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

February 23, 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

10:00am-10:45am Fisher Investments

(Start of tape 1)
Geoffrey Hansen: This is Geoffrey Hansen with Fisher Investments reviewing the 2011 performance and 2012 market outlook for global equities. Rosalie Bordallo: Are there any regulatory issues? Geoffrey Hansen: We have had no regulatory interaction that's material, we get visited by the SEC as part of their routine examinations approximately

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every 3 years or so. The feedback from the SEC has always been what we would classify as administrative in nature. Rosalie Bordallo: Any organizational changes? Geoffrey Hansen: Nothing material. Rosalie Bordallo: Personnel? Geoffrey Hansen: Nothing material, but we're a growing firm, now over 1,100 employees and we continue to hire.

Our 2012 market outlook, I was describing predicated on the way 2011 began we saw sentiment bifurcated between folks that were very bearish, in other words still extremely concerned from the 2008 bear market and credit crisis and people who were extremely bullish based on the strong stock market performance in 2009 and 2010.

A very simple chart on page 17 kind of shows the dark line is the bifurcation sentiment that we saw in the beginning of 2011. People were very bearish or very bullish, therefore we always look for sort of the area in between and our market forecast last year was for a very flat, volatile, frustrating market. That turned out to be a very good market forecast, there was a strong correction in the middle of the year that was definitely in magnitude much larger than we expected although stock market corrections can always happen in any given year. This year sentiment has coalesced and this is depicted by the red line here, instead of being bifurcated it seems that most market prognosticators are mildly bullish, there is not as much fear in the market, there does not seem to be fears of a global recession nor are there fears of perhaps a global financial meltdown. Many of these fears were seen in the middle of 2011, so those seemed to have passed, it does not seem to be any indication of truly global economic recession and so this year it seems although we're not alone in forecasting the continuation of a bull market, we probably are a little unique in terms of how bullish we are.

Back to page 16 what we describe at the top of the page is likely a great year for global stocks, our expectations for global equities are to return 20% or more in 2012, so for a very, very favorable year and we think that would surprise a lot of stock market investors. That's driven by what we see as very well, economic growth that will exceed expectations, investing in equities is not necessarily, we don't need very strong economic growth, we certainly need economic growth that exceeds expectations and that's what we expect in 2012. The lone sore spot appears to be Europe, it would not surprise us if Europe were to experience recession in 2012, however, just because one part of the global economy experiences is a slow down in economic growth does not mean that global GDP necessarily has to be negative and we've seen examples of that in the past. Our expectation for Europe would be a mild recession in 2012, but for global GDP to experience economic growth. Sentiment however there still is a lot of fear and concern out there, we monitor the press, we follow the media, we talk to clients, we talk to prospects, we follow other professional investors who publish their market forecast and there seems to be no lack of things to be concerned about despite the fact the global economy is growing, so again sort of a dour sentiment for the outlook for global economic growth, things appear to be fairly positive. Global corporate earnings and sales not only are strong but they are at all time highs so that's something that's not wildly reported.

I already talked a bit about Europe. In the U.S. and I recognize that we manage an EAFE based international equity portfolio for the Government of Guam Retirement Fund; however, what happens in the United States absolutely impacts the rest of the world and what we've seen in terms of the U.S. stock market is at the 4th year of the Presidential cycle historically is very, very favorable in terms of stock market returns. No indication in the U.S. there is any economic slowdown, there is no indication that this year ought to be negative for U.S. stocks which ought to buoy the rest of the world as well.

Lastly from the economic standpoint, I would touch on the fact that current price to earnings valuations in the market are very, very modest, in fact well below 2010 and 2011 levels and if even PE's returned to those levels given the forecast earnings growth that's expected for 2012, that would imply approximately a 20% plus return for equities and in fact there is upside potential from there.

On the sentiment front I touched on this a little bit but in the middle of 2011 there was a very severe correction, many folks thought it was another bear market, to us it resembled more of what was called the Asian contagion in 1998 with the spreading currency crisis throughout emerging markets in Asia or also the 2010 correction surrounding the fears of Europe and double dip recession, in fact, that was the primary fears in 2011 as well. As those fears do not materialize we see the market recover very nicely, in fact that's what we saw in the 4th quarter and early this year as well, in fact we're off to a very good start.

Also on the sentiment front I touch on the media and forecasters are ready so I'll skip to the fundamentals.

Gerard Cruz: What is this bullet that talks about fear of a credit crunch and economic recession? Geoffrey Hansen: I think that's best exemplified on the chart on page 22. So those are 2 different fears first of all, I don't mean to combine them into one fear, but on page 22, although this chart looks a little complicated, basically what you see here is quarter by quarter annualized GDP growth and the red circles what we tried to highlight here is that early in economic expansions you'll often see accelerating economic growth and then all the way to the right is the most current economic expansion and indeed in the middle of last year you saw decelerating economic growth, what did you hear, a double dip recession, this was a jobless recovery, in fact in our minds it was a very normal economic recovery and so there is not need to panic because of the slowdown in GDP growth, there's no need to panic because of the disappointing job figures, this is all typical economic recovery. We would expect as we've seen in the last couple of quarters for GDP to rebound, in fact that's what we've seen. Gerard Cruz: That is in contrary to a lot of the commentary that we're hearing from other managers and really actually our consultant as well. We're receiving information that this recovery is actually unlike any other recovery that we've seen in the past. Geoffrey Hansen: In what sense? Gerard Cruz: The fact that in normal recessions at this point we would have been well out of where we are right now in terms of job creation, in terms of economic prosperity in the sense of given how far down we went in the recession that the recovery would have represented more of a V shape rather than an elongated U and in respect to where the recoveries were in all the recessions and I think a couple of days ago we saw or was it yesterday, we saw of bans of recoveries, the lows and the highs that in our case now in many respects were below the lows and you may be right but I'm just wondering that you're saying that it's a normal... Geoffrey Hansen: Actually I would describe it as not we're right and the other research you've seen is wrong.

First of all, I don't think anyone disputes that the global economy is growing, GDP is positive, it's public data, it is absolutely growing. Now is it growing as rapidly as we like, if you follow the media the answer is obviously no. Is it growing slower than past recoveries, the answer is yes, so that's absolutely correct, however, again the magnitude of the GDP growth is not necessarily what will drive stock market returns but it's relative to expectations and I think we would all agree that expectations for economic growth right now are not high and I don't think there's anyone out there saying, this is a great economic recovery, things are terrific, what are you all talking about, I think that most folks at least from the research we've seen would say, yes the economy is growing but there are no jobs, it's slow but it's all Government spending, whatever you want to say. What we focus on is the economy growing and it is, so relative to expectations we think that will provide favorable surprise to many markets.

Gerard Cruz: I get the sense that you do a lot of fundamental research and you go... Geoffrey Hansen: From top down. Gerard Cruz: Right. So how do you differentiate a company that or a sector or an industry that is growing because the fundamentals are strong and there are prospects for income and income generation and you see a lot of their stock prices start to move up, how do you differentiate that's a good company or whether there is just so much money still on the sidelines so other companies and financial institutions and pension funds have to and maybe that company as well has to invest it somewhere and so there is so much liquidity that the liquidity is buoying the market rather than the fundamentals? Geoffrey Hansen: Our investment process we describe as top down which to simplify it, we make a country decision, a sector decision and a stock decision. The country and sector decisions are the top down component, the stock selection most would describe that as the bottom up part of our process. We expect equal contributions from all 3 decisions to contribute to excess return. To answer your question, about two thirds of our research goes, that's a wrong way to say it, two thirds of the decisions, the country and the sector decisions we would expect to account for the excess return relative to other stocks. We focus our research on economic drivers, political drivers and sentiment drivers to determine what should our weight in Germany be, in China, in the United States, in IT, in utilities, in energy, those are active portfolio decisions for us. From there once we've decided based on our research we think Japanese industrials with large export business to say China are poised to do well, then we turn to our Japan analyst and say, okay, screen for Japanese industrial companies that have exposure to Asia Japan infrastructure buildings. Their research is much more focused, it's not Japanese analysts saying, hey I've got this great stock called Komatsu, I really want to convince the portfolio manager to add it to their portfolio, we do it the other way around, based on our top down research, the investment policy committee instructs the research analyst to go looking in this much smaller haystack for that needle. Does that answer your question? Gerard Cruz: Yes to some degree but I, yes, yes it does.

Geoffrey Hansen: So I would also point, we absolutely want to identify those factors that are going to buoy those stocks regardless of fundamentals, that's incredibly important. So yes, we also want to pick stocks that execute well, have strategic attributes relative to their competition, but we also want the tailwind at their back, so right now we believe we're in a global economic expansion, we believe we're in a global equity bull market, so you know what, we're not favorable on defensive sectors like utilities, like consumer staples, that's got nothing to do with the individual fundamentals of the stocks themselves but there is a headwind for those companies, so we're going to invest less in them. Conversely, we do see increases in infrastructure spending especially throughout the emerging markets, we do think there is going to be a strong recovery in China in 2012 which will drive demand. Gerard Cruz: What's going to be the catalyst for an economic recovery in China? Geoffrey Hansen: I could probably spend the next hour talking about that. Gerard Cruz: What's the one big one? Geoffrey Hansen: The political Government cycle in China. Of course China they're a communist country, they don't have free elections... Gerard Cruz: I don't disagree.

Wilfred Leon Guerrero: What was the projection you have for 2011? Geoffrey Hansen: Flat but volatile, a very frustrating year. Wilfred Leon Guerrero: But this year, you're still saying... Geoffrey Hansen: This year we're going to be very positive. Last year we were predicting maybe up a little or down a little, this year we think the market is going to be up a lot, 20% or more. Wilfred Leon Guerrero: Really? Geoffrey Hansen: Yes. Gerard Cruz: The global market? Geoffrey Hansen: Yes. Wilfred Leon Guerrero: I was thinking the portfolio. Geoffrey Hansen: That's a fair statement, you need to be concerned about the portfolio specifically. The difference between the EAFE and global stocks are basically the United States and emerging markets are forecast is similar across the board so for the EAFE index our forecast is about 20%. Wilfred Leon Guerrero: Okay.

Gerard Cruz: I'm sorry, just one last thing. The European markets, you don't see that playing too much into any major headwinds going forward? Geoffrey Hansen: It is our number one risk for the global economy in 2012, so I don't want to make light of what is going on in Europe; however, how long have we been talking about the PIGS problem, it's actually going on 3 years now. There is very little surprise factor in coming out of Portugal, Italy, Greece, Spain, Ireland, so I don't think anybody was surprised that Greece received another bail out earlier this week or if it was over the weekend, so there is very little surprise factor in what's going on there. What matters to us among the PIGS, as most folks call them, is Italy far and away the largest sovereign debt issuer among those countries by many, many factors. In our opinion what happens to Greece is pretty much irrelevant and already completely priced into the market. Italy, completely different story, while they do have a very high debt to GDP ratio they are leveraged for a sovereign nation. What we are seeing in the market is a couple of very positive development. One, most of their short term debt that needs to be refinanced comes to this month, March and April. On page 26 we have sort of an aging of when their debt comes due, so as you can see, most of their refinance is happening right now. If there was any concern about Italy's ability to refinance that debt, what would you see, you would see Italy's interest rate increasing in the market and you would probably see Italian stocks and European stocks declining. We've seen the exact opposite of that, we've seen Italian interest rates coming down, which you can see on the previous page on the brown line and European stocks have been very strong recently, so if the stock market is a discounter of known information you would think this February, March, April refinance if it weren't an issue, it would be reflected in stock market prices probably a couple of months ago. So with Italy not a real concern, we don't think there's much surprise factor left among the PIGS.

