



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY • SECURITY • REWARDS

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

Trustees:

Joe T. San Agustin
 Chairman

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

Antolina S. Leon Guerrero
 Secretary

Gerard A. Cruz
 Treasurer
 Audit & Operations Committee,
 Chairman

(Vacant)
 Members' & Benefits Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

James R.F. Duenas
 Trustee

**Quarter Ended 03/31/13 DC Plan
 Quarterly Performance Meetings**
 April 25, 2013
 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, Member
- Antolina S. Leon Guerrero, Member
- Katherine T.E. Taitano, Member
- George A. Santos, Member
- James R. Duenas, Member

Staff Present:

- Paula M. Blas, Director
- Rosalia Bordallo, General Accounting Supervisor

Other Present:

- Terry Dennison, Mercer Investment Consulting Inc.
- Alice Tajeron, Great West Retirement Service
- Brent Neese, Great West Retirement Service

Economic & Capital Market Environment	pages 2-19
DC Plan Performance	pages 20-28
Great West (TPA) Report	pages 28-41

Economic & Capital Market Environment

Terry Dennison: The bound book we'll use to go through the fund performance but we were able to get an updated version of the Market Environment. We'll start with the Market Environment but before we get into that let me give you some thoughts about where we see the economy and the potential future direction, we're probably going to go back and forth between a few things and there's also a supplemental piece that I'll weave in here. We always start with the well overview, the Global growth continues to be fairly muted running about 2½%, the U.S. is actually the best performing of the developed countries running about 2½ to 3% GDP growth. There has been some slowing in the 2nd Quarter which is interesting looking at the chart market presentation, the last 4 years in a row we've had a slow down in the 2nd Quarter, the 1st Quarter been well and then slowed down. There was a release today purchasing manager Index for the U.S. indicated fairly substantial slow down but that seems to be a kind of cyclical thing we don't think it's a trend that we're heading back to another recession.

Although I would point out the average length of post WWII recession is about as long our recovery has been. So, we're now getting into fairly elderly rebound also has not been a very strong rebound. China is around 10% maybe a little lower, the developed X U.S. is a negative ground principally because of what's going on in Europe down 1 or 2%. One of the interesting that's happen in the last couple of weeks is been the collapse of commodity prices particularly gold. Gold is down 25% the last 2 months part of this was actual selling of gold by some Southern European country simply had to raise money.

The Cyprus case where basically the Northern European taxpayer say we're not going to pay for everything you're going to have to come up with your own money has kind of spooked some people and begun to expect further selling of gold by Southern European countries and actually Portugal has got the 14 largest supply of gold, so sales by countries can be quite substantial. There's also been some force liquidation people are buying gold on margin it just seems to be going up forever if you do it on leverage you can make even more money and when it starts to turn down you get margin calls and they get sold out. Clearly there's a trend following particularly amongst the retail markets there are 2 gold ATF which are very popular as people wanting to buy gold and see it going to the sky and then turn around, they basically started to sell.

Couple of interesting things about gold is obviously fascinated people from prehistory one interesting statistics is all the gold in the world would be a cube 68 feet on the side. All the gold that's ever been mined is a cube of gold 68 feet on the side it fits conveniently in a baseball infield and people say gold is a store of value and great investment of high inflationary periods of distress, but there's an interesting observation that 68 foot cube of gold worth about \$10 trillion dollars if you took that \$10 trillion dollars you could buy all the crop land in the United States and which basically feeds the world. With the money left over you could buy 18 Exxon Mobil's which pays billions and cumulative trillions of dollars in dividends.

So all the people think that gold is a great investment the reality is after 10 years owning 18 Exxon Mobil's you would have a couple trillion dollars in dividends 10 years of owning 68 cube of gold going to have a 68 cube of gold. In the short term we seem to be doing

pretty well really again in a manner quite different from what we see in the rest of the world for a couple reasons we've moderated a little bit we're suddenly seeing a turn around in housing and housing is extremely important in the U.S. economy a principal driver of it.

We are seeing some potential weakness in some of the manufacturing sectors obviously the declining value the dollars versus other currency is intended to help that we do see some continued softness in the employment numbers. Now we've seen the unemployment rate fall but if you look at the unemployment rate that's really been driven by people leaving the labor force the actual decline in the rate isn't as important is the number of people working because it's the number of people working that create wealth.

