. The bigger defensive higher yielding companies did better.

And the second point is that the magnitude of the winners have just been much smaller. So you're to think about it in baseball terms, I maybe overly simplistic, but there's two ways we can win as a manager. We can have a better batting average and we can have a better slugging average, right how many we hit out of the park. And so what I've suggested is that our batting average has been about the same, we're getting about 2/3 right and 1/3 wrong. And that's pretty good for an active manager.

The ones we get right generally do much better in magnitude than the ones we get wrong do badly. And that hasn't been the case either over this period of time. The winners have performed about the same as and maybe a little worse than the losers. And how might you see that in the material that we're displaying here. We're only showing you on page 8, let's just look at year to date on the left side of the page, the bottom left, the three winners and the three losers. Sometimes they show more than that and I'm happy to show you a list of 10 because I think it's more indicative and we can send that on.

But normally what you'd see is that the losers 20, 30, 40 basis points of underperformance and the winners 60, 70, 80 basis points of out performance. So we do have some losers but the winners do better. What do you see on this page? Well the winners and the losers are about equal on opposite directions right, the winners are not doing that much better than the losers. So, our batting average has been consistent this year, our stock research has been right but the reward of that being right has not been as great as it typically is. The slugging average has not been that great. Now why is that?

I think an important part of the reason for that is the market is skeptical about the future of these companies. In a world where growth is slowing and a company is beating expectations and growing quickly they say yeah that was this quarter right but it can't do that next quarter can't do that next year because the market the world is slowing and the economy is slowing and so what's happening even when the stock does well fundamentally, is rather than the price going up, the price stays about the same. Maybe goes up a little bit and the evaluation goes down. So we're seeing a somewhat different market. So how would I summarize all of that? Our research hasn't deteriorated over this period of time. We're getting as many right as we've

gotten wrong. But we got hurt for two reasons. One is self inflicted. I would argue we got something wrong and that is we were positioned for a world that was going to grow more rapidly than it did. We would take that criticism and by the way we are positioned for positive growth but a little less and I'll mention that going forward.

The second thing is, is that the market simply hasn't rewarded the good research as much as it normally does. It's been a world where we've seen you heard the terms risk on risk off right, highly correlated markets. So company may deliver good results but because people are worried about Greece, everything goes down today and our good results in the company get lost in that. That doesn't go on forever. What we're seeing is a portfolio that has meaningfully more earnings growth than the market overall at really attractive valuations.

Now, my final point and then we'll get to our outlook. But how would you see that in the portfolio? Let's go to page 10. If you look in the upper left, look at the third line down, one year earnings per share forecast. So your portfolio our research believed will grow earnings 17% next year versus the Russell Growth Index which is already a growth year index than the broad market, say the S&P of 12%. By the way the broad market will be mid single digits okay, but what that is, is that's about a 40% growth premium to the market 17% versus 12%.

What is the PE or valuation we're paying for that? Well that's the next line down, number 4, 16.9 let's just round that say 17 times or a price earnings growth ratio of 1 a peg ratio of 1. You frequently see a peg ratios of 1.1, 1.2, 1.3 so that's right there an indication that this is a cheaper than normal portfolio and you compare that with the Russell Growth Index of 15%. So the difference between those is a 13% premium in valuation for a 41% premium in earnings growth. It's a portfolio that has a lot more earnings growth opportunity in it than the market overall.

Eventually if that research is right, the stock price reflects that. It may not immediately, it's not always coincident in part because all the other macro events right everybody's focused on the fiscal cliff right now, everybody's focused on Europe 3 or 5 months ago, and so you don't always see price and fundamental success connected, coincidentally but ultimately they have to connect. And so that speaks to our outlook and portfolio. Our view is that the market or the broad economy globally, even though I talk about you know global economy at a U.S. portfolio in fact U.S. companies generate half the earnings outside the U.S. so you have to think about the world economy. The world economy is going to be positive in growth over the next 12 months but slower in trajectory than we thought a year ago and that's true for the U.S. as well 2% positive GEP growth assuming we navigate the fiscal cliff not 3% by positive but slower trajectory and a wider range of potential outcomes, right there clearer risk out there. Will we go over the fiscal cliff or will we navigate that successfully? Will Europe stay integrated or will there be a disorganized breakup of the Euro zone? Will China has it bottomed in its slowing growth or will it continue to see economic growth decline further? And so all of these events weigh on the market broadly. So in that environment we've wanted to reduce the economic sensitivity of the portfolio. In other words we don't want the portfolios results to be as dictated by

whether the economy goes up 2% or up 3% or only up 1% because we think these events can have a meaningful impact on the level of earnings growth.