Maggie Ralbovsky: How much of this Italy easing spread is contributable to the LTRO operation, because I was under the impression a lot of the new debt they are rolling 3 year maturities of the LTRO operation which means that it sort of pushed off 3 years. Correct. Geoffrey Hansen: They're kicking the can 3 years down the road and let's be perfectly blunt about it, if this were happening in the U.S. and probably what they're saying in Italy is they're saying, oh you're just kicking it down the road for the next politician or whatever. That's absolutely correct; however, in the next 3 years economies can recover, financial institutions can improve their profitability, improve their capital ratios and better withstand the ability to have a private market solution to this problem, so in fact our opinion in Europe they ought to keep kicking it down the road. The global economy with its growth will improve the bank's balance sheets, their profitability, that will actually increase their ability to do something about it. I guess that's the short answer, I think we agree, I think we're saying the same thing.

Maggie Ralbovsky: I recently had dinner with Alan Greenspan and he actually said this, he does not believe the culture of Southern Europe versus Northern Europe can reconcile. Basically the cultural difference is such that Northern European countries have this tendency to save money, to plan for the future. The people in the Southern European countries basically have this habit of spending more than they earn, therefore there is this constant imbalance within European union that it's so fundamental that eventually it will become a gigantic thing because right now you see Europe as a whole is pretty balanced that's why the Euro is so strong, the reason the Euro is so strong is because Europe as a whole is actually not too bad but if you look within European nations the imbalance is huge. Basically Germany is the country to supply all the surplus to have all the surplus to basically accumulate the IOU's these countries couldn't pay and in effect the European ECB is basically being the bridge trying to accumulate these IOU's and they're basically kicking the can down the road in essence making this imbalance bigger and bigger and bigger and eventually something is going to happen because it's not sustainable. So I do agree to your statement that if we can kick the can down the road buy time for the growth to happen to have structural change then eventually things will be resolved, the imbalance will be resolved. The concern is that there is no such fundamental change, structurally this problem is just going to get bigger and bigger and bigger, eventually Germany couldn't solve it, so eventually something is going to happen, this cannot go on forever, it's not country. In the U.S. we did the TARP which basically was the same thing Europeans are trying to do, to buy time for the banks to recover, but U.S. is one country. There is this mechanism it's one fiscal policy, within the U.S. there is a natural mechanism to resolve the imbalance because if one state is under in tax receipt, the Federal system balance it out and in Europe that balance is not there, that mechanism is not there. Geoffrey Hansen: No, it requires the politicians to give and take and negotiate but there is no mechanism. Maggie Ralbovsky: There is no mechanism and there is no share fiscal policy. What is happening essentially is the imbalance being accumulated on the ECB's books bigger and bigger and bigger. Gerard Cruz: At what point does Germany say, shoot, I'm just carrying this load? Geoffrey Hansen: Much of what you said actually we agree with especially the North/South divide and in fact we're overweight in Germany, we're underweight in many of the Southern European countries.

There are many fascinating parts of what is going on with Europe. Take Germany for example, Germany when they voted to become part of the European economic union, part of the campaign was a guarantee that they would not bail out one of the other countries and so here that promise is being thrown under the bus. For Germany who has memories of the Weimar Republic and hyperinflation from the 1920's, imbedded in their culture is a deep, deep fear of inflation and so the notion of printing money to bail out another member state to them is absolutely deplorable which is why, I don't know if you follow these events very closely, but the leadership change that took place in 2011 at the top of the ECB at first it was expected, it seemed that there was a German individual that would take over the ECB but for anyone involved in this mess it's apparent that Germany is going to have to bail out the other countries and so when that became apparent, the number 2 person at the ECB retired because he was from Germany and he knew he could lead an ECB that advocated basically running up the printing presses and printing more money to bail out Greece, that was simply not going to be palatable in Germany. So now who is running the ECB (I can't remember his name), you have somebody from Italy, you basically have the fox in the henhouse situation, so the ECB, there is going to be lots of political posturing, but at the end of the day they are just going to keep increasing their balance sheets as Maggie (Ralbovsky) indicated. The fear that you point out is that this cannot go on forever. It can go a lot longer than I think most people realize.

Maggie Ralbovsky: I think I would agree it could go on for a while because Germany is so much bigger than everybody else combined. Geoffrey Hansen: That is the case and ultimately what you need is politicians finding that wiggle room to keep expanding. Maggie Ralbovsky: But do you believe there is such a fundamental issue that structurally they couldn't together? Geoffrey Hansen: Absolutely. Maggie Ralbovsky: So there is a fundamental flaw of this union, eventually fundamentals have to prevail so it may last for another 5, 6, 7 years, but eventually something has to happen. Geoffrey Hansen: The way we describe it and I think this will hit home the way we describe it (I can't find it, I'll find it and send it along after the meeting), the current political negotiating of trying to solve the solution is a short term finger in the dike solution, longer term there needs to be a permanent market mechanism that controls how the countries interact with one another or the European economic union will not survive. Gerard Cruz: How do you do that when you have sovereign nations who have centuries of being independent now having to be, you now can't get Greece to agree on austerity measures, you can't get... Geoffrey Hansen: I was just in Ireland last month on the day they were making a $1.5 billion dollar Euro payment. There are people protesting holding up signs saying, $1 billion Euros of your money is going to bail out a German bank for that private enterprise that made a bad investment. That's going on al over Europe, there are citizens of individual countries that feel like money is being taken from me and it is and is being used to bail out other countries. Maggie Ralbovsky: So complete fiscal union just like the U.S. is the way to do it. Gerard Cruz: But you have to have a union, you have to have every country agree that it's going to be one central Government.

Geoffrey Hansen: I agree longer term I t looks very discouraging, however as equity investors, we believe what we call the window of worry which is what all we need to worry about is from about 3 months to 24 months. So in other words, don't worry about the next month or 2 because the market already priced that in and you're worrying about something that's already passed as far as the stock market is concerned. That window of worry is kind of that 3 to 24 month window, so things like the disbandment of the European economic union, we don't think it's going to happen in the next 2 years. Gerard Cruz: You don't think you'll see some weaker bank failures, you think there's going to be sufficient capital that banks are going to be able to... Geoffrey Hansen: Absolutely we'll see some bank failures, nothing on the scale of 2008, the balance sheets of banks are improving to the point where actually many clients are asking because we have a very material underweight to financials to the point of, hey, when do you think you'll increase your exposure to financials, aren't they very cheap on a relative basis? The answer is yes, they are very inexpensive, however the sectors that lead a global, a stock market into a bear market usually lag in the ensuing bull market, we saw that with energy in the 80's, we saw that with tech earlier in the 2000's and we fully expect to see that with financials over the next several years. Although financials for example do look very inexpensive, they're fighting a regulatory headwind, there is going to be a sentiment headwind, investors always fight the last battle, so with all the uncertainty surrounding any regulatory changes such as the increase in capital requirements, that's going to provide a sufficient headwind, we believe that financials are likely to underperform for a while, however they're profitability is improving, their balance sheets are improving, but will there be failures among weaker banks? Absolutely. Gerard Cruz: None of the big European banks you don't see vulnerable to? Geoffrey Hansen: I don't think we're going to see another Lehman Brothers, so I think the bigger banks whether we like it or not will absolutely, they are too big fail, the Governments will absolutely step in and bail them out, they're not going to let another Lehman Brothers occur in our opinion.

The last thing I want to say about looking out into the future and not worrying about things that are too far out, it's just not worth worrying about in terms of a current market forecast. We take things one year at a time, so for 2012 we think equities look very, very favorable.

Wilfred Leon Guerrero: Let me just see if we can summarize what happened with your portfolio. Basically you beat the index by 3% and next year your predicting a better year? Does that about summarize it up? Geoffrey Hansen: Yes. On page 3 you can see last year we were down a little bit more than the benchmark so we would have expected last year to be a little flatter, not so much down 12%. The international equity markets were definitely down more than we expected. Wilfred Leon Guerrero: I do have a question, on page 2 under the 2011 heading, why are all of those figures negative? Geoffrey Hansen: We were fully invested in international equities, the international equity market as defined by the MSCI EAFE Index was down 12.1%, our portfolio like the index was down about 12.5%, so typically the absolute return of our portfolio will be similar to the index, our hope that is over time we will do better on a relative basis than the index.

Wilfred Leon Guerrero: I think I have the wrong impression about this portfolio. The whole international market was down (last year) and what you're saying is that you only lost this amount of money, but you lost money. Geoffrey Hansen: We were down a similar amount as the market, that is correct. On page 3 you can see the light green bar is your portfolio as managed by Fisher Investments and the gold bar is the index. Wilfred Leon Guerrero: Okay, I was misreading that, I thought we made money, but you didn't, you lost money. Geoffrey Hansen: I wish I could tell you that was the case. Paula Blas: This is as of February? Diana Bernardo: The 2011 is December? Geoffrey Hansen: 2011 is calendar 2011 through December 31st and thus far in 2012 the portfolio was up 12.5% while the index was up 9%.

Maggie Ralbovsky: Can you comment on your holdings in emerging markets. Geoffrey Hansen: In what capacity would you like me to comment on it, the fact that we have them in an EAFE portfolio or why do we like China or? Maggie Ralbovsky: What kind of holdings. Wilfred Leon Guerrero: We're looking at the quarter ending December 31st? Geoffrey Hansen: That's the full year 2011, where it says 2011 that's January 1st through December 31st , that's the full year calendar 2011. For example, all the way to the right on an annualized basis since we started managing the portfolio the index, the benchmark is down 1% per year and the portfolio that we're managing is up 0.2% per year so for excess return of 1.2% per year. Said differently, for the last about 6 years now through bull markets, bear markets, natural disasters, the Japanese earthquake, wars, we've outperformed the international equity market by about 1.2% year.

Wilfred Leon Guerrero: For next year, this particular market is it going to go up again? Geoffrey Hansen: Our forecast is for it to increase 20% or more and so far, the market as defined by the MSCI EAFE Index, is up 9%. Wilfred Leon Guerrero: This is from January... Geoffrey Hansen: To February 15 (2012).

Maggie Ralbovsky: Can you comment on your holdings and do you know how much of your value added are coming from the emerging market location? Geoffrey Hansen: In what we call our foreign equity portfolio benchmarked against EAFE we opportunistically invest in emerging markets and the Guam portfolio we have a 10% cap on our exposure to emerging markets, some clients don't apply a cap and at times we might have more than 10% but currently it's pretty common for us to have about 7 or 8% in our foreign equity portfolio.

On page 13 is by country, our exposure in the Guam portfolio and just highlighting our emerging markets exposure we do have about a 3% weight to China, 2% weight to Brazil, 1% weight to Mexico and less than 1% to Taiwan and South Korea. Our investments there represent what we believe is the best exposure to the economic political sentiment themes that we're seeing worldwide. China for example, we believe given that the turnover there the Government every 5 years and in that 5th year which is 2012 tends to be when they increase loan quotas and really increase liquidity in the Chinese market which in turn tends to, actually the market leads to the increase in loan quotas but the stock market returns in China in that year tend to be very favorable so we believe a rebounding China economy will not only benefit Chinese stocks but companies and sectors with exposure to China will like industrials and materials so much of our emerging markets exposure is centered on that theme. Mexico is a little different story, we actually believe the U.S. economy is going to be Brazilian in 2012 and we believe Mexico will be a strong beneficiary of that so our investments there again tend to be more the companies with exposure outside of the borders in those emerging markets.

