

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

Trustees:

Joe T. San Agustin
 Chairman

Wilfred P. Leon Guerrero, Ed.D.
 Vice-Chairman
 Investment Committee, Chairman

Antolina S. Leon Guerrero
 Secretary

Gerard A. Cruz
 Treasurer
 Audit & Operations Committee,
 Chairman

George A. Santos
 Members' & Benefits Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

Wilfred G. Aflague
 Trustee

**Quarter Ended 3/31/12 DC Plan
 Quarterly Performance Meetings
 & GreatWest (TPA) Performance**
 May 11, 2012
 Retirement Fund Conference Room

Board of Trustees Present:

Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
 Gerard A. Cruz, Vice Chairman, Investment Committee
 Wilfred Aflague, Member
 Antolina S. Leon Guerrero, Member

Staff Present:

Paula M. Blas, Director

Other Present:

Terry Dennison, Mercer Investment Consulting Inc.
 Kent Morris, GreatWest
 Alice Taijeron, Great West
 Franklin Coopernurse, Office of the Public Auditor

Economic & Capital Market Environment	pages 1-18
DC Plan Performance	pages 18-24
GreatWest – Third Party Administrator Report	pages 24-33

10:00am DC Plan

Economic & Capital Market Environment

(Start of tape 1)

Terry Dennison: Let's start with a discussion of what's going on in the markets and the economy because that's what ultimately drives investment returns. Obviously a lot has been going on, from a world

overview perspective when U.S. growth continues to be positive it seems to be slowing. Realistically the U.S. economy had kind of a burst of growth over the winter partly due to the fact we had a relatively nice winter season in terms of weather, a lot of construction started that wouldn't ordinarily take place so economic activity through the winter actually was stronger than usual and when they seasonally adjusted it made the growth of the economy look greater than it was. We also had the consumers which is still 70% of the U.S. economy spending relatively freely, obviously not like it was before the housing crisis because the availability in your home as an ATM is no longer there, but a lot of these factors are now kind of winding down. We'll talk a little bit about the growth and income which has not kept up with the growth and spending and since credit is still hard to get for the majority of people it's not likely that we'll continue to see the level of economic growth that we've had.

The Euroland crisis which has occurred about 7 or 8 times now is back with us with a vengeance and we'll spend a fair amount of time on that because if there is anything that tips over the global domino it's probably going to be that. Core Europe is probably neutral at best, peripheral Europe is in a deeper recession and we'll talk about what's going on there.

Emerging markets including China are slowing, you hear a lot more talk about a hard landing in China, now hard landing in their case is growth falling to 6% rather than double digits but you're starting to see some stress both economic and social. In a fairly extraordinary move the communist party delayed their party congress because of this Bo family incident, that's very unusual, these things are scripted in advance and to delay it really indicates there is some disorder going on literally within the Chinese Government.

Globally monetary stimulation is being withdrawn, we've seen the wind down of QE2 here, the LTRO in Euroland is winding down. A lot of analysts have seen that the stock market has become addicted to the equity markets, have become addicted to monetary stimulation, when the monetary spigot is open stocks go up, when the monetary spigot is turned off stocks flatten out or turn downward. There is a really steep correlation between monetary stimulation which is really unsustainable because it's all deficit spending and the debt level which we'll spend some time on is rising now to very, very dangerous levels.

The U.S. in the short term, the last report of GDP was up 2.2%, that's down about a percent from the rate we were seeing in the 4th quarter of last year which was plus 3%, we're starting to see the slow down. While the recent trend has been positive, again we're likely to see a slow down.

The unemployment rate has clicked down to 8.1%, but one of the factors there is something called labor market participation or labor force participation is continuing to decline. The percentage of people who are of working age who are working is declining. We're seeing a lot of people just basically give up looking for a job and in the household survey which is where that 8.1% comes from, that basically takes them off the unemployed list, you're only going to get employed if you're actively looking for a job, if you give up looking for a job you drop out of that. Payroll additions which is from the establishments survey, up 115,000 last week is well below the expected 165,000, so the economy is slowing in that regard.

Another aspect of what we're seeing in the economy is an enormous rise in Social Security disability claims, in fact people who simply can't find work are now going to Social Security and saying, I'm disabled and can't work. There are certain areas like Puerto Rico where it's

statistically an extraordinary number of people are claiming disability benefits which are of course having a negative impact on the health of Social Security, which is itself a bit rocky.

I found a very interesting chart, you've seen this before, but this is an update of it, it's an interesting chart because what it shows is what the behavior of unemployment has been in various post World War II recessions going back all the way to the 1948 recession. What they do is they look at the employment level and they move everything back to the month of peak employment before the recession, so with every recession employment drops and as you see the lines all start with, in the upper left hand corner zero months after peak employment it's percentage job losses are zero because it's peak employment and then you look at it month by month, that's what the vertical bars are, month by month for each one of the recessions and what you see is even steep recessions the recovery in employment is really quite rapid and in fact virtually all the recessions have returned to the same level that employment is the previous peak by 2.5 years, 30 months into the post recession period except for one, the 2007 recession which is that red line that fell much further than any other post World War II recession and they recovery from which has been much slower than every other recession including the one in 2001 the recovery has been complete.

Another thing to look at and it talks up to this issue of structural unemployment is if you look at the laggards, the ones that have taken the longest to recover, it's 1990, the black line, 2001, the brown line and 2007, the red line. The ability of the economy to recover in terms of jobs from a recession has been declining, so literally the last 3 recessions, the recovery from an employment perspective has been much slower and in fact the last recession which is now 52 months since peak employment isn't even up to where the bottom was in most of the post World War II recessions. To give you a sense of where we are in an employment perspective, realistically there has been a lot of discussion about structural unemployment the fact that in practical fact many people now no longer have the skills or maybe never did have the skills to compete for jobs in an increasingly specialized and technological market place. Interestingly there have been a lot of studies that have shown that it's not college degrees and graduate degrees that are particularly important, it is a skill, often a skill such as using a digital machine tool, a machine tool that's driven by a computer doesn't even require an associates degree, but it does require specialized training and the future prognosis is even worse because there's a next generation of automation in terms of manufacturing that is going to significantly reduce the necessity to have people involved in the manufacturing process.

There was a story 3 issues ago in the Economist Magazine about this technology and most striking of which is called 3D printing; we're use to laser printers for printing documents. You can now print things, you can actually make like a watch or parts of a watch by having a computer print it, they literally can make 3 dimensional objects by continuously laying on almost at the atomic level layers of material and they can make things that you couldn't fabricate any other way, things that have complex structures inside them where you couldn't get inside them and machine them, since things are being laid down in layers you can very complex structures and this is becoming really mainstream manufacturing now. Manufacturing in the future won't be dirty, smelly, dusty, it's going to look like a hospital clean room, the floor are going to be white, they're going to be people in lab coats using computers to tell these machines what to do. So, realistically this structural unemployment, the ability of our education system and frankly our populous to absorb the level of skills necessary is going to make this sort of thing probably a permanent phenomenon.

Another concerning factor is what are called, durable good orders which is a proxy for business investment. Business investment coming out of the recession actually was a strong contributor to growth. In 2010 and 2011 business investment, business buying machines, business buying equipment added about 1% to GDP and if we look at durable goods orders which is again this proxy for business investment, they're declining, so again we're seeing the economy is beginning to rollover heading toward negative grounding again.

We did have one spectacular 6 month period in the markets, from October to March, that 6 month period the S&P 500 was up nearly 25%, so literally if you invested \$1 dollar at the beginning of October, at the end of March you would have \$1.25 which is a pretty good return for a 6 month period. Strikingly that was also accompanied by a very low level of volatility. I've seen a graph of how the market behaved and the market goes up and down and up and down. With the exception of a couple of little burbles in October, it just went smoothly up. That statistic that you hear of called, VIX which is a measure of stock market volatility that's derived from option pricing failed to really historically low levels than the number which is just a unit-less number was 15.5, the historical average is 20, so literally the statistic of market volatility which is kind of a measure of fear and greed, the meter is now very far over in the greed category that the market at least through the end of March had become very risk on, that's the term that's used in the markets. Unfortunately the markets were much weaker in April, a lot of these issues regarding the economy they started to become more visible, a lot of the concern about the Eurozone of which more later, were visible in April. We're still seeing very strong returns, very strong earnings growth in companies, the proportion of GDP which represents corporate profits is continuing its all time high partly because labor demands are low because of the level of unemployment. If we ever start to get back to a more normal level of unemployment, we'll probably see corporate profits decline because right now corporate profits are taking a much larger share of the pie between labor and capital and that's been historically been the case.

The Federal higher growth position by forcing the long rates to be lower is really going to run out of gas, they're so Reserve has basically again signaled they're not uncomfortable with the interest rate posture which is basically zero interest rate policy at the short end which they do control. There has been a lot of discussion that long rates are at very low levels, we did see a push up in rates in March and April in the 10 year over 2 again, but the reality is that a strategy of trying to move the economy into a low now they really can't go much lower. The Fed has indicated that they will maintain short rates for the next several years, they don't see at least so far a need for a quantitative easing 3 program but they say that they'll do it if it's necessary. There is a concern about what's becoming known as the fiscal cliff in 2013. Lot's of things that were used to stimulate the economy run out at the end of this year, the Medicare employee tax reduction of 2% runs out, the extension of the Bush tax cuts expire, there are automatic spending cuts built in because of the failure of the super committee to develop a definite restructure program, there is actually a Medicare tax increase for health care reform. The result of these are estimated to be about a 50 basis point hit on GDP growth so if nothing is done and realistically nothing will be done before the election, that only leaves a month and a half to deal with these fiscal cliff items.

We are seeing some improvement in the housing market and housing is an important part of the U.S. economy. Multi-family starts are looking to be about 20% above 2011 level, we're starting to see that actually come through year to date, housing starts are up 18% to 756,000 units , just to put that in perspective, in 2005 which is an unsustainable insanity period, housing starts were over 2 million units. So realistically even with this rebound and

housing units we're still running at only about 30% of the level of housing growth that we saw in 2005. Most of these are multi-family units, basically a lot of them financed by real estate investment trusts. Multi-family and rental has now become a much more significant part of housing activity. Single family housing is still pretty much dead because of the huge overhang in bank owned and foreclosed properties.

Looking at things in the long term, we just don't see growth going back to that 3-4% level that we saw through much of the last part of the 20th century. The effect of debt, the effect of structural unemployment, all of these factors are going to make growth much less significant, that's going to have an impact on equity returns because part of the drivers of equity returns is growth and corporate profitability, that's why you buy a stock, you buy a stock because you expect the earnings stream will grow and that will make the stock more attractive. In fact, we'll look at some numbers that show just how bad the last 5 years has been in terms of the difference between long term expectations and where we see the future and again as I said previously, the story is really growth and debt. One of the striking statistics that I found is real household income today is the same level it was 15 years ago, that basically there has been no growth in household income for the last 15 years. Despite the fact there has been an explosion of debt and much of that debt can be considered to be unproductive, it's unproductive in the sense that it's not buying or building productive assets, it's debt for current consumption, it's consumers buying things, it's Government using it for ongoing expenses rather for improving the capital stock of the country.

If you want to get very, very scared I'll give you a website, it's called www.usdebtclock.org, it's a real time indication of what the U.S. debt looks like, not just the national debt which is actually just a side show, that's 15.4 trillion. The total U.S. debt on balance sheet debt is \$56 trillion dollars, that's \$684,000 dollars per family, the average household family savings in the U.S. is \$4,434 dollars, so the savings is something on the order of 2% of each family's share of the debt. Now we get to the really big numbers, not the balance sheet debt and that 56 trillion is individuals, companies, Governments, pension funds, everything, all the rolled up. Then you have the big numbers, you have the off balance sheet debt, unfunded liabilities, for the U.S. it's \$118 trillion dollars of which \$81 trillion is Medicare. Now Medicare is largely going to be paid out to people like me, that's going to be paid out in the next 30 years. I just turned 65, realistically that's going to be paid out, that \$81 trillion dollars is going to have to be found in the next 30-40 years. The total U.S. liabilities are about \$175 trillion dollars and if we assume 3% GDP growth and you dedicate all of that GDP growth to paying off debt, we can pay off the debt in 300 years. Now unfortunately because we're not considering the growth and population long before then the wealth of the country will be reduced to zero. I tried actually figure out how soon that would be and I got an under flow error on my HP12 calculator, it's something around 100 years. If we took that 3% GDP growth, not per capita but per total and used it to pay debt, that's about a half trillion dollars a year. Literally in 100 years nothing would be worth anything in the U.S. I'm not happy about anything it's just that you need to know it because it affects your investments.

