



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

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Defined Benefit Plan
Quarter Ended September 30, 2012
Performance Meetings & Annual Manager Reviews
 November 29, 2012
 Retirement Fund Conference Room

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Joe T. San Agustin, Chairman, Board of Trustees
 Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
 Gerard A. Cruz, Trustee
 Katherine Taitano, Trustee
 George Santos, Trustee

Staff Present:

Paula M. Blas, Director
 Diana Bernardo, Controller

Others Present:

Maggie Ralbovsky, Wilshire Associates

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10:00am – 10:45am Robeco

Wilfred Leon Guerrero: Okay. Thank you very much for being with us, I will turn the discussion over to you. David Gullen: Terrific. Wilfred Leon Guerrero: You can discuss our portfolio. David Gullen: Great. Thank you, sir. Well, it's nice to see everyone again, it's been about just about a year and it's been a volatile one. Part of the agenda which I see before me is to provide an update on performance. Everyone have a copy of the prepared material? Okay terrific. I have an extra copy if you'd like.

As well as talk about how the volatility has been impacting the portfolio. By large it's created some opportunities to refresh the portfolio, we've turned the portfolio over about 40% in the last 12 months. Selling names mainly on evaluation as it depreciated, taking advantage of some of the down side volatility to bring in names into the portfolio that we feel are greater upside potential on the greater risk return profile. With that as well, just looking at your agenda I'll touch up on an update on organizational items and so forth. I'll keep my prepared comments brief, about 15 minutes. I look forward to your questions along the way.

And turning to page 1, we can get caught up just on performance through October, as we were instructed to provide. The government of Guam's large cap value portfolio which we've managed on your behalf since June of 2008 is provided in the top row. We're benchmarked against the Russell 1000 Value Index which is a large cap U.S. value index and we provide just for your reference as well the S&P 500.

Your fiscal year return which is the first column there, the portfolio returned 34% which is a very strong absolute number compared favorably on a relative basis as well against the 1000 Value Index which was up 30.9% so value added, Gross of Fees of 3.4 percentage points. It was fairly broad and diverse sweet of contributors to perform it as we outperform the benchmark in 9 of 13 major economic sectors led by our largest overall exposure which was in the finance sector. As a group our financial holdings which include banks and insurance companies, financial services companies was up about 39%. Our credit sensitive names did particularly well which is the majority of our waiting in the financial area. We're up about 40% Wells Fargo led the charge there. Consumer services businesses also did well, we have a mix of names. CBS which has been experiencing some good momentum with its advertising revenues, transmission fees, and returning capital to the share holders is one of the things we'd like to see. Ebay another name among our consumer services holding doing well. As a group our consumer services holdings up 46% and our energy holdings helped as well up about 32%. We've been underweight utilities just finding better opportunities elsewhere and that was a benefit to the relative return period.

Our consumer durables holdings and specifically Lear, which is an auto supplier business came out of bankruptcy. It's a much stronger balance sheet, and cash on it's balance sheet, has been an underperformer and is dragged on relative returns and

we've been underweight the REITs sector as well and over the last for that 12 month period that was the penalty too.

Technology was more enough less than neutral, that's one of the larger overweights in your portfolio. Our holdings up about 24%, but that compared to a market as a whole that's up 31% means having more exposure there is going to analyze your relative performance. Year to date is also provided in the middle row. Again I put a little over 17% compared to the index and then scrolling over to the far right since inception, so four years in change dating back to June 2000.

On an annualized basis your portfolio is up 4½% compared to 1 and a quarter percent for the index. For excess return at 3.3 percentage points on an annualized basis. And that's being driven entirely by stock selection which is what we love to do. We look at the market very specific criteria, I'll touch upon those in a moment as it relates to evaluation, quality and momentum. And just bringing into the portfolio those names meeting our criteria and avoid those names that we feel the benchmark is stuck with but don't.

Finance has been meaningful relative contributor here over this period on cumulative basis our financial stocks are up 4% as compared to negative 32% for the index and that has to do with just mainly navigating what's been a tricky environment for credit sensitive stocks as well as some good returns from our insurance holdings.

Health care has been another area of performance has as some basic industries stock which are up about 80% over that period. Your returns through yesterday, this quarter were about in line with the index down 2%, so year to date through yesterday your portfolio is up about 16% which compares to 13½% for the Russell 1000 Value Index.

So I spoke a little bit at length on performance Wilfred Leon Guerrero: What was the value on it? David Gullen: Through yesterday 13.6%. Wilfred Leon Guerrero: You know the amount? Gerard Cruz: How much you manage for us? David Gullen: Oh, 84 million through the end of October. On the bottom. Hidden way in the bottom left row. Gerard Cruz: I remember last year commenting on both almost not really but kind of questioning your thoughts about being inside the financial sector, so just given what was going on in Europe, was wise now you're saying that that was your biggest contributor.

David Gullen: Over the last 12 months it's been, it's been one of our largest contributors. Our credit sensitive manager about 48%. Wells Fargo did and we talked a bit about kind of the nature of what we had in there but you had the likes of Wells Fargo, JPMorgan, which in this kind of environment should continue to gain share in that strong balance sheets. We know JP Morgan has with this CIO losses but you can win fancy in those and Citigroup which has done a very good job of its running kind of a good bank bad bank motto less 9% of it's total assets now are in the bad bank.

So it's been running off those assets, credit trans have been improving. There's loan growth which is a catalyst for all credit sensitive stocks its been fairly anemic but that's well baked into prices and buying Citigroup at nearly half a book. A business like Wells Fargo which is a premium brand over a full cycle of 15% is 1 and a quarter value. So you've got little bit of a mix in there they've done very nicely for us and we're taking a longer term view towards these types of stocks. This is something over the next few years if you can buy at or around book value of business that looks to grow it's equity 12 to 15% at a market that we think is probably more geared towards growing mid high single digits just that looks like a good deal, but there's a few things that need to come on mind though.

You need the economy to continue to improve so they can start growing those loans, their net interest margins which is half the way a lot of banks make their money is on a spread, we need the yield curve to start sloping up again. And those are things that will take a little time but will work over time, but meanwhile from an evaluation perspective, we feel we're being compensated for those risks and some of the dividend yields and the return of capital is one of the major catalyst we see for these banks coming forward. We should see more capital being returned next year one of the ways through its regulators and so forth. In the meantime the capital ratios have been improving very nicely they're very solid. It's we're just being patience and we're being paid to wait a little bit. So this is kind of a ... is a few years look not a few quarter look that we are taking with these positions. Did I address your questions? Gerard Cruz: Yes.

Just real quickly turning to page 2, just to put a little color on when the team gets behind their desks in the morning, how we look at the book, how we look to be bringing your portfolio also what we the criteria we use to determine when a name should exit the portfolio. As I noted over the last 12 months we've turned about 40% of your portfolio over exiting names and bringing new names that we think will bring better opportunities for you.

Our investments whether you want to invest in the large cap areas, small cap areas, U.S. markets, Non U.S. markets, it's the same. We're looking to take advantage of 3 anomalies that are proven to work over time. Starting with the price, inexpensive stocks outperform expensive ones as your evaluation criteria and I'm looking at page 2.

Businesses that generate higher returns on their capital, capital that you as a shareholder lay claim to, outperform businesses that generate lower returns. And that's that fundamental criteria. And thirdly, companies whose businesses or businesses have proven outperform whose business is deteriorating and that's the momentum criteria, that bottom circle there. In each of these criteria is important not to itself but it's having all three working together at the portfolio level that enables us to detect the capital during chopping markets, down markets and baking upside potential as markets go up over time.

And our starting point is price and we're not looking simply for cheap stocks, we're looking for good deals. So we're evaluating each company relative to its own growth and its own profitability dynamics relative to its own history. If you were to take Johnson & Johnson and U.S. Steel, given that the profitability and the growth profile, those two businesses they trade a very different evaluation methods. So to us we'd rather buy if we're looking at a company that's trading at 10 times earnings but growing 10%, that's a better deal to us than something that's growing at 8 times earnings but has no growth.

And moving once you've identified what you think is looks to be good deals understanding what the drivers are behind that business, that's that fundamental circle. One of the drivers behind this business is growth and profitability. That will make an assessment as to whether or not we see the upside value there can give us an indication and what we are looking for is taking advantage of that second criteria that turns on capital is to identify companies that we had, have high sustainable returns on their capital basis over time.

So it's looking after competitive position industries they serve, notes around the businesses, so you'll see names like Microsoft and Cisco which have huge incumbent advantages in the industries that they serve. We've been recently buying some refiners, Phillips and Valero because they are baking in we think persistent competitive advantage against foreign competitors and the refining industry associated with the advent of this racking technology.

You can't export crew but locally you're able to get those inputs cheaper by virtue of these racking technologies that they can then combine chemically and sell export markets. Taking advantage of their proximity to a technology no one else has. So we've been pretty close in the portfolio. Wells Fargo it's been one of the biggest incumbent banks in the industry as well and then just good capital out here. So businesses that are just smart in determining what are they going to do with this capital that you as a shareholder might claim to. Like Berkshire Hathaway, are you going to return it to shareholders?

And you see a lot of that going on today either through a dividend or buying back stock. Are they going to make a new creative acquisition in the future? You see a fair amount of that especially among technology businesses. Are they going to pay down debt? You can see that mainly a lot of companies have already done this but mainly the more industrial basic industries start companies that have levered balance sheets and they could refinance themselves so that they free up capital towards doing what they do as opposed to paying creditors or if it's a good business and you've identified a company that can generate strong returns on its capital, just re-invest in it, it might be the best option available.

So we look to identify management teams that are good at figuring out what the best place to put the money is on behalf of its share holders. And then lastly this catalyst, this is kind of two flavors underlined business momentum, so I mentioned like CBS which is a top holding of yours in terms of its add revenue and it's transmission fees

for seeing it's top buying growing a little bit, Target is a retailer we're holding that you are seeing improvement in the same store sales, outside Canadian businesses Canadian business that going to come online next year. Then a whole range of just stocks specific catalyst. We've found a good deal, good business inexpensively what's going to get that share price to go up.