If somebody leaves the labor force they disappear from unemployment statistic but they also contribute to GDP and we'll see a chart in a little bit that shows how much labor force participation rate which the percentage of population working in a 30 year loan. So to some degree the apparent improvement unemployment really isn't as strong as it might be, the people who are working are working more hours so their beginning to see of some pick up in income when consumer household income which has been one of the slowest things to pick up after the recession has been improving.

One negative factor on health care which has now become pretty obvious in fact companies are basically saying we're doing that is a lot of people who have full time jobs are being cut back to less than 30 hours so they don't have to pay the Obama care premiums. So, that's going to have another hit on unemployment while they'll go from the U-3 unemployment statistic the headline number to U-6 who are the unemployed people or underemployed people working less than full-time. We are seeing a gradual normalization, household balance sheet has improved partly because of default, houses being default upon, some loans being defaulted on but basically with income growing and the economy improving modestly we're beginning to see household look a little bit better we had one group Bridgewater calls a beautiful deleveraging. We not had a kind of deleveraging they had in Europe with 25% unemployment rate social stress we have had the benefit of slow improvement and I think the Federal Reserve for all the people who make noise against them is actually on a pretty skillful job of managing with other central banks.

One way to see this, is the growth of prices of risk assets obviously you see the stock market go crazy actually far beyond what the underline economics would suggest is appropriate, markets have gone up and is actually now 12% ahead of the high before the crash starting in 2007. So, that should recover all of that all adjusted for inflation were about even. So, if you look at the net of inflation bases on purchasing power back to where we were 12% ahead nominal terms but adjusted for inflation we're about the same place.

One of the things that's interesting about housing gives you a sense of how much we're seeing cash go into risk assets is how many of the housing deals are all cash because mortgages are hard to get but as people rebuilt their balance sheet and look at these very attractive house prices they look at depressed housing in Las Vegas or in sand land in

We think it's been adding about 3/10th of 1% of GDP, it's not terribly labor intensive but it is very material intensive you now have train loads full of sand heading up because it's used for hydraulic fracturing process, train loads of sand that used to be train loads of coal are now heading up to Wyoming instead of down from Wyoming so its produced quite a boom in a number of industries. This unfortunately still has little effect on the long term unemployment issues in the U.S.

Those of you who watched the television coverage in the masters saw ads from Exxon Mobil suggesting that in the future 50% of the jobs require expertise in science, technology, engineering and math so called "STEM" and only about 20% of student's are going to have those qualifications. So the reality is we are facing a world where education system isn't producing students that have the kind of skills that the future world is going to need.

And if you can trace that with many of the developing countries China and Indian producing engineers by the bus load, train load pick your image. So I think longer term we're going to have some real issues with our ability to meet the job needs of the future we'll basically have a whole cohort of younger people who frankly are very good at texting but probably aren't all that good at understanding the technology that underlies the texting.

Let's take a look at the debt issues and then will talk a little bit about some stuff on the hand out. Wilfred Leon Guerrero: Can I clarify something, right after you said that people are working longer hours you also mentioned that they're.. Terry Dennison: A lot of people were cut back under 30 remember you can't just average things what you have is a kind of barbell obviously people with a lot of skill where the work needs them for working longer hours, the people being cut back are fairly low skilled people. One of the major theater chains basically said we're going to cut everybody back to less than 30 hours a week well these people are making the popcorn, collecting the tickets, and running the projector.

So you have a barbell the people with high skills. Wilfred Leon Guerrero: Is it happening by sectors. Terry Dennison: It's happening very much by sectors, the people with "STEM" skills, the engineers, mathematician, the scientist are working very hard, and working more hours and getting more money it's the lower end people who don't have those skills that are now being seen as well we can't justify the cost of paying for their healthcare so we're going to move them to effectively to the government. Joe T. San Agustin: The unemployed people are in that category. Terry Dennison: These people have jobs but their under employed and basically don't want to work, they'll find somebody who's willing to work, they don't have unique skills that basically push the price up.

Let's talk a little bit about debt. The U.S. right now is looking pretty good, the long term threat of the debt is staggering and the fact that we've been living on debt and living in an unsustainable environment for a long time. Some of this exhibits I borrowed from other organizations there always cited here. The organization Black Stone did an analysis of the value in terms of growth of GDP of the government borrowing a dollar.

total federal outlay is percent of GDP approach 40% by 2040. Give you a sense of this number right now for France is about 50% you can see the trouble they have.

