GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

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Quarter Ended 12/31/11 Performance Meetings & Annual Manager Reviews

February 22, 2012
Retirement Fund Conference Room

Board of Trustees Present:
Joe T. San Agustin, Chairman, Board of Trustees
Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
Gerard A. Cruz, Trustee
Wilfred Aflague, Trustee

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

Other Present:
Maggie Ralbovsky, Wilshire
Doris Flores-Brooks, Office of Public Accountant

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Dimensional Fund Advisers	pages 29-35

10:00am DB Plan

Economic & Capital Market Environment

(Start of tape 1)
Maggie Ralbovsky: What a difference a quarter has made. I have some good news to share, let's start with page 4 which is the economic review. Here are some key statistics for the U.S.

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economy, it appears that the GDP recovery is continuing even though it's very weak, the unemployment rate has improved, the job creation has been weak, however it continues to be positive. I have some circles to focus on this page, you can see on the top table there is an inflation number I circled, you can see that inflation has been zero and actually zero for the past 3 months, that compared to a 10 year average of 2% and this number is important because that explains why the interest rate has been so low and also explains why the Fed came out to say they're not going to raise interest rates until at least 2014, probably even longer because there is no reason to raise interest rates to fight inflation and they're hoping to use the easy money policy to spur growth. However, the fundamentals of the cycle is actually very, very weak, I have some pages to follow which is called the de-leveraging cycle. Let me just explain why these pages are important. Because it is widely agreed upon that this particular recession has been a de-leveraging recession which is very different from the prior recessions. The prior recessions we have experienced ever since after the 1930's has been inventory cycle induced recessions, meaning when economy becomes overheated certain sectors have built too much inventory the Fed wants to control to stop the economy from being too overheated and spur inflation, they will raise interest rates and that induces inventory cycle based recession and then inventory will adjust accordingly and then the Fed will ease and then the recession is over. Usually that's how a recession gets induced and how it gets resolved, but this cycle is different, it was induced by the bursting of debt bubble in the housing sector as well as in the public debt sector.

The statistics in the next 4 pages show how this cycle recovery compares to prior cycles. The vertical line in the middle is the beginning of the recession, so in this cycle it starts in 2007 and the gray line shows the prior cycle, the typical cycles average, the red line shows the typical cycles range, the blue line is the current cycle. For the U.S. GDP, the real GDP growth you can see the recovery has been very, very weak compared to prior cycles, below the range, historical range. If we move on to the next page, same story for the household debt. The household debt as a percent of GDP, this is the private sector debt, it has been very much on the downside cycle. The reason this is important is every time there is a recovery it started with credit creation when people started to have confidence, they would borrow money to invest for the future and this cycle this hasn't happened because the household sector still has too much debt, they're still in the de-leveraging mode, therefore they do not want to take on more debt.

The next chart shows the household wealth percent of GDP, that also has not shown a typical recovery. The household leverage has a percent of wealth, this should be considered as a follow up of the household debt as a percent of GDP chart that shows you that the leverage is still very high compared to the prior cycles and therefore the household does not have the ability to take on more debt.

Savings rate also very anemic. Doris Flores-Brooks: I thought the savings rate, I thought consumers were saving more and from this it doesn't look like. Maggie Ralbovsky: They're saving more compared to the prior, you can see prior couple of years, but compared to prior cycles it's still below.

Unemployment rate recovery is also very weak, consumer confidence... So all these charts are trying to tell us one story and that is the underlying fundamentals of the recovery is very, very weak. Doris Flores-Brooks: But I thought the unemployment rate like this morning the news was good news for (President) Obama. Maggie Ralbovsky: It was 8.6%. This is compared to prior cycles, it obviously has been better than 9%, a very, very slow recovery.

The conclusion many people are drawing is that the current liquidity in the system is so large because the Fed has been printing money for the past 3 years that there is no place to invest so it's very possible that this year is going to be a very good equity year, the stock market is going to be good not because of other things but rather because of the liquidity in the system has to be put somewhere. Wilfred Leon Guerrero: What did you say, this kind of condition is good for equity? Maggie Ralbovsky: This year will be good. Wilfred Leon Guerrero: 2 months ago you told us to move equity. Maggie Ralbvosky: I'm just saying this year but not because of fundamental... Wilfred Leon Guerrero: In 2 months it changed that much. I'm just saying, this year will be good I'm not saying this is a very strong recovery, this is actually a very, very weak recovery so I do think next year we're going to have trouble.

Doris Flores-Brooks: What about gasoline because that's the other thing they were saying, they're expecting gasoline prices although it's already over $4 dollars here but in the U.S. they were saying that could derail whatever recovery. Maggie Ralbovsky: Well a lot of things could derail the recovery, I think the major issue is not gasoline prices, it's Europe. The reason the European market has stabilized a little bit recently was because of this very clever program they implemented at the end of December, it's called LTRO, Long Term Refinancing Operation. What they did is that they give all the European banks the ability to borrow from ECB at 1% and they will take anything as collateral, so banks in Greece can basically borrow at 1% from the ECB and go buy the Greek debt for 10% and then use the Greek debt as collateral to give to the ECB and borrow more against it. In a way it created a mechanism for demand for the sovereign debt, the sovereign debt becomes a risk-less arbitrage for these European banks at least for 3 years, so this LTRO is a 3 year program and you will observe the interest rate, the default swap, the interest rate default swap which is a protection against somebody against the default risk. You will observe the curve of the interest rate default swap in a very strange shape, it's very, very low for 3 years and all of a sudden it jumps up so that's to say the market doesn't believe the Greece debt problem is solved, it's just pushed back by 3 years. Doris Flores-Brooks: It just kicked it down the road. Maggie Ralbovsky: That created a near term illusion that we're okay, which is also supporting the equity market because so much liquidity has been sitting on the sideline for so long we need to rally, we really do and you can just create a rally with all this liquidity in the system for a little while and I don't know, sell in November or something. I do think in the near term we're going to have a short term event of good equity markets but it's very questionable whether it's sustainable because of the underlying conditions. Doris Flores-Brooks: But we shouldn't be chasing the market either right, just prod along. Maggie Ralbovsky: We'll take it when it has it, but really make sure we understand the risk factors.

So I have some numbers here and you can see the quarter was a very strong quarter for equities, it was up 12% for U.S. equity as a whole. I circled small value and small growth and you can see small value was the strongest sector in terms of recovery which was a dramatic turn from the previous sectors.

Wilfred Leon Guerrero: Can we go back to page 8, consumer confidence, it's still low right? Maggie Ralbovsky: It's very low compared to prior cycles in terms of recovery. All these charts are saying the same thing, they're saying recovery is very fragile. Rosalie Bordallo: Can I ask, how come retail to some degree is still doing very well? A lot of the earnings came out today and yesterday and Macy's is up, Bloomingdales is up. Maggie Ralbovsky: I think the expectation was so low, the expectation that was priced into the market was so low and they just got a positive surprise. Rosalie Bordallo: I disagree with that. Macy's, the quarter before did well and I don't think they're expectation was that low. Maggie Ralbovsky: That does not contradict to these charts because these charts are comparing current cycles with prior cycles, not to the particular sector with itself but rather with prior cycles, it just means prior cycles recovery are much stronger. Paula Blas: They were actually on the news together with a few other name brand stores about closing some of their stores back in the mainland. Rosalie Bordallo: Well Coach is up 120%. Why is the luxury, I mean does that help that there's now such a wide gap between the rich and the poor and that luxury name brands are really the area where you should be investing in because they don't seem to be hurting? I mean, rich people are rich people, it doesn't matter what the cycle is, they have the money to spend and they're going to spend it. Doris Flores-Brooks: But that's the 1% right? Rosalie Bordallo: But if you get the stock that they're catering to you're going to make a profit because they're still going to buy, so should we be looking at more selective stock picking? Maggie Ralbovsky: I can't comment on that, you can maybe ask the managers about stock picking questions.

Okay, I'm going to move to page 10. We conducted a Euro survey and in that survey we're trying to get to the market sentiment as to where people see this European crisis goes. Nearly 50% of the respondents, you can see the median is the average number, basically half the people expect the European Union is going to continue as is. There is a small percentage, 37% of the people think it's going to break up from the current level to a smaller union so basically you kick out the weaker countries like Greece and Spain and Italy then you sort of have a strong core then the peripheral they have a different structure of sorts but that's the minority, half the people do expect it's going to continue to muddle through at the current level. Doris Flores-Brooks: There is not talk right now to create a strong and weak Euro right, the thing, the sentiment of kicking out the PIGS? Maggie Ralbovsky: Well they actually started to entertain the idea. If you think of the prior Governor of their union, the prior union Governor categorically rejected such thinking, basically they don't even want to consider that, it's totally impossible, it's unthinkable. The current person actually says, it's not taboo, we could discuss it if it's something that we should explore, it's probably not catastrophic.

There is a changing tone and there are managers out there who have plotted out if that happens what is it going to look like, so I do think there is a path that could happen, it's a small percentage of chance that it's going to happen that they kick out Greece, I think it remains to be seen and majority of the people do not think that's going to happen and majority of the people expect that if that happens it's going to have a tremendous shock to the capital markets. Doris Flores-Brooks: If Greece is kicked out? Maggie Ralbovsky: Yes. Also most people expect Europe and emerging markets are going to have a bear market sell off and most people believe the U.S. market is going to be strong, but the European market and emerging markets are going to have a sell off. Gerard Cruz: If that happens? Maggie Ralbovsky: If that happens. Doris Flores-Brooks: If they just do nothing which is the easiest thing. Maggie Ralbovsky: They cannot do nothing. The easiest for Greece to do is to accept those draconian cups, the austerity. Doris Flores-Brooks: But they won't. Maggie Ralbovsky: Well they agreed to that, they agreed to the cup. Rosalie Bordallo: No, they agreed, they have no choice. Maggie Ralbovsky: That's right, they agreed to the cups for exchange of the third bail out package. The expectation is that they cannot be implemented because it's so painful for this society to sustain. Doris Flores-Brooks: That's right. Maggie Ralbovsky: That's right, but that's the current path, they may find a way to cheat, they somehow muddle through and that's the best of hope out there. So, it is interesting that most people believe that the U.S. is more insulated from this matter, they don't think that if this happens the U.S. is going to have a significant sell off but Europe and emerging markets are. This is just the market expectation and it can totally be wrong but we'll see what's priced into the market.

The biggest concern is the counter party risk. Doris Flores-Brooks: What is that? Maggie Ralbovsky: The counter party risk is in a trading market you have to trade with somebody right, so if banks trade foreign exchange and let's say you have to do foreign exchange hedging or you have to convert your money into some other currency, you have to trade with somebody and those people are called counter parties. When Lehman (Brothers) went under there were lots of counter party problems which included the collaterals of these trading accounts be frozen in Europe and people still couldn't take money out until today, many people still have those accounts locked up in Europe when Lehman (Brothers) is going through the bankruptcy proceedings, so that's the counter party risk. There is so many cross trading risk around the world, the counter party risk maybe we cannot even forecast to what extent because when you trade with somebody, somebody trades with somebody else, it is just so inter-tangled together. That is also the reason why the MF Global still couldn't locate 1.2 billion, they sort of know where the money was but they couldn't locate it, they didn't know exactly where it is because of the counter party risk. So that is just for your information to see what is in the market, what is not in the market is actually the risk.

The next page, page 13 is for the fixed income market. It is very interesting that the best performing asset class for the past year was U.S. treasuries. The long term treasury was up 30% for the year, the really long term like the STRIPS were up 50% for the year, the main reason was because the Fed buying operation twist in the long end of the curve. Another important thing I want to point out which is relevant to our discussion later is the high yield sector, I do want to point out high yield sector is the best performing asset class for the past 3 years and that's the 3 years annualized return of 24% year. It also has a very strong showing for 10 years, it has a close to 9% annualized for 10 years for that sector.

Page 15 is for the international market. The international market we currently do have exposure in the ACWI, the top sector, it's the all country world sector, the EAFE emerging market. We do not have currently exposure in the emerging market debt sector which is the next bubble. I circled these 2 bubbles to show the Board that the emerging market debt represented by the EMBI Global Index actually has about as much return as the equity market did but with much less risk. The consistency is so much stronger that you can observe that by looking at the one year return. Emerging market equity was down 18%, emerging market debt was up 8% and in the 5 year and 10 year time frame it's very similar which shows how much less volatility the emerging market debt sector had compared to the equity sector. That's also another sector we are not participating in right now which I do want to discuss. The currency effect, the European debt crisis... Doris Flores-Brooks: What about the U.S. debt? I keep on hearing that we're going to approach $16 trillion dollars, there will be another battle on the debt ceiling. Maggie Ralbovsky: How much debt is not the most important thing it's debt service that's important. Debt service is how much interest rate you have to come up with to pay the debt and if you can maintain a very low interest rate it's not a problem. I think the absolute level of debt is not a problem until your interest goes up and ever since we were downgraded interest rate has gone down so the debt problem has become less of a problem. I know it becomes a political thing in the election year about how much debt is appropriate and the truth of the matter is right now the economy, the good numbers in the economic statistics are supported by the debt insurance of the Government and you really can't take that away right now.