So we have names like Constellation, we've brought into your portfolio, they have a beer and wine business, they had a joint venture with distributing Corona in the United States that's very good with Madello. Long story short, Embev which owns Budweiser wants to buy Madello but because of anti-trust concerns they want to exit this JV that they have with Constellation giving Constellation a 100% of the economics and Constellation will get that deal at a good price because Embev, Madello's motivated to sell it to Embev and so forth.

So that's just a very much a business specific thing that we think is going to unlock some value for that stock and so forth. Sirius radio, Comcast we're seeing subscription growth there and there's been good underlined momentum. Interestingly about Sirius, is it's been installed in a lot of cars in the past but not activated, so not only benefits from new autos but used autos being sold.

Wilfred Leon Guerrero: Do you see companies preparing themselves for the worst case scenario? David Gullen: Fiscal Cliff? Yeah, what you are seeing is and it's in the data, and I know you can see take closer basis and say well what do you do with the, because Corporate America's recovery has been nothing but short of amazing. It is kicking off an absolute bundle of cash because they did such a good job on the cost side. Everybody is concerned about the revenue side because there's not a whole lot of growth and there's uncertainty and the managements don't like that.

So what you are seeing buying large and in terms of what managements intend to do with all this cash that's kicking off is they intend to return it to shareholders either through raising dividends or through buying back stock. And beyond that in terms of preparation of these businesses not a whole lot, now once this Fiscal Cliff issue is resolved, and hopefully it will be resolved sooner rather than later that will provide some measure of confidence in the economy and that will enable managements to take planning actions with the greater degree of certainty.

Maggie Ralbovsky: So, this morning there was news that President Obama says that he believes an agreement will be reached by Christmas and then Lloyd Blankinship who is the CEO of Goldman Sachs came out to say that the president has shared with us tremendous details of this agreement and I believe it's a very workable and very creditable agreement.

David Gullen: So should businesses, there you go that's the word. What have they being doing so far? What they have been doing thus far is they have been hoarding cash right, they haven't been reinvesting in their businesses either through cap X and haven't been spending to hire people. What they say at this point that they're

planning to do because shareholders saying what are you going to do with all this cash going to give it back to us, they are starting to return it that's their intention.

As Maggie noted that if you get some resolution and they can turn towards taking longer term steps start spending on their businesses and start hiring people... Maggie Ralbovsky: Since you mentioned the energy industry as an example, with all this new technology you share show excavation, is that the right word, is there going to be impact to the existing energy companies because maybe their model needs to be shot, or is there something close enough for configuration, this is something still out there.

David Gullen: Where our purchases in the energy sector has largely been leading and if we take a look at page 5, we refer to this as appropriate to the holiday season refer to this as a Christmas tree page, so this is your portfolio. A green holding means that the measurement period here is a year to date through October means it's new to your portfolio this year. A red name there with the omega sign next to it means that we sold it from your portfolio during the year. And black means it's been in your portfolio since the end of last year.

And if you look at energy where our activity has mainly been is been in these independent EMP companies and a lot of them are levered to the racking technologies across the various geographic formations in the U.S. and then more recently we've been bringing in some I've mentioned the refiners because of their advantages related to this racking technology but also businesses like Halliburton. There's a little bit of glut in the natural gas market, so they're not putting rigs on the field to try to correct the supply and demand imbalance.

The fields drain actually fairly quickly. So, in terms of where evaluations are up for businesses like Halliburton which are oil services company, they reflect pretty sluggish conditions currently. But as the industry begins to recover they're in a very good competitive position to go out start putting their services to work and we think that potential errors is under appreciated were being compensated evaluation perspective to own this good business.

We do own a couple of Exxon's the largest overall holding. Occidental Petroleum actually is they're really good at recovering legacy reserves some they're active throughout the world but particularly in California they're good at going to places that are proven just a little tougher to get to now. And then we've made some trades in Chevron that was the name we sold during the period on valuation. WPX and we've talked about capital allocators certain independent EMP business. The commodity price gas kept going down and down and down and WPX management kept spending and spending and spending and that just seemed to be to us and good money after that. So we exited the position there.

In terms of your characteristics in the portfolio, I'm going to turn you back to page 3 because this is what we look to do day to day for your portfolios to buy these things that are exhibiting characteristics in terms of criteria that we are looking for in evaluation quality in momentum perspective. As you can see in terms of evaluation

which is the starting point it's attractive on an absolute level. Evaluations are pretty undemanding we would say they are buying in large in the range of fairish, growth has been slow, conditions have been sluggish. They are kind of below long term medium levels but so is the growth picture today.

So what that's created the opportunity to do is because this evaluations have been pretty undemanding is to buy in what are much better than average companies because there's not a lot whole lot of credit being given to their current situation however the fundamentals of their business haven't changed. They are just running competitive cyclical patch.

So if you can see in terms of fundamentals, "OROA" stands for Operating Return on Operating Assets, tells you on a cash on cash basis how good the business is at generating profits with a capital that it ties up to do whatever it does. So the higher the number the better. And this is the kind of profile we bake into your portfolio which is attractive valuations relative to the market with better than average companies. So you're getting better than average companies at better than average prices. Tilt your portfolio to those top two circles and that's a winning formula over time.

We worked very hard to make sure this bottom circle is on the positive side of the ledger which is to say that the end of line momentum of the business and line performance matrix are moving in the right direction and then some cases it might be on a second derivative basis that is that things are getting less bad for that business and is starting to find a bottom where things will work their way back up.

That 78% is a simple metric included just for illustration purposes. From what that says is as of the last reported period, 78% of the holdings in your portfolio were meeting or beating management guidance. So that's good. In typically where the business was high it's been coming in a little bit, the earnings recovery was nothing short of the store. Typically where this portfolio would be is something below sixties. And so in terms of the outlook for the portfolio, it really stems from when we look at this portfolio it's got a valuation edge and a quality bias the underline momentum is favorable. We think if we continue to be able to add value over the market and the ways that we have historically sticking by our discipline and being good practitioners of process, and in terms of outlook for the capital market themselves to us with where we are with valuations and underline fundamentals of corporate America we think conditions are consistent with a high single digit kind of 7to10% type annualized return over the next 5 to 10 years. So over the next full market cycle.

Unless there aren't any questions, turning to page 4 your largest holdings on the left hand side, your economic sector profile on your right hand side. New to the top 10 since we last got together, Citigroup has worked its way into the top 10, it's been a strong performer. Comcast the same, it's come into top 10 position there. And out of the top 10, Chevron, which we sold and Microsoft which is has more or less through relative performance tripled that in the top 10. It's up about 22% hope it will last 12

months or so. But that's in the market that's up about 30% in a portfolio that's up 35.

It's a mix of businesses as you can tell, ranging from energy companies like Exxon to banks like Wells Fargo to diversify Berkshire Hathaway, healthcare companies like Pfizer, General Electric we that's got a 3.4% dividend yield it's got some secular tail wind in terms of the businesses it competes in over the longer term. And so that is an opportunity as I noted we've been underweight utilities. Utility dividend yields were about 4%, so you could buy a business like General Electric which has a dividend yield call it 3½% which is just a much better business than utility, much better growth prospects. And so that's indicative of the kind of reasoning and decision making we've been making on behalf of your portfolio.

Johnson and Johnson, Comcast we've talked a little bit about Occidental Petroleum. As you can see on the right hand side of the page your portfolio is the blue bar, the 1000 Value Index is the black bar, and S&P 500 the green bar. The 13 major economic industries organized alphabetically top to bottom starting basic industries going down utilities. It looks different than the market and that's just a function of we don't we know what the markets up to but we're just looking to buy stocks according to those criteria. And so you should expect us to look different from the market when you roll it all and our biggest accurate positions against the market you can see in the consumer right about in the middle there, the consumer services area were about twice what the market is it's just been a mix of names. I mentioned Target, CBS and we also own McGraw Hill which has the S&P ratings services it's a dualopoly we like to come and advantages there. It's also spinning off its selling its educational segment to Apollo which is we think good for shareholders on returns.

Health care we have a meaningful overweight as well, we have an overweight in the technology area a little bit. And we've been underweight as you can see REITs we don't own any REITs currently and utilities have been very underweight as well. That concludes my comments on the portfolio itself, if you don't have any questions I'll bring you up to date on the organization.

The team is depicted on page 6, the note changes to the team we report. We did have a portfolio manager level Harry Rosenbluth has returned to our organization. He retired from Boston Partners back in 2007, he kept an office with us he worked as a consultant kind of helping tutor some of our younger research analyst. He's come back now and he's a co-PM on our international discipline. In terms of the research analyst team no changes to report there with the exception of with we had one short analyst that moved on to another firm to take an increase in level of responsibility in a long short world.

Wilfred Leon Guerrero: This is an all male team, no female. David Gullen: No there's at the portfolio manager level yes you're correct. Among our analyst we have Stephanie McGirr, Carissa and Maggy. Maggie Ralbovsky: So how about is there any new development on Rabo bank's intention to buy? David Gullen: Sure and just a quick update thank you Maggie, I got in touch with you and Paula with your office as

well in the spring, our shareholder Rabo Bank announced that it was part of its strategic review looking at all of its non core businesses. So Rabo Bank makes loans to the food industry, the farming industries, that's its core businesses. It owns an asset management business which is Robeco as well as some other non core businesses. It said we are going to put them all on the block because regulators are effectively pestering us even though they had great capital ratios still do, to take a look at everything that's non core and see if it would make sense to potentially invest. So that was their announcement since then. There has been a bidding process it's still ongoing however we are kind of down to the finalist level at this point. It would, the potential buyers kind of fit the profile they're sophisticated investors knowledgeable of the asset management industry and we would expect that I would have some definitive news to share. We really in any time I could be calling next week I could be calling next month but most likely before the end of the year perhaps sooner rather than later I'll be giving you a ring to let you know.

Something that I would remind you along the way in terms of how we operate, we at Robeco Investment Management, we if you turn to page 8, where the U.S. platform for Robeco globally one of the value equity expertise for Robeco globally and we operate out of the U.S. as I noted, we're run by two founded members of Boston Partners and we operate very autonomously. The investment function is entirely self contained. We've had different shareholders in the past. The way it operates with Robeco we send a dividend payment up to our shareholders. We suspect a new owner it's going to be somewhat out of our range.