Maggie Ralbovsky: Do you happen to know how much of a historical value added came from the market? Geoffrey Hansen: In our foreign equity portfolio? Maggie Ralbovsky: Yes, just generally speaking. Geoffrey Hansen: I can certainly get, we do portfolio attributions so over time we can highlight that. Last year it was definitely a drag on the portfolio, the emerging markets underperformed developed and we do have that opportunistic exposure so by definition it reduced relative returns, but I'll make a note to get that data for you.

Wilfred Leon Guerrero: Any other questions? (No.) Geoffrey Hansen: The last thing I'll leave with is most importantly, thank you very much to the Government of Guam Retirement Fund for being a valued client for now over 6 years, we're very, very proud to be managing money for the Fund. I know you receive a lot of research from your investment managers, we like to think that we provide unique research and I brought some with me for you all and I don't know how much you enjoy reading about the capital markets, but our CEO has published a book called "Markets Never Forget," it's about mostly investing in the stock market, it's a fairly enjoyable read. Wilfred Leon Guerrero: Did Mercer (Investing Consultants) have issues with you about this activity? Geoffrey Hansen: What's that? Wilfred Leon Guerrero: Did Mercer (Investing Consultants) have issues with you regarding this publication? Geoffrey Hansen: Yes, I'm aware that they don't like that Ken (Fisher) writes books, but he's been writing books since the 1980's and our strategies have been outperforming the markets the entire time, so frankly I don't know why. Wilfred Leon Guerrero: That you were diverting away from your mission by writing this book. Geoffrey Hansen: Ken Fisher our CEO writes a column in Forbes Magazine every month and has since 1984 so this is not a new development, he's been writing books since the 1980's but I am aware of their historical concern.

Thank you very much, it was great seeing you all again, nice meeting you in person.
(End of presentation by Fisher Investments)

11:00am-11:45am Earnest Partners

Wilfred Leon Guerrero: You're going to lead us in this 45 minute discussion, the same routine, you can talk about anything you want to but we'd like to know to go on record of you answering the question of if any of the regulatory agencies have issues you and if there any major changes in your organization and like I said you can do anything that you want to.

One of the things, when you were walking in there are 2 managers that have the same mandate, one of the things that I'm just wondering about and I guess Maggie (Ralbovsky) could answer, how do we make sure that you aren't doing the same thing?

Paul Viera: Okay, sounds like pretty good instructions. Are we ready to go? (Okay). I would begin by answer the simple question, your first question was are there any regulatory issues and the answer is no. Diana Bernardo: Any legal issues? Paul Viera: No. Wilfred Leon Guerrero: Is anyone suing you? Paul Viera: We have a suit that's gone on for the last 5 years in which we're one of 10 or 12. The quick background on it is it's the State of Alabama and it's for their prepaid tuition, in 2008 they had one of their participants who had a 3 year old who thought that his market went down and thought that his 3 year old might not be able to go to college and so he decided to sue the consultant and all of the investment managers. I don't think the suit goes anywhere, but it's just one of those nuisance things that goes on. For our purposes I think we're in a pretty good position in that we have positive returns and beat the benchmark. Aside from that there are no other suits going on.

So that was the first one, are there any regulatory issues, the answer is no. Are there any legal issues, I would say no. The only thin that we have at all is what I just cited which I think is just a nuisance. With respect to organizational changes, the answer is no. Our organization continues to be stable, I would measure it on the filing basis. The first is with respect to your clients and we have added clients since we last visited you in person which was probably 18 months ago, something like that, I think it was probably last July 2010 is probably when we were here last so we have added a significant number of clients since then and we haven't lost any clients. From a client point of view business is strong, from a people point of view, the investment team that we had assembled when we visited with you 18 months ago is still in tact. We've probably had an addition or 2 over the course of the last 2 years but I can't recall any departures, so from the overall organization team point of view I think we're still pretty stable. From an infrastructure point of view, one of the things that we've done consistently is to invest more in our infrastructure every year, we did it in 2008 when it was inconvenient for some firms to do so, we invested more in 2008 than any year before and we did it in subsequent years, so we did it in 2009, 2010 and last year, the same thing. All things are going well, so from an organizational point of view I think we're as strong as we've ever been. Does anyone have any questions to that?

Wilfred Leon Guerrero: You're saying all things are going well, you lost money last year, are you going to make money this year? Paul Viera: It's a long year, we have 10 more months, but so far so good. Wilfred Leon Guerrero: What do you have so far this year? Paul Viera: I would say rounding up probably close to 10% which makes for a good year.

Okay, I have turned to page 1 which are called the guidelines and investment policy audit, this is just a summary, you have a more elaborate set of guidelines in which we are operating and this is a summary for that. I think the point is we put it up front because we want you to know that it's singularly the most important thing we do is to follow the directions that you've given us with respect with what you want to do and what you don't want to do. With respect to the bullet points on here, I just highlighted a couple of them. The benchmark, I don't think it's so relevant yet, I say you have to measure somebody over a course of a market cycle however we define that, 3 years, 5 years, you pick your period and we're about a year into this, although we can check the box if we do it after a year but we tend not to do it, I wouldn't have done it if we hadn't been beating it. I think the next point I make on here which presumably you've done consciously is the 4th bullet point on here which is no country weight greater than 20% of the portfolio and I think that means that you are making an active bet with respect to 2 markets, the UK and Japan and that you are saying because both of those have weights in the index greater than 20% that you want to chronically not have a weight that is equivalent to the benchmark or certainly not above what the benchmark weight is and it hasn't changed our perspective thus far because we're at a lower weight than either of those figures in both of those markets, but there may be a point in time where we say Japan is attractive or there may be a point in time where we say we think the UK is attractive and this would cause your performance not to be --- relative to the benchmark and as indicated by these guidelines. I will just leave you with that thought to mash around if you want to, we're happy to operate under the guidelines that you have given us but that is one that you are making an active bet against those 2 markets.

In the market review tab I'll skip all of the pros. Let's go to page 3, this shows for 2011 the sectors and how the sectors perform relative to one another and you can see that for the year there was only one that was positive and very slightly which was energy, just 18 basis points or a fifth of 1%. Consumer staples, healthcare, everything else was negative for the year from materials, aka commodities, industrials, telecomm, consumer discretionary, IT, financials, utilities, so last year was a pretty poor year across the board and really across sectors, there was really no one sector that was a standout with respect to performance and they all kind of traded together.

If you go to the portfolio review tab, these numbers are as of 12/31 last year. So at 12/31 the portfolio was about $52.9 million, I'm rounding up a little bit. The estimated annual income was $1.4 million, what that's comprised of is 2 elements, one is dividend income and the second is the interest on cash which is practically zero so you wouldn't even look at it, it's all dividend income because there is no interest rate out there. Below you can see the distribution and you have a mandate of less than 5%, our objective is to be at zero, we're transitioning periods where we're going in and out of names, we don't try to mash them up necessarily until we find what we want to own on your behalf and so at this snapshot in time at 12/31 you had about 96% invested and about 4% in cash.

The following page is where you can see the different time periods that you asked us to review and we'll just kind of go through them all. January was a strong month, the equities up 4% for the month of January, that's this January. February has been a strong month, you asked me how we have done year to date, so February is up about 5.5% in this portfolio and that's where I get the 10% from, so it would be January and February together. If you look at since inception numbers through 9/30/11 which I think is your fiscal year, you can see that the numbers were 16.5 and 17% negative over that management period. I think if you look cumulative from inception, again these are relative sort of absolute, you're positive by about 130/140 basis points including what we have captured in February. So the snapshot of this I think really illustrates 2 things, 2011 was a really crappy year and 2012 thus far has been a spectacularly good year and I think in some ways it's a little bit predictable. That scenario and I would just say, performance last year overall was really a function of 2 things, it was a function of the slow heal of economies around the world and it was a function of people really focused on what was going on in Europe and most particularly what was going on in Greece. I would say to understand what the outcomes are going to be, you have to figure out why people care or why they don't care. In the context of Greece, it wasn't because Greece was so-so important to the world, I mean Greece is the same size and population as Cuba and if they said Cuba is going to default on it's debt, I know I'm saying this harshly but sincerely nobody cares, nobody is going to care. We're not going to see on the front page of the Wall Street Journal and the FT every day people are running around thinking the world is going to come to an end because Cuba is defaulting on its debt.

So why do they care about Greece? Well I think there are 2 reasons they care about Greece, they being mostly European countries but to some degree a broader context of the world. The first reason is because a lot of people loan money to Greece, European banks loan money to Greece so now you're talking about German banks that loan money, you're talking about French banks that loan money and people care about that stuff a lot. Also those banks wrote credit default swaps saying that if the bond defaulted then they would pay. So, the exposure to many of the European banks is quite dramatic and so why does a Government care about a bank faults? Well it cares because banks are sort of the mother's milk, if you will, to any economy, so to the degree that banks have problems and they can't extend credit then what I call the real economy has difficulty because now they can't go out and do things that the want to do which are make things or produce services and that's why in the first instance the Europeans care a lot about Greece because they have their exposure to Greece and in other places, which is my other point, places being Portugal, Spain, Italy, but the first one is because of the banks. The second is precedent, precedent, so whatever deal they end up with in Greece, that almost becomes the defacto deal that you end up if you have to do this in a couple of other places like Spain, Italy, Portugal. No politician is going to be able to stand up in front of their constituents and say, I got you a worse deal than what Greece got, it just can't happen, they have to say, I got you a good deal, it's awful, but it's equivalent to the best deal that's been done. So that's why there's been so much thrashing about I think among other things over the course of 2011 is because it had to get, they're trying to get that precedent right in terms of what is it going to be, what is the deal going to be and how do we get other people not to be encouraged to do it because it's painful enough but if they did migrate it in that way, under what terms would we be able to go forward.

So I would say against that backdrop, the ultimate solution and I say solution in quotation marks, it isn't like a magic wand that somebody came in and waved it through Greece and Europe and it got fixed, but there is always going to be some solution because of the motivations that I just described. There is always going to be what we have seen unfold really most recently in the last week or so and the solution is always going to be what it is. I say solution again loosely in terms of it's not a cure for all ills but it's always going to be 2 things, it's going to be number one, austerity, people are going to have less, people who weren't paying taxes are going to have to start paying taxes, so in Greece when they do the Google thing and say, you know you have to start paying taxes, you have a swimming pool and they have 10 people reporting that they have a pool and then they do a Google world and they have 50,000 swimming pools, people are going to have to pay taxes. When they go to the night clubs and they say, it's interesting, you have $125,000 Lamborghini and you make $30,000 a year, how does that work? That's literally what is happening, so the number one thing is people who haven't been paying their taxes, they're going to try to get them to pay taxes. Number 2 is people are going to pay more taxes. Number 3 is people are going to work longer, so you thought you were going to be able to retire early, not so much, now it will be staged in to the trade offs and all the likes but in Greece there was a law that said if you dealt with hazardous materials, but you got to retire at the age of 50, it may have been 45 but if you handled hazardous materials you got to retire at the age of 50. Do you know what was included in hazardous materials? Hair dressers, you're going in for that dyeing or that coloring, those are hazardous materials, you get to retire at 50. That's changing and people are going to make less so the benefits associated mostly with Government workers is going to be less.