Bottom line, compared to these countries the U.S. debt is not a huge concern. Doris Flores-Brooks: Really? I hear you say debt is good. Maggie Ralbovsky: Well debt is not entirely bad, without credit creation there is no growth. Gerard Cruz: There is bad debt but debt is not bad, it depends on what you use it for, if it's used for investment. Who is the largest holder of U.S. debt? Maggie Ralbovsky: Japan and China. Gerard Cruz: The U.S. is, they surpassed. The U.S. is the largest holder of its own debt through the buying of all the U.S. treasuries by the Fed. Maggie Ralbovsky: Oh you mean the operation twist. Gerard Cruz: Twist and QE1 and QE2 and all the commercial paper that they bought. Maggie Ralbovsky: I thought Japan? Gerard Cruz: No more. U.S. is the largest holder of our own debt so that's a good thing. Doris Flores-Brooks: That is a good thing. Gerard Cruz: So to my point that not all debt is bad if we are the owners of that debt. Doris Flores-Brooks: The way Japan is. Gerard Cruz: Correct. To me, the size of the U.S. debt, I mean at the end of the day it's a number, what matters is not how much you owe on your house it's whether you can make the monthly payments. Maggie Ralbovsky: That's right, it's the debt service that matters. Gerard Cruz: So as long as you can grow your GDP greater than you grow your debt load then your ability to pay the interest and pay the debt becomes a non-issue and it becomes just a political thing about whether we're...

Wilfred Leon Guerrero: Can you talk about what happened in today's market, why did it go up? Maggie Ralbovsky: What do you mean why did it go up? Wilfred Leon Guerrero: Why is it going up? Maggie Ralbovsky: Well you can't discuss day by day, there is so much noise in the market place every day but secularly speaking the market is at a level that's starving for a rally and you have all this liquidity sitting on the sidelines and it's an election year and you just have some of the things right for a short term rally. Gerard Cruz: What is going to spark this rally? The money has been on the sidelines forever, what's going to really do it? Maggie Ralbovsky: Because stats are good, stats are showing up stronger, people don't see a double dip in the U.S. and the European Union has pushed down their problem by 3 years. Unless you have an exogenous factor that comes in, I think this year is probably going to be good, but then the renewed worry is going to come back to the market. Wilfred Leon Guerrero: All last year all we were hearing was doom and gloom. Maggie Ralbovsky: We're not saying it's not doom and gloom we're just saying this year is going to be good, possibly. The 1930's was a terrible, terrible decade for equities but there were huge rallies during that decade, that doesn't mean that decade was good it just means there were huge rallies from time to time. Gerard Cruz: So you're expecting a rally this... Maggie Ralbovsky: Well it's already happened, so far this year the equity market has been up close to 10% then you could close the year at the same level it just means you've gone through a lot of roller coasters through the year.

Gerard Cruz: So is our portfolio positioned adequately to take in the relevant risks? Maggie Ralbovsky: Our portfolio has many opportunities to diversify and I do want to discuss that with you. Our portfolio has too much concentration risk, that does not change, that has not been changed. Joe T. San Agustin: Are we diversified more to the United States because it looks like the market now shifted all to the United States? Everyone is fleeing Europe and China and everyone else, they're using the United States as a benchmark now. Gerard Cruz: As a save haven. Joe T. San Agustin: As a safe haven, right. Maggie Ralbovsky: In the past year you saw that the U.S. equity market outperformed international by 18%, 15%, because the European problem has been so strong the best thing people could see this year for Europe is a mild recession and people celebrated when the stats shows up as a mild recession because it wasn't a depression, however we can't really just say that's the time, let's take money out of international equity and put into U.S. because it's already in the market place, everybody is already expecting that so it's priced into the market place, unless you can expect something different you don't make those shifts. Gerard Cruz: So we shouldn't shift our portfolio. Maggie Ralbovsky: Not in the equity portion, I do want you to consider all these sectors, you're not participating in. Gerard Cruz: Where are we going to get the money if we don't shift? Maggie Ralbovsky: You decrease and put it in to more diversified sectors.

Wilfred Leon Guerrero: When you say the wealth is just being parked aside, what does that mean, what are they doing with the money? Rosalie Bordallo: They're just sitting on it. Doris Flores-Brooks: Companies like Microsoft and Apple are just... Maggie Ralbovsky: Well that has been they're motto, they need money to jump into the market place to buy companies and to insulate themselves from recessions. What I'm talking about is all the liquidity created in the banking system and banks as Gerry (Cruz) was saying, I'm not going to lend to the consumers, I'm going to buy securities. Wilfred Leon Guerrero: We talked about this where money is just being parked there, what does that mean, what do they do with the money? Gerard Cruz: They buy alternative, for example, we'll move instead of, hypothetically, $2 million dollars to Mortgage Loans Direct at 3%, we'll do a Freddie Mac pass thru at 4%, so we'll earn the same 4% but because now Freddie Mac's a Government entity, we have the full backing of the Federal Government so we'll earn that same 4% but not have to acquire the credit risk that we would have to require if we did a direct loan and multiple direct loans to get to $2 million dollars, we'll just take one bond. That an example. Wilfred Leon Guerrero: I don't know if we're talking about the same thing. Maggie Ralbovsky: We are. He's saying that here's the bank, the banks are having these opportunities to invest risk-less and that helps to keep the entire interest rate low for the entire economy which gives people the opportunity to borrow and do something else. So that's what liquidity does, liquidity creates this opportunity for people to basically buy stuff and that's stimulus.

Wilfred Leon Guerrero: Okay. You've been telling us that corporations sit on that money, they're just sitting on it, what does that mean, they just put it in the basement or what? Maggie Ralbovsky: No, when they're sitting on money they're investing in the market, they're buying instruments, they're not sitting on cash, green bills. Gerard Cruz: For example you have a company like Microsoft who is in the business of creating software and traditionally they spend a lot of money on research and development and manufacturing, when they put their money on the sidelines they're taking the money that they would otherwise spend on research and development and manufacturing and instead investing those funds with one of their investment managers, so they'll buy securities and keep that money liquid in anticipation of some other opportunity that comes down the way. So they're not deploying their funds in a manner that would stimulate the economy, they're just putting it in the market. Wilfred Leon Guerrero: But they're still buying securities. Maggie Ralbovsky: That creates a support to security pricing because everybody has to buy something. Gerard Cruz: But that's not what they're in the business for creating software and you can make the same case for GM or any one of the larger manufacturers, so instead of using the money to create jobs, create cars and stimulate the economy, they're taking cheap money and moving it into an investment account like a savings account, a glorified savings account to avoid the risk. Maggie Ralbovsky: Which creates an artificial support to all the security prices which is the liquidity rally that people are talking about, not a fundamentally strong growth driven long term rally, but it's a short term event. Doris Flores-Brooks: So it's that liquidity rally that helped the market? Maggie Ralbovsky: Yes. You see this strong rally in December, that's entirely a liquidity rally. Wilfred Leon Guerrero: Say that again? Maggie Ralbovsky: A liquidity rally was created in December partly due to the LTRO coming from Europe and

partly due to the Fed coming out to say, we're not raising interest rates until 2014, so you get assured you can borrow at very low rates and by this security you get a positive arbitrage, a risk-less arbitrage. Gerard Cruz: That's what we did, in December we took down almost $40 million dollars from the Fed at 5 year money at 1.2% so we can just park it and some of the Coast 360 is earning 1.6%, but who wouldn't do that? The Government is creating that kind of opportunity. Maggie Ralbovsky: That's right. That's also happening in Europe with the LTRO they're giving everybody 1% loans and you can go ahead and buy Greek debt for 10%. Gerard Cruz: That's why a lot of these companies are hitting their earning numbers and doing it without having to hire employees. Maggie Ralbovsky: And that's actually one reason why U.S. equity managers underperformed because a manager will tell you this is a total liquidity driven rally that we do not see where we can position fundamentally, especially managers like Eaton Vance they will be looking for securities that make sense for them to buy but a liquidity rally usually tends to lift everything, so there's no differentiation of good stock versus bad stock because they're all rallying at the same time, it's a macro driven sort of rally that can hurt certain managers, certain managers do not follow macro flows, for example then they can get hurt. So that will be the story they tell you why they underperformed.
(End of discussion on economic & capital market environment)

DB Plan Performance

Page 22 has the portfolio returns; the total fund returned 7.35%, that's the bottom line. Gerard Cruz: For the quarter? Maggie Ralbovsky: For the quarter ending December. I do have an update for January of which comes later. Gerard Cruz: So our total fund return for the quarter is 7.35%? Maggie Ralbovsky: This is for quarter ending December, so that underperformed the benchmark by 17 basis points which is pretty much in line. The portfolio obviously as we discussed before, is highly driven by equity market return so it highly correlates that, you can pretty much tell it is majority driven by that. Gerard Cruz: So this year we should be good. Maggie Ralbovsky: So hopefully we take the opportunity of this year to position for next year. Doris Flores-Brooks: When you say the 16th percentile, we're from the bottom? Maggie Ralbovsky: From the top so one of the best, 100 is the worst. Doris Flores-Brooks: So this was very good. Maggie Ralbovsky: It's a good quarter, it was in the 16th percentile for this quarter. Doris Flores-Brooks: So one is good and we're at 16 and 100 is bad? Maggie Ralbovsky: That's correct. Gerard Cruz: So we did well. Wilfred Leon Guerrero: It's very erratic, 2 quarters ago we were way up there and now last quarter it went up again. Maggie Ralbovsky: Exactly, that's the problem I want you to solve, to be more consistent, consistent not be driven by equity market return so strongly, but rather more balanced, risk allocated more balanced. Doris Flores-Brooks: You're saying we're too concentrated in... Maggie Ralbovsky: In equity. Doris Flores-Brooks: Too much equity and we need to diversify more.

Wilfred Leon Guerrero: I think you have our attention, I think would like to hear specific proposals from now on. Maggie Ralbovsky: I have specific proposals, as long as you help me a little bit, I have specific proposals I'm going to talk about tomorrow, very specific proposals. Maggie Ralbovsky: Remember I talked about buckets, I talked about risk parody like allocating risk equally to the equal 4 buckets, there is a strategy out there called the "Bridgewater All Weather Strategy," it was up 15% last year, the year before it was up 10%, every year it was double digits, even in 2008 they were up. That's the bucket approach, that's the risk parody, you allocate equally into those 4 buckets so it doesn't matter what equity does, it doesn't matter what the different risk factor does, you benefit from all these different factors and your portfolio is only benefiting from equity market strongly and when equity market doesn't do well, you don't do well, when it does well you do well. Gerard Cruz: If every market doesn't do well, the Bridgewater All Weather Strategy does? Maggie Ralbovsky: Some markets will do well. Gerard Cruz: But it's equally weighted across all... Maggie Ralbovsky: Equally risk weighted, not asset weighted. Gerard Cruz: How do you define risk weighted? Maggie Ralbovsky: For example, (bear with me a little bit) the stock market return expectation is 8% a year with a 16% volatility, the bond market return is expected 4% a year with a 4% volatility, (I'm using these numbers as an illustration it's not exactly) what if you want to equal weight the risk which means you lever up your bond market to 16% risk and then the return will be 16%, so the bond market equal risk weighted will return more than the stock market. That's the concept of the risk parody and you do this for every risk factor like the credit, like the inflation hedging which is the commodity, you do this mathematically. Gerard Cruz: How often do you change this? Maggie Ralbovsky: You change it constantly, you do this every day. Gerard Cruz: Who changes this concept? Maggie Ralbovsky: The manager. Doris Flores-Brooks: From what I hear you saying is that the kinds of bonds we have are, we don't have more riskier bonds in order to be able to... Maggie Ralbovsky: That's a different matter, I'm trying to explain the concept of risk parody. Risk parody basically says that you allocate your risk budget equally to the different risk factors and in the asset class that low risk you lever it up, you have to use leverage; however, you have to monitor your leverage every day because the risk factors change in the market. Gerard Cruz: And so do expected returns, right? Maggie Ralbovsky: Expected returns are actually constant because if you can target the 10% volatility for your total portfolio, you have a constant return target which has been proven to be quite consistent with these managers. Wilfred Leon Guerrero: Who is going to monitor it every day? Maggie Ralbovsky: The managers do. There are quite a few managers that do risk parody, the strategy has been around for 10 years. It has gone through cycles, 2008 was an asset testing cycle which has been proven to be quite rewarding, it was up 8%, in 2009 there were up maybe 15%, last year they were up 20%.

There are time periods that are very challenging, 2008 was very challenging because a lot of risk factors, risk went up, we had to de-risk, meaning they had to use less than one leverage, they kept in cash, they kept in... Gerard Cruz: So to deploy this strategy we need a manager of managers? Maggie Ralbovsky: No. Gerard Cruz: We still have the separate active managers? Maggie Ralbovsky: You have a manager that's called a risk parody manager, they manage risk parody in this way. Gerard Cruz: Okay, so we wouldn't change our entire complexion, we would just take a portion. Maggie Ralbovsky: Exactly. You need maybe a 10 -15% allocation into risk parody. It's across 4 buckets but they only use market indexes, they only use index funds to trade. There is no active selection risk there and it's very liquid securities, when you use leverage you need to make sure you lever up something that's liquid so you can de-lever immediately if you need to. They can de-lever in a day to less than one, they can move very, very fast in the market because they're using very liquid strategies. It's not your whole solution but it's part of the solution that stabilizes the whole portfolio instead of having this kind of swing... Joe T. San Agustin: How much do you need in the market? Maggie Ralbovsky: You need 10-15%, but we need to change the statute first, I need to talk to the Committee, I really want us to... Joe T. San Agustin: What statute, what language do you want to change? Maggie Ralbovsky: I have a whole pamphlet on the irrationality of the current statute. I want to have structured discussion on this thing. Wilfred Leon Guerrero: You're talking about changing the law. Maggie Ralbovsky: Yes, we need to change the law. Doris Flores-Brooks: We're going to do it without changing the law. Maggie Ralbovsky: The law is so... can we talk tomorrow about this? Wilfred Aflague: One quick question. Who in the manager's organization, in our money manager's organization adjust those risks, the risk parody? Maggie Ralbovsky: The best manager is called Bridgewater, but you have to give them at least $100 million for them to get on board. Wilfred Aflague: Now when you say the best manager, the best manager to do that? Maggie Ralbovsky: The best manager to do that is called Bridgewater. There is a second best manager by our ranking, it's call AQR, these are the 2 best...

