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Investment Committee, Chairman

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Treasurer
Audit & Operations Committee,
Chairman

Katherine T.E. Taitano
Trustee

James R.F. Duenas
Trustee

David M. O'Brien
Trustee

INVESTMENT COMMITTEE MEETING
DEFINED CONTRIBUTION PLAN
Wednesday, September 25, 2013
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 1:25 p.m. Wednesday, September 25, 2013, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Chairman
Gerard A. Cruz, Vice Chairman
James R.F. Duenas, Member
Joe T. San Agustin, Ex Officio

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor

Investment Consultant Present (Via Conference Call):

Terry Dennison, Mercer Investment Consulting, Inc.

II. ACTION ITEMS

1. August 29, 2013 Regular Investment Committee Meeting Minutes
2. July 25, 2013 Due Diligence Meeting for the Quarter Ended June 30, 2013 Minutes

A motion was made by Committee Member James Duenas, seconded by Committee Vice Chairman Gerard Cruz, to approve the minutes of August 29, 2013 Regular Investment Committee Meeting and the minutes of the July 25, 2013 Due Diligence Meeting, subject to technical corrections. Without objection, the motion was passed.

III. OPEN ITEMS

None

RECESS: 1:38 P.M.

RECONVENED: 1:45 P.M.

IV. NEW BUSINESS

1. Search Reports – Share Class Expense
 - a. T. Rowe Price Institutional Large-Cap Growth Fund (Replacement for Nuveen Winslow Large-Cap Growth Fund)
 - b. ClearBridge Mid Cap Core Fund I (Replacement for Franklin Small Mid-Cap Growth Fund)

Conference call with Terry Dennison of Mercer Investment Consulting, Inc.

Controller Diana Bernardo stated that the Committee would like to address the issue of the fees on the share class. Mr. Dennison stated that the two questions that were asked are inter-related: Do you get the lowest possible share class and forego the revenue sharing, or do you take some revenue sharing to help subsidize the administrative costs. Mr. Dennison stated that currently, the administrative cost is being covered by the 12B-1 Fees and the forfeitures. Looking at the document provided by Alice Tajeron of Great-West Retirement Services (Great-West) there are only two choices of share classes.

Mr. Dennison stated that to get the lowest cost share class for the investor in the fund actually cost all participants money because of the effect that if you pay the higher expense ratio, you don't get the full amount in the revenue sharing. Mr. Dennison stated that the Board had asked the question of whether it would be better to get the lowest possible share class and then have a monthly or quarterly charge for each account that would cover all the administrative expenses minus what the Retirement Fund gets from the forfeitures. The forfeitures are not attributable to any particular participant in the plan. There was also a suggestion of having a flat charge. The issue of a flat charge, for example \$10.00 a quarter per account, if you have a small balance then it's a big hit. If you have a large balance, it's really nothing. There is no way of making it absolutely fair. If you have a \$100,000.00 balance you pay the \$5.00 the same way the person with a \$5,000.00 balance does. But, you pay much more than the \$5,000.00 participant if you have a \$100,000.00 balance. The people with small balances are not charged more than their fair share. The people with large balances contribute more because they are getting more benefits.

The other advantage of going to that approach is because the index fund does not provide any revenue sharing. If you invest in the index funds, you are getting a free ride on other people. The people who are investing in the Small Caps Fund or the Emerging Market Fund with relatively high expense ratio and a high revenue share are subsidizing the people in the index funds. If you invest all your money in the index fund, you contribute nothing to the support of the administration of a plan. The advantage of having a hybrid structure where it's a fixed dollar, then you have to calculate what those numbers are because there is a basis point. If the market goes up you produce more money than you need and if the market goes down it would produce less money. The advantage of doing the hybrid where you pay an amount per quarter per account plus the calculated basis points on the account balance stops people from getting a free ride. Mr. Dennison stated that there is also that question of whether Great-West could assess a flat charge or a basis point charge. Alice Tajeron of Great-West Retirement Services stated that she asked their Great-West team several months ago about what their options were and they indicated that Great-West could work something out. We may need to make some changes to the contract. Mr. Dennison stated that this will be the ideal solution. It is as fair as you could make it and it evidences the Board's thought about fairness and having equitable treatment for all participants.