Maggie Rabovsky: So is it reasonable to assume that the new owner is not going to pick and choose these pieces but buy it as a whole. David Gullen: That's been a Rabo Bank's intention to sell it as a whole. And I don't have any information contrary to that. Wilfred Leon Guerrero: What was the bank's intention? David Gullen: To sell Robeco as a whole. Wilfred Leon Guerrero: And you said this thing of selling came about because of the issues with the bank or something? David Gullen: Effectively with Rabo Bank which is one of the largest and strongest banks in the world, had a triple A credit rating for over 25 years. One of the rating agencies took it down a notch and it is part of that I think is my personal opinion, as well as just on a bank in Europe right now no matter how good its capital levels are, are being ridden by their regulators. Why your bank why do you have this kind of business to that kind of business it doesn't matter how that business is performing. Why aren't you just making loans to farmers or food companies? And so Rabo said ok we'll put it all on the table as part of strategic review, we'll see what happens.

Wilfred Leon Guerrero: Are you still considering it or is it already...David Gullen: yes it is moving forward and would suspect that it will... that there will be a buyer in the business. We're down to a couple of finalist and it's fairly long, fairly far along in the process. I would expect that I'll be calling with an infinitive agreement and principles and some more information pretty much any time. And I would expect before the end of the year, but I could be calling at the end of the week, I could be calling you next week.

In terms of the bidders profiles, there's sophisticated investors and perform they know the asset management business, terms of how we think we'll operate going forward, it's been every indication to continue to operate as we have under Robeco and under our other ownership structures in the past which is autonomously sending dividend check to our parent. Maggie Ralbovsky: So with that speech leads me to believe the potential buyers don't have conflicting platforms and do they want to consolidate David Gullen: Not to my understanding. I would have to think that a couple of things that are important is this Robeco's been very profitable very well run, it's got strong long standing relationships, the investment process and philosophy dates back 25 years. We did it under Boston Company we did it under Boston Partners we've did it under Robeco it's been the same philosophy in process in fact some of the same individuals. Mark Donovan has been joining the firm in the late 80's and he has co-PM on this portfolio.

And any buyer would recognize the value of what they have and would not be inclined to try to make any changes to something that's working well. And so the profile is most likely strategic buyer although you could have as well a financial buyer to, but from your prospective I would suspect that it'll be seamless transition teams self contained, its we've been there before we've had different ownership structures and we're a well run business that's important to the overall organization.

Speaking of the organization just real quickly I want to be sensitive to your time because I know you have a full agenda. Robeco Boston Partners which is the value equity expertise for Robeco Investment Management, since we last met our current assets under management are \$25 billion, the end of last year was \$19 billion so we've grown about \$6 billion over the last 11 months. About half of that attributable to performance the other half attributable to new flows. We've raised about \$3 billion dollars of new and existing clients this year on a net basis. So the business has been strong and doing well.

That concludes my formal comments and looking at your agenda, just for the record, legal litigation and CC issues are not on the report. Wilfred Leon Guerrero: Okay. Gerard Cruz: Good job, thanks Dave. David Gullen: Thank you, thank you. Nice to see you all.

11:00am - 11:45am Met West

Eric Smith: So what we've done typically in the past is gone through the book and but I do want to answer questions as we go along, so, it's not my intention just to go through all 60 pages of this we'll go through it, as questions come up please just jump in. And a lot of these figures you're seeing you having them in other reports and so they'll be some duplication.

So page 1 of the book two sections here of the first half talks about the mandated self. If you look at that it's 100% stock portfolio, carry minimum cash generally under 5% and a couple of restrictions on the portfolio. Underneath that is the asset allocation

as of 10/31 and you can see pretty straight forward, the portfolio is 95% in common stocks, about 5% in cash you can see the Wilfred Leon Guerrero: Eric, you are saying you said that restriction in the portfolio what are they? Eric Smith: It would be right there. So ADR's . Wilfred Leon Guerrero: what's ADR? Eric Smith: American Depository Receipts. Gerard Cruz: No foreign exposure Eric Smith: after a certain date. Gerard Cruz: cause we have foreign managers international managers. Prior to that we didn't have any international managers.

Eric Smith: We've had about 15% of the portfolio on international stocks. Wilfred Leon Guerrero: Yeah you guys were doing that on the side. We didn't complain, you guys were making money. Gerard Cruz: We didn't know, we couldn't complain about something we don't know about. I just found out what ADR means today. Eric Smith: We have one in the portfolio still that's a legacy that's Mortathorne. So there really aren't any many restrictions in the portfolio but there's a couple.

So you can see we're about in September we at a \$104 million, and you can see you've been a client with us since June of 2000 and we thank you for that we appreciate the long relationship and as of the end of October, the value of the account was a million three and seven hundred and fifty four thousand six forty eight, so about in line with September and if you remember there was a \$4 million dollar withdrawal in the first part of November. So, Gerard Cruz: So we are at 103? Eric Smith: As of last Friday you are at a million. Gerard Cruz: Oh at a million, okay. A million three. Eric Smith: and then at the end of October you are at a million 3.8. Wilfred Leon Guerrero: What was last Friday November? Eric Smith: Twenty third. So questions on those pages will merely move about a snapshot.

Page 2 shows performance over various time periods and then the best way to look at this is from right to left. So we've been managing portfolio since June of 2000, we have 4 bar graphs there. The maroon and the gray are your portfolio, the maroon is your portfolio, the gray is our composite index. And then the blue is the Russell 1000 Value and the kind of tannish is the S&P 500. So you can see since inception we're about 7.7% per year relative to the Russell which is 4.8% per year the S&P is under 2%. Last 10 years look at the numbers of sales very, very good, very strong. Last 5 years positive numbers you see the Russell is actually down. Last 3 years still positive with 300 basis points ahead of the Russell which is the index that most consultants and clients use to measure us. And about 140 ahead of the S&P and in the last fiscal year you can see we lagged slightly the Russell and the S&P 500 and the reason for that is we are at a very strong stock market over that time period. Generally speaking as a value manager we're going to lag a little bit and very strong markets.

The other reason this gets into just timing more than anything else. The last fiscal years obviously four quarters, we had a very difficult relative 4th calendar quarter last year or first fiscal quarter and so we lagged on a relative basis when the market ward back we under performed. So that's still in that 12 month number and I'll talk about year to date numbers. So, basically it's a timing thing more than anything else in the last fiscal year including that 4th quarter. The other thing is we have a little bit cash in the portfolio and that wasn't a tactical decision that's just more we have some

transitory cash buying and selling to where we have 4 or 5% cash. The stock market was up 30% so 30% on 5% of the portfolio we lost about 150 basis points because of that cash.

So that hurt the overall portfolio. So having said all that the stocks in your portfolio, if we just look at the stocks for the last fiscal year, they were up 30%. So the stocks portfolio up 30% the cash pulled it down to about a percent and a half to about 28.3%. Did that make sense? Cash hurt last year. One other point that I'm going to make, is that the S&P 500 has outperformed about 80% of all value managers in the last 12 months. That you probably saw, talking to other managers talked with managers, managers have had a difficult time active managers out performing little over the last few years and in particular the last two years. So in value managers if they're using the S&P 500 underperformed we've actually outperformed over that over this that time period. And the Russell's outperformed 2/3 of all that value managers. So these indices have been difficult in over these relatively short periods of time.

Maggie Ralbovsky: Speaking of that, your style positioning has been very close to the core, less value and what I believe is historically was, is that a permanent change or is that. Eric Smith: Yeah so, we don't fit in the box real well and so value characteristics and how we're measured were never going to look deep value when you look particularly at price earnings ratios. When you look at other characteristics we're really value oriented. We haven't changed our philosophy of how we do things so we're still value oriented when you look at the matrix we look at them we're still value in a sense but occasionally when you run screens it will look like we're moving more towards core but we haven't changed anything.

Maggie Ralbovsky: So I think part of the reason you talked very close to core is that you probably overweight financials in a big way, is that also a permanent sort of review? Eric Smith: Yeah so you're looking at the Russell? So we really don't pay a lot of attention to the indices when we are putting the portfolio together. And so we're purely bottom up, so we don't say alright here's the sectors we want to overweight or overweight the analyst don't look at that they don't pay attention to that when we look at our weightings in fact our get into our sectors we pay attention to the S&P 500.

So the S&P 500 we used for what we call risk control so we're going to have closer weightings to the S&P 500 than strictly to the Russell. And the Russell is not a very good index in the sense of if you are creating the portfolio to match because as you mentioned Maggie it's got huge amounts in financials. And so it sucked at one point it had almost 40% so we're going to use the S&P 500 for those weightings and I actually have a chart on that and I'll actually talk about that in a second. So I'll come back to that.

Page 3, shows the month of October and so in affect we picked up that short fall relative the S&P 500 in one month. I have some years year to date numbers here so this is through October 31st, and this is a better indication of how well we are doing. Your account is up 17% throughout October. The stocks in the portfolio were up 17.9% the Russell1000 value is up 15.2 and the S&P 500 is up 14.3. So we're up

almost 300 basis points this year to the S&P and 200 to the Russell and that's because the 4th quarter isn't included in those numbers so that drops out, so very strong calendar year basis.