None of that is surprising and it shouldn't be surprising to everyone, it is annoying to a lot of people, so annoying that you go out into the street and you hold up a sign, but none of that is surprising. The other thing that's not surprising is that the bond holders are going to get less, they're going to have to say, you know what, we use to have 100, you're not getting 100, in fact I think the number is 53, that's what they're going to get, 53. You had a high interest rate, you're not getting a high interest rate, you're getting a low interest rate. You thought you're going to get paid back in 4 years, you're getting paid back in 8 years, 12 years. None of that is surprising. It just takes a while for that to all get worked out but if we looked at this and had this conversation a year and a half ago, all those things were going to be true eventually and all those things are what hashed themselves out in 2011 and the world focused on it in a very dramatic way, too dramatic I think and that's a lot of what we saw happen through the course of markets and EAFE markets in particular in 2011.

In 2012 what's changed? Well, everything that was naturally going to happen is happening and so once you know what's happened, people can relax a little bit like, oh okay, at least it's known now, we've known before really but now it's known-known because they signed it so people are a little more relaxed because they know what it is. I think the overall healing in the world has improved across all markets and those are probably the 2 greatest --- to what we've seen happen 2012 thus far.

Wilfred Leon Guerrero: Our retirement law here was such that I was able to retire at 50. Paul Viera: Lucky you're not in Greece, you have all your colleagues here allowing you to do that. Wilfred Leon Guerrero: The law changed, it was unsustainable. I retired at age 50, full retirement and I put in 21 years of service. Paul Viera: You're right, it's unsustainable. It's not all cookies and cream with respect to Europe and all the rest, there are some adverse affects that affect the world more broadly which essentially are disposable income is going to be less and so whether you are a domestic producer of a good and service or whether you a non-domestic, I'm talking about in terms of your context, a non-domestic producer of goods and services, there's a market that's going to be relatively smaller than it might otherwise have been and you just have to weigh that against other markets that are going to be or continue to be as robust as they've been and trade those off one to another to say, is the overall circumstance is better than before and in one sense for us it doesn't matter so much about the overall because we only have about 50 companies so we just have to find the 50 or 60 that are going to do relatively better. I think in the context of, Lamborghini sales are going to be down in Greece, well maybe Kia sales are up, so you have to think about of the opportunity set and the way that is reflected in the world as it exists today.

So that's kind of how I would divide up the period from when we visited last which is 2011, too much emphasis I think on Europe. The reasons were the general proposition as I just described, the answers were fairly predictable and are unfolding in front of us now. Now that it is more known I think there's a little bit more stability, there' s greater healing going on in the rest of the world. This isn't a forecast to say as you asked me, is 2012 going to be a great year, yeah, you know time periods are hard to do directionally I think that's where we find ourselves today.

Wilfred Leon Guerrero: I didn't realize that Greece and Cuba are about the same size. Paul Viera: Population, yes, they have 11 million people. The per capita income is different, the per capita income in Greece is about $33,000 and in Cuba it might be 8, so it's scaled different in that way. In another sense you say, if I took Italy, Spain, Greece, Portugal, 2% of the world's population, that big number, it's probably bigger than that on a GDP basis than on a pure population basis. Investing is a lot of having perspective and saying what really matters and what really doesn't matter as much and sometimes there's a focus on little things in the moment and I'm not calling the whole Europe thing a little thing but in the sands of time it will be a little thing and in the sands of maybe even an investment horizon it might be a smaller thing. So that's what I would say about page 5.

Page 6 really gets to your portfolio and shows some of the over weights and under weights relative over and under weights, your histogram is in blue, the red is the index. Consumer discretion just to define these, 5% of your portfolio we're investing in consumer discretionary names, the index had 10% so you had a relative under weight in consumer discretionary. You also had a relative under weight in consumer staples, relative over weight in energy and I would say a relative over weight in health care as being those areas that are most distinct from the benchmark.

The following page gives another slice of it from a different perspective and this slice is your portfolio compared to index based on where the companies reside. You have Americas (ex US), Asia so on and so forth. You can see that they generally match up pretty well with the exception of Japan being under weight which again, you have a hard cap of 20% on Japan but Japan is 21.6% of the index and you have a hard cap in the UK of 20% and the UK is 23.6% of the index which means, in our view, we think both of those should be under weighted today and you in your view think they should be chronically be under weighted and there may come a point in time when that has an effect on our ability to express our view best for you.

Wilfred Leon Guerrero: When you say Asia, what are we talking about, Korea, Taiwan? Paul Viera: Well it's going to be mostly developed so it's going to be, in this category it's going to be, Singapore is going to be in there, some China will be in there, South Korea will be in there? Maggie Ralbovsky: New Zealand, Hong Kong, Australia? Paul Viera: Hong Kong is in there too. This as well as the previous page is a fallout of your process? Paul Viera: That's correct. Maggie Ralbovsky: Because your fundamental bottoms up. Paul Viera: That is correct. Maggie Ralbovsky: And that addresses Dr. Leon Guerrero's question earlier on why this manager is different from the previous manager, they have the same mandate, but the previous manager has a pretty predominant input of top down views in to their process and this manager is mainly bottoms up. So top down is the jargon word for somebody sitting there to say, I want to over weight energy, I want to under weight financials and go find me the best stock in energy because I want a lot more energy. Bottom up process is to go down, kick the tires and find good companies and find the best companies in terms of earnings power and then put together the portfolio, it may turn out that it's over weight in energy but that wasn't a top down decision. So the previous manager is mainly, it has a pretty predominant input from the top down level and this manager is a bottoms up manager and you can observe their portfolio allocation is very different. In this big book that has the details you can see their allocations are very different. Wilfred Leon Guerrero: Okay.

Paul Viera: I think the last thing I'll take you to is and we can talk about what you want to talk about, but under the asset statement you can see both in terms of where the companies reside, I think that's how we split it as opposed to industry here, so you can see the countries

Austria, Brazil, Canada, China and to answer your last question what is Asia (ex US), you can see Singapore, South Korea, China, Hong Kong.

Wilfred Leon Guerrero: So how much money are you going to make for us next year? Maggie Ralbovsky: The previous manager said 25%. Wilfred Leon Guerrero: Was it 20 or 25%? Rosalia Bordallo: The previous manager said 20%, although the book said 25%. Paul Viera: Really, does he or she actually know? That's incredible, it's practically unbelievable. I think I'll start by saying the following which is, you're not going to like this answer, but it's the most sincere answer I can give you which is, I don't think anybody can forecast what the market is going to do, that's impossible and so anybody who sits in front of you and they say, the following things are going to happen and this is what's going to happen in the next 12 months, hit the eject button. What you see a lot is people come over with very dramatic macro arguments as to what's going to happen and they'll start to say a lot of trade in balance, GDP growth, energy, weaving all this together and before you know it at the end of it they say it's 11% because that's within 100 basis points of the historical equity markets. I mean, that's what they're going to tell you and like on any given year, maybe, maybe not, so the answer to that is, whatever I tell you in that sense is non-sense. What I think we do well is the following, which is, we're really good at looking at sub-companies and saying, which ones are going to do better than others and the way I like to think about it is, the market is kind of like the weather, you don't know what the weather is going to be like, you might have an idea looking out the window what it's going to be in the next 15 minutes, but you don't have an idea what it's going to be like 3 days later, a week or a month or 2 months later.

If you label each ships a different security, a different company then I think what we do a good job of is looking at each of those companies and saying, what are it's characteristics that are going to make it perform best sort of irrespective of what the weather is? Now does that mean that if it's all sunny that one of those boats isn't going to get to the other side of the ocean ahead of the others? It clearly is because it's designed for sunny weather and does that mean another one if it's just always going to be stormy and it's designed for stormy and then it's not going to go? It probably will, but because you don't know the weather you have to look at those companies and you have to say, which one is likely to have the high probability, irrespective of the weather to get there first and that's what we do well, is to look at it and say, this company and these characteristics, this one is likely to get across the ocean ahead of the others and we pick a series of companies that get across the ocean ahead of the others then we're going to win for our clients. That's something that we do pretty well and so it's a little less important to us what the weather is on particular days, weeks, months, years along that journey. Are we going to have stormy days? Yes. Are we going to have sunny days? Yes. That's what we're really good at and then if you say, in the sands of time, people do the journey on average at 10% per year, that's what people should be forecasting for you because that's what they do on average, it doesn't mean that in any year they don't do 2 or they don't do 21, but on average speed even over the course of 50 years people are going at the 10% a year. So, absent any other ability to forecast any particular year, I'd just take the average of 50 years and say, you should be a little bit better than the average. I'm trying to phrase what we can do and what we can't do and what we can't do is tell you what's going to happen in the next 12 months. What we can do is to get you the best companies that are going to do the best relative to whatever the other set of companies can do. That as a general proposition is what we do well and I'm comfortable saying, I can stand up with who ever else you want to put in the race with us and see what happens.

Wilfred Aflague: I have one question. About a year from now we may be back in the same table, it would be about a quarter after the President's election, what effect will the outcome of the Presidential election have on your presentation about a year from now? Paul Viera: Nothing. I think the rhetoric that will come from either of the Presidential candidates will be more extreme than any reality will turn out to be. The markets will change a little bit, they'll say, we're going to spend more on defense, this industry is going to be better... The reality is if you went back 2 years ago, the current President has had the best equity market of any President ever, from this Presidency to now, this is the best equity market any President has ever experienced, so would that be the forecast of the Wall Street Journal against his policy portfolio? No.

Wilfred Leon Guerrero: Okay, there aren't any more questions. Thank you. Paul Viera: I appreciate it.
(End of presentation by Earnest Partners)

<u>1:15pm Current Statute Governing GGRF's Investments/Asset Allocation</u>

(Start of tape 2)
Maggie Ralbovsky: I hope I'm recognized as a rationale person and hopefully it's recognized that some of the statute is not rationale and I'm hoping we can correct that. (Mr. Chairman) there is also this other thing you're looking at which is a simple thing I actually want to touch on this later, I'd like to actually focus on this other document first if I could when everybody is still fresh. I'd like to start with the summary of the current statute which I put into a table, actually I had to talk to a couple of managers because they couldn't find, we were talking about 15% limit to international securities and many managers couldn't find it, the reason is there is no such mentioning of that. If you read the statute it goes reference from one place to another to 3 or 4 different places you add them together.

So here is the summary, there are some good things about the statute, the spirit of risk management, risk control is a good thing and I want to make sure all the different items in the statute are actually consistent with that goal and I can tell you that it is my view that some of these items in the statute is actually counter productive to the goal, but I do want to first recognize some of the good things in the statute which are the ones that aren't highlighted. The good things are the diversification clauses that I did not highlight under specific securities, those are actually pretty good clauses, I actually would support them. I have highlighted certain things that I'd like to discuss with the Committee and these as a summary are highlighted on this page but I want to address each one in the next few pages so we can always come back to some of these things I want to talk about.