Looking at Europe in the short term which is probably more interesting of the discussions, I saw an interesting characterization, works every where with the exception of Belgium. The issue was with the beer drinking countries and the wine drinking countries, it's the beer drinking countries that are having to spend all their tax dollars to bail out the wine drinking countries. The only one that doesn't work is Belgium which is actually a beer drinking country but pretty much broke also. Realistically the end game is near.

I have something else for you to look at which I found absolutely fascinating and I'll have to explain what you're looking at because it's not obvious. The Eurozone is what's called a monetary union, basically a bunch of countries got together to say, we'll all use the same currency. For that to work what you need to have is the economies be similar to each other, the more similar they are the more likely they will succeed. This is actually looking at the similarities of various groupings of countries and what JP Morgan, this is what JP Morgan Asset Management did, they looked at 142 countries using 100 factors, things like labor and goods market efficiencies, Government institutions, property rights corruption, health and education, all these different, 100 factors and they looked at groupings of countries, that's the chart. (We'll just look at a couple of these bars.) Basically the lower the bar the less difference there is between the countries and the more likely it is that a monetary union will succeed. The first bar is the market economy's Latin America which is almost identical, you can make a monetary union of them and it would almost certainly succeed. The fifth bar which is somewhat less similar is reconstituting the countries of the former Soviet Union, so just putting together all the countries of the former Soviet Union, that's about the middle. If you put together the countries of the Ottoman Empire from 1800 it's somewhat less similar. Again as we go up monetary union is less likely to succeed. Then if you just said, okay the 10th bar over, all the countries on the earth that cross the 5th parallel of north latitude, that's not very likely to succeed. How about all the countries starting with the letter M, not very likely to succeed at all. The least likely to succeed, worse than all the countries starting with M, worse than all the countries in the 5th degree of north latitude are the countries of the Euro.

Basically this, I think fairly sophisticated analysis demonstrates these countries are so different you can't make this work, but they will continue to spend money and treasure to make it work. The reality is and unfortunately in the last couple of weeks we've seen reality start to raise its ugly head again but still we see the political class unwilling to recognize the truth. Let's talk a little bit about the Greek and French elections. The Greek elections are fascinating as far as a completely delusional event. 70% of the Greeks want to stay in the Euro and about the same percentage of the Greeks don't want to do anything in terms of austerity, they just want the Germans to keep paying for everything and they're not going to get a better deal. We've seen now and I checked this morning on the news, I read European newspapers everyday, about a half a dozen of them including an Athens paper in English, Greece is likely to have no viable Government at all for the next several weeks, so they've made a bunch of promises, some of the parties in the election have said they're null and void, but they have no Government at all. Their privatization program which is a key component of the promises they made to the European Union, the IMF and the European Central Bank is basically gone no where, they said, we're going to privatize \$50 billion dollars worth of state assets. The problem is virtually nothing the Greek Government owns is worth anything.

There's a fascinating book by Michael Lewis, the guy who wrote a book about baseball, wrote a book the boomerang, travels to the new third world, here's a real example of why the Greek privatization is going no where, the Greek railways. The Greek railways revenue is 100 million Euros a year, their salaries, their labor costs are 400 million Euros a year and they have 300 million Euros of other expenses. It's going to be really hard to find somebody to buy that from you, so much of what they own is worth less than nothing so that's another complete wreck.

The French elections are also problematic. This is interesting, this is from before the election, the rather dangerous Francois Hollande who basically said, we're going to renegotiate everything, we're going to reduce the retirement age back from 62 back to 60, we're going to hire 60,000 teachers, we're going to spend all this money. Realistically France is nearly a wreck also, in fact if the President Hollande goes forward with this the bond market will probably cause their funding cost to become unsustainable. Because of the fiscal accord the European Commission can fine countries with deficits greater than 3% of GDP, France is 5.2%, a level that would make their cost of their debt completely unsustainable. So the crisis has moved from Greece which is just hopeless, I think realistically they're just going to get flushed because nobody wants to deal with it anymore when you've got this kind of Government chaos.

Italy and Spain, the unemployment in Spain is 24%, youth unemployment is about 53% so of the youth over half are unemployed. Euroland unemployment across the board including Germany which is at an all time low for unemployment is 10.9% and growth for the 4th quarter was down 30 basis points. Austria's jobless rate is 4%, Germany's is a 20 year low of 5.8% and literally a lot of the companies there are looking for skilled workers. The monthly funding requirements for Italy and Spain are consistently large. Italy has about one month's cash, they're one month away from having no money at all, they've got about \$30 billion dollars in cash and the issue is the limits of the patience of the paying countries. Chancellor Marko has very little option left, the German papers are just screaming that they've had enough supporting the peripheral countries who don't seem to be willing to do anything to fix their own problems.

So if we look at Europe in the long term, I guess one question is, is there a long term or is it all just crashed. Now what happens if it does? Clearly it's much better than it was 2 years ago, the banks have been significantly recapitalized, the European Central Bank through its LTRO program has significantly recapitalized the banks, but their banking system is very weak. The U.S. is largely decoupled from this; until last summer U.S. money markets had very unhealthy appetite for short term debt or French banks because they were paying a lot and everybody likes a high yield, but generally high yields in a --- environment indicate high risk. The European banks no longer represent significant parts of U.S. money market funds and as long as they try to sustain this unsustainable Euro it's going to really drive growth to zero. Just to give you a sense of why this is true, the difference in productivity between Germany and Greece is about 30%, you'd have to devalue, if they went back to the drachma and devalued it 30% they would be approximately comparable in terms of productivity and realistically the --- has spread clearly to Italy and Spain and has become more visible particularly with a political class that simply does not realize that the old model of, the Government pays for every thing which works as long as the Government can borrow money, is about to stop working and then it's going to get really, really ugly, but I think that realistically the effect on the U.S. and the rest of the world will be modest. The U.S. exports about 20% of its exports to Europe and that includes the UK and Switzerland and some other countries that aren't part of the Eurozone, so it's going to have an impact on the U.S. but I think it's not going to be anywhere as near the issue it was before.

Emerging markets are going to be impacted; 34% of emerging market GDP is exported to Euro countries, so for example Euro countries just can't buy anything anymore, that's going to knock out 34% of their GDP because these are export driven markets, they have not been able to develop a lot of local consumption. China certainly has issues, 20% of Chinese

exports go to Europe. The Government is losing control over credit generation, their banks are very weak because they're used to support Government owned enterprises which are basically very unproductive and there is now increasing political instability. So tough times ahead, slow growth, very weak returns (and my note to myself is Iran and North Korea just add to the fun.) I think North Korea is a cartoon, the Iran situation is not, that could get very, very nasty pretty quickly. I was listening to podcasts of strategic analysis and there's a lot of question, are the Israeli's going to go for it and the thinking is probably yes because they have a window and if that window closes they're going to have to deal with it and I think you can find some very, very odd bedmates, I think you can find the Saudi's being unable to see airplanes that anybody can see. The Turks are actually letting the Israeli's practice bombing on their property because Israel is kind of small, you can't just drop bombs everywhere because it's a tiny place, there is lots of empty space in Turkey and the Turks are basically letting the Israeli's do their practicing there, so we're going to wake up one day and say, we have some very odd bed fellows if they go for this, but we'll see. So those are my little notes, we'll go through the book.

Wilfred Leon Guerrero: How about Asia? Terry Dennison: Well as we talk about, there are 2 issues, one the fact that China might be slowing down and again I think most commentators would say, 6% GDP growth would be our landing in China. Part of the reason you're seeing oil and copper and other commodities decline in price is imports into China are slowing, their economy is slowing down. The problem is that they have basically purchased social peace by making everybody rich, when that stops you're going to have a lot of social unrest. I think a lot of strategic analysts are looking at what's going on with the postponement with the party Congress and saying, for a communist country where these like I said earlier are very carefully staged events, to postpone it because they're not completely sure who they're going to put in the next leadership group is very scary. The military is never very far behind, the people's liberation army is among other things, an industrial conglomerate, they own a lot of businesses, a lot of factories. So here you've got a nuclear armed military that is also a large commercial enterprise and they have their self interests.

Clearly we've seen all of the South China Sea, military posturing involving the Republic of the Philippines, Vietnam, the Chinese are throwing their weight around. The usual response to these countries and it was certainly true with the Soviet Union and other totalitarian Governments is when it looks like you're losing control you drag out the foreign enemy. Frankly it's used routinely in India and Pakistan, that if it looks like everything is coming unraveled, you either fabricate, invent or create an external military threat and of course this all gets very dangerous.

I was just in Japan 2 weeks ago, their economy is still very stagnant, their reality is their once vaunted savings rate has declined, they're not a basket case even with the recovery from the earthquake and the tsunami. They are having a big of a problem keeping the lights on, it's discovered it makes wonderful political press to turn off the nuclear power plants but like many places they've discovered you can't make electricity by passing a law and telling the light bulbs they have to go on, so that's going to have an impact.

In South Asia clearly we're still seeing the impact of the monsoon based floods in Thailand because much of the high technology manufacturing in Thailand, particularly computer disk drives if you want to be real technical, was in a flood plane area and you have these places that now have been making very high precision technology devices under 20 feet of water and

that water was not Evian, so cleaning up that mess is really a major issue and so all throughout Southeast Asia and Northern Asia there are all sorts of issues. The North Korea situation is really hard to figure. I was actually in Japan when they were going to shoot this rocket over Tokyo, it didn't get any where obviously, but they're not going to stop trying and I think there are a lot of threats in this part of the world, a lot of threats in all the parts of the world.

Any other questions? (No.)

Let's go to this market environment. One advantage is we now have a complete version of this; previously we had a very sketchy version. If you turn to page 3, looking at global equities for the quarter we just had fantastic returns because we thought the Euro crisis was over, U.S. economy was moving forward, things were looking up, even some of the international stress points seemed to be going down. If you look at 1st quarter performance, basically just about every equity was up about 10% or more for the quarter, if you annualized that it would be up about 60% a year, so those are just fantastic returns and it was pretty much across the board, in fact we'll see a couple of charts show it almost didn't matter what you bought, everything went up about the same, I mean we were just in a period of almost complete euphoria.

To put this into perspective, if you look at the upper right hand corner, global equity market performance since September of 2007 which has really been when the global financial crisis started, note that despite the 25% return we had in the last 6 months, pretty much most markets just got back to zero, we just about made up most of or all of the losses, but things like the EAFE markets, which are primarily Europe still are 25% below where they were in September of 2007. So despite the great performance, if you were invested in equities you probably got back to pretty close to where you were 4 years ago.

Now compare that to fixed income. Fixed income of course not only has not had the volatility, although you can see it somewhat impacted largely in the high yield category, but with falling interest rates this is just the perfect world for fixed income. If you look at those numbers and again they started at zero in September of 2007, some of those numbers are up 50 and 60% between 2007 and March of 2012. So literally where previously the expectation was stocks might return 8% long term, bonds maybe 5%, realistically stocks did nothing for 5 years while fixed income was up 50-60%.