Controller Bernardo asked Mr. Dennison if by making the change to the \$5.00 and the percent basis point calculation will we have to restructure the funds in our portfolio. Mr. Dennison replied, "Not at all." We will just get the lowest cost share class that we could get. It is a simple transfer and there is no change to the funds. In order to avoid the free riding, go with the one with a higher expense ratio - 86% versus 81% expense ratio. This will give the Retirement Fund a little revenue sharing. Committee Member James Duenas asked whether there is a 15% revenue sharing on the 86% expense ratio. Mr. Dennison stated that it is a 15 basis point revenue sharing.

Mr. Dennison asked Ms. Tajeron to explain, from her chart, the difference between the 12B-1 Fees and the Combined Administrative Fees. Is the Combined Administrative Fees the revenue support or is it the 12B-1 Fees. Ms. Tajeron stated that the 12B-1 Fees would be the revenue support. The Combined Administrative Fees would be a charge. Mr. Dennison stated that the IS Share Class has the cheapest expense ratio and there are no administrative fees. Whereas with the I Share Class you pay more in expense ratio and you pay more in administrative fees. Ms. Tajeron stated that she will clarify this with their Denver Office. Mr. Dennison stated that the obvious choice is the IS Share Class because the expense ratio is 5 basis points cheaper.

Mr. Dennison stated that the question now is does the Retirement Fund want to continue the strategy which is to get a trade-off between the share class that provides a little bit of revenue sharing to cover the administrative costs and avoid the free riding, or have the more complicated approach of getting the cheapest possible share class. Committee Member Duenas pointed out that the chart does not look right. Looking at Class C – the gross is 2.02% and the revenue sharing is 100%. Committee Member Duenas stated that the gross expense is the same as the net expense. Mr. Dennison stated that this is what you would have on a small plan with small assets and it needs to generate maximum revenue share in order to make the plan viable. Committee Member Duenas asked what is the difference between the share classes as far as investments. Ms. Tajeron stated that the investments should be the same. Mr. Dennison stated that the investments are actually identical. The performance will be different because the expense ratio reduces the performance. If the portfolio return is 5%, and you have a 100 basis points expense ratio, the participants are going to get 4%. If you have a 50 basis

points expense ratio, you are going to get 4.5%. Committee Member Duenas stated that if the information on the chart is correct, the IS Class will be more beneficial. Mr. Dennison agreed that if the data is correct, the IS Class will be the obvious choice because it has the least expense ratio. Mr. Dennison stated that if Ms. Tajeron could verify the numbers and provide him with a new spreadsheet he will send a half-page analysis which will be simple to understand. Mr. Tajeron stated that she will verify the numbers and send Mr. Dennison an updated spreadsheet. Mr. Denison stated that if the numbers are different, he will send Director Blas and Controller Bernardo an analysis which discusses the issues. Mr. Dennison stated that it is hard to make a recommendation at this time with the numbers looking the way they do.

Ms. Tajeron stated that with regards to fees, Great-West could assess a flat rate and a percentage basis point back into the fees. Controller Bernardo asked Mr. Dennison whether he is recommending that the basis point fees be reassessed quarterly. Mr. Dennison stated that it is a practical practice to assess it quarterly. Controller Bernardo also asked whether we are ready to proceed with the replacement of Winslow with TRowe Price. Mr. Dennison replied, "Yes."

V. INFORMATIONAL ITEMS

None

VI. OPEN DISCUSSION

None

VII. CORRESPONDENCE

None

VIII. ANNOUNCEMENTS

1. Next Due Diligence Meeting: October 30, 2013

Committee Chairman Leon Guerrero informed the Committee members that the next Quarterly Performance meeting is scheduled for October 30, 2013.

IX. ADJOURNMENT

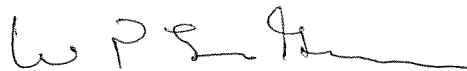
There being no further business before the Investment Committee, a motion was made by Committee Member James Duenas, seconded by Committee Chairman Wilfred Leon Guerrero, to adjourn the meeting at 2:10 p.m. Without objection, the motion was passed.

Respectfully submitted,



JACKIE M. BLAS
Recording Secretary

AFFIRMED:



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