I think I started to talk about risk parody a while ago and I'll be happy to reintroduce that topic but I've come to the realization that we need to talk about the statute first before we can move to any of these directions because the statute right now has all these contradictory, philosophically self contradicting clauses which I prepared a discussion for tomorrow. I will show you why, I don't think it makes any sense for some of the clauses to co-exist in the same statute, they contradict each other philosophically. Once we change this we will have a lot of other things we can do, I think there are some good things in this statute but there are some things that are not.

Let's move on. I have the returns of different sectors on page 23, short term and long term. Gerard Cruz: We're slightly off our benchmark. The benchmark you use is just the blended of all our... Maggie Ralbovsky: That's correct. Doris Flores-Brooks: But overall being in the 16th percentile though it's good. Gerard Cruz: Absolutely. Doris Flores-Brooks: Even though we have this strategy it's good over all. Maggie Ralbovsky: Wait, in the context of a 12% rally in the market. Doris Flores-Brooks: Oh I see. Maggie Ralbovsky: Remember last quarter you were in the 90's percentile because it wasn't a context of a tanking quarter, that is the risk you are committing to. You're committing to a singularly betting on the stock market return which is the strategy that you have been pursuing and what I'm trying to say is that the world may turn out to be very different that you cannot rely solely on that risk factor, you have to consider the other risk factors that you're actually ignoring right now basically. Joe T. San Agustin: Well because historically the statute has been geared towards stocks. Maggie Ralbovsky: That's right. Can I just go back a couple of pages, I want to show you a couple of numbers because it's relevant. Wilfred Leon Guerrero: What page? Maggie Ralbovsky: Page 13, I want to go back to page 13 and 15 to show you the sectors right now you are not participating in. Page 13 I want to show you the circled portion that says Barclays High Yield Index, this is the junk bond sector and you can see that for 3 years it was the best performing asset class for 10 years it is actually tied with treasuries as the best performing asset class with much less volatility it's quite consistent. If you look across the board it's single digit annualized return with the exception to 3 years is 24%, so there is a merit for this asset class and I don't want categorically to say no just because it's called junk bonds.

Another sector I want to point to your attention is on page 15. On page 15 I circled 2 portions, one is emerging market equity portion, the top circle is emerging market equity which you currently allow to invest in, in your statute. The second is called emerging market EMBI Global, that's emerging market debt which you currently do not allow to invest in. Look at the returns in the long run, very similar returns; however, the bond portion actually has much more consistent returns, which means less risk, less risk, similar returns, why would you allow the other investment without allowing this investment, it's illogical.

Maybe we should move to page 27, this is the asset allocation compared to the policy, the actual versus target, the actual versus the policy target. We are very much in line with the target, we do have a little under weighting in international equity, that's mainly because of the market movement this quarter., international equity has significantly underperformed domestic equity, that explains why that has discrepancy there, I'm sure you're rebalancing that on an ongoing basis. Wilfred Leon Guerrero: I take it you're not going to be proposing any changes in asset allocation? Maggie Ralbovsky: I said we're going to discuss that tomorrow. I said we need to change the statute before we move anything. Joe T. San Agustin: We're in the 16th percentile based on the current asset allocation... Maggie Ralbovsky: For this quarter, when the equity market was up 12%. Paula Blas: But last quarter we were in the 94th percentile. Joe T. San Agustin: So we went from one extreme to another. Maggie Ralbovsky: Yes. Doris Flores-Brooks: That's too much of a yoyo, from low to high, too much swing. Maggie Ralbovsky: Too much concentration in the equity risk.

Page 35, U.S. equity, here are the summary highlights. Atalanta Sosnoff underperformed by 342 basis points for this quarter and that actually has continued for January, they were terminated. Gerard Cruz: Any reason why? Maggie Ralbovsky: They took too much one kind of bet, took too much on one kind of bet and it just didn't turn out, I think commodities, they were too concentrated their portfolio, it just doesn't fit the core portfolio. The manager was replaced by the BlackRock Index Fund which was funded in the first quarter. The 2 growth managers both underperformed although to a lesser degree than Atalanta Sosnoff. We still think highly of these 2 managers that have a near term underperformance. As I said earlier it was a liquidity driven rally for this quarter, so most managers underperformed. Robeco and Numeric are the 2 managers who outperformed, the other managers underperformed. Doris Flores-Brooks: What does focus mean? Maggie Ralbovsky: Focus list is a good list. Paula Blas: Focus, they're on the honor roll, top list. Maggie Ralbovsky: The MetWest you see underperformed this quarter, however the January return was good.

In the package I have a January preliminary flash and you can refer to the January flash to compare to the December numbers. You can see that most managers turned around for January, Winslow outperformed, Robeco outperformed, MetWest outperformed, Eaton Vance is the one that underperformed, I actually met with Nancy Tooke this quarter and she basically told me that the macro driven environment is very hard for her to invest in, she didn't think their investment process broke, she thinks the market is in a period where fundamentals didn't matter and they are focusing on identifying fundamentally strong companies but it just simply wouldn't work, the market ignores the fact that these companies are strong and all that and that's her explanation. Gerard Cruz: She's Numeric? Maggie Ralbovsky: No, she's with Eaton Vance. Eaton Vance is the manager we have on watch list and I did meet with her and you can see in the January report it's pretty bad, since inception they have underperformed by 5% and even though it's a short time period I do want to make sure we give managers an entire market cycle to evaluate them upon but this is a pretty significant underperformance for the past 2 years. I think that's the most problematic manager in the portfolio, they are on watch. Numeric is on watch for organizational reasons because remember that person that came to present to us actually left. Paula Blas: He's leaving in March. Maggie Ralbovsky: He's not there, he's leaving in March only for the equity vesting thing they're doing so he really isn't working anymore. They're on watch for that reason but their performance has been strong and it is a quant strategy. Joe T. San Agustin: You don't think by him leaving it will change their strategy? Maggie Ralbovsky: Because it's a quant strategy so it's as important for a quant strategy versus a fundamental strategy. I think these are the 2 managers on watch, I do feel good about Numeric, I do have concerns over at Eaton Vance, it seems to me like different months, different market environments they continue to underperform. No recommendation changes at this point. Doris Flores-Brooks: You're not going to recommend Eaton Vance? Maggie

Ralbovsky: No, because it's so short I want to give them at least 3 years, it's a short time period, but they continue to be on watch.

I want to show you page 38. Page 38 is something we are in the process of correcting but I do want to show you a snapshot in the December quarter which is the capital letter X. Letter X is the composite which is the combination of your U.S. equity managers and the goal is to move the X to the cross here and you can see it's pretty far away from the cross here, 2 main reasons, number one is Atalanta Sosnoff which is suppose to be the core manager but it's growth which is the capital letter A which we are in the process of correcting. The second reason is actually M, you see the MetWest is suppose to be your value manager is plotting very core and that is something I think this manager does drift, usually they're in the value space but right now they're plotting core, so I do want to make sure we understand this manager is plotting off base right now. Eaton Vance is a little bit to the growth side, they have always been to the growth side, they have that bias, but MetWest is not suppose to be plotting that core. Gerard Cruz: But they're not consistently right? Maggie Ralbovsky: They're not consistently core. I do expect them to move back to value, they're probably just avoiding the banking sector.

I'm going to move on to talk about the separate managers, I think we pretty much talked about them. The detailed returns are here, we also have the January update here. So Eaton Vance continues to be on watch and everything else seems to be doing okay.

I'm going to move to non-U.S. equity on page 43. This is a sector that has done very well this quarter with the only underperforming manager being Capital International which you're going to hear from today, but they only underperformed by 49 basis points. I do know historically we have discussed whether this manager has become too large and usually emerging market strategies close out and $8-10 billion dollars assets under management and this manager has $50-60 billion dollars in their strategy, they still keep running which people have observed their behavior of focusing on large cap emerging market stocks just because they couldn't get enough in the small cap space to make a difference, but given the fact you have a dedicated international small cap manager and given the fact you can hear their stories, they have multiple managers, they segregate their portfolio to different portions, they can overcome that factor. I am dubious, I have this doubt whether you can just entirely ignore the small cap space in emerging market and still do well, but they have a story to tell, I think they deserve a chance to be heard. Gerard Cruz: Capital, they're getting pretty large. Maggie Ralbovsky: Very large, that's my concern, they have like $50-60 billion in that and they also have American Funds which I think is in your DC Plan. Gerard Cruz: No more, we moved them, we replaced them. Maggie Ralbovsky: They have experienced a lot of problems with people firing them, they lost a lot of assets in the past 3 years. Gerard Cruz: Because of their size? Maggie Ralbovsky: Because of their size and their underperformance. A lot of people really come to the conclusion they want the niche, if you hire an emerging market manager you want a manager that doesn't just buy Samsung, you want a manager that really understands the different... Gerard Cruz: What would be their replacement? Maggie Ralbovsky: For emerging markets, for example there is a manager called Genesis that's located in London, another good manager we rank really highly is Aberdeen. Gerard Cruz: How about Templeton? Maggie Ralbovsky: No, Templeton is very value oriented, Templeton is an okay manager but I wouldn't say it's our highly recommended. Gerard Cruz: Aberdeen? Maggie Ralbovsky: Aberdeen is great.

Okay where were we, when talking about these managers I think we will see all of them today or tomorrow. Gerard Cruz: Some today. Maggie Ralbovsky: Some today, some tomorrow. The Dimensional is your small cap manager, I think it's the highest ranked international small cap manager. Gerard Cruz: But they're ones that just buy the entire market. Maggie Ralbovsky: Well sort of, they're enhanced indexing sort of thing, they don't buy the entire market, but they try to supply the liquidity so they don't trade to demand liquidity but they trade to supply liquidity which gives them the opportunity to trade at positive trading costs in their view. Gerard Cruz: What about Fisher? Maggie Ralbovsky: My concern with Fisher is they do not have a dedicated international research team. They have the same people basically doing U.S. and international, basically like a global sort of platform. Resource-wise I do think it's shy from some of the dedicated researchers out there. They do have some things going for them, they seem to be at the sweet spot in terms of asset growth. Gerard Cruz: Why is that? Maggie Ralbovsky: You can't be too large, when you become too large your hands are tied. Gerard Cruz: Oh, they're at a sweet spot in terms of where they are now in terms of their assets under management. Maggie Ralbovsky: That's right. You cannot be too small either.

We do like Earnest Partners, it's on our focus list because it has a very strong research culture and their research analysts are all hired from the field they're covering so somebody covering medical devices, this person was actually in the medical device field so they have this kind of tradition which we do think gives them an edge in catching the things many people may not be able to catch and we want to identify the competitive advantage that's sustainable for a company so we can have confidence in them and I think we do identify that with Earnest Partners and with Dimensional. Dimensional has this really, you know the philosophy of Fama French, which you probably know is the Chicago business school professor who started this company that has a theory, efficient market theory that if you do not identify otherwise you hold the market so there is sort of enhanced index manager, at a small value very consistently through the time, so we do think that's their competitive advantage.

For Capital International that's the thing we have a question mark on is whether they have lost their edge. Wilfred Leon Guerrero: On Capital International you have concerns about their assets under management? Maggie Ralbovsky: That's right. Wilfred Leon Guerrero: What is that? Maggie Ralbovsky: Why is that? Wilfred Leon Guerrero: What is it and why? Maggie Ralbovsky: Emerging markets there are 17 of them, many of them are very small illiquid markets, the large ones are actually like China, Brazil, Russia, India, those are actually bigger ones and you have very, very small ones which include Egypt and small countries, very illiquid securities, small securities and if a manager becomes very large he simply cannot buy certain markets because it cannot buy a security in Egypt and make any difference for the $50 billion dollar portfolio so they tend to focus on large markets. I neglected to say the largest 2 markets are Taiwan and South Korea in that index and those 2 accounts for 30% of the index. When a manager becomes very, very big they tend to focus on these large markets and Samsung Electronics tend to... like Taiwan Semi Conductor are the poster child's of these holdings that actually develop at market holdings, if you think of Samsung Electronics and Taiwan Semi Conductor, they are global companies which makes them more correlated with the other parts of the market which decreases the benefit of diversification because you want to have an emerging market allocation because you are hoping to increase your diversification and if a manager get so large it focuses on the largest part of this market place it tends to correlate more with developed markets, it tends to reduce your ability to diversify. In this sector we tend to like niche managers like really focuses on the smaller markets and not getting so much exposure to the large market. That's why people tend to cap their assets under management to $10 billion but Capital is the company that does not subscribe to that theory, they just think they're multi managers they can grow forever, that's why we have concerns. Wilfred Aflague: So they kind of outgrew their jeans. Maggie Ralbovsky: They tend to focus on the larger parts of the emerging markets. If the large parts do well, they do well, if the large parts don't do well, they don't do well that's basically it. They didn't commit enough sin for people to just fire them, it's a mediocre manager.