Gerard Cruz: I'm hearing a lot about that and I just want to get your comment about equity versus fixed income going forward. Do you think that last 5 years of outperformance for fixed income relative to what the expected return of 5% is, do you think that was an anomaly or do you think that is something that is going to continue or can continue going forward? Terry Dennison: It really can't because it's due to falling interest rates and interest rates really can't fall below zero. In the way that bond returns work, when interest rates go, up bonds fall because the market re-prices them so that they're current yield is appropriate for the correct market yield. We've seen and this is just a tiny period of a nearly 25 year decline in interest rates, actually almost 30 years, interest rates started to decline in 1982. In 1982 treasuries hit 15, 16%, prime was 18, a lot of corporates were in the 20's, so we've had a period since 1982, 30 years of falling interest rates. So the practical fact is rates are almost zero now. This is really unrepeatably because the driver of it has reached its mathematical limit. Now you can argue if we had some kind of extremist circumstance you can actually see rates fall below zero which are really illogical because you're basically paying somebody

to take your money. Now actually there have been periods where treasury yields were less than zero. In fact and this was in the after market and although the treasury has now asked that the regulations be changed and the programming be changed so that they can actually issue treasury bills at negative interest rates. The demand for risk free investments in these periods of hyper stress which we may see if we see the Euro collapse is such that people are willing to accept a negative interest rate to put the money in a safe place, so they had to change their regulations and their programming to actually allow them to sell treasury bills at negative interest rates, but that's not logical because you can put the money in a coffee can in the back yard and get a return higher than negative numbers.

So to answer your question, it's unrepeatable and realistically the risk now is raising rates because of inflation. Inflation has been kept down because there is a surplus of everything, clearly a surplus of labor, much of that because of the impact of the emerging markets and how manufacturing and other labor intensive activities, even call centers and other fairly sophisticated manufacturing has moved out of the high cost countries into lower cost countries, we're seeing now a lot of political noise about auto companies moving out of Germany and France into Eastern Europe because the labor costs are less. We have 2 very large processing centers we use for doing processing, not much on investments really on some of our other businesses, one in India and one in Poland and the labor costs are much less there.

Wilfred Leon Guerrero: What's VG Corporation and LC? I-G is in investment grade and LC is local currency, emerging market debt. A lot of the emerging markets which previously their currency was suspect and they had to issue debt in dollars or some other strong convertible currency now can issue debt in local currency because their local currencies are considered better than dollars and Euros and pounds, Swiss francs and we think actually that local currency emerging market debt, that's what LCEMD is, is a very attractive investment opportunity. Treasuries we think are hideously over valued because they're the last risk free asset. Nobody considers Italian sovereign debt risk free, the Greeks discovered any older Greek debt is now the last two thirds of the value of their investments, so realistically about the only true risk-less sovereign debt left in the world is probably British and American. So the demand for risk free securities has driven prices to ridiculous levels unless you're assuming the end of the world and yields to ridiculously low levels, so we think that investing in treasuries is likely a losing strategy unless you absolutely assume an apocalypse, but we think investment grade credit, buying bonds, double A, single A corporate debts is very attractive. Interest rate spreads have come in fairly tight now so some of that has been harvested, some of those good returns because spreads came in from where we saw during the financial crisis.

If we look on page 5, you can see again the employment situation, a couple of more comments, that red line in the upper left hand corner is what's is called the U6 statistic. What you read in the papers actually if you go on to the Department of Labor website, these are people and you can see that percentage rate for a long time was above 16, it flipped a little bit lower now, these are people who have been unemployed 6 months or longer or are involuntarily working part time because they can't find full time work, so they're still associated with the labor force, they haven't dropped off the radar screen completely but they're the long term unemployed and you can see that rate is still very high. The rate is actually available for some cities and counties and in those areas where the construction, the home constructions such as the counties east of Los Angeles, San Bernardino and Riverside, that number is like 25% unemployment, you've got Spanish level unemployment, Greek level

unemployment in counties to the east of downtown Los Angeles. Similarly in Maricopa county Phoenix, Clark county in Nevada, any place where there was a very high amount of construction, that construction is just totally dead, so now the Department of Labor has a few regional surveys and those 4 counties have got very high unemployment, those and a couple of centrally valley part of California.

Again the issue is income growth; average hourly earnings increased 1.8% for the 12 months ending in March which is below the inflation rate of 2.5%. Remember I said that real household incomes are the same level that they were 15 years ago; we're losing ground in terms of real and real is the way economists talk about adjusted for inflation. So incomes are up but adjusted for inflation they're about where they were before and you can see for the last 12 months we actually fell behind.

(I'm going to skip stuff we've actually talked about already) Just a few other things on page 6 in the upper left hand corner you can see the economic growth for selected countries, obviously Spain and Italy negative, 2012 Italy -1.5, Spain -1.2 and even 2013 basically zero. Germany is strong but only relative to the others. You look at the U.S., pretty robust, Japan still continues to struggle, 1.5% growth and look at China, the forecast here is I believe from the IMF, the International Monetary Fund, they're still forecasting 8.4% for 2013. There are a lot of people who are looking at it and saying, if you look at exports from emerging countries into China and China sounds incredible, is a huge market for other emerging countries because other emerging countries actually have cheaper labor costs than China that literally Chinese consumers are buying a lot of things from the Vietnams of the world, the Philippines of the world, you're seeing those inflows into China decline. So if you're looking at sort of early warning statistics in terms of Chinese growth, we think the IMF is probably just a little optimistic here.

Gerard Cruz: The LTRO, they took as collateral to help recapitalize some of the banks. Terry Dennison: Anything that didn't stink. Gerard Cruz: Greek debt. Terry Dennison: Yes, anything that didn't stink. That was the point, they had to recapitalize the systemic important parts of the process, primarily the banks. That's why there's a sense now that where previously everybody said Greece has to be sustained no matter what, but the psychology has changed. If you look at Der Spiegel which has an English website, a big German paper, all the commentary are, to hell with the Greeks, they don't want to help themselves so why should we help them and the system is strong enough to survive their departure. The challenges and there is a little game going on, the Greeks basically say, we don't want to reform and we've got the nuclear weapon, if we stop paying the whole world collapses and I think another bluff called because 2 years ago that was true, 2 years ago the banks were so in hock with Greek debt and other weak economy debt that it could have collapsed the world, but the defenses have been built up and at this point I think that equation is a horrible ending worse than horrors without end that needle has shifted and I think they're about to get their bluff called, but clearly the systemic issues had been largely dealt with.

Page 7 looking at China, Chinese stocks and again for the millionth time, stocks don't necessarily behave like the economy behaves. The economy has basically been doing fairly well; stocks have done very poorly in China. The bottom left graph is interesting because we talked a bit about this huge imbalance in the Chinese economy. Remember I said in the U.S. which is of course a very established economic, 70% of the GDP comes from the consumer consumption, in China look at not just how low a proportion of GDP is of consumption but

the fact that it's dropped dramatically. Literally in the U.S. 70% of GDP growth comes from consumption, it's only about 32% in China. The issue there is after you've invested all the things that make good sense and all the things that make some sense, you start investing in things that make no sense, that's where they have these whole cities they built where nobody lives there. We use to joke about the bridge to no where in Alaska, there is nothing like that in China, they have whole cities where nobody lives and they build stuff that makes no sense whatsoever because people get rich building stuff. Doesn't this sound eerily similar to the U.S. housing market in 2005 and 2006? Everybody got rich building stuff even though there was nobody who could afford them, all you needed to do was get a mortgage in 2006 was a pulse, so you were building houses, everybody was making money, people who were building houses were making money, people who were selling houses were making money, the people doing the finances were making money, people doing the mortgage bond marketing in the markets made money, everybody money but none of it made any sense and look at the damage that caused. Now magnify that to the Chinese scale, that's what the concern is, that they have a very unbalanced economy.

Page 8, this whole question of easy monetary policy, the scary thing is the bottom left hand graph, Central Bank balance sheet growth. Being an accountant I know that the debits have to equal the credits so if you are printing money, you have to record them some place. So what's happening is all of these quantitative easings and other simulative activities on the monetary front show up on Central Bank balance sheets, the ECB, the U.S. Federal Reserve, the Bank of Japan, the Bank of England, so the reality is that all of this refinancing has gone on and hugely increased bank balance sheets, Central Bank balance sheets. The problem with that is that in itself is inflationary and if you want to unwind it to get balance sheets down to where they ought to be, you're pulling money out of the system. Well that would be the smart thing to do if we were running 6% GDP growth and 6 or 7% inflation and the economy is over heated and we need to step on the break. How are you going to take these excess reserves out of the system when the economy is zero, flat in Europe, hanging about 2% in the U.S., less than 2% in Japan, probably slightly above zero in the UK. We've got this problem that just isn't going to go away until we can figure out a way to suck these reserves out and meanwhile you've got these bloated balance sheets which are themselves inflationary.

On page 10, if we look at the upper left hand corner I talked about the VIX and actually it is the implied volatility of the S&P 500 from the Chicago Board Options Exchange, it comes from the Black sholes option pricing model and you can see when the VIX went completely nuts in 2008 and that's the Lehman weekend, when everybody thought the world was going to come to an end, it probably almost did, it's been on a downward trend, it has peaks during typically Euro crisis and has been trending downward. Remember again I said the first quarter the VIX was 15.5, compared their average is for the 4th quarter of 30, long term average is 20 so the risk was almost out of the market, the risk trade was on. The problem is the issues are still there and we've seen the VIX begin to pop up again, the last couple of trading days we've seen the market pull back. The market actually touched, the S&P actually touched the end of 2007 price level or index level and has now barely escaped 6 bad days in a row.

(Page) 11 looking at bond spreads, I mentioned that they've come in some, you can see from the peak that they've come in a lot, literally that peak, investment grade corporate bonds were trading 600 basis points over the same duration treasuries. The high yield spreads, high yield, that's the polite name for junk bonds, actually hit over 18% spread over treasuries during the financial crisis, you can see how far they've come in. Gerard Cruz: I'm looking for

that number, the high yield spreads. Terry Dennison: You can see on the lower left hand side on page 11, it's under 6 now, but realistically this is also an indication of a psychology of the market that risk is really off and it will be interesting to see if spreads don't widen again as the economy begins to decline some.

Domestic equity is as you know this discussion has forward looking statements in it, we do say that we still favor investing in quality U.S. equities, we think U.S. equities, even domestic equities are getting pricey again after a 25% increase. They only make sense to pay these high price earnings ratios if you think that profits are going to stay at this level, we have a new plateau. The reality is margins are likely to shrink on a going forward basis so we think that U.S. equities are probably pricey or at best if you consume some continuation of high margins, fairly priced.

Page 13, we think small cap stocks are very expensive, we're recommending under weighting small caps. You can justify these higher relative valuations based on higher earnings growth but often small cap stocks don't provide the earnings growth that they're priced to provide.

As I said earlier, we continue to like quality stocks, quality stocks have strong balance sheets, strong brands, good management, strong research and development. We think they're better able to sustain their results through difficult periods, they also tend to be in more defensive sectors, these are things like consumer staples, rather than consumer discretionary, tend to be in sectors where people will buy it even if they don't have that extra dollar that they're not dependent on discretionary income.

Page 14, European stocks if you have the stomach for it, look pretty cheap. European stocks are big components obviously in the EAFE Index so a fund invested in EAFE would have a fairly high component in those. There's a comment on the 3rd bullet down on the Japanese economy, which I know is important here because of its impact on the Guam economy. European stocks had a bit of a rally because we had the sense that the European financial crisis perhaps had passed. Despite the fact that this crisis which has been solved 5 or 6 times now which gets unsolved and usually in a shorter period from a shorter period than the last and usually in a more severe state than the last but they did have a healthy quarter, they were up 10.7%, for Eurozone equities the ones mostly impacted are what's been going up, they're 12.6%. Hopefully not to offend any animal lovers in the room, some people might characterize that as a dead cat bounce.