So, Maggie this is more to your question here. Here's your sector weightings relative to both the Russell and S&P 500. And as it was pointed out if you look at the 4th sector down that's financials and the Russell has 26% weighting in financials and the S&P has about a 15% weighting. We are going to look at the S&P 500 when we're looking at weightings in the sense of where dramatic overweight drop. So as you may remember we have an internal policy of no more than 2 times a major S&P weighting and no less than 50% of a major S&P weighting. So if you look at your portfolio which is the tan, and just kind of run down that you can see that this probably why its going to show more core life because when you look at sector weighting its going to be more in line with the S&P 500 than its going to be with the Russell. So look at financials 26% in the Russell we have a 17% weighting and the S&P is 15% weighting but then technology which is a fourth up from the bottom, the Russell has a 6% weighting and you have a 21% weighting, excuse me. So we think that the S&P is a better index for well I'll call sector allocation or risk control to make sure we have exposure to all the sectors. A lot of value managers fall in the trap of finding value in specific areas and so consequently they'll end up overweighting sectors substantially so our goal is to outperform the S&P 500 and the Russell overruling 3 and 5 year periods with market like risk if you will we've been able to do that. And one of the reasons is that when we construct the portfolio we want to make sure that it's well diversified. So the take away from this page is that you have good diversification in all 10 S&P sectors and no dramatic overweight to under weight relative to the S&P but I can tell you that's a secondary consideration, the analyst wouldn't even pay attention to this. The lead strategist REIT portfolio manager he would as well as our chief investment officer Gary Lisenbee and to make sure that we're not straying from what we've done historically. So this hasn't changed that much over time.

Gerard Cruz: Not straying from what you've done historically, in terms of portfolio construction or in terms of in terms of in what respect. Eric Smith: The way we're managing money. In other words we're managing money the same way for we're going on what 15 or 20 years now and we want to make sure we have exposure to the largest V sectors in other words as the Russell is not a good index to manage money to. Maggie Ralbovsky: Well that obviously is your claim in that way but if you think of the contacts there are portfolio clients trying to put together they obviously have you know the core managers, the growth managers which shall benchmark against Russell growth and then you are benchmark against with S&P then the total portfolio obviously off centered right so there is a different perspective if you claim Russell is not a good index you know depends on your perspective. So if you are being viewed as a value manager and if you do not fulfill that role then the portfolio is obviously is going to be taking a bias.

Eric Smith: Right, I said that the Russell is not a good index to manage money to. Maggie Ralbovsky: Depends on it depends on their perspective right. Eric Smith: Right that's what we promote and that's what we are and the simple reason it becomes

very lumpy and you get a lot of volatility. So a good example is if financials do very well we're going to underperform Russell because we have a substantial underweighted position. And financials gone up to over 35% back in '05, '06, utilities represented 78% of the portfolio of the Russell and then you had the interest since with component of consumers discretionary and that got up to about 10% so you had 50% of the portfolio which was interest sensitive and you know we have characteristics of a value manager. If you look at you know PE's price booked dividend yields a lot of those are going to push us towards value but terms of portfolio construction, the Russell is not a good index. Now in terms of measurement terms of characteristics that's a good index. That's one of the reasons that we say we need to do better than both the S&P and the Russell because you can hire an index fund and when you look historical over 3 and 5 year period we've done better than both with about market like risk.

Gerard Cruz: Right and I understand that I'm just wondering because maybe I'm misunderstanding your statement but is then well first the use of sector weightings is secondary with you guys anyway right you're picking stock not so much on the weighting. But then because when we look at reports and you're correct you've been outperforming in both respects but we're using the Russell as a benchmark to return is that a fair measurement then in your eyes or would a better measurement be the S&P? Eric Smith: The Russell is a better portfolio for measuring our performance because we have more value characteristics. Gerard Cruz: Okay. Okay. Maggie Ralbovsky: Well you see that you're very far away from Russell in terms of characteristics. You are actually closer to S&P in terms of P, PV the ratios. So you are somewhat in between you know but closer to the S&P. I understand your philosophy to say you know if you have one part, you want to manage money, I really don't want to benchmark against Russell because that's just one lumpy index. But in the portfolio sense I do want to be lumpy because I have the other part that's lumpy I want to cancel them out. So by changing that perspective then your statement is obviously not fitting what the goal is. I truly understand what you are saying what I'm saying is that your claim can need to be put into the context of the portfolio. Eric Smith: Ok I understand that, this is how we manage money and we've been able to do better than the both the Russell and the S&P over very long time periods. People try to categorize this is value core growth, that's fine that's their decision where they want to place us and it kind of falls out where it is. We did not start the firm with the idea of what kind of manager did we want to be, did we want to be value, do we want to be growth, do we want to be core? We wanted to manage money and we managed money identifying companies that are high quality selling below estimated intrinsic value that have some catalyst that are going to cause our stock price to increase. Other companies, other firms, other people will say oh you are this type of manager, you are value, you're core you have these kind of elements and that's fine. We really don't mind what people want to categorize us so we don't fall into those boxes real well. Simple as that and so we've out performed most money managers over very long periods of time both value and growth but when you look at the characteristics price to book, price to earnings ratio those are not generally very good characteristics to measure.

That's what the Russell does right, but really all the Russell uses to categorize their index price book ratios and PE ratios, and those are both we think very poor measures to measure the difference between a growth and value manager. But that's how the Russell does it and so we don't fall into that. Gerard Cruz: But your okay with that as a benchmark? Eric Smith: Sure, yeah that's why we show both in there. So this is really the sector weight or fall out of our strategy, but we recognize that we while some people may want to have a more deeper classic value manager, we're not that manager and that's what it comes down to. And they are going to have much more concentration in specific industries and there's managers out there that do that and that's fine.

They are going to have higher volatility and take more risk and then what our clients generally want us to take and they are generally they are going to manage to an index and we don't do that. So you end up kind of closet index is what happens as a value manager trying to follow the Russell 1000 Value. And so I mean you've been with us a long time and you know there's been periods we have underperformed the Russell and it's not because of what we've done as much as what the Russell's like, as Maggie said there are clients out there that want us wants the manager to kind of mirror that a little bit closer, that's not going to be the case with us. Any other questions on that?

In the next page, page 5 actually shows the stocks in the portfolio, and you know our strength is stocks selection and here's the weightings and you can just gives you the idea of where the stocks fall within that category. We have 40 stocks in the portfolio which is fairly concentrated which is 41. So that was just in there if you have any questions regarding the portfolio itself. Okay, and that's pretty much it, I mean I can talk a little bit more about the team hasn't changed well, we've added we've actually added 3 new analyst to the team over the last 2 years.

One has been on the... if you turn to page 9, flip over to page 9, page 10 is probably better. Page 10 gives an overview of the team if you will and so as I mentioned here is the Chief investment officer. In the last year and a half we've added in the Small Cap Raj Subramanian he's on the bottom right there, he's come on to support our small cap team. And then on the Large Cap team we added JB Nadal, Jean-Baptiste and he's actually the lead co manager on a global and international as well as an analyst for the Large Cap. And then Jen Robertson in kind of the middle there to the right came on about a year and a half ago as a consumer discretion analyst.

So if you look at the team, you can see we have there's 9 actually there's 12 people in the complete investment team at which 9 are dedicated to Large Cap. So the analyst are specialist for the most part although those sector rotations do occur from time to time. What else can I talk about. As you know we're over 100% owned by WellsCap and that became effect last year it was June of. Wilfred Leon Guerrero: You're what 100% what? Eric Smith: 100% owned by Wells Capital Management so that's the reason we have the WellsCap on the book. And it's a good relationship, they really leave us alone from the investment perspective they don't get involved in the investment decisions. They allowed us to obviously our sales from distribution is much wider than would be. We'd have them and we also have more compliance

capabilities obviously it's important these days and our technology of computer and operations to help us in that respect too. So, the WellsCap relationship is very good for us in that it allows us to stay as an independent team in a sense managed in a company as a small company but have the kind of umbrella of a larger business.

Maggie Ralbovsky: Does that prevent you from buying Wells Fargo? Eric Smith: Yes. Maggie Ralbovsky: It does, so you can never own Wells Fargo? Eric Smith: Right. Wilfred Leon Guerrero: So how much are you going to make how much money you going to make next year? Eric Smith: Next fiscal year well who knows. So I mean it's interesting and you probably talked to other managers everybody has different opinions on what's going to happen at the stock market. Well if you look at where people complicate this business and if you look at where stock prices come from, its either increased valuations or increased earnings right so, if earnings are growing and valuations levels stay flat then you are going to see stock prices increase at least somewhere in the earnings growth rate. If valuations increase and earnings stay flat you can still have an increase in the stock market.

So, it's really where you get your two kinds of components if you will. The stock markets doubled in the last 4 plus years, what people forget is that earnings have doubled from the S&P 500 for over 50 dollars a share their over 100 dollars a share. So valuation levels are about where they were 4 years ago even with the strong stock market. So we have long term interest rates at the lowest they have ever been historically, and PE ratios where they were 4 or 5 years ago. So where does the growth come from? We believe it's going to come mostly from company's ability to increase earnings not so much from valuation improvements. And if you look where companies get their earnings from, that's a combination of revenue and margin improvement. And revenue comes from selling more product or services and with slow GDP in the U.S. a little bit better outside of the U.S. it depends on what country. Overall revenues probably not going to grow much more than 4 or 5% which would be high in the aggregate and then you're going to see some earnings expansion but not much margin expansion. So we're looking for a potentially 6 to 7% in the aggregate.

So this strength of our firm has always been stocks selection that's why people hire our firm its ability to find good businesses and so this kind of environment is actually good for us because it's not operating in environment all stocks are going to do well. Companies are now really going to have to be selling their products that differentiates themselves from their competitors and these are the kind of businesses that we are looking for. So all that said is we could still see kind of low single digit growth weight we think in stocks over the foreseeable future even with kind of moderate to sluggish GDP growth.

The stock market as a whole is going to be impacted by sluggish revenue and margin expansion is not going to be what it has been in the past, however companies are much better financial situation than they have been in the past, which gives them the ability to repurchase shares and take shares out of the market place switching these earnings with shares. So having said all that we all know it never works that way not quite that simple right and that there's always something that comes in there but this

kind of environment that we foresee this sluggish kind of bits and starts the economic growth is good for firm markets we've actually performed well in those environments.

Just a good example is we're about in line slightly underperforming at a very strong stock market and that's not unusual with our style. We are generally going to do better in down markets or slower markets than these very strong roaring markets although we've done well over the last 30 years. So, Wilfred Leon Guerrero: if the so-called Fiscal Cliff becomes a reality are you guys prepared to cope with that Eric Smith: yeah well we're not making decisions based on that, we've always managed from a pure bottom up and we're not trying to really let large macro decisions, or questions or forecast influence that and however that being the case we know when that does we can short ride, we believe that there's going to be some compromise and won't mean it going off this Fiscal Cliff. And so you'll see GDP continue to grow kind of 2 1/2, 3% here and I can tell you there's not much you can do if they don't make some sort of agreement the stock market is going to decline, it doesn't matter what you're invested in. Anything else?