Going to bounce around little bit take you couple pages down to this chart the colorful one this explains what's going to happen with that. Same day the congressional budget office forecast looking at tax revenues and percent of GDP and what you see is the 3 major entitlement programs by 2050 will basically consume all federal tax revenues.

So, we stop paying interest in the government debt, we defaulted on government debt, there's no more money for defense, there's no more money for anything. Literally the entire tax revenue of the United States has now been consumed by Medicare, Medicaid and Social Security these are estimates from the congressional budget office so when I talk about there's trouble coming down the pipe this is where we're coming from. Wilfred Leon Guerrero: Sounds like you just came from a heritage foundation sponsored workshop.

Terry Dennison: Yeah. If we go back looking at the Sales, Labor and Corporate Profits here's another unsustainable effect. The labor value of GDP is at an old time low employees are not getting their historical share of national wealth. That's part of the reason the household income hasn't improved in real terms adjusted for inflation since mid 1980's. We basically all have about as much money to spend adjusted for inflation on average, if you look at past recovery and look at sales which of course rebound this percent change its a corporate profit troth and look at labor compensation it keeps pace so basically labor gets its share of improving and profits go up also basically labor gets a share and profits get a share. Look at 2008 recovery and how different that is they basically have sales gone up, profits have soared and labor income has lagged. So that's also something that has been very supportive of the stock market basically the stock market has been going up because of tremendous increases corporate profitability.

The reality is that it's really unsustainable you can't just have grow corporate profits to the sky without labor I'm not talking here about trade unions, I'm not talking about labor unions, I'm talking about people as a component of national income. Basically the share of national income going to workers is very different from what it is from most recovery naturally not sustainable. Antolina Leon Guerrero: Is that because of all the cash. Terry Dennison: In part, a lot of this is because again wages have not gone up because of competition from China, other cheaper markets so the reality is the stock market has gone up so much because labor share has been diminished and corporate profitability share of national income this is a component of GDP look at what GDP is made of corporate profitability and that's really unsustainable.

If we look at the jobs coming back the reason why these are not numbered because it was pulled out from another presentation you look at the left hand chart manufacturing employment this chart goes back to 1939. In 1939 of course going to the war years where women started working in the war industry percent of the population in working in manufacturing approach 40% and that number has fallen now to less than 10%. So, when you hear people talk about we would need to reenergize manufacturing to bring those high wage jobs back their not coming back. The reality is now companies are spending a lot of money to buy more robots to streamline their production process if you

Let's talk a little about Europe. Europe is probably 10 years ahead of us in terms of where they have uncontrollable debt it's now producing a serious impact on unemployment as I indicated earlier that Euro land growth the core is probably growing at a minus 1.3 to 1.5%, the peripheral is growing at minus 2.5 to minus 3%. Their depressed economic condition is everywhere, unemployment is high amongst youth in Spain is 58%. The unemployment rate for all workers is 25%, it's a little bit better in Italy the unemployment rate is only 12%, but the youth unemployment is in the 20's, and youth unemployment Germany is 8%. So you can see why the Euro can't work what Southern Europe needs is to be able to devalue the currency and restore not just productivity but be able to restore economic competitiveness but they can't because all the levers are in Frankfurt for the European Central Bank and of course inflation is anathema to the Germans. But what Southern Europe needs is a lot of inflation what Northern Europe hates is a lot of inflation that's why the Euro basically can't stand. We're now seeing Germany might be back to even, but elsewhere particularly now even in France we're seeing significantly below zero GDP growth, the French Purchasing Managers Index which is an important measure of future economic activity is down about 45, the PMI Index 50 is neutral, above 50 the economy is growing below 50 the economy is shrinking. France is losing 30 thousands jobs a month, unemployment is 12% now and growing, factories are closing all over for much of the same reason is the same thing that is going on in California people are just leaving because of the tax situation.