Wilfred Leon Guerrero: What is Japan's structural problem? Terry Dennison: An aging population, a declining savings rate, a hidden but becoming more clear poverty problem. Like I said, I was there 2 weeks ago for a week in Kobe and things are not as robust as they were and it's not just the recovery from the tsunami/earthquake, they've got a demographic issue, in fact demography is becoming a real concern, many of these countries have very low birth rates. An interesting discussion also in the Economist, if you only read one thing read the Economist Magazine because it will tell you everything you need to know, there are other places you can go to get more information but it is just an incredible publication and there is nothing in it about movie stars, there's nothing about the Kardashians, but there was an interesting article about China and the long term impact of the one child policy and the concern that they have is that they will get old before they get rich. Actually if you look at the median age in China, it's going up at an alarming level and it will pass the median age in the U.S. by about 2030 and the problem with population is particularly if you have no inward

immigration which the U.S. has had, the problem with it is if you want a worker 20 years from now they pretty much have to be alive today. If you look at what's called the support ratio which is the percentage of workers who are supporting each retired person, the impact on their Social Security system will be devastating because the old family model of the eldest son takes care of the prior generations becomes very difficult where no you've got one person trying to support 2, 4 or 6 sets of people looking at ancestors. It's an interesting phrase and it's almost got a chilling aspect to it, they will become old before they will become rich which is something the U.S. has avoided, we have become rich, we are in the process of getting old and our support ratio not very healthy either.

If you look to some of the countries in Europe like Germany and Italy, they're now far below replacement levels, the average woman needs to have 2.1 children, (that's just statistical, there is no such thing as one tenth of a person.) The reality is some of these countries are down to 1.5, 1.6 which means in 100 years their population will be a third of what it is today, but the problem is, that surviving population will be very old and in need of all the social services that old people need. So I think that this issue of China and political instability, the military aspect of it and the fact that they've got some very bubble type situations with property bubble type situations around finance is very worrisome, particularly for this part of the world.

Japan has got a very low birth rate, well below replacement level. They're old, biology raises its head at some point here, it's not just a question of will or want, it's a question of biology so it's going to be difficult for them to rebound. The other thing is that their economic strength, if you think of the Japanese economic miracle, it was around manufacturing, cars, electronic stuff, but the reality is they're not very good at the next wave which is going to be really technology based. I can remember 20 years ago when they didn't use Microsoft Windows because it wasn't invented in Japan, Hitachi had some operating system and all the computers and this impacted Mercer, because we had people in Japan, we actually had to have a computer sent to Japan because none of the stuff we wrote worked on a Hitachi operating system, it was all built on Windows, DOS at that time. The reality is that they have been rather insular and in the new world economy that's just not a very healthy place to be. Some of their infrastructure is aging, just riding around, the Kobe, Osaka area is where I was, is very much the industrial part of Japan and it's congested, it's inefficiently organized, they've got a lot of problems. I don't know if any of you have actually driven there, we had a Japanese friend that was driving us around, toll roads there are really expensive, the average toll which is about every 3 miles is 900 Yen, so you can imagine throwing \$12 dollar bills into the basket every 3 miles.

Again we think emerging market valuations are still reasonable. There are no bargains out there anymore, bargain in the sense of current valuation, going forward looking at the issues that we think are coming, all of these look expensive, but in terms of current valuation, there's nothing out there that is ridiculously cheap because the market has seen that. You saw that huge rise in U.S. equities, the rise based on completely inappropriate euphoria of the European equities, particularly the Eurozone equities. Emerging markets have done well and actually this is in the fact of China doing very poorly, Chinese equities as we saw it in the prior paragraph are doing very poorly. Also the emerging market currency being stronger than the dollars, you can see on that first bullet point on page 15, in local currency emerging markets are up to 10.7%, in U.S. dollar terms they're up 14.3%, so you actually gained about a 3% increase, 3.5% increase from the fact that emerging market currencies as a group grew in value about 3% versus the dollar.

Obviously from an emerging market index perspective, 3rd bullet down, China which is 17% of the index could be a drag and realistically remember I said a significant part of the exports of emerging Asia go into China. The interesting thing is back 20 years ago when we talked about the emerging markets and the old joke was when the stocks are good they're going to -- the water, when the developed world got a cold, the emerging markets got pneumonia. The reality is we've now got something vaguely similar to that, that when China gets a cold, the Vietnams, Philippines, Koreas of the world get pneumonia. So basically it's no longer what the developing world does, it's now what China does because it's become such a big market for the ring of emerging economies around it.

On page 16, some bullet points. The macro environment remains risky, in fact when this was written none of this was in front of us. Risk free assets, some people joke in the economy and call them return free assets. The old story about risk free assets is you didn't get much of a return if they were risk free, now you don't get much of a return and they're not risk free. Medium term outlook is positive versus bonds; bonds realistically are going to struggle to produce these returns. Gerard Cruz: Even on the high yield side? Terry Dennison: Trouble with the high yield is we saw how much high yield spreads have come in, if we start to see a slowdown those spreads are going to widen right away. If you look back here at page 11, that lower left hand chart, the high yield credit spread, how much tighter are they going to get? Gerard Cruz: I agree. Terry Dennison: They're pretty much at historical levels and you see what happens to spreads any time there is any stress in the system, up they go so I think even high yield bonds represent a fair amount of risk.

The comment here about rebalancing, you've made a pile of money in equities, maybe taking some money off the table makes a lot of sense. Gerard Cruz: But if we take money off the table where would we deploy it? Terry Dennison: Well that's part of the issue, unfortunately the asset allocation has to add up to 100%. We think you should under weight small caps and again there are small caps in the DC Plans. You can't directly in this plan access high quality, there's not high quality option. Because high quality has got a kind of a indistinct definition, it's not a stock you can point to, it's not like large cap growth where using a standard way of breaking down the world you can say, this is a growth stock because it's got above median price earnings ratio, price to book ratio, price to sales ratio and it is large because it's got a market above 10 billion or some number. Quality is harder thing to put your arms around but because this effect has gone on for so long, you can actually now buy a high quality ETF. The problem is there are several of them out there and the thing about them is everybody has their own definition of them, some of them are sector based, it tends to focus on things like consumer staples as opposed to energy or technology, some of it is looking at balance sheets, they've got very low debt, some of it are purely subjective, they have good management and good brands. If you want to know just one out of the air, Procter and Gamble, a household name, global company, strong research, strong management, good balance sheet, not a lot of debt, not a lot of leverage. In a business where most things get extremely bad, people are still going to buy their products. Contrast that with some of the consumer discretionary stock, leisure stock, gamblers, all those sorts of stocks and keep an eye out for new opportunities.

(Page 18 we'll go real quickly through these.) Look at the market performance, the purple bars on the left hand side on the top left hand chart, those are the returns for the U.S. markets sliced a lot of different ways and you would say within sampling they're almost identical, the only big difference is Russell 1000 Growth to Russell Value were still in this

anomalous effect of having growth outperform value. Everything else from having the bond market, the Russell 3000, the biggest stocks, the 500, the large component, the 1000, mid cap, small cap, literally they're within basis points of each others return, so it's almost like you can just throw darts and get the same return.

Again we saw EAFE which is primarily Europe and Japan also did well, not quite as well as the U.S. Go over to the right hand bar, the one year, the purple bars don't look as great because we have the really nasty 3rd quarter in there, but the 4th quarter and the 1st quarter of this year obviously have just been golden, so even after the retched 3rd quarter of last year the purple bars are all positive, the blue bars outside the U.S. are all negative.

Fixed income, realistically we saw rates start to rise; 10 year went from 1.8 to 2.1 or 2.1 and a half, something like that. Obviously that negatively impacted the Lehman Aggregate. The global bonds, there are 2 global bond indices, there at the bottom and I think one certainly unusually which is a statement of fact and 2 very thoughtfully, you have a global bond portfolio in your DC Plan, you give your participants the option to invest in bonds outside of the U.S., so I think going forward that's going to serve people well because it allows them to diversify the risk.

Finally real estate which has been very good, looking at it for the quarter, global REITs up 12.9, U.S. REITs up 10.5 and on an annual basis on the right hand chart, U.S. REITs up 11.3, global REITs a little bit less and basically for the year people got hosed with the commodity stocks. Despite the fact that gas is expensive every where, actually I finally found a place where gas is higher than it is in California, we make our own and it's still expensive in California, I can see out my home window where they make it, but it's expensive here. You can see the commodity stocks and this is China, if you want to see, if you want to know what's going on in China, look at commodity stocks. There's even some indices that are fascinating and there's something it's called the Baltic Dry Index, which is probably something you haven't run in to, it is an index with a cost of shipping containers, of course oceans and it's an incredibly sensitive measure of economic activity because containers usually have got high value products in them and they're very sensitive to sales. You don't order another container of DVD players unless you've sold out the last container of DVD players and that index is a very sensitive measure of future economic activity on a global basis because so much of it is global trade, particularly trade across the Pacific because just about everything is now made in Asia and sold in North America or in Europe and that index is not looking very healthy right now and you can see in terms of commodities that's certainly in this neighborhood going to impact Australia because basically Australia is digging up the country and putting it in ships and sending it off to China.

If you go to page 20 looking at U.S. equities, you hear people talk about the lost decade, the period of 2000-2009 basically produced zero returns for stocks, you basically got nothing for investing in stocks. If you look at the 5 year return which is that box in the far right at the top, these are 5 year returns annualized and they've been pretty punk. Our expectations long term for stocks is still about 8 and realistically pretty much for the last 5 years the best you could do was in the growth category and those just barely got into the 5's for large growth. Obviously the first quarter was terrific, but even with the good first quarter of this year and the really good 4th quarter of last year, look at the one year returns, still not very appealing. The 3 year numbers look very attractive, but the reality is we see the market slowing some. The bottom continues to be interesting, because again just to remind everybody from time to time, on the left had chart we're looking at growth versus value and

we're in this again, increasingly unusual period of strong growth performance. If you look at the time when it's above the line or below the line, it's usually below the line it meaning value outperforms and the area under the curve, the amount of blue is a measure of the wealth that's created from one to the next. Typically when growth does well it doesn't do well very long, it doesn't do well very much but growth continues to roll along. Gerard Cruz: Why is that, why do you think that is? Terry Dennison: Well, a lot of the value stocks, first of all, most financial firms are value stocks, obviously the financial companies have done badly. A lot of the sort of cyclical stocks are value stocks also and the cyclical stocks had a good bounce coming out of the recession but then as they had their bounce in effect the materials, the machinery companies, the electronic or electrical rather than electronic did well but then they kind of peter out and that's how the cycles work and toward the end of the cycle the growth stocks tend to predominate, but this is an unusual cycle. The right hand side, large versus small, we had a period where large was the place to be then a period where small was and now there's no pattern at all.

On page 25 looking at internal equities and if it was bad for 5 years for the U.S., international was negative for EAFE and again, let me tell you what the 3 indices are. EAFE is Europe, Asia and Far East, that's pretty much the developed world. ACWI is all country world index, that includes emerging markets and then EM is the emerging market index on its own. You can see EAFE which is basically Europe and Japan negative returns for 5 years, ACWI kind of zero and emerging markets moderately positive. You can see the top panels are large, mid, small and the bottom panels are growth, core and value.

(Page 25) You can see that except for one period (the top graph) emerging markets are the place to be. Emerging markets have been the big world creators since 1988. There was a period, the bulge above the line, that's the dotcoms, the dotcoms were a developed world phenomena. With the exception of the dotcoms, we all know how that ended. Basically emerging markets have been the place to be for 20 years.

Value versus growth, the growth versus value decision has been even more profound outside the U.S. than inside the U.S. You can almost make a statement, no smart person would have market weight in international growth. International value just predominated, you can see that it was like once in a great while there would be a little dip for developed world growth, but value was the place to be and now all of a sudden that pattern has been broken. The large versus small seems to move in kind of a cycle. Now we're seeing small stocks outperform outside the U.S.

There's a discussion here about fixed income on page 28. The 10 year treasury went from 1.9% to 2.2%, these returns are still negative on a real basis, realistically you're not even getting paid inflation, you're actually losing purchasing power investing in these risk free bonds. Non-U.S. bonds are relevant to the DC Plan because you do have a non-U.S. bond portfolio in the mix. We did see as we talked about credit spreads come in, the hedge funds and real estate, private equity are not really relevant for the DC Plan.