Gerard Cruz: Housekeeping. Changes in management structure have there been any? Eric Smith: No not since the last couple of years. We talked about that 2 years ago we've had a couple of people, Dave Cram retired early this year. No SCC issues so things have went very well for the firm. Gerard Cruz: It wasn't my decision. Eric Smith: I would have voted for... Gerard Cruz: for what? Eric Smith: not getting a hair cut. Of course that's you know you would have hoped no I understand. Gerard Cruz: The haircut was the lesser of the two evils. Eric Smith: From our perspective. Gerard Cruz: Oh yeah. Eric Smith: I do I want to reiterate we appreciate the long relationship that we've had with you and I know we don't fit in the box real well and its hard to categorize us sometimes but you know our goal is to manage money and to do better than the indices and not take a lot more risk and I think we've been able to do that. Wilfred Leon Guerrero: you keep making money and we just kind of hold Gerry on that. Paula Blas: Boy you are just batting a thousand around these managers huh. Eric Smith: Anything else I can answer for you? Gerard Cruz: No. Eric Smith: It's good to see you. Maggie it's nice to meet you face to face we've talked on the phone a couple of times. Alright what else do you have? Are you done for now is this it? Paula Blas: No actually we have a couple of items on the agenda that need to be...

1:30pm - 2:15pm Securities Lending

Maggie Ralbovsky: Rebate of the of partial commission, now because there's no other differences you're competing on commission then if you can get a rebate of course you're better off. So that was a revenue enhancement methodology 15 years ago 10 years ago. Now what happened after that was that trading has become so diversified, you don't have to trade with anybody anymore there's something called the dark pools okay there's electronic matching systems that you just you know anonymously trade. And what that has done is to make trading cost invisible trading cost to be very different it depends on who you trade with or how you trade. What are the invisible trading cost? Well besides commission, the main trading cost is actually something

called market impact which is to say that if you advertise to everyone, hey I'm going to sell a whole block of IBM at 2pm today, and what is going to happen is people is going to sell IBM ahead of you because there's no IBM price going to go down then once you sell they going to buy it back right, you could essentially from around you if you advertise it, well the more you use the human base the slower trading methodology the more chances for you to get this message out and not intentionally but the street would know ahead of your trading and there's a lot of things out there called the super computers that trades many seconds ahead of all the trades as long they know you know a matter of seconds before you they can trade ahead of you.

So therefore depends on what route you take to trade the market impact cost has override commission as the major cost. And commission rate has been going down and down and down to you know cents, cents maybe 2 cents. So the usefulness of the directive brokerage as a way to generate lower trading cost or the increase in revenue has become so like a dinosaur, it's really nobody's using anymore. Very, very few people using if any...Wilfred Leon Guerrero: So why are we discussing it? Maggie Ralbovsky: Because it's in our IPS that we have 4 directive brokers, we prefer our managers to use all things being equal. We do not tell a manager you have to trade with the 4 firms but we do have it in our policy and I just want to bring this to the attention that why is it even need to be there if we're not using it may be a liability. Wilfred Leon Guerrero: It's are we eliminating it on the proposed IPS. Paula Blas: No it's not in the statute it's in our IPS. Maggie Ralbovsky: Yeah, I think we should just strike out that whole section. Gerard Cruz: Okay. No problem. Paula Blas: Because in our IPS we actually already tell the managers to exercise best executions.

Maggie Ralbovsky: That's right. So we're not enforcing it so why even put it there? Wilfred Leon Guerrero: So we want to eliminate that from our IPS. Maggie Ralbovsky: Ok so that's right. So that's the bottom line. I think there are a couple others since we'll go there right. Securities lending if you recall last quarter, securities lending securities capital the REIT manager came here to tell us that the current guidelines does not allow them to hold cash and they prefer to hold up to 20% in cash which I believe is probably a little high maybe 15, I don't know what's the right number. So we said that give us some argument or give us some evidence to show that this is a value addition proposition and they have send us this thing which should be your bracket and this thing has 2 pieces information in it, if you haven't looked at it.

The first piece of information they give us a graph and this graph is their way of evaluating how cheap or expensive the cheapness or expensiveness of the REIT market. So and then they overrate the total return of the market. And so the blue line is Security Capital's projection as to how much they think the market will return okay, so all practical purposes the blue line is their prediction and the gray line or whatever that color is. Gerard Cruz: I'm sorry let me just interrupt you, so will the fact that they're holding cash be included in their performance? Maggie Ralbovsky: Yes. It will. So they want to use the cash as a value addition so. Gerard Cruz: So we're going to count it, I mean if they track or it becomes some sort of a drag on their returns on the performance. Maggie Ralbovsky: It will impact their performance. Gerard Cruz: Okay.

Maggie Ralbovsky: So they're willing to take that risk and they're willing to say we know when to time this cash. So market timing will become a way for them to add a value and they have demonstrated they want to show us they have demonstrated their ability to forecast that. So if you take this charge you can come to the conclusion 85% of the time you know if the market is too expensive or too cheap. And if they do that correctly when it is too expensive they hold more cash, when it is cheap they use that cash to buy in. So buy big and sell high that is their part of the strategy and they have claimed that for the past 15 years they have added 3% by doing that. So, I personally think this is a pretty strong argument and REITs is one of the asset categories that seems to have this kind of cyclicity because the evaluation of the real estate sector compared to the other yield generating sector seems to have a very strong correlation so by observing this yield.

Gerard Cruz: Is there cash under that on our IPS? Maggie Ralbovsky: Yeah zero, cash is I think zero or 5%. Gerard Cruz: Was it 5, so we need to change the IPS or we need to... Diana Bernardo: I think it's 5%. Maggie Ralbovsky: Oh no not the IPS I'm sorry the guidelines. Gerard Cruz: The statute has a 5% cash limit? Maggie Ralbovsky: It's not the statute, no I'm sorry it's the guidelines. Paula Blas: Which is the investment policy statement. Maggie Ralbovsky: But the statute the statute is for the total portfolio not for every manager. Paula Blas: No it's for the total portfolio. Maggie Ralbovsky: That's right. So just by one manager going to 20% not going to reach it. Paula Blas: You're not going to go over... Gerard Cruz: We give all managers 5% right. Maggie Ralbovsky: Yes. Gerard Cruz: Ok. Paula Blas: We ask them to hold no more than. Maggie Ralbovsky: That's right. Gerard Cruz: Ok I just want to make sure that... Wilfred Leon Guerrero: You know on this request they're not... Gerard Cruz: They're asking for 20...

Maggie Ralbovsky: They're asking for 20%. Wilfred Leon Guerrero: Yeah, they are not I guess they're to take they mean that this is a permanent waiver that they can... Gerard Cruz: Yes they are asking for yes, Paula Blas: Because like Maggie was saying it has a lot to do with their own internal market timing. You know. Maggie Ralbovsky: that's right. Gerard Cruz: What I remember Ken saying is that if there are times when they don't believe that there is any investment in the REIT space that's worth investing in. So they just want to pull the money off and currently they don't have the flexibility to pull money out. Wilfred Leon Guerrero: And is this something we can expect well first of all did the return from the REITs are low I think its lengthen Maggie Ralbovsky: Just for that past quarter that was yeah for the longer term. Wilfred Leon Guerrero: Which supports their argument, like you know the market is not good.

Maggie Ralbovsky: Expensive. Yes, I guess it supports him he because last time he told us that market is expensive so... Wilfred Leon Guerrero: But does this mean that like for future agreement with money managers that we need to keep track we need to keep in mind that REITs manager are different from... Maggie Ralbovsky: No it depends on the manager because the other manager didn't ask for this. So if a manager doesn't think they have the ability to forecast market timing... Wilfred Leon

Guerrero: I think the REITs both managers lost money or Maggie Ralbovsky: Oh yes both managers lost money but it doesn't mean both managers use this methodology to add value so there are managers who doesn't want this liability as Gerry pointed out if they don't know how to use cash, cash can be drag in the long run. Like he just said...Paula Blas: And it affects their performance. Maggie Ralbovsky: I'm sorry... Wilfred Leon Guerrero: What would a manager do other than cash if they feel it's as a bad market? Maggie Ralbovsky: Short. Short. Wilfred Leon Guerrero: I don't know what short means. Gerard Cruz: No they can't short. Maggie Ralbovsky: I know they can't short he's saying that yeah...Gerard Cruz: Theoretically. Maggie Ralbovsky: Yeah short means I sell something I don't have, I borrow it to sell because I know it's going to go down, so when I return this I'm going to buy back at a lower price. So short is the opposite is the jarden for sell something you don't have. Ok so the opposite is long so the jarden on the street is you know long or short? Long means I foolish, short means I'm fairish so that's short. Right now you can short a little because the statute never said you can not short, therefore you can not short because it's inclusive you know the statute. Paula Blas: No it has to be exclusive. Maggie Ralbovsky: That's right has to be explicitly allowed so they can not short the best they can do is to hold cash.

Wilfred Leon Guerrero: Hold back. Gerard Cruz: Yeah just keep it in yeah cash. Wilfred Leon Guerrero: But when you hold back if you are holding that cash. Paula Blas: Well what they are doing is when the markets expensive they are holding it but when the prices go down they have the cash to go ahead and buy low. Maggie Ralbovsky: So that obviously can only work if you can time it right and they are saying 85% of time they can time it right. Not everybody can make that claim therefore it is not a categoric matter to say all REIT managers should hold cash. Wilfred Leon Guerrero: Maggie just for clarification, we have two managers one of them is asking so that at least 20% in cash and the other is not asking and you're saying that other manager is... Maggie Ralbovsky: I'm saying you don't have to give both managers the same thing because the other manager didn't probably want it. Paula Blas: The other manager outperformed.