Obviously the deal in Cyprus just seem making it up as they go they said they would never do anything previous even the Greek bail out they left the banks alone in this case they clip the bank customers they said one time only deal and never do it again just making up as they go. And it's now becoming very difficult to see where the tax payers are going to pay and pay because we're now getting close to the German election. The idea that German taxpayers are paying for all this stuff paying for the good life in Southern Europe is very annoying to the good German taxpayers. I think that study that showed German's aren't as wealthy as the French, Spanish, and Italian is probably are flawed because it includes housing data many more people in Spain and Italy own their homes at least they used to and that data was going back to 2008 most people in Germany rent so they naturally have lower net worth but the reality is that the Germans are sick of paying and paying. Seems interesting that they don't seem to be able come up with what is the real answer, what's the right thing to do to solve this problem most interesting quote I've heard on this subject is from the Prime Minister of Laxonberg who said well of course we know what we need to do to fix it the problem is we don't know how to get reelected after we do it.

So, it's no secret what needs to be done it's just politically and probably at some level socially impossible to get the level of austerity that is needed to restore these countries to be in competitive. You also got now this populous threat our comedian politician Badrilio in Italy, various factions some of which Neo Natzli bent in Greece. Cyprus are basically saying why don't we just fall like Argentina did and be done with this there's been some studies whether or not you can actually have a manage default.

Argentina was a country, the problem with Greece, Cyprus and probably a few other Southern European countries is there economies are so inter woven they're contracts

Europe which is legislated happiness I mean there are European countries that have a minister for happiness.

France is legislated a 35 hour week, a month vacation, and have a low birth rate and you are seeing what's happening. You can temporarily increase your consumption of borrowing but pay back is required living standard have to fall we're not talking about falling for a couple quarters or a year or a couple years, but decades to get back to some kind of normality. And debtors cannot return to the good times because they can't borrow and spend more because they can't pay it back with low earnings this is what we are seeing in Europe unless we start to change our behavior go back to that chart. That chart is unbelievable the rate which that's growing and that covers presidents of both parties economic conditions of all varieties so I'd argued that the European long term is pretty good question, do they have a long term?

Before we get to the rest of this material let me talk a little about Japan principally because of its importance to Guam's economy. Japan has been in a 20 year economic malice basically from being the poster child from how to run your economy late 1980's I harken back if you remember going bookstore in 1980' the whole business section sold books "how to behave like the Japanese" thankfully they didn't sell very many of those, so they've been in a 20 year period.

They culturally save a lot, they have a lot of debt both individual level and country level and they have been economic low gear for a long time. They tried various things and there's now a new administration that is basically told the Bank of Japan to have a 2% inflation target which is a big difference from the negative inflation that they experience for the last 20 years they've been in the deflation environment. So, they're stimulating the economy they've got a huge quantitative easing strategy much like the U.S. they're buying trillions of yens worth of government bonds pushing that money back into the economy that's been good for the stock market just like QE3 has been good for the stock market in the U.S.

You increase liquidity people could buy things, they're buying stocks. So, when we get to looking at the returns for the quarter Japanese stock market is about 25%. Unfortunately, the Japanese yen has fallen about 25% largely because there's now a sense that they're trying to produce inflation and inflation is generally negative for currency values. They might be able to get household to buy some risky assets but historically the prototypical when you read about the typical Japanese person it's always Mrs. Watanabe and Mrs. Watanabe is not likely to go out and buy a lot of risky assets, she's just a six pack in the U.S., Mrs. Watanabe is not like you can go out and go crazy with her money, so this is going to be difficult.

The thing that people are missing is yes their injecting a huge amount of liquidity into the economy but there planning on doubling the consumption tax over the next 2 years. And in fact both Bank of Japan and International monetary fund expect Japanese growth to fall from 3% which is a strikingly positive number for them in 2013 to about 1% in 2014 because of the deflationary effect of the consumption tax. And remember they have a 220% debt to GDP number now they been able to self finance that because Japanese are thrifty and basically invest in government bonds. The problem is if rates start to go

commodities you are better off buying stocks than what it is that those companies make or dig up or manufacture.

Go to page 6, the chart on bottom right you can see the 2nd quarter for 3 years and certainly appears to be now for 4 years the 2nd quarter in the US economy has struggled. We appear both for the ISM survey and again the purchase manager for the Index report for today basically indicates that we're in for a bad 2nd quarter for the 4th year in a row. This has nothing to do with solar activity or the faces of the moon we don't know what causes it but the reality is we typically have strong 1st quarters and weak 2nd quarters. But you can see that while it's weaker it's still is better than many of the prior 2nd quarters so the trend is up even though cyclically we're down, the secular trend is up so the US economy is improving.