Here's our style map corresponding to the U.S. market. You see your composite is the gold football, that's on page 35. The gold football is your composite which is a combination of everything and the benchmark is the cross, the X that's in the middle. You can see that style-wise you're very neutral, you do not really have a growth or value bias but you do have a small cap bias in terms of comparing to the benchmark which I'm okay with, I do think mainly because Dimensional was very small but that's intended for being small and I do think small cap bias in the international market may help you if there is a small cap premium that's being pretty strongly being observed in the international market. So I'm okay with that even though I do think we should be aware of the small cap bias there. Bottom line and there are no recommendations for this sector either.

I do have a recommendation for the bond market but it's not a very strong recommendation. We have 3 managers in this composite, they're actually being benchmarked against the same benchmark so they are doing the same thing, hopefully. Franklin Templeton underperformed by 31 basis points. Gerard Cruz: This was an issue with them last time too, right? Maggie Ralbovsky: Yes, the MF Global, they did sell it. The MF Global issue obviously is a very disappointing issue because I do think they got in really late, it isn't something they held on to for a long time, it's like... Gerard Cruz: They should have known. Garcia Hamilton will do good in this bond market. Maggie Ralbovsky: Because it's high quality. Gerard Cruz: It's super high quality. Maggie Ralbovsky: Garcia Hamilton also has a pretty low fee they charged and it seems to be sticking to their... Gerard Cruz: I think they're small. Maggie Ralbovsky: They are small, they're very small. Gerard Cruz: But they're good. Maggie Ralbovsky: They're good in certain market periods. I can't identify they are where they are, I can't really give them the benefit of the doubt.

For Franklin (Templeton) it's a huge organization covering the entire global sectors, but you're using them for a core bond. If you're using them for a global bond portfolio I think it seems to be more logical because it's a global bond manager and you're using them for a small portion of that whole thing and they just didn't seem to historically be adding value in that portion, they add value in the different sectors that you don't participate at all. That's where I'm coming from, but as I said, it's a weak recommendation, take it or leave it. Wilfred Leon Guerrero: How come you're not recommending that Franklin Templeton be replaced? Maggie Ralbovsky: I said I have a weak recommendation here. (Did you read comments here), I recommend considering using an index fund as an anchor for the portfolio. Wilfred Leon Guerrero: I still don't get it, what are you reading? Maggie Ralbovsky: I'm reading the last bullet point on page 49. If we want to consider having index funds in major asset classes to... Gerard Cruz: No. Maggie Ralbovsky: Okay, so let's move on. Wilfred Leon Guerrero: Part of the problem is you're having a private conversation and I didn't even know what you were talking about. Paula Blas: No, we were reading this here. Maggie Ralbovsky: And it wasn't very popular. Paula Blas: She was saying the recommendation is not a strong recommendation. Wilfred Leon Guerrero: But you're saying they've been underperforming since inception? Maggie Ralbovsky: They have been for this quarter, if you look at it, Franklin Templeton underperformed by 22 basis points it's not... let me look at this quarter, 60 basis points. Wilfred Leon Guerrero: No, look at the one before that, before the last... Gerard Cruz: Is this a correct statement? Maggie Ralbovsky: Yes, on page 53, they underperformed by 60 basis points since inception, since 1992 and that's a very long time.

Every year on an annual basis they have underperformed and every period they're underperforming. Doris Flores-Brooks: Well how come you're not recommending to get rid of them or to replace them? Maggie Ralbovsky: That's really a much less time period, 2008 versus 1992, if you give somebody 20 years and they haven't outperformed... Doris Flores-Brooks: So how come your recommendation is not to get rid of them? Maggie Ralbovsky: I have a recommendation and I know there's going to be a hurdle and I'm not strong... Wilfred Leon Guerrero: What's the hurdle? I don't understand this. Diana Bernardo: Why are you saying this is a weak recommendation? Maggie Ralbovsky: Because it's not a, for fixed income market either way you're not going to expect a huge difference because a manager may outperform by 20 basis points a year, that's a good manager, so if you switch this or not is it really the biggest bang for the buck, it really is not, but if it's up to me I think you need to have an anchor and this manager is not performing, why do you pay the active fees instead of having a passive manager there. Joe T. San Agustin: So what is the hurdle? Maggie Ralbovsky: The hurdle is this manager has been with you for that long and they didn't really... Joe T. San Agustin: This doesn't give them tenure. Gerard Cruz: They were Fiduciary Trust before. We need to be fair in how we compare them because we switched their index, they were a long duration manager for the first part of our relationship and in 2003 we switched their index and made them an active duration manager, so we need to since inception if we're going to use that as a basis for performance, we need to make sure that we are using the correct index for the periods that they were under different mandates.

Joe T. San Agustin: From 2003 how have they been performing? You need it from current events, not just way back. Gerard Cruz: Correct. Even if you go 5 years or 2001 which is a fair year, they were under by 37 basis points and the last 5 years they were under by 4 basis points. Joe T. San Agustin: Is that enough to make a change? Gerard Cruz: I don't know if it is or not, but Franklin is the one that brought to our attention how the other managers were out of compliance on their purchases which made us go in to the Legislature to make the change on the law. It could be that their underperformance was a result of them sticking strictly to our investment guidelines whereas other managers were not and the fact that other managers were investing in investments that were non-compliant made them outperform the benchmark. Joe T. San Agustin: I have to consider that what you're saying that they underperformed because of the statute of limitations. Gerard Cruz: Well they were strict in not investing in, for example, commercial mortgage backed securities, because of their interpretation of the statute, they were clear in limiting the Freddie Mac and Fannie Mae, the GSE's, the passthru certificates, their concentration in those securities were limited because they didn't define the GSE's at the time as Governments whereas the statute allows an unlimited amount of Government, those securities that are considered Government instrumentalities, they didn't consider the GSE's as Government instrumentalities which is the correct definition, they're not and until we made the change in the statute to clarify that, when we say GSE's we also meant Government instrumentalities to be synonymous. My point is, they were strict, their compliance department was strict to the definition and they brought it to our attention and so we had to tell at that time, IRM and Aberdeen to cease on their exposure in those specific securities because of our concern of them being out of compliance which ultimately led to the settlement with Aberdeen because they were investing in non-compliance certificates. That's my case. Doris Flores-Brooks: But what I hear you saying though is that we've had Franklin Templeton for almost 20 years and it's underperformed overall consistently for 20 years. Maggie Ralbovsky: But Gerry (Cruz) was saying this may not be a fair benchmark because we give them all the guidelines that were very restricted. Doris Flores-Brooks: But the one I'm concerned about is Income Research which is the new the new kid on the block and it's lost 4%. Gerard Cruz: Since inception and that one required Aberdeen's rollover. Doris Flores-Brooks: So they got the junk so it's really going to be a while. Gerard Cruz: They got securities that they shouldn't have ever invested in. Wilfred Leon Guerrero: Actually they did us a favor, they could have sold the whole thing. Gerard Cruz: Right, that's true. Doris Flores-Brooks: So at least in this quarter they finally kind of turned around a little bit. Maggie Ralbovsky: So that's why I said it's a weak recommendation, it would be better to control the active risk in my view for the portfolio, but really it's not going to make a huge difference. Gerard Cruz: We should hold their feet in fire because they are underperforming. Maggie Ralbovsky: So you want to put them on watch? Gerard Cruz: Sure, it doesn't hurt to put them on watch.

Wilfred Leon Guerrero: So now can you explain your recommendation? Maggie Ralbovsky: My recommendation which was consistent with my previous recommendation which is for every major asset class composite to have an anchor. We always subscribe to the core and satellite approach. Wilfred Leon Guerrero: What do you mean by anchor? Maggie Ralbovsky: A core is an anchor for the portfolio which means you do not take active risk, you have a passive managed core which stabilizes which stabilizes the portfolio's... Diana Bernardo: Are you saying you're going to take money from these managers and put it in to this, is that what you're saying by anchor? Wilfred Leon Guerrero: You buy index funds, is that what you're saying? Maggie Ralbovsky: Yes, you buy index funds for a portion of every composite then you build around the index fund with good identifiable skilled managers as the satellite to round out this whole portfolio. That's the capital budgeting, that's the active risk budgeting sort of approach which is to say you have an anchor to anchor your active risk taking and you have the satellite managers.

I have in the past, I think I presented to the Board what if you had a 5% allocation of fixed income, of the total portfolio for fixed income in index funds and build it around it, it actually does not compromise your total alpha generation, in history you actually save on cost which is an approach, if I build a portfolio from scratch I would have done that. Rosalie Bordallo: Okay, I think that issue was also brought up but you say we're saving on cost if we were to take a portion of the portfolio in the bond section and use an index fund, you right now stated that Garcia Hamilton have a really low cost management fee. Maggie Ralbovsky: Well it's still higher than the index fund, the index fund gets 3 basis points. Rosalie Bordallo: Okay, the one you're recommending? Maggie Ralbovsky: Yes. Rosalie Bordallo: Well there are different index funds. Maggie Ralbovsky: The BlackRock, we already have U.S. equity there. Wilfred Leon Guerrero: Can you just be specific? Maggie Ralbovsky: I thought I was very specific. Wilfred Leon Guerrero: No, whatever it is you want, take 5% of the... Maggie Ralbovsky: No, I want to take money from Franklin Templeton and reduce their allocation significantly and put the portion in to... Wilfred Leon Guerrero: Reduce it by what percentage? Maggie Ralbovsky: In Franklin Templeton you have $126 million, it's 10% of your portfolio, I'm talking about taking 5% from your fixed income and putting it into this index fund which means reduce the Franklin Templeton allocation by half. Rosalie Bordallo: The index that we're using is not the mandate that the person had earlier in that period, it's like changing the ballgame and then trying to rate the guy based on the new rules. Maggie Ralbovsky: Yes, I take that, I think that's a fair argument, at the same time as I said, build a composite from scratch I would have a core and I would have the satellite managers around it and since the manager has been underperforming, take a portion out of the core, that was my recommendation, but I also said it was a weak recommendation because I don't think it's going to make a huge difference. Wilfred Leon Guerrero: I think it's something that needs to be addressed so let's take care of it. Doris Flores-Brooks: He's leaning towards your recommendation, he wants more discussion on it. Wilfred Leon Guerrero: I think that you can work with Diana (Bernardo) on a percentage of those things. Diana Bernardo: Maybe Maggie (Ralbovsky) you can do this, based on your recommendation be more specific, for example say, if the Trustees chose to go with your recommendation indicate exactly what changes would occur, you could say it that way. Maggie Ralbovsky: If the Trustees agree to the recommendation, I'd like to take 5 percentage points in allocation to fixed income to BlackRock Barclays Agg Index Fund.

Rosalie Bordallo: Can I ask a question? Is there only one index fund out there? Maggie Ralbovsky: No. Rosalie Bordallo: Okay, so how can we recommend a specific index when there are other index funds? Maggie Ralbovsky: Because it's the cheapest and it has the lowest tracking error. Rosalie Bordallo: (You're the procurement person) If there are other candidates out there, can we just arbitrarily decide to take this. Doris Flores-Brooks This is not a procurement issue, this is a management issue. The Board has its flexibility in its movement to decide where... Joe T. San Agustin: We're not changing managers. Doris Flores-Brooks: Yes. Paula Blas: Even Legal (Counsel) said it wasn't an RFP. Gerard Cruz: We're just moving from one to another. Joe T. San Agustin: So you're looking to cut... Maggie Ralbovsky: Franklin (Templeton) by half to fund an index fund. Joe T. San Agustin: Why just half? Maggie Ralbovsky: Well first of all, I don't think we can move the entire thing, we have a 30% limit based on the current statute for commingled funds budget.

Gerard Cruz: Our mutual fund bucket in commingled funds has a 30% cap so if we create a new one and move too much then we do not have a place to park funds if another manager blows up. Maggie Ralbovsky: That's right, so I don't want to use up all the capacity for fixed income index, but I do believe there is a reason to have an anchor especially to facilitate rebalancing and stuff like that and lower cost especially when a manager isn't performing that strongly. So that's my rationale to make the recommendation and I think I made that recommendation before which I think was at the second meeting, I actually did a what if analysis on this index fund exposure historically. You actually would have been better off, both in returns as well as in fees. Joe T. San Agustin: But if Franklin (Templeton) does improve after that, what then? Maggie Ralbovsky: I would not go back and take the money away from the index fund because it would still need an anchor for the portfolio. Paula Blas: So, you're basically saying your recommendation is to take 5% from... Doris Flores-Brooks: The total allocation is 50%. Maggie Ralbovsky: 5 percentage points. Doris Flores-Brooks: Which represents 50% of Franklin (Templeton). Paula Blas: But 100% of that is coming from Franklin (Templeton)? Maggie Ralbovsky: That's right, that is the recommendation.