Wilfred Leon Guerrero: Yeah but I'm looking at both of them and both lost money. Maggie Ralbovsky: That's because the market lost money. Wilfred Leon Guerrero: That's right that's what I'm getting at. Maggie Ralbovsky: Right so just because they are in the same asset category doesn't mean both of them have the ability to time the market right. Do you take that as a given? Wilfred Leon Guerrero: Okay. Maggie Ralbovsky: So if you take that as a given doesn't mean we give them the same guidelines. Wilfred Leon Guerrero: I don't understand that. Maggie Ralbovsky: Why don't you understand that one? Wilfred Leon Guerrero: I just don't understand it. Paula Blas: You have a base guideline right for everyone and when one manager...

Gerard Cruz: Their management styles are different even though they are the same manager I mean same they are both REIT managers but Security Capital only invests in securities, only invest in publicly traded companies. So they are only in the markets so when they and the nature of the REIT space is that it's cyclical because it's based on real estate, real estate values and cash flows. Cornerstone on the other

hand does what Security Capital does but in addition to that they have direct holdings in buildings so their view about how they invest money, even though they are in the same REIT space, they are both REIT managers, Security Capital's way of investing money is different. So they don't up until this point haven't expressed a need to hold cash because if they don't see opportunity in investing in securities they can take those bonds and invest in hard assets like malls and apartment buildings and gain cash flow there whereas Security Capital, if they don't see opportunity in securities they have no other place to go. So if we don't give them the opportunity to hold cash they will then be forced in quotes to invest in securities that they may not have a real conviction for or real liking to. So you could get two managers in the same investing both in REITs, one has a different investment philosophy than the other because of the difference in philosophy one may not need the cash whereas the other one will, and I think that's what's happening in this case. Is that right?

Maggie Ralbovsky: Although I don't think it is the case that they hold buildings, they do have another diversion that does that but for portfolio do not hold buildings. However, you are right in saying that they have different investment styles. There are manager who just forecast security value against each other. Not security not this asset class against cash for example. Not saying this whole asset class is expensive. There are managers who do not make that call. They say hey you know the client asked me to manage money in REITs and all my job to do is to pick the best REITs, I actually have no idea if the REITs as a whole sector is expensive or not. I don't do that. So with that kind of manager who does not do that, then they don't want to make a decision on whether I want to invest in cash. Because that's not my job I have no expertise in doing that. Security Capital is telling us yeah we actually have the ability to forecast if this asset cost is expensive and I want to use that information as part of the way to add value and they have we said okay show us some evidence you have done that, and they showed us the evidence 85% of the time they are right therefore, I think we should give them the ability to do it. Although I have this reservation with 20% 1/5 of the portfolio right kind of think it's on the high side.

Paula Blas: 10 maybe 10? Maggie Ralbovsky: I think 15 probably will be because we haven't been using 15 for other exceptions like you know...Wilfred Leon Guerrero: my problem is not the holding cash; I don't have any problem with that. My problem is what's the other company doing and what are the options that are available to them? Maggie Ralbovsky: The other companies is doing security selections as I said you know there's two things managers can do to manage money. One is called top down one is called bottom up. Top down means I actually look at a whole sector as if it is one thing and I make a judgment and top down manager can say you know this whole thing is expensive I don't care which one within this whole sector is better than the other one, the whole sector is expensive therefore I want to be away from this sector. Okay if the manager has that kind of information, they wanted to use that, and one way to use that information is to have the ability to get out of this whole sector as a whole. Okay, however if the manager is a pure bottom up manager, that only looks at each individual security within the sector and try to find the best one in the sector it actually does not make a judgment call on the top down. Then for that kind of

manager you don't really need the ability to use the information top down because it doesn't do that. Does that make sense? Still doesn't?

Wilfred Leon Guerrero: I guess, you know one of the things that I cannot, I guess I'm not don't know to much about is when you talk about REITs, you talk about companies that deal with real estate but they don't own them. Maggie Ralbovsky: They do, they do own them. Wilfred Leon Guerrero: Like some companies just like would in the business of lets say renting out properties, right? Maggie Ralbovsky: Oh well that's the operating companies, there's only a couple, so REITs is a taxation is a formation is a structure Corporation. So REITs is just like a corporation however it is committed to distributing 95% of the qualified income as dividend therefore the Congress says ok if you do this we have a law if you fit into this profile we do not tax you at the corporate level. So all the ending investor are taxed, but if you are nontaxable you basically skipped a taxation so you get a benefit in that. Therefore REITs is considered different kinds of Corporation because they don't get taxed on the corporate level. But they are committed to distributing all the earnings, all the lands they collect or whatever it is. And the do own underlined buildings, the difference between different REITs is how much leverage they use. Because they have this ability to skip the taxation don't get taxed, they are incentivized to use leverage because you are basically having a very if you can earn more rent then you are paying your creditors you do not have to worry about the difference you have to pay taxes. I guess it's easier for you to borrow.

So the difference between the REITs companies is how well they manage that balance sheet risk. With leverage comes with risk now at times that when since 2008, when the market closes if you are a REIT company you are very much levered. You have to lower your debts and your market closes you have no where to roll debt you file bankruptcy. In 2008 quite a few REIT companies filed for bankruptcy. There's also other REIT companies that are very very high quality meaning they do not take too much leverage and these companies may earn less money during good times but protects you on the down side in bad times. So REIT manager, REIT portfolio manager is making this kind of judgment. Okay this is actually pretty good time for making investment in these high levered companies or vice versa. We make that kind of judgment therefore there are differences in between these companies for bottom up managers to pick the right one. So if you are purely doing that kind of decision, you don't care if the REIT sector is expensive or not because you don't study that. Does that make sense? Wilfred Leon Guerrero: Yes. Paula Blas: So would you say Cornerstone is bottomed up? Maggie Ralbovsky: Cornerstone bottomed up yeah. Paula Blas: And Security Cap is more... Maggie Ralbovsky: is bottomed up and top down. You know this is... Wilfred Leon Guerrero: This approach I understand, what I don't understand is Cornerstone; I don't know how they do it. Maggie Ralbovsky: in the bottom up? Wilfred Leon Guerrero: Yeah how they handling this thing if the market is bad? Gerard Cruz: Yeah how can they be looking at the same universe and not say that it's over priced? Maggie Ralbovsky: Because this is my mandate, if my mandate is to manage REIT portfolio for you I'd pick the best REIT for you. And if I'm a REIT manager you know it is not a given that I tell you if REIT you should get out of REITs. Wilfred Leon Guerrero: Like I said this one I understand, but the other one.

Maggie Ralbovsky: So then lets take one step at a time lets approve this. Wilfred Leon Guerrero: No no no I have no problem with this thing that one I understand. Gerard Cruz: Cornerstone. Maggie Ralbovsky: Cornerstone what? Gerard Cruz: Has done better. Paula Blas: I said since inception has done better than Security Cap but they compliment each other. Gerard Cruz: I could've sworn that Cornerstone had direct holdings. Maggie Ralbovsky: They don't have in this portfolio. Gerard Cruz: I thought they did though for us. No because I remember us bringing up the option. Paula Blas: Hotels remember there was some hotels and... Maggie Ralbovsky: In this portfolio? Where's my big book? Gerard Cruz: I thought I could be wrong but I thought Maggie Ralbovsky: They have a parallel division that does that. Yeah so I don't think in this portfolio they are allowed for that. I do not believe so I think this is the purely REIT portfolio although that gives information on the different... Diana Bernardo: We are still on this? Paula Blas: He is. So what did you decide? Gerard Cruz: We haven't. Wilfred Leon Guerrero: I don't have any problem with it; I'm just trying to understand what the other company is doing because I don't know whether that's Maggie Ralbovsky: ok so then you have no problem with this then can we approve this? Wilfred Leon Guerrero: I don't have any problem with this. Maggie Ralbovsky: Ok then let's approve this. Do you approve? What do you feel about 20%? Wilfred Leon Guerrero: It was a learning opportunity for me. Maggie Ralbovsky: Good. Good learning has taken place that's great. Wilfred Leon Guerrero: No, I still don't learn Maggie Ralbovsky: What do we think about 20%?

2:30pm Other:

Paula Blas: Back to security cap. Gerard Cruz: We're going to recommend 15% to allow 15% cash position. Maggie Ralbovsky: Okay. Joe T. San Agustin: With reservation. Gerard Cruz: Was it 15%? Joe T. San Agustin: Yeah pending that payment. Paula Blas: Oh no this is a different matter Gerard Cruz: Oh no this is for the security capital not Janus not the change I'm sorry we Maggie Ralbovsky: Switched on you. Gerard Cruz: Paula switched on you. Joe T. San Agustin: Where are you at now? Gerard Cruz: We're Security Capital is one of our REIT managers and they have asked at their last review to allow them to hold 15% in cash, they believe that they have found a way that if allowed to hold 15 up to 20%, we're going to allow 15 is what our recommendation is going to be, they believe that they have found a way to improve performance by taking on a cash position. And so we're going to allow them to do it and then monitor their performance and determine whether or not within a year it is truly a fact that as a result of holding up to 15% in cash they have been able to improve their performance over what they would have otherwise been had they just held 100% equity positioned in their REITs or held only REITs.

Maggie Ralbovsky: Okay great, so there's another manager who last quarter we talked about changing guidelines and that is Eaton Vance. Gerard Cruz: Eaton Vance what Maggie Ralbovsky: We apparently the guidelines says that we can not hold any securities bigger than \$3 billion and we noticed that historically Russell 2000 Index has had the securities up to \$5.8 billion so we said that we need to change the

guidelines to allow them to have the upper limit up to the Wilfred Leon Guerrero: Can we hold that, take a break. Maggie Ralbovsky: Okay take a break.