Wilfred Leon Guerrero: You're telling us that this portfolio is positioned so that it will weather; let's say the worst thing that will happen can talk about that fiscal cliff, the worse things the worse happens this portfolio would survive. Michael Palmer: It will survive because of the quality of the companies financially and because of the growth characteristics of these stocks to some extent your respective of the broader economy, let me give you an example of that, but survive doesn't mean its going to do great right it's going to be better than it would have been a year ago and it's going to do...Wilfred Leon Guerrero: when I hear losses.

Michael Palmer: We've got some to make up. So what we've done is to say let's take a little of the portfolios sensitivity out of the economic realm but lets accentuate or add to the portfolios exposure to earnings growth. Why would we do that? Because there are some companies that can do well to some extent as I mentioned irrespective of the broad economy. Companies like A Dollar General which is a discount retailer that in fact does well, it benefits from a challenging economic environment. Look at Apple right, the lines around the Apple store to get the Iphone 5, maybe there were one or two fewer people in those lines because of a challenging economy but they were still pretty long lines and Apple is doing well despite a weak economy.

Companies in health care like Cerner that are making hospitals and medical companies much more efficient through the IT and digitalization of employee record. That company because it is helping reduce health care cost, will do well even in an environment where the economies slow. Will it do as well if the economy was robust? No, but it will do well even if it were more difficult to economic environment.

The second reason we want to accentuate earnings growth is because the market is discounting them that right now. As I was mentioning what's happening is the stock the company does well generates you know 20% earnings growth year over year, reiterates it's forecast for strong growth next year and the stock goes up 2%, it otta go up 10 or 12%. So what's really happening is its valuation is declining because it's just increased its earnings but it hasn't increased its price commensurately so it's gotten cheaper. We're able to buy great companies more cheaply than we normally would.

So in a way what we are saying is look the market is focused on these macro events, we're not going to try position these portfolios forecast those macro events. What we're going to do is use that as an opportunity, an opportunity to buy good growth companies at cheaper prices than we normally could and so that's really what we've done in the portfolio. Reduce the economic sensitivity because of the slower growth and the wide range of outcomes. We don't want to place a bet in this portfolio on what ultimately happens with the economy. We don't think that's where our competitive advantage is. What we do want to do is focus on earnings growth and the quality of the companies in the portfolio and companies that we think can do well even in a slow growth environment because the market is discounting us right now. We're getting it cheaper than we normally were. We're getting better companies for less price than we

normally would let's add more of that lets back up the truck so to speak let's add more of that in the portfolio and so how would you see that in the portfolio, well you'd see it by, let me just show you two statistics, you see less economic growth excuse me, less economic exposure on the bottom right of page 10. Remember John talked about 3 types of earnings growth. They're the faster, newer companies, there's the cyclical companies that are more economically sensitive and then the longer term consistence stable growers. Well notice the consistency of the growers are at 39%, the maximum weight we can own is 40%. The minimum in any of these categories is 25 and notice where we are in the quality cyclical, it's more economically sensitive 27.

So we got a little more consistency in the portfolio, a little less ciprocality in the portfolio, that's consistent with what I described as a portfolio with less economic exposure. How would you see more earnings growth in the portfolio? Well, I already described that to some extent, the third line down in the upper left, 17% earnings growth. We will over a period of time build a portfolio that has between 15 and 20% earnings growth. In the view that that's 2 to 3 times higher than the market overall 17% is actually closer to 4 times higher today. So it's in the middle of that range but it's much higher than the broad market at about 5% and a 40% premium to the Russell Growth Index itself. So less economic sensitivity more company earnings grow sensitivity it's consistent with our research capabilities, it's consistent with the opportunities of the market and we think that that's the way that we're going to generate out performance for the next 12 months which we clearly need to do, we haven't done that over the last 12 months. So, I would just summarize the conversation today and I don't want to cut off, we're happy to spend as much time as you like but in three ways. Number 1 from a firm perspective, we're the same firm you hired. Nothing has changed in the last 12 months in fact the only things that have changed is that we've taken steps with the new equity agreement to sustain the stability, the success of the team and the firm going forward.

Secondly in terms of performance, over the long term we've seen strong performance over the near term, strong absolute numbers but disappointing relative numbers. We've not out performed the benchmark as we've discussed and we've talked about why that is. But recognized we only do one thing, we're very undiversified at Winslow, you diversify your portfolio you probably liked the fact we're not diversified. So our focus is very, very laser like on delivering strong results for you and we recognize we haven't done that, we've taken steps in the portfolio, we think that will ultimately pay dividends.