Wilfred Aflague: Can I go back to the Chairman's question, what is the anchor? What does that exactly mean for the portfolio? Maggie Ralbovsky: What does anchor mean? Maybe I will address this again, I thought I actually provided an active risk theory. There are 2 kinds of risk in the market place, one is called the beta risk, one is called the alpha risk. The beta risk is the asset class risk, by being in the asset class you already have that risk, it doesn't matter what manager you choose, you have predominant risk in an asset class is the beta risk. Now if you just want to get a beta risk, the market return, you do not need to hire a manager to actively manage the money, you just have to buy index funds, so if you have no view as to whether skills can be identified in any asset class, your neutral position is to buy an index fund to get your asset class allocation in place, that's the beta risk. Now there is a belief that in certain asset classes alpha can be identified, meaning if somebody is skillful they can identify securities that can do better than the asset class as a whole and that is called active risk, in other words it's the alpha risk.

When designing a portfolio our philosophy is to have a beta anchor then you build around it alpha satellite, so that's the core satellite approach then your entire portfolio you can control something called the tracking error, the tracking error is the alpha risk target and usually people will want to control that 3-4% at maximum, usually for fixed income people control that at 1% alpha risk target. With an index fund as an anchor you have a better ability to control that because the active risk sometimes is not paying off. Doris Flores-Brooks: So that's what your fall back is. Maggie Ralbovsky: Yes, the fall back is the anchor. Doris Flores-Brooks: Because if the other managers don't perform at least you're still within the index. Maggie Ralbovsky: That's right. The reason I only recommend to take money away from Franklin (Templeton) is because Franklin (Templeton) is your most diversified manager, it has hundreds of securities that's very much like a closet index. The other 2 managers are actually more niche managers like we discussed, the Garcia Hamilton is focusing on a certain quality so it's more like a satellite manager, it's not a core manager. Income Research is also a satellite manager because this manager forever under weights Government, the manager doesn't hold Government securities, it forever has value either in the mortgage sector or the CMBC sector or the corporate sector and if you look at Franklin (Templeton) it's forever a closet index manager. Gerard Cruz: But can you answer the question about whether or not the performance report takes into account the change in their mandate? Maggie Ralbovsky: Well no, I'm comparing them with the benchmark.

It is a fact that Franklin (Templeton) is a manager that doesn't really add value in the core sector, if you hire them for global bond they're a great manager in adding value in the different global bond sectors, credit sectors they do not tend to add value into core sector which is what you're hiring them for. Gerard Cruz: But you keep saying that but we have them weighted on the same mandate as everyone else, so if you're going to say that we hired them as a core manager and we're using the same benchmark for Garcia Hamilton and IRM then why aren't you making that same argument for Garcia Hamilton and IRM? Maggie Ralbovsky: I just made the argument why these 2 managers are not core managers. Gerard Cruz: So then are we using the wrong report card for Garcia Hamilton and IRM? Maggie Ralbovsky: No. Let me clarify, when I say I think you are saying a core manager using a core benchmark, what I'm saying is that these 2 other managers tend to be less, I hate to use "closet index" but Franklin (Templeton) is a closet index manager, you look at the allocation and it's a huge amount. Gerard Cruz: I understand what they are, I guess what I'm saying is that we are making a decision based on performance, based on their performance. Maggie Ralbovsky: Well performance is part of it but also on the structure. Gerard Cruz: Well based on the initial argument, if I go back to page 50, Franklin (Templeton) has underperformed since inception. Maggie Ralbovsky: In the U.S. equity you have the core, you have the growth and you have the value, in this we give everybody the same benchmark. I understand exactly what you're saying, but what I'm saying is they have different approaches to track that same index and Franklin's (Templeton) approach is more a core manager approach, the other ones are more like satellite managers because Garcia Hamilton never holds double A, single A securities, Income Research never holds treasuries. Gerard Cruz: My recommendation is initially to put them on watch. Maggie Ralbovsky: Okay, I'm

not against that, you stated your case and I stated my case, we can come to this middle ground and put them on watch. (End of tape 1)
(End of discussion on DB Plan performance)

1:30pm–2:15pm Capital International

(Start of tape 2)
Wilfred Leon Guerrero: Thank you for coming, we appreciate your time. You have 45 minutes for your presentation, we would like for you to lead the discussion on it. You can talk about anything you want to, but we're interested in your performance, we're interested in any changes you have in your personnel, any issues with any of the regulatory agencies, but other than that you can talk about anything you want to.

Mark Speciale: Well perfect and that's the line up we had in mind as well. What I thought we'd talk about today is just to give you an update on the portfolio on the results on our team and really also talk about the future, sort of how we're positioned and also what we see coming your way also in terms of the global environment because I think as we've all seen over the last year or so it's been quite an interesting environment in the financial markets. I would think that's going to take about 20 minutes and we'll leave a lot of time for questions as well and we welcome any kind of questions that you have for us so please stop us.

First of from my side it's great to be back here, I see a lot of very familiar faces because I was the person who worked with you way back when you put this mandate in place back in 2005 and I remember our first portfolio review when everything had gone very well in the portfolio, the results were way up and I remember clearly saying to you this is wonderful but we're going to have periods also where we have underperformance in our portfolio as well, so let's remember this period and let's also carry that over to this other period. This is exactly the kind of time I'm talking about, this has been a difficult year for us, I'm not going to sugar coat it at all and we're not please at all with the results, we should be doing better for you and what I can assure you is that everybody on the team is very much focused on every aspect of our process and every holding in our portfolio where there has been concerns about a stock we've eliminated it, but at the same time where we've had a stock that's underperformed we've either reconfirmed that's something we want to have or we've added to that position as well. One thing that we can certainly assure you about is that the team that we have, the resources that we have in terms of the research team as well, it's not just that I'm from Capital (International), but it's probably the most experienced team in the industry and in an environment like this as uncertain as it is I think that this is exactly the kind of team you want to have working for you.

So with that as a start, let me open the book to tab 1, page 4 and 5. When you had asked us to come for this review, you had said primarily all the periods were through September and so we've added that here but we've added through year end as well because the reality is September feels like it's a bit ancient history so we want to make sure we provide you the information you need for your reporting but at the same time we want to make sure that we adjust things to reflect kind of where things are in the real world since so much has changed.

If you look at the results here I have 2 sets because we tend to use 2 different benchmarks, the MSCI EM Index which is the more standard index and the one on page 5 is the MSCI IMI, or it's the other way around, the one on the top is the IMI and the one on the bottom is the more standard index, the EMI. The reason we've added in the IMI is because it's a broader index, it's one that has a lot more small cap stocks and smaller capitalization stocks and in a way we think that's a better fit for the way that we manage our portfolio. One characteristic of our portfolio is that we tend to have allocations throughout the market cap spectrum and we tend to be overweight a bit to the bottom 2 quintiles, to medium and small cap stocks rather than the large cap stocks and that's really a function of our research process. What you can see is that depending on the index, let's just use the standard EM on page 5, we underperformed through that September period by 4.5%, so 450 basis points if you look at the one year through September and we underperformed in an environment where you had the market down quite a bit so you look at the year to date period the market was down about 22%. That's actually quite rare for us to be underperforming in a down market but it is truly a function of the kind of positions that we had in the portfolio.

What I'd like to do is turn to tab 4 and this picks things up for the 4th quarter and what you can see on page 28 or we can look at page 29, either way on 4th quarter and what you can see against the IMI we outperformed just a touch in the 4th quarter but the key point is looking at the absolute return of the index as well which is 3.8. Now I talked about our positioning, how are we positioned in our portfolio right now. What I would say and what impacted us last year, 2 things, first off as you would expect as a bottom up stock picker some of our stocks didn't work out during that time period, but also the overall complexion of the portfolio was towards economic sensibility. We were more economically sensitive, you could say pro-cyclical, basically we were anticipating that the market would stabilize and start to move higher on the back of EM growth fundamentals and so you can see very clearly and the reason I like this page is when we underperformed in Q2 and Q3 much of it was that positioning and as soon as the market started to stabilize the portfolio started to do exactly what we wanted it to do which is start to perform a little bit better. Now January was a bit under, it was under the benchmark, January was an incredibly interesting month in that you were up over 10% in the market place. Capital if you look at the characteristics of our portfolios we do not tend to lead the market in issues where you have significant moves back in the portfolio. Just think of that 10% if you annualized it, that would be 120% per annum which is way too much which is just a huge rebound but now that the market is once again stabilized, we feel good about where we are.

Let's turn back to tab 1 and what I wanted you to look at was a little bit about our positioning on page 6 and on page 7. Now page 6 shows our allocations by country, but what I will caution you on in an emerging market portfolio these days it is almost impossible to look at the countries alone and figure out where your exposures are because of the kind of issuance you see. You can see that we have holdings in Canada, that's very much related to a lot of miners who list in Canada because that's where you have a lot of natural resource companies, but Ivan Howe Mines for instance, their sole property is in Mongolia, it just happens that they're listed in Canada. We have significant materials exposure in the UK as well but I think a couple of things that do come out from this, from these exposures and I think we're accentuated by the year end period, we are underweight places like Brazil, South Korea and Taiwan, we are overweight in areas like Russia broadly increasingly and this is the important part through the quarter, increasingly China. For those of you who have watched this portfolio for a long period of time, China has been underweight for a long period for us and we just always felt that the valuations were just too rich for us to really start taking purchases there. What you're finding now is that as the market has come off we are seeing some really good stocks at some very good prices and we started to add those to your portfolio.

The other area and Akira (Fuse) will talk about this and actually, I'm sorry I jumped right into the review, I should have introduced my partner here, so I'll say I'm sorry right off the bat. Akira (Fuse) is a new face for you, I think last time that we had an investment specialist here it was Annie Budden. Akira Fuse is our investment specialist but out of Japan and so I thought I'd have him come down here and Akira (Fuse) is an investment specialist and looks after these portfolios for us so I thought he'd be here to talk about the stocks a bit more. If you look at some of the stocks especially in the financials area, prices have dropped so much and we see some really good franchises with some great profitability going forward. If you look at the portfolio on page 7 a little bit more, where are our big over weights, telecoms, primarily wireless providers, industrials and as I've said, what we're moving towards is that underweight in financials which was underweight by about 4% is now only underweight by about 1% as we approached year end and this is what I mean by that pro-cyclical or the other way to look at that is we are not over weight the kind of things you think you would need to run to in a defensive environment, so those kind of stocks would be consumer oriented stocks like discretionary and staples to a degree and it would also be in areas like healthcare and utilities.

I think the message for you at the very high level is that our underperformance in the course of the year is as you would expect from our stock picking in many cases, but it's also from the positioning that we have in the portfolio which is in anticipation of the market stabilizing and starting to grow again which is exactly what we're seeing now.

Let me stop there to see if there are any questions otherwise I'll hand it off to Akira (Fuse) to talk a little bit more about the specific quarters. Wilfred Leon Guerrero: Remind us again, how do you go about picking new stocks? Mark Speciale: Sure and that's perfect, a good chance to talk that through. Let's go to section 2, page 14. Now if you remember from the start what we have is what's called the multiple portfolio manager system and what we do is we divide the portfolio into smaller, what we would say is more manageable pieces that are each managed independently by portfolio managers and then we also have a portion of the portfolio that's allocated to what's called the research portfolio, this is where the research analysts actually manage money and capital. The research portfolio we find to be a very powerful tool because what I mean is that when you're an analyst and you recommend a stock, it's very easy to recommend it and walk away and go home at night, it's another thing to recommend it and have it in your portfolio. Another thing is that everybody's bonus at Capital (International) is tied to their investment performance over rolling one, 4 and 8 year time periods. We think this is the best way to align our interests with yours, so if they underperform over these longer term time periods, they don't get a bonus so they are very careful about their portfolios and what they do. Each of these portfolio managers, you have 3 of them that are global, you have 2 of them that form a global group, Christopher Choe is in Asia, Lisa Thompson is EM ex Asia and these groupings each represent about 12-14% of the portfolio. Wilfred Leon Guerrero: And the division is by what, sector? Mark Speciale: No, they're global so they're just purely the top 4, Luis (Oliveria), David (Fisher), Shawn (Wagener) and Victor (Kohn) are global portfolio managers, they can buy anywhere, the other 2 are restricted a little bit by region and the 2 of them together form a global group as well, but each person creates their own high conviction portfolio. I was just with Victor (Kohn) earlier in the week so let's look at Victor Kohn who is also the mandate manager for this mandate. If you look at your portfolio allocations and we'll come to that, the top 20 holdings represent about 30% of the portfolio, that's about a double weight versus the benchmark, but in Victor's (Kohn) his top 20 holdings represent about 70% of his holdings and then he's got a small little tail of other things that he's looking at. So what we have, you often times hear in this business that people talk about, we have a high conviction portfolio or this portfolio only has 40 holdings or something like that, we do that as well, each of these PM's have a very high conviction holding it's just that we blend them together to create your overall portfolio which has about 270 holdings, somewhere in there, but the stock picking is a function of their own individual investment approach, each of them are very different in what they look at and they are free to create their own portfolios based on that style. Now the only way a position gets to be a big position in this portfolio is if there is overlap with a number of these guys on their holdings. When you have these smaller pieces it's usually only one portfolio manager and an analyst, but basically these guys are free to create their own portfolios and the reason it doesn't create a portfolio that is just way skew on way or the other is because their styles are very different. When you try to create your own multi manager structures when you blend one manager with another, in essence with Capital (International) we've already done that because the people's styles here are so distinctive in terms of how they try to invest their portfolio.