Maggie Ralbovsky: So the second matter is to Wilfred Leon Guerrero: Can we please go through this agenda the directed brokerage we're going to Gerard Cruz: Table that. Maggie Ralbovsky: No, no no we're not. Gerard Cruz: I'm sorry Wilfred Leon Guerrero: Now we're in security lending right? Maggie Ralbovsky: No we're in the guidelines is not on this agenda for some reason. The guidelines for Eaton Vance I want to finish that and then we go Wilfred Leon Guerrero: Which one? Maggie Ralbovsky: Eaton Vance it's not on the agenda. Gerard Cruz: What did they ask for? It's not on the agenda? Maggie Ralbovsky: Yeah so they asked for remember Gerard Cruz: Wait wait lets go ahead and put it here then. We'll put it under Maggie Ralbovsky: Under Security Capital there's also Eaton Vance. Wilfred Leon Guerrero: Under what? Maggie Ralbovsky: Under Securities Capital we added another bullet point, Eaton Vance guidelines revision. Maximum holding size.

Wilfred Leon Guerrero: okay. Maggie Ralbovsky: I recommend accepting I recommend accepting I Gerard Cruz: 15% Maggie Ralbovsky: Not recommend it's already being recommended I think last time already approved remember we said that Russell 2000 Index at times have securities larger than \$3 billion and we want to change the guideline allowance of the maximum security to be relative to Russell 2000 rather than using an absolute number of \$3 billion. Gerard Cruz: Did we already approve that? Maggie Ralbovsky: We already approved that we wanted to I guess formalize the language and the language they submitted is the upper limit to be the greater of \$3 billion or the upper capitalization range of Russell 2000. Gerard Cruz: Ok so they just want their... they want to be able to reflect their index and in doing so.

Maggie Ralbovsky: That's right we already approved that so we just need to approve this language which I have no problem with. Gerard Cruz: Okay. Paula Blas: I just need a copy of that. Gerard Cruz: Yeah so we can bring it to the board. Maggie Ralbovsky: You don't have it? It should be in the board material it's supposed to be. If not I'll. So as of November 30, we just need to put a date there and then issue this to them so they can. Gerard Cruz: These guys are still on watch yes? Maggie Ralbovsky: They are still on watch. Gerard Cruz: okay. Maggie Ralbovsky: So I think that's an easy matter right yeah. Gerard Cruz: So we have 3 action items. Maggie Ralbovsky: So 3 yeah directed brokerage Wilfred Leon Guerrero: Go through the 3 items again. Gerard Cruz: The directed brokerage, the Security Capital amendment to their cash limit and then. Wilfred Leon Guerrero: Ok that's 15%. Gerard Cruz: Correct and then this one, Eaton Vance which is just the approval of the language because we already approved the action. Maggie Ralbovsky: That's right and I suggest we put effective date to be December 1. Joe T. San Agustin: Is this to give them holding cash? Maggie Ralbovsky: No this is to allow them to hold the securities as large as their benchmark instead of giving them the hard ceiling of \$3 billion because that benchmark has at times have had securities as big as \$5.8 billion. Joe T. San Agustin: You want holding equal to the benchmark? Maggie Ralbovsky: That's right equal to the Joe T. San Agustin: Even though they don't have the holding ability we cease their holding? Paula Blas: Buy securities in the market

Maggie Ralbovsky: Allow them to hold the biggest securities to be as big as the market
Gerard Cruz: That's right. Joe T. San Agustin: you wouldn't have a problem on concentration. Maggie Ralbovsky: There's other guidelines that constrains concentration. Joe T. San Agustin: no concentration if they want their assets back
Maggie Ralbovsky: So no, we have other guidelines that says you cannot hold more than this much of this and that and this is just saying the biggest security in terms of... Joe T. San Agustin: This is subject to those. Maggie Ralbovsky: Yes, that's right. Paula Blas: Not withstanding any of the other instructions. Joe T. San Agustin: Subject to whatever it is, you just don't get away with... Maggie Ralbovsky: ok so I guess I will have the formal documents have Joanne issue those to you right? Paula Blas: No what do you call this if this is the language we are going to use I just need a copy of that. Maggie Ralbovsky: Okay and then in terms of Security Capital we just needed to write them a letter is that what it is or have them write a letter we approve it? Okay. Joe T. San Agustin: Go back track in the RFP those constraints are there the investment guidelines are there does that mean you have to amend that to provide those Paula Blas: Well our IPS is still pretty much the same. Joe T. San Agustin: we don't need to amend that... Maggie Ralbovsky: Yeah no there is no I don't think so. These are not contradictory to the IPS. Paula Blas: They are already benchmarked against that index. Joe T. San Agustin: As long as they consistent with the IPS. Maggie Ralbovsky: Right ok so I think the asset allocation issue is this right is this sheet right? Isn't it? The asset allocation item on this agenda is this rebalancing sheet right isn't it? Wilfred Leon Guerrero: Well Diane put that in because Gerard Cruz: We just need to review. Wilfred Leon Guerrero: do we need to

Gerard Cruz: Do we need to make changes to our asset allocation? No? Well it's subject to that. Paula Blas: She's putting this first. Gerard Cruz: No problem I get it, that's everything we've already approved right that's just the language, okay. Maggie Ralbovsky: that's right. Joe T. San Agustin: In the meantime, where is the risk? Maggie Ralbovsky: This is the Joe T. San Agustin: No, no, no, in the meantime that's not going through what is the risk now? Having maintained the same status goal regarding the asset allocation based on the change in market condition. Maggie Ralbovsky: I will suggest rebalancing the U.S. equity to reduce the growth. Joe T. San Agustin: Balance? Maggie Ralbovsky: Rebalance reduce allocation to the growthy manager because our... Joe T. San Agustin: pending that bill we are still going to have you do some exercise. Maggie Ralbovsky: Tweaks small tweaks yeah all the major changes have to be after that. Joe T. San Agustin: Okay, just want to make sure we don't get stagnant Gerard Cruz: So we reduce the growth tilt to value? Maggie Ralbovsky: We could reduce the growth according to the index fund. Gerard Cruz: Our index, okay. IShare Russell?

Maggie Ralbovsky: Yeah, not IShare, the Russell. Not the Russell the Blackrock.
Wilfred Leon Guerrero: Explain to me again what do we want to do? Maggie Ralbovsky: That's not for this meeting I want to do it next meeting. I want to give you a concrete measure. Wilfred Leon Guerrero: So this meeting we're not going to
Maggie Ralbovsky: That's right the 3 things you already put down is for this meeting.
Wilfred Leon Guerrero: That's it? Maggie Ralbovsky: Now securities lending well this

is the revisit I don't know how much more Securities Lending at Wilfred Leon Guerrero's request we going to revisit securities lending which I actually presented July 27, 2011. Wilfred Leon Guerrero: I don't know what your feeling is but I don't think I want to Gerard Cruz: I don't either. Wilfred Leon Guerrero: Okay. Paula Blas: You mean changing the collateral you want? Wilfred Leon Guerrero: No Security Lending. Gerard Cruz: I'm okay where we're at. Maggie Ralbovsky: Yeah me too. Wilfred Leon Guerrero: You know the last time when we met with the bank they were saying we can make more money if Maggie Ralbovsky: No we are not going there No I agree with you. Gerard Cruz: She needs to go diving. Paula Blas: Securities Lending status quo. Gerard Cruz: Yeah we'll just keep the status quo. Yeah I'm okay where we're at. Joe T. San Agustin: How much money do we have now Gerard Cruz: We made just under a half a million four some. Maggie Ralbovsky: He's right that was the number. Wilfred Leon Guerrero: No changes security lending? Gerard Cruz: No sir. Joe T. San Agustin: 60 40 Gerard Cruz: 60 40, 70 30. Wilfred Leon Guerrero: okay that's it?

Gerard Cruz: Yes sir. Maggie Ralbovsky: That's it yeah. Okay regular meeting, this is regular meeting right? Gerard Cruz: Yes. Paula Blas: Next due diligence meeting. Gerard Cruz: Whenever. Paula Blas: Maggie is looking at the last week in February. Maggie Ralbovsky: The 18th the week of the 18th. Gerard Cruz: Of February? Maggie Ralbovsky: Yeah Wilfred Leon Guerrero: You know my birthday is on the 13th. Gerard Cruz: Yeah I say we have it in the 13th in L.A. Wilfred Leon Guerrero: yeah oh okay. Maggie Ralbovsky: What? Gerard Cruz: We'll go to L.A. Maggie Ralbovsky: Really? Joe T. San Agustin: You have an office in L.A.? Gerard Cruz: Wilshire boulevard. Maggie Ralbovsky: We're actually on Ocean avenue right on the beach we have the most beautiful office most expensive facing L.A. in Southern California. We're on ocean avenue right on top of the block, we have this huge... Wilfred Leon Guerrero: Actually I want to go further east. Gerard Cruz: Little bit 4 hours. Paula Blas: You'll have to wait till July to go pick up reports like George. Gerard Cruz: Not that far, did you want to go that far east? Maggie Ralbovsky: February 22 to be the board meeting, and due diligence is 20 and 21. Paula Blas: 20 to 21. Maggie Ralbovsky: 20 to 22. Paula Blas: 22 is board. Maggie Ralbovsky: Yeah is that confirmed. Is that good for everyone? Paula Blas: Yeah I'm going to have to just for the audit. But that's okay we'll deal with the audit. Gerard Cruz: February yes. Maggie February 20 to 22. Gerard Cruz: I'm sure I mean that's way ahead too far for me to know but I'm ok. Maggie Ralbovsky: 20 to 22nd. Wilfred Leon Guerrero: Okay. Maggie Ralbovsky: And Chinese New Year is on the 10th. So by then. Maggie Ralbovsky: No the 10th is Chinese New year.

Wilfred Leon Guerrero: Recommendations. Eliminate directed brokerage from the IPS. Joe T. San Agustin: Direct brokerage from the IPS is there already. Gerard Cruz: Yeah we're not that's since we don't need it anymore that was relevant way back. Joe T. San Agustin: Having it there Gerard Cruz: It's costly I mean using it no no. Joe T. San Agustin: No one has used it. Gerard Cruz: No one has used it but the using that Joe T. San Agustin: Has anybody take that opportunity to use it? Gerard Cruz: Managers get a better price than we would directing them to. Joe T. San Agustin: But has anybody done that? Gerard Cruz: Not recently. I remember the

last time I met the directed brokerage was Lynch Gate. Paula Blas: Lynch Jones Gerard Cruz: Lynch Jones? Paula Blas: Lynch Jones is one of the brokers. Maggie Ralbovsky: Knight. Knight is another. Paula Blas: Knight, Capus. Maggie Ralbovsky: Converge. Yeah it's scary that Knight almost went bankrupt overnight with a glitch. So there was a glitch we traded down so wrong pricing so many stocks that they actually over night they lost \$600 million dollars, then their stocks dropped from \$30 to \$2 Knight. So there was talk about they were going bankrupt, and they had some private equity firm step in and bail them out. It's scary like overnight it could just go out of business kind of thing. Gerard Cruz: That's anybody now.