And that speaks to the third point which is how we position the portfolio in a world of slower but still positive economic growth with wide range of outcomes given the event risk, we've reduced economic sensitivity, we've increased earnings growth sensitivity, we think that's consistent with the opportunity in the market. What we've done historically over time and so what we're disappointed with results we're also pretty excited about the portfolio itself. Confident that as we move forward here, you're going to see not only absolute results but relative out performance as well.

Wilfred Leon Guerrero: Okay. Gerard Cruz: That was a lot. Michael Palmer: I know it was, sorry. Gerard Cruz: Could you repeat that? Michael Palmer: Which part? Gerard Cruz: All of it. Michael Palmer: All of it. Gerard Cruz: So, just so I'm clear on this graph and we'll let you go because it's getting close. So the 3.4% here... Michael Palmer: it's just the arithmetic average of the rolling 12 month period of time. Gerard Cruz: Okay, and the zero, Michael Palmer: zero represents the benchmark. This is relative results. Gerard Cruz: Okay, so this is the Russell 1000. Michael Palmer: Correct. Gerard Cruz: Okay so your point is that in fact since March of 2000, looking through September 2012, using a rolling average, you have in fact met your investment objective? Michael Palmer and John Maschoff: Yes.

Michael Palmer: And we fully recognize that for you we haven't and I'm not trying to use that as an excuse, but I was trying to do is just provide a little different perspective, to the Chairman here who rightly points out and I'm not disagreeing with you, I look at that page and I say exactly the same thing but I think it tells only part of the story and what I wanted with that exhibit was to tell think of a broader story, Wilfred Leon Guerrero: we should just take out this page. Michael Palmer: well maybe we should, actually full disclosure we should leave it there, I think. Gerard Cruz: Full disclosure, full disclosure right. Michael Palmer: So yes, what we've done is highlight the green is the 12 months following the red. So if you look at the points in time where we've underperformed meaningfully, and there have been 4 of those, 12 months later we're where we've been and you can see in the green we've been you know pretty positive 12 months later so. Gerard Cruz: okay.

Wilfred Leon Guerrero: Anymore questions? Discussions? Gerard Cruz: GCC is in the Nuveen Fund? John Maschoff: You're I believe it is yes. That's what you are using. Gerard Cruz: It's a mutual fund. John Maschoff: Exactly, it's not a separate account. Paula Blas: You said GCC? Gerard Cruz: GCC. I wasn't sure but I know we have Winslow, I'm on that board too. I know we have one too but I wasn't sure. John Maschoff: Right. Michael Palmer: Let me just offer up, I know we only have the opportunity to see you once a year and therefore given the fact that we've been you know disappointed you to be fair over the last 12 months Gerard Cruz: disappointed our Chairman.

Michael Palmer: Well, I think look we disappointed ourselves so disappointment and confidence are two different things right, our confidence has a waiver, nonetheless we're very disappointed. And so my only point being is rather than waiting till 12 months to see you again and not having a lot of conversation in between, if there's anything that will be helpful in terms of written material, telephone calls, even coming out and seeing you, we would rather have it have you have an opportunity to ask the questions and address it, than wonder and wait. So I guess an open invitation if there's anything that we can do over the coming months to be helpful, please let us know. Wilfred Leon Guerrero: Where are you based at? John Maschoff: Minneapolis, Minnesota.

Paula Blas: Maybe about July you'll have a question? Gerard Cruz: Takes us about 7 months to come up with one. Michael Palmer: just make sure that we perform until

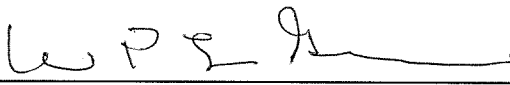
then, right. Wilfred Leon Guerrero: Hold your questions until July. Paula Blas: We're going to wait until July when it's warmer. Joe T. San Agustin: give us a flash report. Gerard Cruz: a flash report will be helpful. John Maschoff: okay. Wilfred Leon Guerrero: No I'm going to go and pick up the report myself. In July. John Maschoff: Well, I can coordinate some things with Paula. Gerard Cruz: Thanks. Michael Palmer: Thank you very much, hopefully it was helpful. Paula Blas: do you have any housekeeping Gerard Cruz: oh, yeah housekeeping items Mr. Chair, organizational changes within the organization, John Maschoff: none, Michael Palmer: none Gerard Cruz: FCC regulatory, John Maschoff: none, no we're not under any sort of examination or, Wilfred Leon Guerrero: they don't say regulatory agency. Gerard Cruz: what do they say now? Wilfred Leon Guerrero: guidelines, John Maschoff: we're in compliance with your guidelines that's stated in the book. Paula Blas: our guidelines. Gerard Cruz: Thank you very much. Paula Blas: Thank you.

Respectfully submitted,

Affirmed:



ANGELINA CASTRO/MARILYN AGUON
Recording Secretary



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