I will say just one thing, I mentioned at the start it, if you go to page 15, at the end of the day it's our research that makes the difference and it's our research that makes our portfolio managers comfortable buying a stock that may be a very small stock in the index and then holding on to it through a time period. I'm going to give you a really relevant example for your portfolio right now, Patricia Artigas at the very atop left, she covers a number of Latin America holdings but also covers specifically covers retailers. One of the stocks that impacted your portfolio the most in Brazil was a group called Hypermarcas and Hypermarcas is basically is a roll of a number of consumer brands that they put together and then combined into a coherent hold that they have, they distributed and sell it to different markets. Patricia (Artigas) knows this stock incredibly well, that stock was down 65% in the course of last year. Now you can either say, we need to run and get away from these guys or you need to say, do we still believe fundamentally that this is a company that's going to put the kind of profitability we're looking for on the boards and help over time. We decided to stick with that stock and it's purely a function of Patricia's (Artigas) recommendation and knowledge of these guys and that just runs through the whole thing, these analysts have been around for a long time, she speaks Spanish, she's from Latin America, she knows these companies very well and we have to trust them, but this is what drives everything for us.

So let me stop there unless there are any other questions? Okay, Akira (Fuse). Akira Fuse: I would like to --- on the portfolio and I'd like to explain why we underperformed to the benchmark and our analysis of the current status of the team and also I'd like explain our countermeasure to improving the performance. Firstly if you look at page 8, as Mark (Speciale) mentioned, our portfolio is diversified in all of the areas or countries, page 8 shows our diversified portfolio all throughout all of the industries. As you can see our portfolio has an overweight in materials and industrials, this is called pro-cyclical in the portfolio so that's why in the last year it was really difficult for us. If you look into the portfolio change compared to the December end of 2010, the portfolio has been shifting towards the materials and industrials and also in the telecom services because telecom services is very defensive and a very steady earner in the industry mix and I think this portfolio is well balanced compared to the pro-cyclical portfolio. One more thing I want to say is our financial position, this portfolio has had pretty underweight position, hugely underweight position in the financials --- crisis period in the Lehman (Brothers) ---, but gradually we are moving up to the financials and close the gap of the underweight position of the financials. As Mark (Speciale) mentioned, we are now interested in Chinese banks and investing in Chinese banks and narrow the gap at this moment.

Moving along to page 9, as you can see on the bar chart this page shows how difficult the last year (was) and you can see on the bottom of the chart the year to date return of the material industry and energy so called cyclical sector made more than or almost 25 or 30% of the netted return and as I said, telecom and consumer staples, healthcare, this so called --- was later --- better performed compared to the cyclicals.

If we move on to page 10, this is the top 20 of the portfolio at the end of September. I will not get in to each of the holdings at this moment but I would like to say this portfolio has 29% of the total portfolio with the 20 holdings. As Mark (Speciale) mentioned, the nature of the March portfolio manager system made the portfolio holdings pretty big because of the diversification merit and also each manager has a different preference of the stocks. As Mark (Speciale) mentioned, if we have a strong conviction on the top holdings such as Samsung, LG Chemical, Gazprom, Bharti Airtel, we have quite a big position in the portfolio, so let's say this portfolio is a really active portfolio versus the benchmark. Also if you look at the left hand side, there is a change in the ranking in the 9 months and if you look into the bottom half of the list there are lots of stocks moving into the top 20 from really low rankings. So this portfolio is pretty active and dynamic in a year and we reviewed the portfolio and we understood we are making lack luster results at this moment so we are seriously watching the top conviction and change the position.

Page 11 is notable purchases and sales to September. I will not explain each of them but I would like to introduce how Capital (International) looks at stocks long term with the fundamental views. As you can see on the top, the second purchase, the biggest purchase is Tele Norte Leste, this is an incumbent Brazil telecom company and it has a fixed line business. If you look at the bottom side, the top sale is America Movil, this is a Mexican mobile telecom operator. As you can imagine, the emerging market telecom operator had huge success because they did not have enough fixed line and the people are buying mobile phones to do communication, but the Mexican market is gradually moving up to the pretty rich level and they're saturation is pretty high at this moment so that's why we see rather Brazilian fixed line company will have an opportunity to make a big profit because Brazilian people are now strengthening their consumer power because of expanding national income and then they will move in to from just communication, voice to go into cable TV, internet connection and other services through fixed line business.

Wilfred Leon Guerrero: I'm looking at the sales that you have and keeping in mind the gasoline prices that we're experiencing, I think you sold your oil companies too soon. Akira Fuse: Petrobras, yes, that's the right point. At the end of September we had a really high price oil prices in the market and the share prices always quickly catching up to the oil prices so that's why we decided to sell down the position of Petrobras because the stock variation versus fundamental is pretty rich and then move into the Argentina YPF, this is another oil and gas company which is really cheap compared to the fundamentals. Mark Speciale: To your point, it's a great question because Petrobras is a huge stock in the index now and so we're really making a statement about our exposures there, but the big issue, you heard about this pre-salt drilling that they have, they've discovered massive oil finds off the shore in Brazil. The issue is that it's in 2,500 feet of water and it's also then very, very deep underground through a very, very hard salt formation for them to get to it. What we would expect over the next 5 to 7 years is that they're going to have to spend somewhere in the area of between $2-250 billion dollars to get out there, put down the wells and then go after it. The other issue is that they've changed a number of laws within Brazil so that you have to use local content. So now you're trying to build all these big rigs and using all the pipe that you need and you need very special pipes to do this, you have to have seamless pipes to be able to go into this kind of hostile salt environment and so we looked at it and just said, you know what, wonderful stock, great potential, huge oil and gas finds but between now and then they're going to have to spend a massive amount of money to get to it and so where we were before and where we are now is saying look at this expense and they passed these laws about local content which is going to make it more expensive and harder to get or harder to get the resources that they need to go after it and we just said, you know I think we would rather get out of the way. We'll keep a little bit of an exposure, there is still someone, one of the analysts potentially who is more involved, but the rest of it is, let's just get out of the way and go after other stocks that probably have better valuations and better opportunities in the near term which is sort of a great example of how we think.

On the flipside, you look at Gazprom here at the top, it's our number 3 holding, you can say, Russia, it's a difficult environment to operate in and it can be quite difficult politically let's say, but it is in the Government's interest to make sure Gazprom is successful and if you look at Gazproms profitability that it is still very solid but where they're basically selling gas domestically at cost, in fact a subsidized level to a lot of Russian industry and the trend right now is that they recognize they need to make that market base pricing and so you have a company at 3 times earnings like Gazprom versus other oil companies that are going to be somewhere around 8 times and you've got them now getting more profits coming their way because pricing is adjusting domestically and so you say, we like that energy space, we recognize this is gas versus oil, but we recognize that everything is becoming more energy intensive and more expensive, but I think we'd rather have our money over on the Gazprom side than on the Petrobras side.

Wilfred Leon Guerrero: Do you have an opinion as to how long the price of gas is going to stay up? Akira Fuse: Gas price, it's quite difficult, but long term we see a positive demand on gas because as you understand, the nuclear issue in Japan, Japan is a huge buyer of natural gas and on the flipside is... Wilfred Leon Guerrero: Is that what's driving the gasoline prices up right now? Akira Fuse: People are worried about Iran, Iran is developing a nuclear facility now and people are worried about if Iran is doing a stoppage of the homes ---, the oil price will shut down to maybe 200, so people are worried about those kind of things and the oil market is driven by the fears rather than the fundamentals at this moment. If you look into the fundamentals, the supply to global demand is enough actually. In the U.S. we have enough reserves for coping with stoppage of oil at this point, but people are looking at beyond, what's happening next, so that's the U.S. oil price is now above 100, so that links to the actual gasoline price. Wilfred Leon Guerrero: The nuclear incident in Japan, did it have an effect on the oil companies? Akira Fuse: Well, yes and no. Actually in Japan all of the electric generator is now rushed to buy natural gas because natural gas is more environmental friendly and also natural gas has a large supply compared to oil. If Japan wants to buy oil, we have to rely on the Middle East and the U.S. asked us to stop importing from Iran at this moment, so reliance on the Middle East should not be getting bigger, so that's why people are relying on natural gas because natural gas we have enough supply from Australia and Indonesia. Wilfred Leon Guerrero: So that's how Japan is coping with this? Akira Fuse: That's right. The important thing is how do we cope with the nuclear issue. Japan is relying on nuclear issue, nuclear energy supply by more than 30% and we now end up stopping all the nuclear power towards the end of April so we will face the shortage of electric supply.

Wilfred Leon Guerrero: What are the sentiments in Japan about nuclear power? Akira Fuse: Well that's a quite difficult question. Wilfred Aflague: Do they have a choice? Akira Fuse: I don't think so. If we get out of all of nuclear power we will face seriously shortage of the energy supply and also the manufacturing have to move out from Japan, hollowing out to maybe China, Indonesia, Thailand, Vietnam because we cannot secure enough supply of electric power. The people's sentiment is gradually changing because the Japanese Yen is moving back to the 80 level from the bottom is 75 and we're back to 79 at this moment and the corporate profit is rather healthy because the United States is gradually moving up and Chinese economy is also gradually coming back to a sustainable level, so the Japanese exporters are actually gaining better profit compared to the expectation. The people's sentiment is gradually coming back and getting healthy. Still we are coping with the tragedy in the North East area, but people are looking at beyond and try to look at the positive side.

May I have 5 more minutes? I'd like to explain our results on page 16. As Mark (Speciale) mentioned, we had a really tough year towards the end of September or towards 2011. If you look into the past 7 years I understand that the Government of Guam started business with us in August 2006, so middle of the booming year. As you can see year 2005-2007 was kind of a booming year for emerging markets and this was driven by liquidity and easy monetary policy and economic growth and also profit growth of the emerging market companies. Since year 2008-2011 as you can see we had the Lehman --- and the financial crisis driven the market. Throughout the 7 years I'd like to say we made positive results or performance through the stock selection work as you can see on the right hand side. Only year 2010 and 2011 we made a loss or lack luster result through the stock selection. We analyzed the reason for that and we observed we lost --- down in the small cap and mid cap area and also we made some mistakes in judging the economic fundamentals such as we misjudged the consumer price trend of China and also we misjudged some of the Indian political issues and also we did not expect lots of --- for exodus of the money from India, we didn't expect --- of the Indian Rupee, so that was 2 mistakes we observed, so that's why we decided to add some resources on our research side, particularly we added some analysts in the small cap and mid cap area to cover a wider investment universe and also we added some of the economists and researchers in China, we opened offices in Mumbai and Beijing in the past 3 years and we put 6 economists in the Beijing office to monitor the economic fundamentals of China and also semi-macro ---, industry trend, housing trend. So I believe this kind of counter measure will revive our research capability and going forward I'm looking at the market will gradually come back and our fundamental research will work in making profit to the client.

Moving on to page 17, this is the year ahead. We are coming off a very difficult year, last year and also we still believe we have lots of uncertainty going forward and emerging market is very sensitive to the economic growth trend, trade surplus and also currency movement, but there are a couple of things I'm sure, the first thing, the monetary policy is going to be pretty easy this year compared to last year but in China and Brazil and India already started to easing it's monetary policy because consumer prices are gradually coming down. The second thing, global low interest rate will impact the economic growth globally and also profit growth of the company. As you can see, U.S., Japan and Europe, all of the developed countries have really low interest rate policies at this moment, that will impact the economic growth ultimately. Finally, emerging markets really --- in terms of its financial budget or also trade ---, those sort of things. If you look into most of the developed countries, Europe, we had a really tough year going forward. U.S. is red in trade --- and also in budget --- and Japan is facing a really difficult period, we are now getting red in trade --- at this moment. China still has lots of reserves and of course their trade is always in --- and Brazil and some other countries had really strong fiscal spending power so that will support the growth of the economic fundamentals of the emerging markets.

Wilfred Leon Guerrero: The thing in China, John Deere, they're moving some of their operations back to the U.S., right? Where are they moving it from? What implications would that have for you if that happens? They claim they want to be closer to the market. Akira Fuse: There are a couple of things. Particularly in China it is very difficult to protect --- property, because all of the Chinese companies try to copy the best practice in the world. If you look into the Chinese high speed train, it looks similar, really similar to the Japanese --- train, because Chinese --- made some joint venture with the Kawasaki heavy steel, Kawasaki heavy or Mitsubishi heavy and --- which supplied techniques to build the train to China, but the Chinese people, joint venture tried to cut off the contract or the relationship in Japan and tried to build the train by themselves because they copied all of the --- property, but unfortunately they made a big accident last year. To answer your question, keeping the --- property is very difficult in China so that's why some of the companies want to come back to the original state. Particularly in Japanese companies, Japanese companies are rushing up to China to make products but all of the --- property related functions such as --- or technicians are kept in Japan so that is maybe an implication. One more implication is conviction, as you understand Chinese companies are really chasing the --- rather than profit so really they want to make the --- by discounting the product, so the U.S. and Japanese companies cannot compete against Chinese because they do not worry about profit, they can be at a loss maybe the next several years as long as they can get a big market and then they are now looking at making profit beyond 3 or 5 years later. U.S. and Japanese companies have investors and shareholders like us and we have to request high return on equity and that's why most of the U.S. and Japanese companies really have a difficult time with competing against Chinese companies. So, John Deere is really competing against Chinese agricultural related companies and Komatsu, Komatsu is excavator and --- that type of product making and they are really competing against China by keeping all of the --- critical techniques in Japan. Chinese companies can mimic the product but the function and durability of Japanese companies is a really different product, really different from China.