On page 7, we talked about this previously but here's another graph looking at wage and salary income which is the brownish line versus corporate profit which is the bluish line clearly that is unsustainable when that turns its going to pull one of the major crop out from underneath the stock market.

Let's go to page 8 & 9 talk about the risk of the repeat of 1994. Wilfred Leon Guerrero: Let's go back to page 7. The graph in the upper right that you said is not sustainable. Why is that? Terry Dennison: First of all, the old observation that no tree grows to the sky. That eventually as you can see in this box the lower box over the long-term profits and wages must grow at a similar pace or one would crowd out the other, eventually labor not unions or organized labor, just talking about us are basically we're going to say we want a bigger piece of the pie we're going to make trouble if we don't get it.

The other thing is corporate profitability has greatly benefited from cost cutting not just reducing staff but improving supply change, going off shore for certain activities, becoming much more efficient in inventory management. You don't see huge inventories of anything nowadays. The old phrase was just in time inventory basically if you buy it they make another one to replace it, they don't have huge inventories of things. Now you can still finance inventories very cheaply but nobody wants to have them because they tie up capital.

So at some point here you have to have what's called top line growth you have to sell more you can't just make more and more money by cutting your expenses because eventually you don't have enough expense to function as an organization, you can't lay off everybody. Wilfred Leon Guerrero: You need customers. Terry Dennison: Right, someone has to buy stuff, it's called top line growth because of the financial statement. Wilfred Leon Guerrero: What is not sustainable, the gap or the? Terry Dennison: The gap will close either because wage and salary income has to go up.

Remember what Henry Ford did because of the circumstances when he was building the model T could have paid people very little money but Henry Ford said if my worker's can't buy my cars this is stupid so he paid his employees so they could buy his car. Eventually the brown line is going to go up and blue line can't keep going up because without top line growth remember it's the people with the brown line buying things that makes the blue line work. If you go certainly on the Mainland, I've not gone to Micronesian Mall this

leaving the labor force at the rate they're leaving it you might see unemployment decline even though were not hitting up 2½%.

There's a discussion on page 11 about Japan we talked about this already with a tremendous increase \$78 billion dollars a month, 7.5 trillion yen in QE type purchases their trying to lift asset prices they saw what happened in the US. The US lifted asset prices simply by flooding the economy with liquidity and if they can lift asset prices this is how the psychology goes, if they lift asset prices people would move out of safe assets into risky assets and that's going to produce more inflation and begin a virtuous circle they have been in a bad circle with deflation decreasing economic activity producing more deflation, producing more slow down economic activity for 20 years. So, that's a discussion because of the importance to Guam. Wilfred Leon Guerrero: Where are you staying at? Terry Dennison: Sheraton this time. Wilfred Leon Guerrero: What is the occupancy rate? Terry Dennison: There are a few people around and they're doing okay. Wilfred Leon Guerrero: I think their industry is doing alright. Terry Dennison: I think Japan has become somewhat less of the predominant part of the tourism market here. Fortunately, you've diversified into other Asian countries. Joe T. San Agustin: South Korea and Russia. Wilfred Leon Guerrero: Japan has been going up. Terry Dennison: Well it's costing them 25% more to come here. I go to Europe a lot, I look at the Euro or the pound sterling, if the pound is cheaper we go to the U.K., if the Euro is cheaper we go to the main continent. Wilfred Leon Guerrero: We've seen also Russians and I don't know what's the banning of their Rubo. Terry Dennison: Their Rubo? Well their Rubo now is at least convertible, previously it wasn't convertible you can only spend it Russia. If you go to London now and you go to Herrence and half the people are speaking Russia. There's an enormous amount of money in Russia if you're not particular on how they made it. If you are fuzzy about how your visitors made their money that's one thing, but there's a lot of wealthy Russians. They've pushed up real estate prices in the west side of London dramatically. Wilfred Leon Guerrero: I think our visitors come from the eastern part of Russia, what's that region like? Terry Dennison: Eastern Russia is the area around Moscow and St. Petersburg. Western Russia that's Cyberia in the Far East. If you want to get a lot set yourself up obviously as a Banking haven. Now, being a part of the United States that could be a bit of a problem, there looking for some place to park their buildings. Wilfred Leon Guerrero: You go down to the tourist area and you see white people walking around you're thinking they're US military and now they don't speak English, so they're Russians. Terry Dennison: There is a tremendous number of Russians in London they're throughout Europe. I was in Russia in the beginning of the 1980's and it was a pretty dark and grim place. And of course we were in China a year after that and it doesn't look like it does today. But, the Russians would go where there's nice stuff, if you're living in Moscow where it's frequently minus 40 degrees Celsius and you can come here, if you make it easy for them to come here and if you have money it's not hard to figure out to do that.