Maggie Ralbovsky: That's anybody in the industry. You know anybody. Anyway so the second was Security Capital, the third thing was Eaton Vance and also we keep Eaton Vance on watch list and remove Numeric from watch list. Wilfred Leon Guerrero: We going to keep Eaton Vance what is that one about watch list, whose on the watch list? Maggie Ralbovsky: Eaton Vance and Gerard Cruz: Actually we should probably put Janus on watch list too. Maggie Ralbovsky: Yeah we should put Janus on watch list you are right we should put Janus on watch list. Yeah Intech on watch list. Gerard Cruz: I'm sorry Intech. Wilfred Leon Guerrero: Okay, why are we putting.. Paula Blas: Remove Neumeric from watch. Maggie Ralbovsky: No I'm saying we're not taking money out but we should put them on watch. Paula Blas: Remove Numeric Maggie Ralbovsky: Remove Numeric from watch. Gerard Cruz: Oh yeah remove Numeric. Numeric is that one Indian guy that was there no more right? Wilfred Leon Guerrero: one two three four. Gerard Cruz: Very productive meeting Mr. Chairman good job. Wilfred Leon Guerrero: What's the 5th one? Paula Blas: Securities Lending program. You don't want to put it on there?

Wilfred Leon Guerrero: Okay. Maggie Ralbovsky: Wonderful so February 22. Paula Blas: Okay. Gerard Cruz: See you tomorrow. Paula Blas: Wow, good job people. Wilfred Leon Guerrero: Make a lot of money Gerry because the chairman and I need that COLA. Paula Blas: Oh that's what he's talking about COLA. Wilfred Leon Guerrero: Yeah you know people in the private sector they make a lot of money they pay a lot of taxes, us retirees we get COLA. Paula Blas: But when they give large foundation donations you get to ride it off. Gerard Cruz: Especially when you allow us to take it over 6 years. Paula Blas: He doesn't want it over 6 years. Wilfred Leon Guerrero: How can we put this in, I think we should put this in. Joe T. San Agustin: The bill? Maggie Ralbovsky: Yeah what did we say about it? Paula Blas: You passed you already passed the bill what we did was we made some minor amendments to it and we upped the limits on and added the legislative intent.

Wilfred Leon Guerrero: Okay, so how do we put this on the board meeting. Paula Blas: You already passed it as on the board Maggie Ralbovsky: We can put it on the board meeting to say next step is this, I don't know. Joe T. San Agustin: yeah but in order to use this you need a section analysis did anybody done that? Maggie Ralbovsky: what do you mean section analysis? Joe T. San Agustin: section rules and what is suppose to do Maggie Ralbovsky: that's what the intent is right. The legislative intent. Paula Blas: The legislative intent here actually goes and shows you what the sections that are going to be amended. What Joanne did was x out what was going to

be taken out and underline what we're adding. In those sections this is already the mandate as is right now with just the changes.

Joe T. San Agustin: Well I know I think I am not communicating with you guys. We need a separate document that shows section why supposed to do what is supposed to do as far as the current line Section 2 is what have we accomplished where are we adding and where are we deleting that's all it is. By the way what is section 1 bill okay what is section title 4 what is it supposed to be where is it now what is it going to accomplish? Same thing right down the line everything down the line. I don't want a full discussion. Maggie Ralbovsky: Ok well. Does Joanne need to write that? It needs to go to Joe T. San Agustin: In the bill the fiscal section by section. What is section 1 supposed to do? Maggie Ralbovsky: I see so in addition to the legislative intent. Paula Blas: He wants a matrix. Maggie Ralbovsky: So is that something the lawyer has to write. Paula Blas: Yeah, Joanne actually wrote Joe T. San Agustin: There are 15 guys down there only one third will read this bill, the two third will go with what you say, what do you think? Wilfred Leon Guerrero: Then I think we should have Mr. Chairman on record reflecting what Maggie was saying about the need to do this as quickly as possible. Joe T. San Agustin: I have no problem with that, you can pass the resolution to accompany this or a letter, what are you planning to do Paula Blas: I usually transmit it to... Joe T. San Agustin: Okay so in that transmittal it should show the urgency and the section analysis... Wilfred Leon Guerrero: We want to position the funds so that like bad things happen we'd be able to...

Maggie Ralbovsky: So section analysis and Joanne needs to write it right? Paula Blas: Well she needs to provide the analysis on it as far as just this one section where the increase for the limitation. Maggie Ralbovsky: I see so section analysis okay. So you are going to tell Joanne she's going to? Paula Blas: And she'll probably contact you. Joe T. San Agustin: the sense of urgency should be there on the cover letter. Maggie Ralbovsky: Ok very good. Joe T. San Agustin: Maggie is going to be right there at the doorstep, ready to testify. Maggie Ralbovsky: Yes. Joe T. San Agustin: And makes call. Paula Blas: Well, yeah I do but at the same time, it's not like they didn't know. Right, it's like....Maggie Ralbovsky: Do you think the federal government is going to bail them out? If you do think so, what is the catalyst when and how do we get that done? Paula Blas: You really think the Feds are going to bail them out? Joe T. San Agustin: Yeah when they resolve the immigration law. Immigration problem, right now they have a really big immigration problem. They don't know what to do Maggie Ralbovsky: We are talking about the Retirement Fund. Joe T. San Agustin: I know that we're talking about it, national poverty. Maggie Ralbovsky: So how do they get that? Paula Blas: From a legal standpoint I mean because they're commonwealth right? Maggie Ralbovsky: They pay no taxes. Joe T. San Agustin: They got to deal with the major issue that's facing the immigration, and this one is going to come right on the shadow. Maggie Ralbovsky: Oh just like a piggy back the old thing give them Joe T. San Agustin: Lets face it this controversial nationwide. This is nothing you know the whole pension industry is watching this case you know that watching Saipan. They want to know. Paula Blas: Yeah that's why we want to know if the feds would actually bail them out. Maggie Ralbovsky: If you bail them out where do you

stop? Paula Blas: No that's why I feel Joe T. San Agustin: the whole industry to worry about. Paula Blas: Because even just the whole idea of filing chapter 11 and having the court say no go back to your government and tell them to take care of it right. That's basically what the court's saying. Joe T. San Agustin: When Valejo went bankrupt how come the state of California state government didn't go back and rectify it? Only they isolated the city government.


Maggie Ralbovsky: Because California cannot file for bankruptcy. And Valejo filed for bankruptcy did not get anything done with the pension plan. The union was so strong they did nothing. Paula Blas: I don't think they are just going to bail them out without taking some sort of control and give it right back to them, you know what I mean to give them all this money to bail them out and then give to it right back to them and let them handle it themselves without any type of stipulations or Joe T. San Agustin: Is it a bail out or just a, here's the new system Paula Blas: Well right now what they did was Joe T. San Agustin: Are you talking to rescue them or establish a system for Commonwealth...They never had they never did. Paula Blas: Well you know what the strange thing is because public pension plans are not subject to ERISA. You know not like private so they pretty much it's their end their states or their territories like in our case that really have to their jurisdiction over it so for the Feds to come in and say ok now you tried it, you can fix it. I can't either. Maggie Ralbovsky: I cannot see how that happen, although the fed could bail out the whole government. Paula Blas: And indirectly help the fund that way but I don't think they are going to come in and just bail out the fund. I think it's the entire commonwealth. Maggie Ralbovsky: How do you make that happen? Who's going to tell you know the U.S. government do it and at what point? Joe T. San Agustin: Receivership the entire government. Maggie Ralbovsky: But they probably should long file they should file for receivership. Joe T. San Agustin: Look at how they do it in GovGuam in Guam they actually receivership file solid waste receivership at mental health. Maggie Ralbovsky: Yeah but not a whole Paula Blas: These are all okay mental health was temporary right. Joe T. San Agustin: Everything is temporary but we are talking about the entire government. The entire government is Maggie Ralbovsky: But it cannot file. They think they are state and state cannot file for bankruptcy. I don't see anything that can save them. Joe T. San Agustin: Well they don't want to raise taxes.

Maggie Ralbovsky: Yeah you know I think they should raise taxes and sell some of those islands. Sell them. Paula Blas: See that's another thing you know the Feds are going to look at what their assets are and say start liquidating some of your assets before you start screaming hardship. Joe T. San Agustin: Isn't the Retirement Fund liquidating their assets already? Maggie Ralbovsky: They have 14 islands right but nobody can own them because we don't have Mariana blood. You have to get rid of that article 12 then they can sell those islands. Paula Blas: They have a lot of government property that they can sell if you remove that stipulation and there would be I think buyers you know for that public land Joe T. San Agustin: We can't own any properties like that. But they can come of with their own property. Paula Blas: Well that's because we allow anyone to own property. Maggie Ralbovsky: Which is good. Which is good. Joe T. San Agustin: American Citizens, if you're not American citizens you can't own land here. Paula Blas: that's part of their; I don't know was it

part of their commonwealth? Wilfred Leon Guerrero: Can they sell their asset? Joe T. San Agustin: They can lease. Maggie Ralbovsky: Lease they can only lease it. Wilfred Leon Guerrero: They can't sell it? Maggie Ralbovsky: They cannot. Because you cannot own it unless you have Marianas blood. Paula Blas: No they can sell it but they can only sell to people with Mariana blood. Wilfred Leon Guerrero: To who? Paula Blas: To only people who has Marianas blood.

Respectfully submitted,

Affirmed:


ANGELINA CASTRO/MARILYN AGUON
Recording Secretary


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