Mark Speciale: It's a great question and if you look at our analyst list we have a guy there named Dickon Corrado, the red haired guy, he's taller than I am, he speaks Mandarin fluently, a couple of other dialects, plus Chinese fluently and Japanese fluently and when we do research it's not sitting in Beijing, it's not sitting in Shanghai, it's going out to the West, it's going out to the country side to see what's going on, going to the factories and the --- cities. He wrote a report in September of last year essentially talking about your exact point, just basically saying that construction, that sort of building starts are down, construction is way down, the excavator market and the heavy machinery market is completely saturated by locals, they're essentially giving away their machinery with all these additional bonuses with no money down and payments extended out for 5 years or longer and it becomes a very, very difficult market for these guys to operate in. I wasn't aware of them pulling back their production. We definitely see an issue with heavy machinery, with building starts and with a lot of the construction that's going on and my sense is that carries over to farming as well as the local manufacturers have come in and really saturated the market with fairly cheap machines but they're locally built and that's a positive for the local buyers so it becomes tougher and tougher on all the fronts to compete.

Joe T. San Agustin: How much of our money is invested in China and how do we get our returns? How do we get money if it's difficult to get money out of China? 34 Akira Fuse: We have a total of 18 or 19% of the portfolio in China, but it is domicile in China, but the UK has a lot of business in China so I think with Chinese exposure through the portfolio is really bigger than 18 and 19%. Joe T. San Agustin: When you sell stuff to the states you get a portion returned, is that how you do it because I remember doing that, are they still doing that now? Let's say we ship stuff to the states, when they sell it, the settlement we get our money out of that rather than actual cash coming out of China. Mark Speciale: As I think of the stocks that you're holding, I think that we probably have 30 different stocks that we're holding in China, most of those stocks are far more domestically oriented than they are export oriented and so the way that they make money is actually as that economy, as the Chinese economy... Joe T. San Agustin: How do we make money because we have money there? Mark Speciale: You make money off stocks appreciating off low valuations. Joe T. San Agustin: But it's not giving me returns at all, it just sits there, I look at it, it's growing, but I can't get it out, it's like looking at a good picture. Mark Speciale: It's something to keep watching and talking about, although I think we've had decent returns. Joe T. San Agustin: Say you have $20 million dollars and it keeps on appreciating, so what, it's not getting money to me. Mark Speciale: We found if we want to liquidate our holdings, we can get our money, our money can move back and forth enough. The reality is the great part about your investment is you're in a pool and so the reality is that we're often times able to get the liquidity that we need.

Joe T. San Agustin: What are the mechanics of the issue? Mark Speciale: First off, a lot of your holdings are not in China at all, they're in Hong Kong for instance or they're in other parts. The other parts for where we do have the actual listings in China, you're right, we can repatriate the income if I understand it correctly, we don't necessarily repatriate the principle, but we haven't wanted to reduce our principle there based on our investment process. Joe T. San Agustin: The principle can stay there especially if it's making money, particularly 2 digit returns, but how do I get those 2 digit returns? You do it by Hong Kong? Mark Speciale: A big chunk of your stocks are outside of China or companies that have business exposures there. If we have a Hong Kong share for instance, we can move in and out of that stock freely... Joe T. San Agustin: So Australia and Hong Kong ---. Mark Speciale: That's correct, or UK or Canada or the U.S. Joe T. San Agustin: So that's where -- - by selling. Mark Speciale: Correct, yes by selling. Joe T. San Agustin: So I get capital gains basically. Mark Speciale: You get your principle and your capital gains. In China we have to retain the capital, the principle does have to stay, but we haven't wanted to change around our holdings in China and if anything we're adding to our holdings in China right now based on how much capacity we have there. Joe T. San Agustin: Despite what you're saying, suppose we want to get out? Mark Speciale: I'll follow up with you on the specifics on the mechanics how it moves. It's a good question, we've just never had an issue moving our money around the way we need to in China, but I can send back an answer.

Joe T. San Agustin: I recall several years ago --- stock and trade, you imported goods to the states and when they sell it, you get a portion of that sale, you send it back to China you actually get a portion of it equivalent to what the returns are. Mark Speciale: I would think it depends very much on the company. Joe T. San Agustin: The banking company. Mark Speciale: Sure. I'll come back, I can give you a better answer on the specifics on really how that money moves around, because as you know, for a foreign investor in China you have to have capital allocated through their qualified foreign institutional investors structure, this is in China specifically, but outside of China there are no issues of moving money around. Joe

T. San Agustin: I don't have a problem outside of China, I'm talking about inside China. Mark Speciale: Okay, I can get back to you with some mechanics, specifics.

Akira Fuse: Page 18 is our biggest concern, the political change. As you understand the U.S. and China has the biggest event this year and also we will see the presidential election in Russia and I am gradually concerned about the risk on the current administration, I don't think (Vladimir) Putin can continue the current administration. Protestors and demonstrations are getting bigger and bigger at this moment, but at the same time we that is a pretty good wake up call to the current Government. (Vladimir) Putin is more like looking at nationalize and regulation to the economy and I think that kind of trend will reverse and that will be better for the Russian company. Joe T. San Agustin: You see (Vladimir) Putin's empire gone? Akira Fuse: It will be pretty difficult to stay in office. Political position group is now getting bigger, rather than just the protestors, so it's quite difficult for him.

Rosalie Bordallo: What happens now if (Vladimir) Putin is out and you don't have a strong person, leader to kept Russia together and it starts to fragment, isn't that going to cause more damage to their oil industry than him just staying in? Akira Fuse: In a short term I agree with you, that will make some confusion, but I think Russia is a big country and this link to the European economy, particularly supplying gas and energy and global countries cannot leave it as a confusion. Rosalie Bordallo: I kind of disagree, globally you might not want that confusion but I don't think... historically you have a number of countries there that have been put together that are totally different outlook and I think Muslims can come in and cause problems to try to get their own independence and it's just going to cause a lot of upheaval in the country and for me I think they need somebody strong in there to keep them in check. Mark Speciale: And you know to that point, that's why I still think (Vladimir) Putin is still going to win, I think he'll win but with a lower margin of win in his vote and that will mean that he is going to have to make reforms and be a little bit more lenient in certain areas, but I don't think there's going to be any doubt that he's going to win.

The companies that we're invested in, they have got... at the end of the day you want to be aligned with the political infrastructure of Russia and the companies that we purchased in the portfolio are ones that go along with and further their aims rather than go against them. Gazprom has to be successful and profitable, but they also recognize that they're creating massive inefficiencies in a local industrial pricing process by giving them free energy. They'll probably still give free gas to the public housing areas and to certain hospitals and things like that, that will get subsidized, but what they're creating is if you have industries that also utilize a lot of energy, those industries are being subsidized in a way that's now skewing their business decisions and their production decisions in the wrong direction for the overall economy, so it's actually in their interest to raise those prices. If you look at some of the other ones, Sberbank for instance, that's a big holding of ours, Sberbank for Russia is like Citibank is to a degree. I think they hold, I don't have the right number in terms of commercial, in terms of individual deposits, I think it's 60 or 70% of individuals have a deposit at Sberbank. They have to make that financial institution successful or else individuals are going to become concerned about their savings and you're going to have much bigger prices, so we've invested in a bank that will be able to launch new consumer products and increase their profitability which we have a gas company that we think will do well, another company Magnit is which is the WalMart of Russia basically, it's a company that we think will be able to add to their overall business as they add different stores in all different places. So once again you have companies and it's important that a local company is successful in that role and so that's why we want to go along with what helps the overall

Government rather than one that hurts. Back to your original question, (Vladimir) Putin will get re-elected but it will be with less of a mandate than before and he will have to be more flexible going forward, because your concerns are right.

Akira Fuse: Finally let me touch on page 19, why we are cautiously positive on the emerging market is globalization. On the top left hand side, this is relative price to earnings chart, this is saying that emerging market is inexpensive compared to the developed countries such as the U.S. and Europe because of the growth of the profit and also oil share prices are cheaper at this moment. On the right bottom side as you can see, the chart is showing relative return on equity of the emerging market to the MSCI World, that is developed countries and as you can see, emerging market companies are making more profit on equity than developing countries so that's why we see a positive view on emerging markets.

Mark Speciale: I think we should stop there. Rosalie Bordallo: This is real quick. We just need to ask these questions in regards to, are there any major organizational changes within your company that the Fund should be made aware of? Mark Speciale: No. Rosalie Bordallo: Are there any legal actions or legal problems that your company might be involved in at this time that the Fund should be made aware of? Mark Speciale: Not that I'm aware of. One thing about Capital (International) is it's a very stable team, we're privately held, we keep a very low profile, we try not to be in the press under any circumstances whatsoever and the kind of things you just asked about are the kind of things that would put us in the press and we do everything we can to avoid that. Akira Fuse: And we are focusing on just asset management, we do not have any broker, bank or those kind of financial relations, so we just focus on asset management that's why we are a very stable manager.

Mark Speciale: Thank you for your time today and also thank you for your patience.
(End of presentation by Capital International)

<u>2:30pm–3:15pm Dimensional Fund Advisers</u>

Wilfred Leon Guerrero: Thank you very much for visiting with us. We'll let you go ahead and lead the discussion on your performance. Ted Simpson: Thank you very much, I appreciate that and it's nice to meet all of you. Hopefully Diana (Bernardo) did mention that Kevin Hight is still happily with Dimensional (Fund Advisers) but he is in our Texas office and he has now relinquished his relationship with some clients including sadly on his part, working with GGRF and certainly I am very excited about my opportunity to work with all of you. I have been at Dimensional (Fund Advisers) just about the same amount of time Kevin (Hight) has just coming up on 10 years here in a little bit of time. Wilfred Leon Guerrero: Where are you coming from: Ted Simpson: Santa Monica. I've been doing all sorts of things, working with consultants part of that time but then most recently working with clients mostly in the West and also in the Pacific, so I certainly look forward to this. I want to start out by saying thank you for the long standing relationship that Guam has had with Dimensional (Fund Advisers), it's very, very important to us.

Now with that, I know that one of the things that you like to get out of the way is whether or not we've had any issues with litigation or SEC and the fact is on both of those counts we have not over the past year I'm very happy to say. With that I'm thinking it might make sense to give, I know you only see us once a year, although it's been a handful of years that you have had a chance to see us, let me give you a quick reminder of who Dimensional (Fund Advisers) is, what we believe, how we put those beliefs into the process we use to manage money for you and then specifically how those things impact the performance that we've had over the past year. If that makes sense I'll jump into that, but please ask questions along the way, I would really appreciate that.

If you flip open the book you can see just on the first page is just a summary of our relationship which includes both the Defined Benefit (Plan) relationship that we're going to talk about today as well as you did hire us for your 401(a) Plan so you can see that, but we're really going to focus on the international small cap. You can see as of the end of January there was a little over $41 million dollars. I'm happy to say that as of the close of the day, just an hour or 2 ago it was just a little over $43 million. We'll have more details of the performance later on but you can see over the length of our relationship that we've done what we tend to do which is outperform by 100-200 basis points, that's really our target for this portfolio and you can see since our relationship started we've done that with you as well.

So with that, just going to jump in and show you on page 4 a couple of updates about some of the facts and figures of Dimensional (Fund Advisers), we are managing actually as of again, just as of today, a little over $240 billion in assets, markets have gone up which is certainly why are assets with you have gone up just recently as well as those of our firm. Then you can see that we have over 600 employees now, some of them in the U.S. for an organizational update as well, there really is nothing from a senior management perspective, I think Kevin (Hight) had already shared with you some of the things that we now have 2 Co-CEO's, but the firm continues to grow and that's growth kind of across the firm thanks to growth in our client relationships and our need to grow to make sure we can service those in the way that our clients expect, so some of that growth has also incurred a handful of investment associates and traders who joined specifically with the international equity group. We've also hired someone who will be working in South East Asia who is now in Texas but will be choosing a location, most likely Hong Kong or Singapore within the next couple of months and he'll be transferring there. We also are actually looking to expand to Japan and hired someone later this year who will most likely set up an office in Japan. So there are exciting things for Dimensional (Fund Advisers) and for being kind of off in this direction a little bit. We continue to have product introductions at Dimensional (Fund Advisers) mainly to service our clients needs, a lot of those recently have been in the fixed income arena. Certainly our second fund was a fixed income fund, we hadn't launched as many or introduced as many fixed income funds as equity funds over the years but we're doing a lot more of that just recently.

A couple of upcoming events, I do realize that it's a long distance for you but we do have the end of every January so just recently we had our client conference in Austin, Texas and it will be the same time next year as well. Next month we do have a short, well a full day forum that's in Santa Monica (CA) so if for any reason any of you are coming over to the mainland through Los Angeles (CA) around that time, we'd love to have you and then we certainly, as you know Dimensional (Fund Advisers) puts out a lot of white papers and here are a couple of examples, but quite a few of you I think are set up on our website and you can see on our website all the white papers will be published so that is something of interest, please look there. We have a public website where you can see some of the white papers and then the password protected website and I think that's where you get some of your reports from, that's a place where you can see even more of them.