First things first, the investment grade requirement. If there is one thing I want to go so bad, it's this one. If I have to prioritize all the different wishes of mine, this is my biggest wish, if we can get this done this year I will celebrate it. There is some inconsistency with the investment grade requirement; currently there is a clause that says all corporate securities have to be investment grade rated. Joe T. San Agustin: That's a general statement. Gerard Cruz: So what you're proposing is that we now be able to invest in non-investment grade? Maggie Ralbovsky: Here is the inconsistency, the statute allows you to invest in common stock of a non-investment grade rated but it does not allow you to invest in a debt of a non-investment grade rated company which is internally inconsistent, it makes no sense. Joe T. San Agustin: Go back. Maggie Ralbovsky: The current statute states you can own the stock of a non-investment grade rated company, a junk company which is majority of U.S.

companies, by number more than 60% of U.S. companies, majority of U.S. small cap are non-investment grade rated, majority. The truth is you can own their stocks but you cannot own their debt and debt is safer than stocks issued by the same company. Joe T. San Agustin: In other words I can own their stock but I can't buy their bond. Maggie Ralbovsky: That's right. Wilfred Aflague: And why would we want to be able to buy their bonds? Maggie Ralbovsky: Here's a thing called the pecking order in the capital markets, I assume you put into the investment grade requirement for risk control purposes, so if there is an assumption, non-investment grade rated debt is risky. I would tell you that the stocks are even more risky. Gerard Cruz: But that's why we put the band around the amount that we can own. Joe T. San Agustin: A stock is an asset, a bond is not. Maggie Ralbovsky: I understand how that thinking came along. A bond is an asset too, they're just getting paid differently, it's a safer asset than the stock because if a company goes into bankruptcy their debt holders get paid first. Did I answer your question? Wilfred Aflague: Yes.

There is something called pecking order, when a company goes into distress, the assets being distributed is based on from the top to the bottom of a pecking order and the pecking order starts with bank loans, it goes to secured debt, it goes to unsecured debt, it eventually goes to stocks. So if a company goes into bankruptcy chances are bond holders are going to get some payment, stock holders get wiped out. So it is inconsistent to allow investment in stocks and not in bonds. I would highly recommend we limit, we remove this investment grade requirement; however, the recommendation is at the bottom that says, Wilshire recommends removing the investment grade requirement, instead a limit of 20-30% may be imposed Joe T. San Agustin: Identify in the statute where you got that particular... Maggie Ralbovsky: It's on the first page, it is 8154. Paula Blas: Amended because... She's putting a cap on it. Maggie Ralbovsky: 8154(a), it's highlighted. Gerard Cruz: So this is what you want to do, issue debt securities... so you want to change it? Paula Blas: That's the way it reads right now. Maggie Ralbovsky: I would like to say that if non-investment grade securities are purchased, a limit of 20% is imposed. You actually want to repeal that and have a new language that would allow what? Maggie Ralbovsky: 20%, up to 20%. Joe T. San Agustin: The process is you repeal that and amend the statute to include the following which is what you're saying right? Paula Blas: This isn't the draft language but this is what she wants to recommend. Joe T. San Agustin: Justification is what? You have to write up the justification in here. Maggie Ralbovsky: I'll be happy to write up a justification. The justification is that this is a very important sector in investment, it has presented opportunity for diversification, therefore reduce the risk of the total portfolio. Also it does not contradict with the goal of risk management because currently you already allowing investment in stocks of a non-investment grade rated company.

Joe T. San Agustin: The next question would be, what kind of a holding do you have in this category? Gerard Cruz: None. Maggie Ralbovsky: We do not have any holdings right now. Gerard Cruz: It's out of compliance. Maggie Ralbovsky: We're missing. Joe T. San Agustin: That's what I mean, are we investing in this? Gerard Cruz: Not currently. Maggie Ralbovsky: Not currently, we're missing this whole sector. Joe T. San Agustin: But it's allowed. Maggie Ralbovsky: Not for the bond, for the stock. Joe T. San Agustin: So are we investing in the stock? You have to show that, show that we are exposed. Right now we're allowed to own stock, but not bonds, what is the advantage? Maggie Ralbovsky: The advantage is to not to increase your risk but rather reduce your risk. Joe T. San Agustin: Because there is greater risk by owning the stock than the bond. Maggie Ralbovsky: That's right. Wilfred Leon Guerrero: That's how it's going to be perceived. Joe T. San Agustin: I know, I'm just trying to lay down the scenario. Knowing the pecking order I would have to say, (Mr. Senator) the reason why we're doing this is the pecking order, there's bankruptcy you own the stock, you're the last one to get... Maggie Ralbovsky: You get wiped out. Joe T. San Agustin: If we own bonds we will be in the first line. Maggie Ralbovsky: But not in the risk adjusted case. I take your argument that stocks can go to unlimited, the stocks can also go to zero more often than bonds. That's a different discussion, we'll probably just save that discussion for later.

Wilfred Leon Guerrero: What if I say, okay, let's change the section but let's change it in such a way that you will not buy stocks that issue junk bonds. Maggie Ralbovsky: You are doing it right now. Gerard Cruz: No, what he's saying is why not just remove non-invested rated companies from the mix. Maggie Ralbovsky: Get rid of the stocks? Rosalia Bordallo: No, be more restrictive of what stocks to own. Maggie Ralbovsky: So you're going to avoid a majority of U.S. companies because the majority of U.S. companies in terms of numbers are non-investment grade rated. Wilfred Leon Guerrero: Do we have statistics on that? Maggie Ralbovsky: Yes, I do have statistics for that, that's easy to be given. Wilfred Aflague: You said about 60%. Maggie Ralbovsky: 60% of U.S. companies are non-investment grade rated. Rosalia Bordallo: Can I ask? You look at our portfolio and say, okay, this is your portfolio right now, these companies have non-investment grade bonds. Maggie Ralbovsky: I can find it but I have some of the household names in this presentation... Ford Motor Company, Nieman Marcus, Starwood Hotels...

So if the Board, obviously I will try to present evidence to support it. Joe T. San Agustin: The inventory that we have now that own of these stocks and the risk, because of the pecking order, you have an opportunity to pick up the bonds for these companies which is a majority of the companies are non-investment grade, so actually it minimizes our risk by owning bonds rather than stocks. Maggie Ralbovsky: Well no, I don't want to go that direction, I don't want to say stocks are no longer, I'm just saying you allow equity, you do not allow bonds is internally inconsistent, it is actually counter productive for risk management. Joe T. San Agustin: You allow both. Maggie Ralbovsky: You allow both, yes.

Okay, let's move on. This is the number one proposal. The second proposal here on the next page which has 2 pie charts, the right hand side is the global bond market opportunity set and you can see non-U.S. bonds are 61% of the total bond market, non-U.S. equity is 57% of the total market. In the current statute we have a 15% limit on bonds and stocks combined for foreign issuers, this is inconsistent with the global opportunity set and I understand this limit, this limit was a popular limit many, many years ago because many, many years ago the market, the publicly traded market were dominated by U.S. issuers. Global markets have changed significantly and I would like to propose we recognize this change and evolve with the change, therefore I'd like to propose removing this limit or at least increase this limit to 50%. As you can see the non-U.S. equity market opportunity set is more than 50%. Joe T. San Agustin: Let's say I'm waving my last flag, I want to stay home, I want to keep most of my money at home. Maggie Ralbovsky: You can do that in your own portfolio but remember, we are fiduciaries to this trust. Joe T. San Agustin: I know but remember the trust members are citizens of this country so we have some kind of patriotic loyalty to support our countries investments. Maggie Ralbovsky: Would you have another limit you want to impose? Joe T. San Agustin: I'm just giving you a reason for that. You don't want to go outside your territory. Maggie Ralbovsky: Historically also there was no Chinese stock market, no Indian stock market, no Russian stock market. Joe T. San Agustin: I know what you're talking about, you don't want to risk no more than I want to get out, in the night time I don't want to get out of my house because it's dangerous, same thing. Maggie Ralbovsky:

That's right. So would you have a different proposal? Joe T. San Agustin: The global opportunity right now is really there's no boundary really right now. Gerard Cruz: 50 is too large. Maggie Ralbovsky: 50 is large. Joe T. San Agustin: There is no boundary really right now.

Gerard Cruz: Let's think of it this way, these are non-U.S. companies, meaning companies that are not domicile in the U.S. Maggie Ralbovsky: Correct. Gerard Cruz: Okay, so this doesn't include companies, U.S. companies that have a predominant amount of their business outside the U.S. Maggie Ralbovsky: It does not, it's by incorporation. Gerard Cruz: So if we go up 50% then those companies like Coca Cola for example who would be considered a U.S. company, but a majority of their revenues are going to come from outside the U.S., so we could inevitably become more international than we otherwise would like to be just based the fact that we have U.S. companies domicile... Maggie Ralbovsky: You could make the other argument you could say, Samsung Electronics is a Korean company and I can tell you a majority of their revenue does not come from Korea, it sells to Apple, it comes to the U.S. You can make this kind of argument counter-wise with the globalization such that companies are really not suppose to be viewed as a specific country's company, their global companies, therefore all I'm saying is, let's recognize the global opportunity as such and give the managers the authority to do it and they're going to do it, I'm not saying that we are going to... Rosalia Bordallo: But I think the concern here is okay, look at the Greek situation, these are sovereign debt right now, now if you open this up so huge we could have been involved in the Greek situation where this is sovereign debt. Gerard Cruz: How do we keep the bands around?

Maggie Ralbovsky: I want to separate the 2 issues. One issue is that as policy makers here right, these are policy and decision makers, to set a law we should recognize the opportunity set. The second question is, how do we implement that and that's you hire managers to do it, you set guidelines for that, you make asset allocations to control those risks, but that should not be part of the decision as a policy maker because we're just trying to recognize the opportunity set in the world. Here is the opportunity set, how much do we want to express our home country bias, to what extent and I want to argue 15% is too much of a bias. Gerard Cruz: Maybe not so high as to go to 50. My concern is that this current composition of the Board, I trust that we're going to make the right decision but I don't know if I can commit or have that same trust 5 or 10 years down the road when the complexion of the Board changes and if the bands that control risk are not there, there's no telling what kind of calamities could happen.

Maggie Ralbovsky: Would you go with 49%, 45%, give me a number. Joe T. San Agustin: What is it costing us risk in terms of... Maggie Ralbovsky: You have concentration risk in the U.S. Gerard Cruz: It's hard to make the argument because it's worked. Our portfolio composition has actually worked. I see what you're saying, whatever number we come up with is going to be arbitrary. Maggie Ralbovsky: Well no, if you go with a global opportunity set that's not arbitrary, that's recognizing being neutral to the market. Any decision other than neutral to the market is a bet and you have to have reason to support that bet and I do support having some home country bias but 15% is too little. Rosalia Bordallo: My concern is just you know, it's not necessarily home country it's more concerns with foreign countries, we're going in there and then the problem is something happens in that foreign country and we're left holding the bag, we're basically due to laws, is their market, does it have regulations in place that will basically protect the investor, the foreign investor, not the country investor but the foreign investor. That's where my concern is really, I don't want them coming in and saying, hey, look we're too much in debt, you guys go away, that's your problem. Gerard Cruz: What happens if the country... There are so many other risks aside from just investment risk obviously when you're investing in foreign countries. Maggie Ralbovsky: Right there is political risk. Gerard Cruz: And currency. Rosalia Bordallo: Right and that's my concern, I don't mind increasing the limit but there has to be... Maggie Ralbovsky: I would go as far as 35, but my concern here is I want restrictions where you need to look at the country you're going ton invest in... Gerard Cruz: That goes without saying. Rosalia Bordallo: I would go the IPS but if you want to mimic the law to the IPS then I have a problem there, if you don't put that in place. Gerard Cruz: I agree.