I want to draw you attention to page 34, looking at long term performance, now the question always is, just like all the prospectus say, past performance is not necessarily indicative of future performance and you might make the argument that the world has now changed dramatically and probably irreversibly and the tremendous benefit of investing in equities which has been the key creator of wealth for a very long time isn't going to keep working. But, if you look at that bar, the line at the top are small cap stocks, the little line underneath

it are large cap stocks, so small has outperformed large and you can see how much better they have done than inflation, T Bills, bonds, the question before the house is, is that going to continue and it's very debatable whether or not it does.

(End of discussion on economic & capital market environment)

DC Plan Performance

Terry Dennison: Let's look at the DC Plan specifically. You actually have 2 books in front of you. I made a note, we actually have a kind of follow up or after action report and I messed up, I put in the narrative, let's consolidate this into one and I didn't put it in the to do section so people who put these books together still have 2 books. What we're going to do is there is one that says, "Government of Guam Defined Contribution Performance Evaluation," we're mostly going to look at this one, but I want you to be able to look at 2 at the same time. If you can turn the other book to page 28, we're not going to look at that just yet, but the book that has, Retirement Fund and the 2 plan names, open that and set it aside and going forward I will correct my mistake and make it clear I want to have one book.

If we turn to page one in the book we're really going through, it's good practice for any participant directed plan committee which is what this is, to make sure that you provide a wide range of investment options. These investment options are arrayed in a manner that reflects expected risk and expected returns, we show the line is straight, it's not straight, this is a simplification. I looked at this and I said to myself, is the plan missing anything? The plan has many options now and with due respect, you probably don't have the best educated participant base, the practical fact is if you start to add increasingly sophisticated options, people won't understand them, probably will misuse them. The only thing that I would think about and I'm not recommending, I'm specifically not recommending it, is global equity. Now if you think about choices that a participant has, you can invest in the U.S. or not in the U.S., you can invest in large, mid, small, you can invest in growth, core, value but they're all circumscribed. If you are investing in a small cap growth fund, the stocks in it are all small cap growth fund and you're making the decision that's attractive versus mid cap value or large cap growth. The idea behind global equity is instead of the participant making decisions what the attractive, U.S. non-U.S. is, you give the manager the opportunity to roll more freely to be able to go where the opportunities are. This is something Mercer has given a lot of thought to, we published a paper a year and a half ago that suggested that people move away and this is really more focused on DB Plans, move away from a home market, non-home market way of thinking about stocks. So instead of, we've got an allocation to U.S. stocks and we've got an allocation to non-U.S. stocks, we're making an allocation to U.S. markets, we may be making an allocation to emerging markets, you say, have global allocation so that the managers decide what's attractive. If the managers say, it's frightening in Europe let's move out of Europe or the best place to go is the emerging markets or the best place to go is the U.S. or we don't know so we're going to make it look like the index. The advantage of the global equity is it gives the professional investment manager the levers to pull rather than asking the participants to do it.

Wilfred Leon Guerrero: Why are you not ready to make that recommendation? Terry Dennison: A couple of things and again, nothing is forever, one of the concerns we have is, there's not a tremendous amount of global products out there and there's a concept called a crowded trait and a crowded trait is where there's a lot of people, imagine an entertainment venue and everybody wants to get in so there's this huge mob trying to get in the door and the negative of that is it tends to bid out prices, if everybody wants to buy something, pretty

soon you get to, I don't care what it costs, I want to buy it. Think of the new release of the iPad, I don't care what it costs, I want one now. The negative of that and we saw this in 2007 and 2008 is when everybody wants to leave at once. You're in some entertainment venue and I'm not suggesting somebody fire, but somebody says, this music stinks, I'm out of here and everybody starts to say, this music stinks, I'm out of here, they all go rushing to the door and that's a crowded trait and we saw a glimpse of that when the hedge funds in 2007 and 2008 basically had gone into the same kind of stocks that a lot of what are called quantitative managers, people who pick stocks using computers, value stocks and when the hedge funds got in trouble, they would sell whatever they could sell and they were just driving the price down for the same stocks than these other managers who didn't buy them on credit because remember, what establishes the price of stock is the last trade, it's not what the stock is worth, it has nothing really to do in the short term what the stock is worth, the price of the stock is set by the last person who trades it and the last person who's trading it has to sell and basically doesn't care what they get, you're going to drive down the price of the stock held by other people.

I just need to think about that some more and maybe go back to some of my people and say, you know if we were going to add global equity, what kind of product is out there, can we get one that's truly unconstrained global or is it just global large cap or global large cap developed market because if we're going to be unconstrained, if we're going to let them go where the opportunities are, avoid the risks, seek the opportunities, we want it to be as unconstrained as possible, it has to be on their platform obviously or to be able to be gotten on to their platform and I just want to make sure that I'm not just saying, hey let's do this because it sounds like fun, but I'll be back in 3 months and have some more visibility about what's going on, but as I look at this, you've got international bonds which puts you amongst these guys no, but probably in the top 5% or A., 5% of plans have international of plans have international bonds. Emerging markets are not very common, you've got a TIPs fund, you've really got a very wide range here so looking at this the only thing I think makes any sense would be to add looking at a global equity fund, I just want to make sure that A., it works on our platform and B., we've got the right kind of fund.

Page 2 obviously with the stock market doing as well as it did and particularly in the 401(a) Plan the huge allocations to target date funds which have heavy equity components, regardless of contributions or withdrawals you had a good quarter in terms of growth, 10.6% which obviously is a combination of market effect and net of contributions minus withdrawals. 457(b) was up 12.7%; the asset mix there is a little bit different, so it's not going to behave to the market the same way.

Some comments about the funds, basically a quick summary is including the Franklin fund which as I mentioned last time, we got kind of on a cocked pistol status, we're recommending retention of all of them, including Franklin and we'll talk about Franklin specifically, we said we want to see some improvement in we did.

The Hartford total return, this is where if you go and look at the other book, both look at the numbers and look at the words. Hartford had kind of a tough go of it, they've been in a very perverse position, they look bad for the periods that we're really evaluating, but the reality is in the policy, so if you look at the policy, the client's chart on page 20 (not in the look aside book, the one I'm working with), we look at the domestic fixed on page 20, 2 red X's on both the index and the universe underperforming and for 11 quarters and that's a long time to be

underperforming. If we look at it and if you've been digging a hole and it's a big hole for 5 years, you're not going to fix that hole in 3 quarters.

If you go back to page 28 (in the look aside book), they're underperforming for 5 years, the index was 6.3, they're 5.1, 62nd percentile, they're not horrible, but look at their performance since then, 3 years above the median, really solidly ahead of the benchmark, one year top 3rd, lagging a little bit, 40 basis points on a basis of 7 is not a big deal. Good 6 months performance, good 3 months performance, so perversely they look especially bad in the one place we're evaluating but lately they've been filling in that hole, so what will happen is that those 2 red X's will blink off pretty soon if they keep doing that.

The BlackRock Inflation Protected fund, again perfectly good performance. Interestingly the inflation protection is temporarily not working or actually producing negative real returns, all funds are producing negative real returns as are the underlying TIPs. The reality is the returns for the BlackRock fund look pretty decent, for one year they were in the 64th percentile, that was their worst performance, they actually were 140 basis points behind the benchmark, but on a basis on 10 that's not a very big deal. Look at them for 5 years, well into the 1st quartile, solidly ahead of the benchmark.

Looking at the international fixed income fund, again very strong performance particularly lately, literally for the quarter doubled the benchmark, significantly above the benchmark for 6 months. They will underperform when the market favors, they do outperform when the market favors highly rated securities and because of the market they basically just not now done well.

The Maxim Balance fund which is a relatively new addition, basically the performance has been above median and above the benchmark for all the periods. It was only added in January of 2011.

The BlackRock LifePath funds which are on the whole page 29 in the look aside book, we have a general comment about all of them, we're comfortable retaining them. If you look just at the colors you can see that it's pretty much green across the board for shorter periods and some of the longer dated funds have got some red in them, although it's not terrible. If you remember when we selected these funds the underlying constituent funds are passive, so all of the decision making is about the glide path, how they adjust the asset allocation as you move through history. There are going to be periods when active managers outperform passive managers. Our belief is at least for large cap, overall passive is better, we issued a house view which I happened to write, that basically said, absent special considerations which don't apply here, you should be passive in U.S. large cap which is primarily what these funds are; however there will be periods where active outperforms, so when you look at the universe, you can see that if you look at the universe for 3 years and 5 years they're below the median. The majority of the universe against which they're being compared are actively managed, so it's got less to do with whether or not BlackRock is doing a good job and more to do with the fact that right now active managers are outperforming the index. If you look at where the index is in the universe of active managers, most of the active managers are beating them, so we don't think there's anything wrong with this strategy, it's just you're in one of those periods which happens where active managers, people who can even be just throwing darts are doing better than the index and since the in constituent of these are all passive I don't think there's an issue that requires a change.

The Maxim funds are all new and I've got some notes for myself here, there's a strategic team (in Canada), it's a team of people who look at life time income, annuity, distribution phase type funds and I'm opposed to this strategic research team or SRT. How do you rank a fund like the Maxim funds which have got a life time income component different from a traditional target date fund? When we look at these, they don't look like they're doing very well on a universe basis, but I want to find out, is there a universe where we can do a fair comparison because I don't want you to react negatively to these numbers because there is an additional value that in these funds, having to do with this life time income at some point that isn't a constituent of the other funds in that index. So one these are short term numbers and 2, I don't think this universe comparison is valid. The problem is that this whole concept is so new in terms of there being annuity based or life time income type options, I don't even know if we even have a good comparison, but I don't want you to react to, they're almost all below the median, are we doing the right thing here? We don't have apples to apples comparison, these are not apples and bananas, but they're not exactly a perfect comparison. Who I need to talk to and the guy who runs it is in Vancouver, I need to talk to Neil Lloyd and say, what is Mercer doing about making these comparisons because I'm not really sure our comparisons are valid.

So let's move on here. The index fund at the top of page 31, creepy good, I mean to the limit to which we're showing here, it's matching the index perfectly. The Windsor fund which had a very rocky period and we sustained them is now just shooting out the lights, my note to myself is, just super. Both on a relative basis and versus the benchmark they're doing just great, so the people who are invested in that, it's 1.3% of all the plans, but for the people who are invested in them they're doing fine.

One of the newer options is the Winslow fund, the large cap growth fund, performance has been pretty good. Here there are 2 funds, the Nuveen Winslow Large Cap Growth fund and the MainStay Large Cap Growth fund. As you can see, they're almost identical, but one has history where the other one doesn't, so we're sort of pasting in history on a disclosed basis, so basically you did not have it during the 3 years and 5 years, but we just wanted to show you that we're okay with that.

Now we're at Franklin and again I use the term cock pistol because we've had some concerns and if you look at the report from 3 months ago this number didn't look so good and we said that we might be back this quarter with a recommendation, well we are, we will retain it for the present. If you look at it, it had a very nice quarter, 32nd percentile, beat the benchmark by 50 basis points, absolute return of 15.1%, it was a good quarter for mid cap growth, small to mid cap growth, but they did very well. In our mind it's still on a, keep an eye on this list, but we don't see any reason to replace it.

The Baron Small Cap fund which has had its ups and downs too basically still has a lot of volatility. You can see that they'll underperform and outperform, although typically not very much. When you see them underperform for 6 months, they only gain 27.3 and the market was up 29.8, they captured a good part of that return. The universe is fairly narrow because remember we talked about the fact that all the stocks are about the same, all those bars are pretty much the same, so a relatively small difference in return will produce a very large difference in percentile ranking, so no concern with Baron, my note here is, okay plus.