On page 12, let's talk about what's going on in the financial markets again very strong returns we still think that and this is the 4th paragraph down again there's four weird looking statements in here, we believe the evaluation still favor equities and other risky assets over bonds and treasuries. Clearly valuation got pretty rich, price earnings ratio in the low 20's. There's risk everywhere although if you look at the VIX Index the upper right hand corner this is the one-year implied volatility in the stock market its down

obviously if the market is like this the implied volatility is high the VIX goes up and the options become more expensive.

The calls become worthless the puts become worth more. If the VIX is low then the option value are less so the VIX statistic is actually derived from the price of the options because people are doing this with real money this is not somebody on a TV show saying I think the market is going to do this or do that this is somebody putting money on the table. So most people are not stupid you know if they're putting money on the table they're doing it with intelligent analysis.

Joe T. San Agustin: How would they take that if any of our Managers would do that kind of stuff. Terry Dennison: Well, they would have to have that in their guideline. Joe T. San Agustin: Some of them might be tempted to do those things. Terry Dennison: They might be tempted to do a lot of things but they know they're going to get fired or sued if they do. You have guidelines and I'm sure the guidelines say no option writing, no option buying. Joe T. San Agustin: I just want to be sure. Terry Dennison: I'm sure it's in your agreement. It's a legitimate strategy, it's not gambling. Joe T. San Agustin: A lot of guys take the 10th floor when they lose out. Antolina Leon Guerrero: Take the what? Joe T. San Agustin: Suicide. Terry Dennison: When I worked for a Bank in Chicago we actually had a guy jump out the window from the 19th floor landed on a roof of a car flat and he actually survived. Antolina Leon Guerrero: Talk about a bad day if you wanted to jump and then you survived. Joe T. San Agustin: I just want to be sure, because some of the good managers just to survive will do that.

Terry Dennison: It's gotten to be hard to produce good returns the markets become more efficient and you do run into a risk that people are going to figure out some way to take more risk with your money because they're afraid losing the account that's why you hire a consultant to keep an eye on things. Joe T. San Agustin: That's why you're around to watch them. Terry Dennison: That's true. Now, the nice thing from that risk perspective since the DC plan is all mutual funds the potential for that is a great deal less, it's the DB plan we're worried about.

Turn to page 14 looking at the fixed income markets the yield curve actually rose just a little bit, bond yields picked up a tiny, tiny bit actually of course because that meant the prices fell a bit, remember the performance chart we saw the bond returns are pretty minimal.

The lower left hand chart page 14 is interesting this is looking at Investment Grade Corporate Bond spreads and they're pretty narrow and basically if you thought the economy was going to turn down and you're lending money you would demand a higher yield because the likelihood of the borrower not being able to pay it back has increased in the poor economy. This chart is basically saying again the market voted with real money is basically saying we think the economy is going to be good for a while yet because the spread between treasuries and investment-grade corporate are pretty darn narrow.

You can also see that with junk bonds. Yields on junk bonds have increased a little bit overtime but the reality is that I'm sorry I've come down in this strange order here. They have come down, prices have fallen so you don't get paid as much for investing in junk

reason, the dollar soars and their economy goes under recession because their exports have slowed down. They're not doing it because they believe in European solitaire, they're doing it for self interest. At some point it's going to get too expensive for them to continue to support that self interest.

Page 19, lower right hand corner looking at Fundamentals of the S&P look at reported earnings. Reported earnings of S&P if you go back to March 2000 just at the peak of the .com boom earnings for the S&P were \$51.00 now their \$86.00 dollars which is substantially better than October of 2007 which is when the market started to crash. 10 year real earnings adjusted for inflation still very strong and dividend yield something very close to the heart of the Chairman dividend yield in the S&P is pretty darn substantial.