The next handful of pages just kind of reminds you of what Dimensional (Fund Advisers) kind of stands for. We really have 2 goals, I'm sure Kevin (Hight) has been through this with you before, so I'll just do it very quickly again. (End of tape 2)

(Start of tape 3)
Maggie Ralbovsky: So in his indexing, our terminology defines a group of managers that do not take a lot of tracking error, so there is a tracking error target that is very tight around the benchmark which is exactly where they are, they do not take very active drifts away from the benchmark which is within the definition of intense index. Ted Simpson: And that's especially as we choose our securities, that's extremely true. The place that you will see it varies a little bit more is when we actually buy and sell securities, that's where we give ourselves a little more flexibility, but that result is it doesn't end up in a huge tracking error, but that's the part where, probably one of the main important places where we differ from an index fund that really helps us drive the value and it's a pretty unique thing what we do and I'll get you a reminder on that, it's actually the next step after this.

The last thing I would like to say is, I just mentioned on page 17 there are some permanent exclusions, there are some temporary exclusions like IPO's, we don't buy those right away, research and our experience has shown that we leave money on the table. Probably the most interesting one here kind of shows that there's a very subjective component to this as well, it's definitely not --- by box here by any stretch, we remove securities that are in extreme distress or bankruptcy. What exactly is extreme distress, it's relative stress and all the markets were distressed a little while ago and we didn't go and throw them all, out but those that are, British Petroleum owns a hole in the middle of the bottom of the ocean, they are temporarily distressed there, there are other things going on so we don't necessarily get rid of them but we will put on hold any future purchases even if the quantitative part of our model, says that we need to be buying more of them so there is certainly that extra element in there where we remove securities at least temporarily and then trading exclusions, we're very capable traders of liquid securities I was just about to talk about, but if certainly if it's not on the right exchange, something that has helped us this past year as well, removing certain exchanges and we only invest in the --- exchanges or something that really just trades by appointment, that's not good enough for us, we need to have a real functioning market around these securities so like in the U.S. we don't trade the pink sheets for example, in Japan we don't trade for example.

So once we've done that we have a very carefully selected buy list and then our goal is to have a market cap weighted position in each one of those securities and that is our goal, but as I said just a minute ago, we don't hold ourselves extremely tightly to that goal and every single one of those securities because across 4,000 plus securities for a little bit above on one and a little bit below on another we still give the asset class exposure, we're still zigging when the market zigs and we're zagging when it zags, but as I mentioned and I'll show now, it actually helps us to add value.

The first way it helps us that patience and flexibility helps us to add value is with price momentum, I'm sure Kevin (Hight) mentioned to you before but it is an important part just to remind you kind of what we do. You may have heard of other managers who are kind of momentum investors, they chase momentum, we don't think that's a winning strategy but certainly we delay purchases, we delay sales, we immunize against momentum so if there is a stock which is falling down, British Petroleum for example, might have, actually it didn't become small cap, it actually became value. There's another stock which is plummeting down in price, maybe our quantitative part of our model says, go out and buy it but our price momentum screen says, hold on a second, you don't want to catch that falling dagger or if something, really our sell criteria for this portfolio is if something becomes large enough and it's no longer in that in that bottom 10-15%, then it's a candidate for sale but we don't necessarily sell it right away because momentum theory says that you will benefit on average, not every time, but on average by letting it ride up, not until it hits the fundamental price target like some managers they have, we don't have those but until that positive momentum dissipates so in a year what you can see is it's going up steeply and then it starts to flatten out, instead of selling it when it got outside the buy range, we held on to it and you can see that orange area is the value added from momentum and it can be significant, it's a very important part of our process.

The last thing I want to talk on here real quick is implementation trading. We are very capable traders of liquid securities, that is important not only for the commissions and driving those down but even more important for basically what we would call implicit cost, the market impact.

I'm going to jump real quick just in the interest of time to the most recent version of the report card for this which is on page 24. You can see there that the third line down, this is breaking out small cap from large cap which you can tell in the U.S. we had more value in small cap rather in large cap, but in all non-U.S. developed markets you can see that the average manager pays 44 basis points using ITG Post-Trade Analytics, that's the best known vendor of trade cost analysis services and you can see that they think that through commissions which obviously cost something and the market impact that the fact that when the average manager tries to buy something they push the price away from them and if you really want to buy something you can't buy it for 10 anymore you have to buy it for 10.10, 10.20, or 10.30 depending on how aggressively you go after it, so that's why they pay 44 basis points. Dimensional (Fund Advisers) on the other hand we do pay commissions of course but our impact, the way we are flexible and allow that flexibility to make us kind of greedy in terms of the securities that we buy on a given day, that allows us to add nearly 80 basis points versus kind of a neutral benchmark set by ITG.

A quick reminder if we jump back to page 23 is just an example of if a client gives us $20 million dollars in cash, we could say okay, here's our buy list and here are the securities we're most under weight in and traders you need to just go buy these 10 securities and you need to put $5 million dollars into each of them. That's not at all what we do, instead we give our traders, we have 4,500 securities in this portfolio plus we probably have 2,000 that are under weight at any given point in time, we tell the traders not 20, here's $50 million dollars of a candidate list and here's a list of say 500 names and we want you to act as if you're going to spend $50 million dollars on those. So we go out and instead of if a security here is trading for something like $10 dollars on the --- side and $10.20 on the bid side which is not unheard in these small cap companies, instead of saying, the midpoint, that's pretty good for us, 10.10 we'll take that, no we're down to 10, we might even be at 9.90, we might even be at 9.80, well guess what, we can't be that greedy and we're not going to buy every single one of them. We put out 500 candidates today, there's going to be some of those where someone really wants to get rid of it because they for example no longer love ABC, they think XYZ has a much better kind of alpha forecast to it, so they have to dump ABC and I don't really care if I have to sell it for 9.90 or even 9.80 because I have something else which is going well. We don't have those views, remember we're a no forecast approach, but what we can do instead is take that flexibility and get very greedy with your money and make sure that we have those folks pay us for that flexibility and it's that flexibility because we have a target weight, but maybe we'd be closer to our target if we buy each one of those securities today, but guess what, if we don't buy them until tomorrow or next week it's okay, that flexibility pays off and you already saw how much it pays off.

So that's kind of it to remind you what we do. I know that you wanted to see performance, I have here on page 30 the various, I kind of put it all out there not necessarily in the exact order that you had listed today, but I know you asked since account inception you can see that we outperformed by 144 basis points through the end of January since our relationship started with you. So that's really kind of in that range and when you ask Dimensional (Fund Advisers) what's our outlook, we don't have an outlook as I already talked about for individual securities, we don't have a macro outlook, but our outlook for this asset class is it will outperform over time because it's a riskier asset class and so to the extend that you want to do better than the overall market, having at least some of your assets in this asset class is probably a good thing and that Dimensional (Fund Advisers) is going to outperform even that asset class and that we're going to do it in a, just like the Yankees think that every, they're not going to win every game but when they get on the field the Yankees think, in fact the folks in Las Vegas probably think that the Yankees are probably going to win, after the fact they don't win every game but it's a similar concept for Dimensional (Fund Advisers) in the sense that before every year our view is that this asset class is going to do better than the market and we're going to do better than the asset class. Guess what, as you saw in prior years, it doesn't happen every single year but that is our view, that is our outlook, I guess you can say.

The second you asked for was for the year through September of 2011, you can see that's a period there that we actually underperformed. Wilfred Leon Guerrero: What is the size of the portfolio? Ted Simpson: It's about $43.1 million. As of last week it was 42.9, as of today it is 43.1. Wilfred Leon Guerrero: I thought it was bigger, I thought I was twice that much. Ted Simpson: Now you think the U.S. markets, the Dow did okay, the S&P did okay last year, international and emerging markets did not do okay in 2011 so this number was bigger obviously before but unfortunately the experience in 2011, things have come back in the end of 2011 and 2012 as well, but the asset class you can see here down at the bottom of the page was down 15-16% which is not our proudest moment but frankly we're not necessarily trying to make the asset class, the markets go up all the time but we certainly want to make sure when the market's do go up we're there with it, unfortunately when they go down we're there with it too, hopefully a little bit better, but not in the opposite direction, that's not what we're trying to do.

The next period you asked about was the 4th quarter, as I mentioned a little bit better, at least positive, much better than the rest of 2011 of course and we outperformed by about 50 basis points. Year to date through January you asked for that period, a big month there, the asset class up over 8% and our sales up 25 plus basis points over that and even through the end of last week the asset class was up just about 12% and we were up another 65 basis points year to date over that so it really has been a nice rebound. Our view is that these things happen and they happen very quickly, you can't time them, we don't know when it's going to happen, when international small is going to do best but on average it has done and we believe it will do better.

I do have some attributions, I don't know if you typically want to get into that level of detail with Dimensional (Fund Advisers) especially since I have about 2 minutes past when you would like me to say goodbye I believe. If you have any questions on the performance for this past year I'd be happy to talk about some of the details behind it. Overall we were up, the asset class was down nearly 16%, we were down 50 basis points better than that, not very exciting but at least we weren't down more, but certainly neither of those are exciting numbers to take a look at especially when you think about your beneficiaries.

Wilfred Leon Guerrero: On page 32, your weighted average for energy is 7%, you don't anticipate raising that? Ted Simpson: Well as maybe Kevin (Hight) has mentioned to you before, we don't have a top down approach when it comes to sectors, they basically are a fall out from our process. Our process does include the fact that REITs are zero, that is part of what we want to do, but the rest of these where this falls out really just has to do with where small companies are within the market cap range within each of these 22-23 countries that we invest in. We don't really have a view on those, it's basically just kind of how the market breaks out, we can be different than the benchmark for sure, that will typically come down to things like the fact that we define small even smaller than they do so to the extent that there are a certain type of company that is in that kind of $50-250 million dollar range which is below what they typically buy then we have more of those and maybe we have less of some of the others, certainly the fact that we have zero in REITs we have to spread that across the rest of the portfolio, the rest of the sectors.

Does that help answer your question? Wilfred Leon Guerrero: What I'm trying to get at is that you're putting more money into oil production. Maggie Ralbovsky: Remember enhanced indexing. Ted Simpson: We just don't have a view, I can tell you that like industrials for example, we did do very well by the companies we pick there, that's the biggest number on the page, 73 basis points, that really has and you'll see the same effect that kind of should up in a couple of places, a lot of it has to do with the fact that we buy smaller Japanese companies than the benchmark does, a lot of these small Japanese companies are ones that were helping the micro-cap companies that were helping basically to rebuild Japan after the earthquake, so there was that kind of thought, oh is your manager going to position themselves for the aftermath of the earthquake? Well, Dimensional to the extent that we focus on these smallest companies, yes we were actually positioning for that. Was it for some fundamental view, no not necessarily, it was just our view that over time what's going to happen is these small companies are going to form and do better than the larger companies. So that's kind of why that's there and that actually shows up on a couple of other pages, but mostly these things are kind of a fall out from the process in that way, if that makes sense.

Now I can just point out, I guess it was in the UK if you look on page 33, 42 basis points that we outperformed by in the UK. That has to do really with our exclusion of IPO's and also the exclusion of the lesser exchanges, the pink sheets in the UK. Those things, they don't pay off every single period but they do pay off on average and it all kind of adds up. What you can see is that typically we say that small cap is going to help us but really in 2011 our exposure to small cap, that was not a year that it helped us. By measure of the benchmark that we're using here you can see if you look at this, I'm back on page 31, you can see the column that goes down to minus 56 basis points, that's the effect of our extra bias towards small cap, so 2011, it didn't help. Over the last 30/40 years that we have data in international markets it has helped, our view again, do we think next year it's going to help, we think it will. Is it going to actually? We'll find out, but we always have the view that it will help us and it's an important asset class for you to be in both from the diversification and from the extra performance.

I've definitely run past my time now. I don't know if you have any other questions for me? Wilfred Aflague: Well it has to do with the market reacting to a presidential election coming up for example. How would you explain the prediction versus the reaction to a presidential election? Is there such a market prediction? Ted Simpson: We certainly believe there is. We believe that that the price of the market right now bakes in the consensus prediction. When we say we have this kind of market's work view of the world, it's by definition the consensus prediction of what's going to happen, the election is already built into the numbers, but the other thing that we would say is that when the market is sitting there and that's not exactly a question but it's kind of one related to presidential elections, when the market is sitting there, not sure what's going to happen, markets don't like that, markets don't like uncertainty and that's built into the price right now as well but we can't, we have a lot of smart PhD's at our firm but we can't necessarily figure out how to take advantage of that uncertainty in that sense. I know you did actually ask a little bit about volatility as well and I want to make sure, I'm sorry this is one of the questions you asked. Diana Bernardo: Yes, to discuss the impact of market volatility on the portfolio. Ted Simpson: Yes. I didn't address that and I'm sorry but it might be an uncertainty of volatility and maybe I can get that one in real quick. Volatility is another thing but uncertainty is part of markets, volatility is part of markets, we don't necessarily change the way we believe in markets, the way we actually run our process, well actually to the extent that markets are, we typically define market price cap price by country where that bottom 10-15% is, typically we do that once a month. If market's are all over the place we would have to do that a lot more, twice a month or even more often than that. So in the details of how we run our strategy it may impact us, but frankly as I talked about the trading, taking advantage of our own flexibility, volatility actually helps us typically or even more, when people are... when there's no volatility then the fact that someone is going to have to sell down here because we're greedy, that's going to be real tight, when there's a lot of volatility that's actually pretty good, it's a bigger spread so you guys benefit from that when there is volatility.

Wilfred Leon Guerrero: Any other questions? (No.) Ted Simpson: Thank you very much for the relationship, we very much appreciate it. (End of tape 3)
(End of presentation by Dimensional Fund Advisers))

Respectfully submitted,

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Recording Secretary

Affirmed:

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