We'll spend a little time on Champlain, this is again a fairly new fund and you can see it has a very strange pattern of returns. For 5 years 6th percentile, 3 times the benchmark, one

year, I can't even calculate how much better than the benchmark, its 480 basis points better than the benchmark, they made a pile of money where the benchmark lost money, 13th percentile. For 3 years, 71st percentile, just a little bit behind the benchmark, not a lot. For 6 months, 85th percentile, quite a bit behind the benchmark, 500 basis points behind the benchmark and 300 basis points behind the benchmark for 3 months. How can something like this have these weird gyrations? Well remember we talked about risk on and risk off, they will perform well when high quality securities are in favor. High quality tends to outperform in risk off or high risk concern environments. What you're seeing here is this schizophrenic behavior of the market, take all the risk you can get and then some, take no risk at all, take all the risk you can get and then some, take it off. What you're seeing with this weird pattern is when the risk trade is off, when high quality matters, everyone's afraid, they do real well. When everybody is into speculative stocks, they're out of the quality stocks and in the junk stock rally type things, they do poorly. Let's take the thought experiment, would you rather have your participants invested in funds that do well when good stocks outperform or would you like them to have the option that does when crummy stocks outperform? It seems to me you're in the right place and if it underperforms the junk stock market, so be it because we don't want our participant's money in effect speculating on the fact that crummy stocks will do better because the market is willing to pay for junk.

I just wanted to explain what's going on with this, do they have like a roulette wheel, is their investment process throwing darts? No it's not, it's just what you're seeing is a manager who is maintaining a process continuously in the face of an environment that's going back and forth. You might ask yourself, if they're that clever, why don't they just go with the flow? Well, nobody can do that and in fact trying is a negative game because you can't keep up. We've seen the risk on risk off trade change twice in a week, what are they going to do, sell all their stocks on Monday, but junk stocks and on Wednesday buy them back? No, that's not the way they do it, that's not the way you want them to do it. You have to just go with the flow on this one, we like them.

Finally, Thornburg and DFA, again retention here. This is one at 5 years they were shooting out the lights, on the relative basis they're still behind the median but they've improved their performance relative to the benchmark and in fact if you look at, not the EAFE Index but the benchmark below it, the EAFE Value Index, they've been doing much better. Remember, it's been a growth market so value is underperformed, so if you compare them against an index that is core, they're going to look bad. If you compare them against what they're intended to do which is value, they look pretty good.

And finally DFA and there are concerns in the book here about DFA which we'll get to. DFA has allowed some of these products to get pretty big and there's some discussion in here we'll talk about very briefly. We've got some concerns about how large they're letting these products get and again, this crowded trade, everybody wants out of the venue kind of thing, we're worried if there was a decline that they might have trouble getting out, now there's no need for them to get out, but if they wanted to it might be a little tougher. Looking at them, basically they're doing fine, I have okay plus here, looking at them for 3 years and 5 years well into the first quartile huge performance advantage, a little below the benchmark, so the concerns are more longer term.

There is on page 8 a very lengthy discussion about DFA, some concerns towards the bottom under Business Growth and Capacity and this is something that all consultants look at because managers get paid on a percentage of assets so it's in their business interest to let

their assets get huge because that's more money for them. The problem is it gets harder and harder for managers to add value as the prize gets bigger and bigger, eventually these just become very expensive index funds. One of the things we pay a lot of attention to is, do they have good capacity control and you know we basically suggested escaping from Cap Guardian because of exactly this reason. The Cap Guardian funds were simply allowed to grow so big that there's no creditable possibility that they can significantly outperform, literally they can't beat the market, they are the market at some point. We're still comfortable with them but we've raised the issue with them and they are aware of it.

There's a discussion here about Thornburg (page 11), they're going to have a portfolio manager hired in the next 5 years. Believe it or not we worry about that too and again on that 4th paragraph or 5th paragraph, "we raised our concerns about the level of assets held in the International Equity Strategy," they're continuing to allow the assets to increase, they have not capped it, particularly in the mutual fund so we're keeping an eye on that.

There's an interesting discussion about Winslow and I suspect that you have had some communication with Winslow. We all know that Apple has just shot through the roof, it has become a very large component of the index and many guidelines place a cap of the amount that can be invested in a single stock, well Exxon and Apple are more than 5% of the index. The concern is, if they're constrained by the guidelines to hold less than the index weight, if it does well, they've got a built in underperformance and conversely, even if the percentage of the index gets to be 7 or 8 or 9, you probably need to give them enough latitude where they can take a modes over position, if it's 8 they ought to be able to hold 9 because otherwise you're really constraining them. They changed one of their large cap growth risk controls, page 12, the first paragraph under Winslow. They're removing the 5% maximum and replacing it with, the greater of 5% of the benchmark plus 100 basis points, so they're going to allow themselves to have benchmark weight and actually 100 basis points over benchmark weight. We think that makes perfect sense because otherwise, you always have to allow the manager to hold the index weight to express no opinion and realistically you should allow them to overweight to some extent. Now this is a mutual fund so you don't get a vote on this, they just do it, on a separate account would have to come to you. We have no issue with this, Exxon and Apple deserve to be as large a percent as the index. When we had the dotcom silliness in the late 1990's, we had companies be 6 or 7% of the S&P 500 some of the actually 2 years later turned out to be worthless (that's another story), but we don't see Apple or Exxon being worthless, these are very solid companies making honest money with good products.

Page 14 in terms of asset allocation it's the usual pattern. Obviously in the 401(a) plan because people were mapped into the age appropriate LifeCycle funds, (I'm on page 14 looking at the combined, you can actually look on page 16), huge allocation to the target date funds. Again, we think that's advantageous to the participants because it gives them professional advice rather than be your own chief investment officer. The 457 plan because it was total participant directed no mapping done. We do see a reasonable allocation of target date funds which is good but it's kind of spread across all the other funds. These tend to be higher paid and I'll go out on a limb here and say, slightly more sophisticated participants.

Fee analysis on page 19, again as usual it's been more aggressive, the Small Cap Baron, Champlain, Thornburg funds which are relatively expensive. The returns we report are all

net of these fees and if they look okay, net of these fees, as long as the fees are not ridiculous we're okay with that.

On page 20 the compliance table, we really dealt with all of this. We talked about the Hartford on page 20 which is 11 quarters of underperformance and the Franklin on page 21, 12 quarters of underperformance. Again, you dig a 5 year hole it takes some time to get out of it. We're comfortable with retaining them.

The summary performance on the next half is the same data that we looked at. This is a pretty high dense content to approach. Wilfred Leon Guerrero: It looks like you spent a lot of time with this O'Reilly guy. Terry Dennison: Well we use a lot of DFA. We like them, they're cheap and they're a quantitative manager that didn't fall into the same trap that all the other quants did. A lot of the quantitative managers had computer models that were developed independently, each company had their own model but they were all looking at the same database and they're all looking at the same factors and what happened is all the models ended up doing the same thing. When we had the economic crisis in 2007, 2008, all the quant managers got killed because they were all buying the same stock. They built individual models by themselves, very proprietary, won't tell you anything, they all bought the same thing because they're all looking at the same factors. The thing about DFA is they're quantitative, they don't make judgment about stocks, but they don't look at it the way everyone else does, so we use DFA a lot and that's why we spend a lot of time with them. You pay us to drill down into this stuff and to really understand and tell you what we think is important.

Wilfred Leon Guerrero: He's a smart guy, has a PhD. Terry Dennison: They have a lot of PhD's. Wilfred Leon Guerrero: But not in economics, he's an engineer. Terry Dennison: You use to hear about the rocket scientists, there are an amazing number of rocket scientists, real rocket scientists in the investment business. You wouldn't typically say, why would engineering be something that matters in investments, but they're not emotional, they don't fall in love with their stocks, they don't say, I don't want to admit I was wrong. I have an engineering background so I'm talking about myself here. Wilfred Leon Guerrero: One thing I've learned about economics is it's not an exact science. Terry Dennison: No. If you ask 5 economists what's going to happen, you'll get 12 answers.

Gerry Cruz: So in 2007 there was the de-leveraging of the retail and corporates, kind of almost passing the de-leveraging from them to the Government. Terry Dennison: To the Feds, the only people left with any money. Gerry Cruz: Right and now that the Fed's balance sheet has increased with leverage, what happens next, what becomes then the new normal, what's the next normal? Terry Dennison: At some point and clearly they're going to try to wait until the economy is okay because it's going to have a very negative effect, politically of course that's a huge problem because they can't do anything this year.

(End of Tape 1)

(End of discussion on DC Plan Performance)

1:30pm GreatWest-Third Party Administrator Report

(Start of tape 2)

Kent Morris: ...and then they're off the list, that would be the process and again, these are, you can say these are recommendations, I would say suggestions, best practices and the self

directed would be a classic one, if you're not getting, I don't think any plan says, we gotta have it, it would be to minimize the vocal minority who is speaking out, who wants to play, that's fine, if somebody wants to have it, let them go play and I have never heard that here or maybe years ago somebody wanted a gold fund or something. Wilfred Leon Guerrero: That was a guy that was very vocal. Rosalie Bordallo: There were 2. Wilfred Leon Guerrero: He wanted to do that and as it turned out, I think there was only one person. Wilfred Aflague: To invest in gold. Rosalie Bordallo: But it's more advantageous to go through here. Terry Dennison: One comment which may relieve some agony here, I'm not sure I would call these industry best practices, they're more in the nature of common practices, best practices is like having an investment policy statement. Labeling these best practices is producing a sense of compulsion that isn't really real, best practice is not to have everything you possibly could have, it's to have what's really necessary like investment policy statements and this kind of annual review, so maybe simply use of the words "industry best practices" were common practices would be more appropriate removes this sense of compulsion that the Chairman is feeling. Kent Morris: I like that. Wilfred Leon Guerrero: I look at this and say, what happened?

Kent Morris: Just before we get off the subject, in tab 14 is description of the advisory service, but I think what I want to call you attention to is after the dark blue sheet in there which is just a little bit more pictorial in what the participant would receive and it's probably more no the first page of it but the next page. What we're trying to get from this is to show somebody the probability of their current strategy saying if they're going to get the green bars (if you turn to page one on the inside there) and then propose. So we're showing based on what you're currently doing in a good market, fair market or poor market, here is what you're going to get. If you take the recommendation of the advisory service, your expectations would increase. The little table on the bottom left talks about that you're currently saving \$1,248.00; the Plan has recommended that you put in \$2,995.00. So that's the power of the tool. On the right hand it says you're currently contributing in this instance, 2 funds but to be more appropriately diversified your money is spread out accordingly. So that's really the power of the tool to help people, those who want to plan it's a voluntarily service for those who want to take advantage of it.

I'll tell you part about the other reason where we auto enrollment in those things and I know that there are discussions with respect to the retirement plan in general where the focus is elsewhere as opposed to saying, well let's try to do auto enrollment on the 457, it could become part of a hybrid DB plan, so you are working in that regard and if for some reason you didn't do that then we would say, you maybe want to look at whether it's contribution changes or getting more people in the 457 through auto enrollment. So I think you are working, generally speaking in the same direction.