In part because companies started paying dividends with a lot of this excess cash since they didn't want to reinvest they wanted to reward shareholders again not because they love shareholders but because they wanted shareholders to hold on to the stock paid better dividends. That might change now a little bit with the change in taxation of dividends where previously dividends were very lightly taxed and it made sense to pay dividends rather than investing in a speculative expansion of the business now dividends are basically taxes ordinary income which is going to make them less attractive.

Turn to page 20, again the global developed market equities were up 7.3%, emerging markets were down 1.6, despite the fact the emerging market across the board had stronger underline economic growth we saw in the developed world. Again, just repeating that the economy is not equal to the market in fact China has been a lousy place to invest for quite a while now although the economy is shortly to challenge the US is the largest economy in the world.

Turn to page 22, we've said in the past and we said this consistently and is proven to be right that we recommend the tilt toward high quality stocks. High quality stocks are again ones with strong balance sheets, strong brands particular in consumer sector, good management the kind of company that feels good to own the general electric of the world, the seaman's of the world. We think that they have got much stronger position if the economies do turn down obviously this tends to favor consumer goods companies over financial companies it favors defensive stocks versus cyclical stocks, I mean the cyclical do very well coming out of the recession but the reality is were five years out of the recession and the cyclical stocks had probably had their run.

This statement is probably more true in the US than outside the US the second sub bullet of the first big paragraph. Outside the US low-volatility/high quality stocks appear relatively expensive. So it's interesting to high quality stocks that will do good in all weathers are better deal in the US than outside the US. We do believe that small caps are expensive both in the US and Europe we would suggest underweighting small cap stocks. Again, it's a pure valuation call that they have done very well coming out of the recession and they just got expensive in terms of price earnings ratio that quality large cap stocks look more attractive than any kind of small cap stocks.

people. Terry Dennison: But, you are seeing an increase in the appetite for risk. The short hand in the market is risk on risk off and of course with the transition from risk on to risk off that's when you see the big decline in the stock market or the big decline in any market.

Right now it's definitely a risk on trade, people are willing to accept significant levels of risk and partly because the returns are less risky asset are so low. If you're a defined benefit plan 7 or 8% target that you have to meet and risk less assets are basically producing no return every year you have no return you're 8% more in the hole. So, the reality is people are literally getting forced into riskier and riskier assets but again the more money that flows in to them the returns diminish.

A lot of institutional investors are looking at things like Hedge funds. The problem with hedge funds it was pretty easy to make a lot of money in the 1990's with hedge funds but, now so much money has flowed in there are so many good deals. If you've got ten times as much money trying to find those good deals the odds that you're going to be in the fund that gets the good deals start to get pretty low, because any hedge fund who take your money is lousy, only hedge funds who won't take your money are good. Joe T. San Agustin: Lending money to people who don't need it.

Terry Dennison: Warren Buffet made an interesting observation about the markets that wise people get in first and dumb people get in last. A lot of these trades are just no good anymore we've seen a tremendous increase in investments in local currency emerging market debt. Buying bonds in Brazil, India or in China denominated in their local currency because the economy were going up, the currency were getting stronger because the economy is going up, so much money has flowed into them that we didn't talk about it because it's not something you could invest in the DC plan.

The reality is it's no longer a good investment we recommend against now making any more investment in emerging market local currency debt because the market is over bought unless it's actually going to become worthless. How much you pay is the most important thing in any investment if you could buy even the lousy investment really cheap and that's what some of the value managers try to do. There's a value manager Brandis they joke about Brandis because they only buy road kill that they are the deepest of deep value manager if it doesn't look like its half dead their not interested, but if they could buy it cheap enough they can make a lot of money. If it's really expensive it's really hard to make money this is the greater fool theory, the greater fool is the person who buys the really expensive thing last and can't find even a bigger fool to sell it.

Page 11 in the bound book some of this is for the benefit of the minutes that you review, the asset classes that you're presenting to your participants and find them sufficiently broad and diversifying the portfolio's can be constructed by the participants to suit their own risk in return. There is something we need to change in this we have the International Bond the Dreyfus/Standish fixed income fund it was international it is now Global which means it also buys US bonds so we need to get it moved down to the Global bonds category.

you line up a series of books you will see a progression of our language I think if they don't improve, the next report is either going to be they ought to be on watch or replaced. Paula Blas: You don't really replace them until they're actually on watch. Terry Dennison: You can replace them anytime you want. Typically monitor is watching real close, watch is cock pistol and obviously terminate or replace is we are going to find somebody new. Antolina Leon Guerrero: This is four quarters. Paula Blas: No, this is the first time we're putting them on monitor. Terry Dennison: Part of this is you don't want to change things based on short term market circumstances. The thing about performance people think this manager just got stupid or this manager just got smart. Managers don't get stupid or smart, the strategy they're following is in tune with the markets in which case they look like geniuses although they aren't or their strategy they're following isn't in tune with the market in which case they'll look like idiots and they're not. So, you don't want to react to something until you've seen it in multiple market environments and if you look at how long if you go to page 27.