Maggie Ralbovsky: Okay so I heard 35... Wilfred Aflague: Hold on, this is not a lottery of numbers. I'm considering everything here from Mr. Chairman has said and done and done as a senator. From the beginning you said 50%, but now you're taking a number of 35, is 35 good, why are you settling on a number, is it just to increase that 15%? Maggie Ralbovsky: Yes. Wilfred Aflague: Why did you say 50% earlier? Maggie Ralbovsky: Because 50% is very close to the global opportunity set and that is actually where Harvard is allocated 50/50. Wilfred Aflague: I understand. Rosalia Bordallo: But they got trashed and that's our concern. Wilfred Aflague: Increasing our exposure to the world market... Maggie Ralbovsky: Reduces concentration risk. Wilfred Aflague: By more than corresponding percentage our risk because all of these things that the Chairman and Rosie (Bordallo) pointed out. My question to you is, why did you say 50%, is it just because of the opportunity set? Maggie Ralbovsky: Okay, let me speak about risk. Wilfred Aflague: One last attached question, what do you say to Gerry's (Cruz) point that our portfolio the way the Board has set it up is working for us, it is working, how much more revenue income would you imagine and I know you can't answer that question it's probably unfair but I need to get very clear data in my mind from our discussions.

Wilfred Leon Guerrero: I think the answer to the last part is that we're reducing the risk. Maggie Ralbovsky: Okay, let me take a step back to explain risk, how do we understand risk. There are specific risks attached to each investment, every one of these has it's own unique risk. As you pointed out, investing overseas, you have risks that U.S. securities do not have which include currency risk, political risk, all these things that are attached to specific investments. Now putting into portfolio sense however, the total risk is not being interpreted by the addition of individual securities risk but rather how the portfolio works together as a portfolio so you have to introduce something called correlation, correlation is simply speaking, co-movement. If one stock or one asset goes up, the other one goes up in the same manner, you put these 2 together your risk gets amplified that's called positively correlated. If one asset you hold goes up, the other one doesn't go up at the same time, but if one goes down, the other one doesn't go down at the same time, you put them together your total portfolio becomes less risky even though each one of them may be risk by its own right. Joe T. San Agustin: One supports the other. Maggie Ralbovsky: Then that's called negatively correlated or not perfectly correlated. The modern portfolio theory says that the only way to control long term risk is diversification, is to put together different asset classes that do not correlate with each other. Even though each one of them are risky, you do not add up their risk one by one, one plus one does not equal 2 because they don't move in the same direction. So the only free lunch in designing a portfolio is called diversification and that's the only free lunch.

Wilfred Aflague: But increasing our exposure to the world market... Maggie Ralbovsky: Reduces your risk because they do not move in the same direction. You have to take risk for investing you cannot just stick your money under the mattress, so it depends on what kind of risk you're taking. By not taking diversification to overseas risk, you're taking concentration risk. Do you acknowledge that? Rosalia Bordallo: No. Maggie Ralbovsky: You are. Rosalia Bordallo: No. My concern here with what you're saying and that the crash kind of put a hole in the idea of correlation, is when you start going into globalization you're in essence doing what Gerry's (Cruz) saying, you have companies that now are affected, U.S. companies that are getting their money from other countries and what we're seeing now is with this last crash... Gerard Cruz: Everything blew up. Rosalia Bordallo: Yes, everything blew up. You couldn't just say diversification worked to what it was suppose to be because everything blew up, there was no safe, everything seemed positively correlated. Maggie Ralbovsky: How many times does happen? Rosalia Bordallo: But here is the problem, the world is changing, we have never had globalization of this magnitude in 15-20 years and so the models that we and I'm concerned, the models that we've been using to develop our asset allocations were based on a different kind of theory. Maggie Ralbovsky: Exactly. You're talking what I'm going to talk about, that's why I'm talking about bucket approach, not just efficient frontier. To get to the bucket approach you have to allow the different asset classes, you're basically excluding all these asset classes, focusing on certain things you know about and say, hey you know, it worked in the past, but things are changing, can things in the past that worked work in the future, that's the question we're trying to answer. What I'm saying is that as a policy maker you should not mandatory or artificially exclude certain things, just basically not acknowledge they exist in the world in the way they exist. Gerard Cruz: We acknowledge they exist. I acknowledge they exist.

Maggie Ralbovsky: Can we second guess the market? Gerard Cruz: I'm not second guessing the market, I'm just saying with all these thing that have recently developed and maybe they're a lot more developed today, emerging markets for example are a lot more developed today than they were 15 years ago, but does it provide the liquidity that we're seeking, can we get in and out of a market fast enough. Do all these different asset classes provide those kinds of measures that a developed market economy does or a developed market does, because if it doesn't provide that then diversification is of no consequence. It doesn't matter if you're well diversified, if you can't get out of a market that's losing, if there are no buyers at the end of your self trade... Maggie Ralbovsky: Okay, can you make that assertion that they're not? Gerard Cruz: Well I know that there are more liquid markets than others. I can make that assertion. Maggie Ralbovsky: Okay, can you make that assertion to say, we just think this is the way we're going to do it because we don't think they're going to be developed enough? Gerard Cruz: Well I can make the assertion that based on my own risk aversion, I'm not prepared to take other people's money and put it in a market or in a bucket that I haven't found comfort in because what I know of that market, the liquidity doesn't exist or there are factors of that area that don't make sense to me, that I can say. Maggie Ralbovsky: Okay, so you're trying to say we're making an investment decision and what I'm trying to say here is, can we give us a chance to even evaluate that because right now you're not giving yourself a chance to look at it. Gerard Cruz: No, can evaluate all day long but what you're asking is... Maggie Ralbovsky: You cannot evaluate it, I cannot say, here's the credit bucket, you should make your risk allocation to because it's not allowed. Gerard Cruz: But you're putting the cart before the horse though. You want us to make the change and then we'll do the evaluation. What I'm recommending is that you evaluate and provide the information so that we can feel comfortable in making the change. Maggie Ralbovsky: But that's the next step right? That's the next step. Gerard Cruz: So what step are we on? Maggie Ralbovsky: We're on the step to recognize the changing world, therefore changing the statute and you can move on... Gerard Cruz: Recognizing the changing world first off, I do, changing the statute is a step forward and you're missing a step between the 2. Maggie Ralbovsky: I'm not missing a step. Right now you're coming up on a 15% limit. Gerard Cruz: But you just started lottering the numbers of what the limit should be and by the virtue of saying, okay, you like 35, you like 30 and to Mr. Aflague's question, why did you pick 50, that tells me that anything between where we are and where you want is fine which seems arbitrary.

Maggie Ralbovsky: I recognize the need to take big steps. If it's up to me it's 50%. Gerard Cruz: Well I know, but it's not. I understand. Maggie Ralbovsky: I have plenty clients who are 50/50. Gerard Cruz: And I have plenty of clients who have lost a lot of money, but that's not the point. I'm not willing to put other people's money at risk without having information sufficient for me to feel comfortable to say yes. Diana Bernardo: That's what I was kind of going to say was that to support your argument you might want to be able to say, okay, I have these clients who invest these percentages and this is how they've done in the past, you know something like that. Gerard Cruz: But let's say we do that, let's say we go down that road and say, these guys did it so we're going to do it. Diana Bernardo: No, I'm not saying we're going to do it that way, I'm just saying maybe she should at least give us something that has worked for others. Gerard Cruz: I agree. This is about our fund and we need to feel comfortable. All I'm saying is that I have no problems acknowledging that the world has changed, I'm the first to agree with that and I'm the first to say that there has been changes in the investment world that necessitate us to take a new look at the statute to make some changes, absolutely, but having acknowledged that the world has changed, I need to be sure that the changes that we recommend are based on something other than what Maggie's (Ralbovsky) saying and what we feel comfortable because if something does blow up, I mean it's not going to be good enough for us to say, well Maggie (Ralbovsky) said.

Maggie Ralbovsky: Okay, can we take a look at historical returns of these asset classes? Joe T. San Agustin: What is the 15% return that we're exposed, are we up to 15% or less? Maggie Ralbovsky: We're very much, well it depends on how you define it. Right now you're cheating by defining ETF and mutual funds not in the limit. You're actually working around your own limit right now, that's my next issue. Joe T. San Agustin: That probably is the second one to correct that. I'm talking about with 15% exposure, what is our rate of return? Gerard Cruz: With our 15% exposure in internationals Mr. Chairman, I can answer that question... Joe T. San Agustin: Much more than the 65% or 75% in U.S. Gerard Cruz: That's correct. Joe T. San Agustin: You see. And that basically we want to increase that return by decreasing the limitation. We're not getting as much money as we would on the U.S. versus the non-U.S. Maggie Ralbovsky: You're not, the non-U.S. has been outperforming the U.S. for the past 10 years. Joe T. San Agustin: That's what I'm saying. We want to get more money out on this U.S. foreign investment by increasing our own limitation. Gerard Cruz: You want to have greater exposure in non-U.S. Joe T. San Agustin: Because the returns are much better. Maggie Ralbovsky: The returns are much better and also I just discussed concentration is a risk to the portfolio and I want to increase the opportunity to diversify. Wilfred Leon Guerrero: But you don't have the statistics right? Maggie Ralbovsky: I do. Wilfred Leon Guerrero: If you do I think that's the rationale that these guys are asking for.

Joe T. San Agustin: We're making more money by the 15% than the 65% basically in returns. Wilfred Leon Guerrero: It goes back to Bill's (Aflague) question about why are you agreeing to 50% and 35% and... Maggie Ralbovsky: Why do I, I think anything moving up from 15% is a step up. Gerard Cruz: Yes, but we need to make it in a, we need to just hit a number, I mean because we don't want to just say, okay, let's agree on 20% today and then 6 months from now… Maggie Ralbovsky: The reason any number other than the market opportunity set is just that, 15% is an artificial number. Joe T. San Agustin: That's how much exposure we want to begin with. Maggie Ralbovsky: If you do not want this to be an artificial number, if you want this number to be supportable, you be neutral to the market opportunity set, that doesn't mean we're going to go there, it just means that's the limit. Gerard Cruz: But it does mean that at some point somebody can, that's the scary part. Joe T. San Agustin: Put all defenses down, that's what it is.

Maggie Ralbovsky: Okay, let's move on to the next one and we can always come back to this one. Wilfred Aflague: I want to hear some of the data that the Chairman has asked for, do you have that now or not, if you don't that's okay. Maggie Ralbovsky: It's in the book. Wilfred Leon Guerrero: If you think you have it, you don't necessarily have to give it now. Maggie Ralbovsky: I understand the data as saying how it has performed in the past. Wilfred Leon Guerrero: Because I think that's what these guys are pointing out… The recommendation here is the situation is such that they're asking for justification from 15 to 35… Joe T. San Agustin: Why not 100%. Maggie Ralbovsky: I cannot be 100%. To be neutral to the market is 50%. Paula Blas: 60% to be neutral to the market place. Maggie Ralbovsky: 60% to be neutral to the market place. Here is another principle in investing and that is that if you have no information about anything, you'll be neutral to the market because theoretically speaking, the market has aggregated, the market participants have aggregated all the information available, therefore the market is efficient. If you have no information you are neutral to the market, if you are not neutral to the market that means you have justification for that.