Terry Dennison: One quick question, if we go back to tab 14, there are 3 levels of services that are part of the advisory and one of them is called, "I'm a do it myself investor" and there is a footnote at the bottom, "the online investment guidance service is provided to you free of charge" and then on page 6 there is another footnote that says, "please be advised that there is a fee to use the online investment advice and managed account services." If page 4 is correct it sounds like just a communications issue. Kent Morris: Well, guidance is one level of service and the other 2 are advice. Terry Dennison: Oh, okay. So are our participants getting the guidance service now? Kent Morris: No. Terry Dennison: Well because it's free, why wouldn't they? Kent Morris: It's all part of a service that's provided under this separate advisory service contract. Terry Dennison: But they could sign the contract and only make

the do it yourself investor service available so the online guidance would be free of charge for everybody? Kent Morris: The services are all bundled, but if all that anybody wanted was guidance because what guidance does is provides asset allocation, so it would say, put 20% in bonds, put 20% in large growth, 20% in international, whatever the allocation is. Now in your case where you don't have a lot of overlap you could pretty much be knowing where to invest your money, whereas advice, which is \$25 dollars a year we would say, put X in this fund, X in that fund and tell you specifically but guidance almost gets you there, but doesn't tell you the specific fund and the managed account does it for you. It's all part of one package but 3 different levels of service at 3 different fee schedules or free in the case of guidance. Rosalie Bordallo: And you couldn't take one without taking 2 and 3? Kent Morris: At the plan level. Paula Blas: But as an individual you can. Rosalie Bordallo: But as a plan level there is a cost really to get a free service? Kent Morris: No, there is a contract to get a free service. Rosalie Bordallo: But there is a cost still because we would still need to go one, 2 and 3 on the plan level right, we couldn't just say what we want on the plan level say we want number one, free service, it's a bundle right? On a plan level there is a cost to this service, we could not on a plan level just offer the free service, we would have to take one, 2 and 3. Paula Blas: On a plan level there is no direct cost to the plan, it's the participant. Rosalie Bordallo: And that's why we didn't opt for it because no matter what the participant ends up paying for something that he might not want to utilize. Terry Dennison: That's not right. Rosalie Bordallo: Because you have to take a bundled approach right? Terry Dennison: But unless a participant opts for one of the 2 premium services, there is no cost. Rosalie Bordallo: But I think there is a cost.

Alice Tajeron: Okay, I'm a participant, you make this available, you make advisory services available to me, I have choice a, b or c, a is free, b cost, I don't know, \$50 dollars a year and c cost \$60 dollars a year. Rosalie Bordallo: And depending on what you choose, that's your cost. Alice Tajeron: But b just consists of telling me where to put my money, c says, put your money here, this is how much you're going to get. So I want c, she wants b, I pay the \$60, she pays the \$50, you want a so you don't pay anything. Paula Blas: We need to enter into an agreement to get there. Enter into the agreement which doesn't cost us anything, but there was a hesitation in offering it because it was a separate agreement, remember at the time when we were doing it. Rosalie Bordallo: And I think the Chairman wanted to know why we have to go with them to provide a separate service. Terry Dennison: My interest in this is getting some additional information for free. In Alice's (Tajeron) example, option a, which is just the guidance service cost is free, so every participant would get access to free additional information. Alice Tajeron: And if they wanted b or c it would be up to them. Our experience has been, you indicated earlier with regards to, our participants aren't really investment savvy, we have been getting many questions, I want investment advice, do it for me, I want to know what I'm going to get when I'm going to retire. Wilfred Aflague: Is that guidance? Alice Tajeron: They want investment advice, they want to know where to go, which funds to choose, how to do it and how much money can they put in. Wilfred Aflague: If I remember correctly at the time, the Chairman was almost adamant about, why can't you give this as part of our contract? Paula Blas: The first time. Wilfred Aflague: Right, the first time. We're saying now we have to have a separate contract. Paula Blas: It's always been. Wilfred Aflague: I understand. Do we need to put an RFP or can we just get an addendum contract with GreatWest? Paula Blas: It was already offered, it was part of the RFP. Kent Morris: It was in the RFP so we responded. Wilfred Aflague: But we decided not to. Paula Blas: We decided not to sign that one. Wilfred Aflague: Can we now sign an agreement if the Board approves? Paula Blas: I don't see why not. Wilfred Leon Guerrero: Why did we not want to sign it? Paula Blas: Because the Chairman felt that it should have already been

an inclusive service of the current contract. Kent Morris: The only reason we do it separate is it's set up through a GreatWest company which is a registered investment advisor. Terry Dennison: They have to do it that way.

Wilfred Aflague: I would like to discuss taking action here. Wilfred Leon Guerrero: How much is it going to cost? Wilfred Aflague: Is it going to cost us? Paula Blas: It doesn't cost the Plan anything to enter into the agreement to offer it. It will cost the participant at the very minimum nothing if they choose just the guidance, but if they choose advice, it's going to cost that participant the level of advice. Wilfred Aflague: Do you have the rates? Kent Morris: If they do advice it's \$25 dollars a year charged quarterly at \$6.25. Wilfred Aflague: And the third? Kent Morris: If they do the managed account where we're totally in control of their account, that's .6% of their account balance. Wilfred Leon Guerrero: Let me see if I understand this correctly, if we do sign this agreement then the option is still with the participant, they can decide. Paula Blas: All we're doing now is offering, it's no different from offering the 457, they don't have to. Wilfred Aflague: I would like as a member of the Committee to move, I would like to make a motion to move... Terry Dennison: To my mind it seems unreasonable and borderline inappropriate to say just because we have to sign a different agreement, we're denying participants access for free and valuable information. That's not a situation I'd care to defend and frankly \$25 dollars to get a little advice is peanuts. I'm not a Board member but I can advise you and my advice is do this and let people who want to pay the \$25 dollars get more advice, let people who want to pay the 60 basis points get the management. Right now you're unreasonably denying people access to free information that can make them better investors. I'd hate to defend that. Wilfred Aflague: That's my motion.

Rosalie Bordallo: Can I add something or recommend something? You mentioned that we could ask for this and you would come back and do a presentation. Wilfred Leon Guerrero: To the Board? Rosalie Bordallo: Well the Board is the one that's going to have to vote on it. Wilfred Aflague: I'm talking about the Investment Committee now. Rosalie Bordallo: So they would have to present this to the Board... Wilfred Leon Guerrero: It seems like it's a simple concept, why... Kent Morris: It's totally up to you. If you say from the Investment Committee we want this, we're going to the full Board; if part of that you want us to demo it, we're happy to do that. Rosalie Bordallo: Why I'm saying this is because you had a problem last year... Wilfred Leon Guerrero: What I'm hearing Terry (Dennison) say is, look, we're denying these people this access... Rosalie Bordallo: We understand that. Would it be better that they (Board) be present to field the questions versus us? Wilfred Aflague: As a Committee member, I'll make the motion, the Board seconds it and it's an action item. When is the Board meeting? Paula Blas: June 1st. Wilfred Leon Guerrero: The way Terry (Dennison) is explaining it, it's logical. Kent Morris: I think people who want it will find great value in it. Wilfred Leon Guerrero: I think the Chairman's position is that you should probably provide it for free. Terry Dennison: They are providing it for free. Paula Blas: We just need to sign a separate agreement and that's what he didn't want was to sign a separate agreement. Wilfred Aflague: I think this will make our population more savvy in time. Kent Morris: Absolutely.

If you go to (tab) 15, actually what Alice (Tajeron) put in on things, going a little step further... Wilfred Leon Guerrero: I want to stay with (tab) 14, I want to understand because you're again making a recommendation here and I don't understand these things. Kent Morris: Alright, let's go through the list. The top 4 are things you're already doing, "provide auto enrollment on an opt out basis in the 457 deferred compensation plan. That would be

for any new employee you could establish and I'll just make up a number, where they have to put in \$25 dollars a pay into the deferred comp. You come to work for the Government of Guam and \$25 dollars automatically comes out of your check unless you say, I don't want that. Wilfred Leon Guerrero: The way I'm reading this thing is that I don't want to participate in the 457 and you're saying there should be automatic enrollment. Kent Morris: But you just said you don't want to participate so that means you opted out. Paula Blas: What he's basically saying is right now, any new employee if we implemented this would automatically have to contribute to the 457, whatever that percentage or dollar amount is that we established, but if they don't want to then they have to sign a form, an election form to opt out and not participate. Wilfred Leon Guerrero: They have to pay? Kent Morris: No, it comes out of their check. Wilfred Aflague: We're forcing them to save. We are forcing our new employees to save. Terry Dennison: I'm not saying we're forcing them, I'm saying we're making an active decision not to. Alice Taijeron: It becomes a healthy habit. Paula Blas: Most of them don't even think about it. Wilfred Leon Guerrero: And this decision is suppose to be made at the very beginning? Wilfred Aflague: When they sign all those forms. Rosalie Bordallo: Or when they see that \$5 dollars come out then they're going to come running and say, okay, I don't want this \$5 dollars deducted. Alice Taijeron: I'll give you an example, every year you want us to increase participation in the 457 and we have certain challenges out there and they have been increasing, but probably not, as much as we can, you have participants, there is something in the Government right now, the Cafeteria Plan, it's a mandatory enrollment and it's an opt out enrollment, so every pay period a participant is paying \$2 dollars for something they don't even know, many of them have gone years contributing this plan that they're either not eligible for or they don't utilize and you just take that \$2 dollars every pay period times 26 pay periods and if that were going into a 457 for how many years they would have that and that would get you to a level where I think is what the Board wanted, almost 100% participation and savings for your participants in the DC Plan increasing their contributions towards their retirement. So this is just something to address that's been a Board request.

Wilfred Leon Guerrero: I'm a new employee and I come to your office and addition to your office there are other offices that I go to and sign stuff, I don't know what this thing is all about. Alice Taijeron: If you come to our office we'll tell you what it's about. Wilfred Leon Guerrero: Right. I'm just imagining a new employee, they're just signing forms all day, at some point they need that workshop, the training that you guys provide, but at that point they're being asked to sign a form saying, I don't want to participate or I do want to participate. Alice Taijeron: That's how it would work. Right now at our new employee seminars we have their enrollment form in the 401 which is mandatory and if they haven't filled that our already we have them fill it out at the seminar, most of them already filled it out and we also have enrollment forms for the 457, so right now the situation is opt in. In a seminar of 50 people we might get maybe 2 or 3 after our seminar, after we've spoken about it, they've opted in, the others choose not to. Rosalie Bordallo: They just want to leave. Alice Taijeron: They just want to leave, they just want to get out. Wilfred Leon Guerrero: And what do you want to do with this...? Alice Taijeron: So doing an opt out arrangement, they're mandatory. Wilfred Leon Guerrero: You want them to make a decision, yes or no at that point? Alice Taijeron: No, it's mandatory. Kent Morris: It's already a yes. Alice Taijeron: It's already a yes, so at this seminar we're going to say, do you want to do this or not? Yes or a no and check the box. Wilfred Leon Guerrero: The situation right now is they're automatically enrolled and at some later date they find out what this thing is about and they go back to you and say, I want out of this, is that what it is? Alice Taijeron: Not now, that's not the situation now. Paula Blas: That's the situation they're proposing. Alice

Tajeron: That's the situation that might help participants save more for retirement, put more towards their retirement. That's the opt out, right now it's an opt in. Paula Blas: Especially when they're young they're not thinking about saving for retirement, so what we're going to do is say, we're going to help you save, we're going to go ahead and start deducting this. If they opt out like Terry (Dennison) said, it's going to be an active choice on their part to not participate. Alice Tajeron: Participants now if they see they've been saving and they see their account balances, they see how much they saved, they're not going to want to stop. Wilfred Aflague: There's a less of a chance for them to get that out rather than in the beginning as Terry (Dennison) said when they had an option. Wilfred Leon Guerrero: Right now you're automatically enrolled in the 457. Paula Blas: The 457 is voluntarily right now. It's an opt in, you decide if you want to participate. Wilfred Leon Guerrero: I'm trying to understand this. The 457 they're automatically enrolled? Rosalie Bordallo: No. Wilfred Leon Guerrero: Then explain this recommendation. Wilfred Aflague: (Can I try?) You're the new Investment Specialist hired by the Retirement Fund, you process all your documents, when you go to sign all your documents now you have a choice, do I opt in, choose to go with the 457, already in the DC Plan you're in, 457 yes or no, you put no. What they're suggesting and what we would like to propose is to put you in already in the 457 and then you say, no I don't want to join that, that's what Terry (Dennison) meant a moment ago, you make a conscious decision not to save. They're recommending and I like that idea and Alice's (Tajeron) point is right, after a couple of pay periods and they see they saved without a conscious effort, but they would have had to make a conscious effort to say no. Paula Blas: But this is something that's kind of already being worked in with the hybrid. In the hybrid plan there is an automatic 1% to the 457, so this is kind of already being entertained in the legislation that... Wilfred Leon Guerrero: Do we want this or not? Paula Blas/Wilfred Aflague: Yes. Terry Dennison: I think so, yes.