Wilfred Leon Guerrero: Okay listen, Bill (Aflague) said, why are you agreeing to 35 or 50 and it doesn't matter to you. Gerry (Cruz) was saying, there is something missing in that one step to the next step and what these guys are pointing out is that we have to have a rationale why from 15 to 20… Maggie Ralbovsky: I do not have a rationale for that, I have a rationale to go to 50 because that is the opportunity set. If you say I cannot take this opportunity set, I want to go somewhere in between and that is as good as the 15% limit. I don't understand what you're asking me because I already told you my justification to go to 50% is the opportunity set in the market. Wilfred Leon Guerrero: Why did you say 50%? Maggie Ralbovsky: To be neutral to the market. Wilfred Leon Guerrero: Then why don't we just go with that? Maggie Ralbovsky: Because they said it's too much. In response to that I would say, anything above 15% is an advancement, I will support that because if 50% cannot be accepted, I will accept anything in between because that is a step in the right direction, but can those numbers be supported? Of course not, just as unsupportable as 15%.

Wilfred Leon Guerrero: I'm trying to pinpoint exactly what is the problem with this one so when we go back to it we can resolve it. Maggie Ralbovsky: The problem with this one is that we have some unknown risk factors, that's scary because foreign is scary to us, people are always afraid of things they do not know. Gerard Cruz: It's not foreign. It could be foreign, it could be hedge funds, you could be talking about alternatives, you could be talking about any investment class that exists out there and the argument will be the same. You're taking us from where we are today to a brand new level and you're doing it because it is market neutral right, that's the rationale for us to do this. So let's accept that for a second. So we write a bill and we go to the Legislature and the Legislature says, why do you want to go, whatever, hedge funds, forget the asset class, you want to take us from 15% to 50%. Maggie Ralbovsky: I never mentioned hedge funds. Gerard Cruz: Okay, I know but my point is that the asset class is irrelevant, it could be international, it could be hedge funds, it could be alternative assets, it doesn't matter, the fact is that we're going from where we are today to a brand new number which is significantly more, I think we can agree with that and we don't have any rationale except that it's market neutral as a justification for making this significant change. Maggie Ralbovsky: I understand what you're saying because in my mind I do have a rationale but you do not recognize it as a rationale. Gerard Cruz: Well it's not so much us, even if you can convince us, we're not the one's changing the law. Maggie Ralbovsky: Right, so that is because there is a principle that is ingrained in me and I was assuming it was ingrained in all of us as well. Gerard Cruz: Well you see that's maybe where you're off to make that assumption.

Maggie Ralbovsky: So the principle is this, the market is generally efficient, do you agree to that? Rosalia Bordallo: Which market are you looking at? Maggie Ralbovsky: The entire market. The market is generally efficient but there are pockets that are inefficient, I totally agree, there are pockets that are not efficient. You have to agree to that the collection of all the investors in the market place, the collection of them has expressed all the information that's out there that can be expressed upon, therefore the collection of everybody's action is efficient, therefore if you do not have any views you should go with a neutral position and you tweak your neutral position, starting from your neutral position you tweak it, either way because you have additional views, that is one of the fundamentals in a starting point of a portfolio. Paula Blas: She's saying, start at neutral which is 50 or 60, right and then you can tweak it. Maggie Ralbovsky: Neutral is 50/50. Gerard Cruz: I understand that but what does it mean because what you're talking about is theory and where we live we have to pay benefits and that comes from real money, so what does that mean to the participant and what does it mean in the construction of our portfolio? That's what I'm getting at, I'm trying to find the rationale. I understand the theoretical market efficiency theory, no problem, I get it. Maggie Ralbovsky: What matters to the participants is that we use all the tools that are available to us and design a portfolio that takes the most rationale levels of risk for the returns your getting, therefore diversification is your right answer. Gerard Cruz: Okay, agreed. Maggie Ralbovsky: The best way to diversify is to take a look at the opportunity set in a market place and utilize it to the full extent and we're basically sitting here today to say, we know more about this than the market because we do not think international market is as good as U.S. market.

Wilfred Aflague: You're wrong. Gerard Cruz: That's not what we're saying. Wilfred Aflague: That statement is wrong because I'm not sitting here thinking that. Gerard Cruz: Neither am I. The fact that we're talking about international markets is neither here nor there, it's any asset class. When we're making a substantial change we need to have some and I don't know, you can talk theory all day long but it needs to make some real world sense as to why we are recommending 15 to 50%, whatever the number is, it needs to be based on something other than a theoretical... Maggie Ralbovsky: It's not theoretical, this is actual, actual market opportunity set.

Wilfred Leon Guerrero: Okay, I think in your world moving toward market neutral is a logical thing and in this particular case the market neutral is 50%, but in your world heading in that direction, moving from 15 to 50 is good, it doesn't really matter if it's 35%, 25%... Maggie Ralbovsky: That's not true. The second statement is not true. Gerard Cruz: Do you have clients who are not? Maggie Ralbovsky: Who are not 50/50? Gerard Cruz: Yes. Maggie Ralbovsky: Yes you are one of them. Gerard Cruz: Do you have other ones? Maggie Ralbovsky: Yes, actually most people don't go 50/50. Gerard Cruz: Well see that doesn't bode well for your argument then. Maggie Ralbovsky: Like I said, the neutral position is 50/50, people make a decision either way based on their... Gerard Cruz: Well see that's where we're struggling because I hear what you're saying, you want to take us up to 50, I just don't know where that between is or where that number is. Maggie Ralbovsky: I have people more than 50% in non-U.S. Gerard Cruz: But you just said that a majority are not, so we're part of that majority, maybe on the low end, we're part of that majority, so what is the right number and that's what we're trying to fit? Maggie Ralbovsky: What is the right number, that is going to be determined by an asset allocation study. We're talking about a statute, it has nothing to do with what we're going to end up with eventually. Rosalia Bordallo: And this is where Gerry (Cruz) is going, he wants to see the proof to change the statute because if you don't show us proof as to why to change the statute, why change the statute? If you can't show me why change it... Maggie Ralbovsky: Here's why we want to change it, I don't understand why... Paula Blas: I guess the evaluation stage that he was talking about in terms of why not 20, why not 25, why not 30, because we can pick any number but unless you can actually show us where this is going to go then changing the statute is like putting the cart before the horse because of the fact that this may not be the same Board 10 years from now. Gerard Cruz: And that's my concern. I'm comfortable that we will make very rationale and prudent decisions, but I can't make that same promise for the Board that exists... So, while we're here we need to make sure that we put sufficient control bands around.

Maggie Ralbovsky: Can we move on to the next one, I have to come back to this one because right now if we make this limit more logical, you're already over that limit. Gerard Cruz: We're already over which limit? Maggie Ralbovsky: In the U.S. equity, in the equity portion, not the entire fund portion.

Let's move on to the next one and we'll come back to this. Joe T. San Agustin: You need to understand... Maggie Ralbovsky: I understand what you're saying, you're saying that we need to do the asset allocation study first. Rosalia Bordallo: Let me give you an example, when they changed the statute for the equity to bring it up, they had the managers really do what if scenarios, if you had this amount as your allocation amount, this is what you could have gotten, this was your projected return and this was your risk on your portfolio. And that's what we need because that kind of information if presented to whomever we have to justify this to is going to give them something that they can look at and say, okay, this is the opportunity loss or this is the opportunity... Joe T. San Agustin: You could have gotten, if you increased the limitation you could have gotten this much. Maggie Ralbovsky: I understand. Joe T. San Agustin: What are we exposing ourselves?

Maggie Ralbovsky: Let's move to the next portion, the next page, illogical separation of asset categories by investment vehicles. So right now if you invest in the EAFE category which is international equity, you can have 3 ways to do it. Number one way is that you can invest in a commingled fund, another way is you can buy ETF's, the third way is you could actually get a separate account in the same category. Now if you choose the first route, using a commingled fund, you have a limit of 30% and if you use the ETF you have a 20% limit, if you use the separate account you have a 15% limit. Gerard Cruz: Does this make any sense? Maggie Ralbovsky: It doesn't make any sense, it does not. I would propose that we classify the investments by the underlying investments category rather than what investment vehicle you choose to use. Gerard Cruz: There is a reason why this was done this way. Maggie Ralbovsky: Because it was patchwork. Rosalia Bordallo: No it's because you were trying to get around the 15% investment. Maggie Ralbovsky: That is so great, you just proved my point. Rosalia Bordallo: And this is why we're saying, we're not adverse to increasing... Gerard Cruz: And we're not adverse to foreign. Rosalia Bordallo: We're not to foreign as you can see in the portfolio, the problem here is and this is where Gerry (Cruz) is saying, in the future what restrictions do you have for somebody to just go and say, hey if you try to merge everything into one category and say the 50%, where is the restriction? It makes it a little difficult for us but if you work with it... Maggie Ralbovsky: I understand now, I totally understand what you're saying now, but in essence you can see the illogical... Gerard Cruz: It is illogical but it is logical for us to do it this way. Maggie Ralbovsky: But somebody could still invest foreign up to 65%, if I just take full advantage of these things. Gerard Cruz: In theory, yes, in theory you can which proves our point that we're not adverse to being in foreign. Maggie Ralbovsky: Okay, which also proves my point that there's so many, that the inconsistencies in this statute need to be straightened out. Gerard Cruz: And I didn't dispute that in the beginning.

Wilfred Leon Guerrero: Can you clarify these terminologies for me because I'm not sure... Maggie Ralbovsky: You're not sure you understand. Okay so the MSCI... Wilfred Leon Guerrero: No, I understand all that, but your recommendation... Maggie Ralbovsky: My recommendation is not to give limits to the investment vehicle, but to give limits to the asset class. So you would say, hey, you cannot invest more than 15% in international equity but not say, hey, if you use EFT that's okay. Wilfred Leon Guerrero: Why don't you just say it that way, to invest in what limit and... Maggie Ralbovsky: You define the limits by asset class, by the underlying asset class, but not by the investment vehicle because in essence, commingled funds is an investment vehicle. Gerard Cruz: That would make it easy. Paula Blas: It's down here. Wilfred Leon Guerrero: That's what I'm reading and I can't understand it. Okay, so the other way to say this is just the way you said it. Maggie Ralbovsky: That's exactly what I said. Isn't that what I said? Wilfred Leon Guerrero: Can you insert the phrase, "in other words" when you talk to us like this, in other words, give us an example. Wilfred Leon Guerrero: Because we don't have any problem with this but when I'm reading it I don't understand it. Maggie Ralbovsky: Do you understand it now? Wilfred Leon Guerrero: Yes, when you said it that way.

Joe T. San Agustin: What is wrong with having this? Maggie Ralbovsky: What is wrong with having this? The thing that's wrong with this is that investment vehicle is used to implement an asset class allocation... Joe T. San Agustin: It crosses boundary lines. Gerard Cruz: It's fine. Wilfred Leon Guerrero: So if you put it like that, everybody understands and there's no problem, so there is no problem with recommendation number 3. Okay, number 4.

Maggie Ralbovsky: Number 4 is very popular probably because you already did that for the fixed income. You have a clause right now to say that any fixed income manager that's benchmarked against the Barclays every day bond index can invest any securities that are in that index. I want to expand that to include all the other asset classes. You give managers a benchmark, they should be able to buy any securities that's included in the benchmark. That's currently very relevant to the Russell Index, so you have Russell 1000 and Russell 2000 to large cap and small cap managers. Right now your large cap managers are benchmarked against Russell 1000 and your small cap managers are benchmarked against Russell 2000 and Russell as a company provides definition of securities that are in these indexes and in their most recent reconstitution of the index they included securities that have majority of their business in the U.S., but are incorporated overseas. A poster child of that is Tyco, Tyco International, this is a company that is headquartered in Houston, it is an oil service company, but they're not incorporated in the U.S. Gerard Cruz: No, they're not.

Maggie Ralbovsky: They're incorporated in... Rosalia Bordallo: Bermuda. Maggie Ralbovsky: They just moved from Bermuda I thought to somewhere else. Rosalia Bordallo: Antilles? Maggie Ralbovsky: It's one of those places, one of those tax haven places. So theoretically speaking they are international securities, but they're included in the Russell 1000 and Russell 2000 each have about 5-8% of these companies. Then you come to this kind of a complicated thing because, what are they? If you just give the manager the opportunity to invest all of the securities that are in their benchmark just like what you have done with the Barclays Agg, you avoid this kind of a future trouble when an index provider redefined their index.

Gerard Cruz: So in the case like Tyco, could an international manager own that by definition? Maggie Ralbovsky: Yes, the could. Gerard Cruz: So then you run into the risk of potential concentration. Maggie Ralbovsky: Well you have that risk obviously, but you give the, you will give the same definition to an international manager to say, anything in your benchmark you can own but it doesn't mean they can own anything that's outside of their benchmark, they still can. Gerard Cruz: Of course. Maggie Ralbovsky: So you reciprocal this to the U.S. manager to say, anything in your benchmark you can own.

Wilfred Leon Guerrero: Okay, this is the way I'm looking at this thing. The manager says, okay, I don't think I should use the Russell 2000, I should use this... Maggie Ralbovsky: No, you decide on the benchmark. Rosalia Bordallo: You tell them, not they tell us. Wilfred Leon Guerrero: I'm just saying, I'm reading this thing, managers to invest in securities that are in their benchmark, not ours. Maggie Ralbovsky: No, their benchmark is given by you. In other words it is our benchmark. Wilfred Leon Guerrero: Good because I don't have any problem with that.

Maggie Ralbovsky: Okay, so these are my 4 proposals in the order of priority. The first one is the one I really want to get rid of, because the second one I can get around it by using commingled funds, so if you don't agree to that, we can get around it. Wilfred Leon Guerrero: You know on that first recommendation my sense is that to make the Board really understand what is being proposed here and that there is no problem with it. I think what's needed is what the Chairman recommended, what section is this? Maggie Ralbovsky: All the sections are on the first page, all the sections are highlighted. Wilfred Leon Guerrero: Okay. As far as the first recommendation, that's the only thing, cite the section that you would like to see amended or changed or whatever. Gerard Cruz: I like the first one, but the second one and the third one, I think we need to discuss that more. Wilfred Leon Guerrero: Which one? Gerard Cruz: The second and the third. The first one I have no issues with. Maggie Ralbovsky: The fourth one you have no issues with either right? Wilfred Leon Guerrero: My sense is we're talking about different levels here. Maggie Ralbovsky: Okay, I take it and as I pointed out, you can currently get around the second one with the third one. Wilfred Leon Guerrero: The third one, what you need is, "in other words." Maggie Ralbovsky: Yes, but as it has been pointed out, the second one sort of was connected with the third one. Wilfred Leon Guerrero: To me, what we're telling you is we don't understand why is it that it's okay to move to 35 and it's okay to move to... Maggie Ralbovsky: I get it, I get that message. So can I ask for approval on the first one and the fourth one? Wilfred Leon Guerrero: We're just discussing before we make a motion.

These 4 recommendations, number one, I don't think we have any problem with, we all understand what the situation is with that. The fourth one, the way it's written I have a problem with it because it says the managers have to call the shots in terms of benchmark, but the Board would approve the benchmark. Maggie Ralbovsky: In the benchmark given by the Board. Wilfred Leon Guerrero: Right. Okay, that's one and 4. Recommendation number 3, what you need is, "in other words." Rosalia Bordallo: No, no need, they go hand in hand. Number 2 and 3 Maggie (Ralbovsky) understands we need them together. We are accomplishing what Maggie (Ralbovsky) wants already in a very roundabout fashion.

Wilfred Leon Guerrero: You come up with 4 recommendations and you seem to be alright just going along with 2, what's that going to mean if we don't try to adopt the other 2 recommendations? Maggie Ralbovsky: I'll just come back next time to talk about it. Wilfred Leon Guerrero: Then I think we better try to resolve it. Maggie Ralbovsky: I understand the other 2 right now, I understand why there is an issue and I also can appreciate that we can actually get around it by having the 2 together. Wilfred Leon Guerrero: Can we get around it? Maggie Ralbovsky: You're doing it right now. Rosalia Bordallo: We're accomplishing what she wants really. Gerard Cruz: You know before we couldn't invest in commingled vehicles and before the cap on commingled was much... Rosalia Bordallo: 10 or 5. Gerard Cruz: Anyway we raised it to allow for foreign and raised it again to allow for EFT's. Joe T. San Agustin: And we did that by statute. Gerard Cruz: That's correct. Rosalia Bordallo: And it's easier to do that than to try and change... Maggie Ralbovsky: Can we increase the commingled to 40%? You see eventually you're going to come to the problem say if you want to invest in non-investment grade security, you could have your current fixed income manager do a core plus portfolio which would be separate accounts, you could also hire a high yield manager that does a separate account, but it may come to a point that it's actually cheaper to do a commingled fund before a high yield manager and you're using up your commingled fund capacity, so you may come to a point like that but I'm really happy if we can just pass number one because I think that's a huge opportunity in the market you're missing.

Wilfred Leon Guerrero: I'm telling you, what's going to happen on this number one recommendation is the reaction is going to be very strong, but the rationale is very clear, why are you willing to let us own this, but you won't let us loan to them? Gerard Cruz: That makes sense. Wilfred Aflague: I understand that perfectly. Gerard Cruz: I understand. Wilfred Leon Guerrero: That's what we're trying to do is be able to answer that question. Wilfred Aflague: And let me clarify, the question you're going to be asked at the Legislature and I don't think we discussed is, why would you want to invest in a company that potentially or with some for knowledge that they're going to be bankrupt? Maggie Ralbovsky: You're there now. Wilfred Aflague: We're there now? With what? Paula Blas: When you buy stocks because 60% of the market right now she was saying are junk. Wilfred Aflague: Do we know who those companies are? Wilfred Leon Guerrero: Yes, some of them are well known. Paula Blas: Toys R Us, Continental... Wilfred Aflague: No, the question is going to be, if I were a senator is, why would you want to invest in those companies that may potentially file for bankruptcy? Joe T. San Agustin: Every company has a potential for bankruptcy. Wilfred Aflague: Do we have an idea of what companies that we are investing in now? Maggie Ralbovsky: Yes, I can do a screen... Wilfred Aflague: That are closer to bankruptcy... Rosalia Bordallo: No. Wilfred Aflague: We don't. So you can honestly answer a senator's question, do you know of any company on your list that is close to filing for bankruptcy? Maggie Ralbovsky: I do not know. Wilfred Aflague: Okay, that's what I want to know. Maggie Ralbovsky: I do not. I can give you the credit rating of all the holdings of the companies. Wilfred Leon Guerrero: Okay, that's fine. Wilfred Leon Guerrero: And these guys are very smart, they don't call them junk bonds, they say high yield bonds. Wilfred Aflague: But when you say junk bonds at the Legislature... Maggie Ralbovsky: The official name is not junk bonds, it's high yield bonds. Rosalia Bordallo: Well when you go before the Legislature you do have smart cookies there and you say high yield and they're going to say, isn't that the same as junk bonds and once he says that, everybody is... Paula Blas: Everyone is going to know. Rosalia Bordallo: Yes, everyone is going to know. Maggie Ralbovsky: I'm not trying to hide this, I'm just trying to say hopefully something will prevail.

Joe T. San Agustin: The only question is, we really have to look at it as, what is the nature of our operation fund, do we want to own companies or do we want to invest in companies that will give us returns and looking at stocks or bonds, which can give you more and more secure? Rosalia Bordallo: Less risk. Joe T. San Agustin: You're saying bonds are actually higher in payment than stocks. Maggie Ralbovsky: I did not say that. Joe T. San Agustin: In the pecking order. Maggie Ralbovsky: Oh, in the pecking order, you get a higher chance of getting paid back. Joe T. San Agustin: The second, the bond has a better yield than the stock in short term. You're talking about stock appreciation, some companies don't even declare dividends for years and years. Maggie Ralbovsky: You're talking cash yield? Joe T. San Agustin: Yes. Our fund needs the cash flow, we need the cash flow to meet our commitments. If I need cash, continuous cash, I'd rather go with bonds because I for sure I get the money, if I go with stocks I have to wait 10 years before unless I cash it for capital gains. That's another thing, you can sell that, we need a steady cash flow because we need to pay our obligations. I can invest in stocks and forget about it until I'm ready to retire and then I can cash it in. Maggie Ralbovsky: You sweep all the cash right? Joe T. San Agustin: It's a cash flow, we need to pay our obligations. Rosalia Bordallo: All the interest and dividends are swept. Joe T. San Agustin: We need that, that's why I said you always have to sell it. If I invest in stocks there's a long term yield and 10 years from now I can realize my profit or I can get it every day. Rosalia Bordallo: The interest rates. Joe T. San Agustin: Yes. Rosalia Bordallo: Because we have to have high grade bonds, they're not paying...

Changes to Investment Policy Statement

Maggie Ralbovsky: Can I have one more item? Joe T. San Agustin: What's the other item? Maggie Ralbovsky: My other item is that if you recall, I worked with Joanne (Grimes) to review the current IPS and we actually came up with a new version and the Chairman last time asked me to put together a summary as to what has changed and here is the summary. There are no changes of substance, the changes are, do you want me to read it one by one? Gerard Cruz: No. Wilfred Aflague: No, we'll review it. Joe T. San Agustin: So what is the bottom line here? Maggie Ralbovsky: The bottom line here is that... Gerard Cruz: It's just cleaner. Maggie Ralbovsky: Yes, it's just cleaner and more streamlined and also put together more definitions of... Joe T. San Agustin: Is any of this IPS contradictory to the existing statute? Maggie Ralbovsky: It does not, it actually removes any inconsistency. Gerard Cruz: Where there inconsistencies? Maggie Ralbovsky: There were differences, I wouldn't say inconsistencies. Paula Blas: I think what we did was link it. Maggie Ralbovsky: We linked it to the statute. Gerard Cruz: Is this going to the Board for approval this week? Paula Blas: I think that's what she wanted. (End of tape 2)
(End of discussion on the current statute governing GGRF's investments)

Respectfully submitted,

SAH Limtiaco

STEPHANIE A.H. LIMTIACO
Recording Secretary

Affirmed:

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