Wilfred Leon Guerrero: Okay, let's go to the next one. Kent Morris: The "provide qualified automatic contribution arrangement?" On the auto enrollment there are 2 ways to do it, one is you can do it for new hires only, another way you can say, anybody who works here who is already here you can enroll them as well, so there are different levels. Most plans look at new hires from a point in time going forward, but that would be the difference so I think one and 2 you can say are the same even though they're worded a little bit different and one would be part of the hybrid.

Wilfred Leon Guerrero: And then the next one is the Roth 457. Kent Morris: The advice you took action on, provide Roth 457 as an additional saving vehicle for participants.

Wilfred Leon Guerrero: And this last one is you want to increase the contributions. Rosalie Bordallo: That requires Legislation. Wilfred Leon Guerrero: I know but that's the kind of stuff I think we'd like to have on record. Rosalie Bordallo: But I think with the hybrid plan this becomes a questionable kind of action to take because now you're moving into a new plan. Wilfred Leon Guerrero: This is going to be a conflict with the hybrid plan, is that what you're saying? Wilfred Aflague: Not necessarily a conflict but it's related to that big question. Wilfred Leon Guerrero: So what do we want to with that? Wilfred Aflague: At the moment I don't personally think we should do anything. Kent Morris: I can tell you our thought on it is that if you have a hybrid plan, depending on what happens with the DC Plan, if there are still DC members and I don't know how the hybrid is going to work at all, but if there are still people in the DC what we would say is that 5% employee, 5% employer is not enough money, there needs to be more money and at the very least because I know in the draft I've seen, the hybrid makes somebody put in 9.5% of pay, so we would say, why don't we make the 401(a)

9.5% of pay so people who are currently putting in 5%, maybe they should put in 9.5% as well, that's sort of the thought process on this one which I think until all this hybrid is flushed out other than bringing it back to the table periodically, I do think you need to address the contribution rate in the 401(a) if it continues to have participants. Paula Blas: And right now even if the hybrid was to be created and implemented, those that choose or opt to stay in the DC, this is actually something that would only affect the DC contribution rates so there is no reason not to entertain this as well. If the hybrid doesn't go through, at the very minimum the contributions for the DC Plan alone are just not enough to sustain these participants, it has to go up.

Wilfred Leon Guerrero: So what do you want to do with this, do you want to accept this kind of recommendation? Paula Blas: We should just go ahead and make a recommendation to see whether or not they want to... Wilfred Leon Guerrero: But do you want the recommendation to be more specific like say 9%? Rosalie Bordallo: Truthfully this is going to require some sort of plan change and most likely Legislation. Wilfred Leon Guerrero: That's fine. Rosalie Bordallo: So if the recommendation is going to exist it's going to be a recommendation to really look at it not, you can't really implement anything but to address the issue is what you want to do. Wilfred Leon Guerrero: If you're going to go down to the Legislature you're going to want some materials with you. Rosalie Bordallo: But that's what I'm saying, we need to basically address it and do a study on it. My concern here is what are you really looking at, just the member's portion or are you also saying the Government's portion has to increase? Paula Blas: It has to be matched. Rosalie Bordallo: See that's what I'm saying, it's one thing just to say the member's side is going to go up but when you're starting to play with the Government's side, that has an impact on the hybrid, the liability of the hybrid, it has an impact on the DB side because when you start increasing the employer's side here it takes away from the DB side and we can only recommend that it be looked at and some kind of recommendation be put out for it, but right now I don't think we can really say, let's push it to 9.5%. Alice Taijeron: That was just an example. Rosalie Bordallo: Right and I'm just saying we really can't even say... Paula: There are other repercussions to increasing this as well and that's those who already in the system that are use to a 5% reduction, increasing it to a 9.5%, that's almost double. Alice Taijeron: That's just an example but you can actually set it up so that there is a gradual increase, maybe every 2 years and increase by 1%, something to that effect.

Paula Blas: We were already working on Legislation prior to hybrid, looking at a gradual increment increase and that was 5 and maybe start off with a 6.5, maybe a 1.5% then the next year another 1% until we reach the cap. Kent Morris: I think that our suggestion would be in the DC Plan it's just under funding. The contribution levels are low from what is really needed for adequate replacement income, however you get there I think it just needs to be continually discussed, it needs to be at a higher level and whether that's employer matched or not I can't speak to that. Paula Blas: If it's not employer matched, why don't they just up their 457 if that's the case? Kent Morris: I think the point is it needs to be mandated and I guess when Alice (Taijeron) and I have talked about it and I've looked at even like the current DB is 9.5% I believe if you're a DB member, so 9.5% seemed to be sort of a common number if you had a choice to say, I'll take DB or I'll take DC, there is no reason why 9.5% couldn't be the contribution rate. Paula Blas: But I guess the reason I had actually said those in the system now that we may have an issue with because anybody that was in the DB, 9.5% has been 9.5% since 30 years ago or I think 20 years ago, it never changed. Rosalie Bordallo: Since about 25 years ago. Paula Blas: Right, so now you're actually touching someone's paycheck. Kent Morris: Right, that just seemed to be a common level however you get there.

So I think your action would be, we need to address the 401(a) contribution levels, whatever that means. Wilfred Leon Guerrero: My only take on this thing is, I wish they could be more explicit in terms of your recommendation. The difference between the national account balance and the local one, I think the national is like 38 and the local is 21,000, there is a big difference there and one of the reasons is that the contribution is not there. Kent Morris: I did earlier today, I took out all the people who are under age 25 and all the people who are over age 60 which I think took your 21,000 average up to 27,000, so if you take out people who are new in the system your average becomes a larger number. But today I think you're having a relevant discussion on what needs to be addressed going forward which is really our purpose of even bringing these things up. Wilfred Leon Guerrero: The only thing is I wish it was more explicit, this is the kind of stuff that like Rosie (Bordallo) said, we need to go to the Legislature and this is the kind of stuff that these are the kind of materials we need to justify whatever change that we need to see happen. Kent Morris: Well is there anything you want from us? Wilfred Leon Guerrero: Apparently we need to work this out with the hybrid plan first, that's what I'm hearing the Director say, before we can fully discuss this. Paula Blas: Yes, because at the very minimum this has to be something to be considered if a hybrid was not even created or materialized at the very minimum they have to entertain this because at the current contribution rates it's just not adequate. Wilfred Leon Guerrero: I think we've talked about this before and we just keep talking about it. Kent Morris: One thing we have is we do have all the data, we have hire dates, we have the people's ages, their hire date, their account balance, their salary, their contribution, so one thing that we can do is projections for you, what if someone went to 6% a pay, 7% a pay based on expected rates of return what would they have, so we could help with that analysis to be more specific of what might be a relevant level going forward but for now we'll just wait to hear from you. Wilfred Aflague: And that would be more palatable to both the Administration and the Legislature, an incremental increase throughout the years, I think that would be more palatable than an increase of 4.5%.

Alice Tajjeron: I just want to know, the paper, you know we meet with the participants and the participants who need the most help are your participants who don't make a whole lot of money, these are the individuals who are going to need those contributions, they are the one's that are going to need the investment advice and if they were to do the investment advice, we have people in our office who actually sit with them at computers to say, okay, this is what it means and so forth. It's those people that really need help, not your highly paid employees because they have more disposable income but we're talking about and it states in the research, individuals making \$20,000 even \$30,000 that need the help to save, most of them we have to force them to save.

Kent Morris: Well I think this has been good. Alice Tajjeron: This is just a table of previews. Kent Morris: Page 15 is what Alice's (Tajjeron) plan of when she would be working with you on these things which are pretty much ongoing and we had some other sort of service opportunity, we called it in the back and Alice (Tajjeron) did note if it would require Board action, which many of the things that make changes do require Board action, plan document changes and then the form of contributions obviously Legislation. I think that in the essence of time there was really one thing which just briefly in tab 5, one of the commitments we have in our contract is to provide a fund performance review which is just another set of eyes if you will and again Terry (Dennison) went through his thing but in tab 5 on page 6 of 23 there's a chart (that looks like this) and for us green is good and it's on the right columns, all the funds you have passed so I think that would validate what Terry (Dennison) just went through as far as retaining all of your funds, so just again a service that is provided by

GreatWest. I don't know if you have any questions on that? Wilfred Leon Guerrero: No. Kent Morris: It's good, your fund line up is performing as expected. In tab 1 just to go back, typically what we've done in the past with you, we like to partner with you and want to be more strategic as opposed to dumping data on you, but in tab 1 is sort of the historical stuff that we've gone through which is change in plan assets, you can see there is essentially 5 years of data, the contribution levels and all that.

The only other (in the last minute or 2) if you just go to the last page in tab 1 there is just a table of, I know one of the questions that periodically gets asked, what we put together is just a revenue summary and this in an excel spreadsheet but with the disclosure requirements that are coming, there will be this information and a lot more, but what this details by quarter the assets in the 2 plans, our current contract is the .24% per year or .06% per quarter so in the amount you see billed by GreatWest this is what we bill and you pay us each quarter. So for 2011 we billed you and received \$638,000 dollars which is that .24% of plan assets and then we have the number of participants for each quarter and what that broke down to quarterly, so if you look at the bottom box number with average participant, so we're getting \$52.39 per participant for 2011. The mutual funds that you have in your line up what are referred to 12B1's or shareholder service fees that get paid to GreatWest that we forward on to the Retirement Fund and that amounted last year to \$928,000 dollars. So that's a summary of what we charged and what the mutual funds paid that we credited to you but there will be more with the fee disclosure coming which for our Government plans we'll be doing more in the 4th quarter of the year and it will be an online report that Paula (Blas) or somebody on her staff will have access to and can be shared with the Board as deemed appropriate. I thought it was important to share that with you and if for no other reason hitting the 300 million at the end of the quarter it goes to .2%. Rosalie Bordallo: That's next quarter? Kent Morris: Yes, at the end of next quarter.

Terry Dennison: I have a question for Alice (Tajeron), if you look under tab 2, the back of the 3rd page, it's a page labeled "Average Account Balance - All Participants" and below that it averages account balances for contributing participants. If you look at the age cohorts starting 49 to 55, the balances are really virtually static for that 49-55, 56-58, 59-62, both genders those balances are just static. Are people becoming very conservative or are they ceasing to contribute because you can see that the balances while pathetic are growing as you go to older and older age cohorts and then it's completely flat. What are people doing? Kent Morris: The reason that I would say it's flat is because that would be the core population that all got in at the same time regardless of age. Where you have normal distribution because of the start of the joining the plan and building where these were core people who got into the DC from '96... Terry Dennison: So it's an artifact of when the plan started. That's a very unusual pattern to just see a 10 year age cohort to basically have the same balances. Kent Morris: Correct, because if you were to go to the next tab 3 which is the 457 on that same page, you see a normal distribution based on age and people contributing more money over time, but yes I think it's a uniqueness of the start up of the plan. Terry Dennison: If you look back at that original page and look at the age cohorts nearing retirement and if you have a sort of standard rule of thumb that you could take 5% of your balance each year, you're talking about people who are going to take \$2,000 dollars out of this a year. (Don't spend it all in one place). Alice Tajeron: Well most of them can't.

Kent Morris: That's all that I think for time. Those were our sort of formal remarks and I think good points and I'm glad that some action was taken, I think that's very good. If you

want any of this electronically versus paper just let Paula (Blas) or Alice (Tajeron) know and obviously every document in here is electronic. Wilfred Leon Guerrero: Thank you.

(End of tape 2)


(End of GreatWest-Third Party Administrator Report)

Respectfully submitted,



STEPHANIE A.H. LIMTIACO
Recording Secretary

Affirmed:



GERARD A. CRUZ
Investment Committee Vice Chairman