You can see in fact literally on page 27 not just the X's but the next 2 columns over number of Consecutive Quarters of Underperformance. You can see that their performance relative to the bench mark has struggle often and struggled for a long time. There performance relative to other funds is not good but it hasn't been not good for a long time they go on and off that list they get a green check and then the red X. If you look at 5 years you dig a hole for 5 years you're not going to get out of it in 2 quarters its either cumulative returns.

So, at this point I think realistically it's time certainly to put them on watch and we might even go all the way to recommend doing a search if we don't see some kind of improvement. Paula Blas: So you're going to leave it for another quarter. Terry Dennison: We're going to leave it for another quarter, this is our advice. Wilfred Leon Guerrero: What do we have in place? Let's say the Board decides to have this Fund on watch. What does that mean? Alice Tajeron: Usually we just receive a letter and we do a search using our plan guideline analysis. Paula Blas: Terry is not recommending to replace them right now, he says to put them on for another quarter. Wilfred Leon Guerrero: What happens if we make the determination to search? Terry Dennison: We would work with Great West to see what's on their platform they've got a broad range. Brent Neese: If you make the decision change. Joe T. San Agustin: What is your input? Wilfred Leon Guerrero: We're looking at something and maybe this can be potentially harmful to you.

Terry Dennison: It's the share class change that affects the commercial deal. Wilfred Leon Guerrero: So, how do we notify the participant that the Board has gain knowledge and we want to share it with the participant. How do we do that? Alice Tajeron: We sent out notices, Mr. Chair once the decision is made. Wilfred Leon Guerrero: I want to know whether the process is institutionalize so that when we have a discussion like this does it automatically funnel to the participant. Antolina Leon Guerrero: I think it'll be similar to when we make the change to target date remember how we shifted the way we were but now this is changing the investment manager. So, to me they're still going to be on a target date fund we're not changing that strategy or what the default option for the majority is, we're just changing whose managing that fund. Wilfred Leon Guerrero: I just hate for a participant to walk up to me and say you guys knew about this thing and how come you never shared it with us. Joe T. San Agustin: We place them on monitor

should do that, it should be part of your administrative responsibilities notifying the participants of the results. Antolina Leon Guerrero: But, they're not going to know what this means and this is going to raise many more questions for me the way I see it. If you sent out that kind of information with just a limited amount of background, I mean the alarming response this gang is going to get is incredible.

Terry Dennison: The danger is that they will leave the target date and go someplace else which is not in their best interest. Paula Blas: As a Board, that's your responsibility to actually to make sure that the menu of funds. Joe T. San Agustin: Do I take that as my fiduciary responsibility for holding back information and should something happen I'm going to take that and go back in. Paula Blas: I don't think it's holding it. Joe T. San Agustin: Then will have a recall on that. Antolina Leon Guerrero: I disagree. Joe T. San Agustin: You knew it six months ago and you put the people on watch or monitor and you never told me. Paula Blas: Now, they're going to say where do I go then? Antolina Leon Guerrero: And what do we tell them when they call and say now that they're on watch where do we go, what do we do? Terry Dennison: I wouldn't respond to that question in any detail. Take a note for the benefit of the minutes that you are becoming dissatisfied with the performance of this fund, not to officially dissatisfy to replace it but that you have officially taken notice that it has performed.. Wilfred Leon Guerrero: Should there be a time limit on this thing you want to watch them for a year, six months, a quarter or what? Terry Dennison: That's a question we often get when we're drafting investment policies the problem with making it mechanical is the reason its on watch can be for any number of reasons. We're suggesting putting the Nuveen Winslow Fund on watch not because of performance but because of a change in the portfolio manager Barton Ware is retiring someone unexpectedly, so I guess we're keeping that one on monitor. They're on here for a lot of reasons we generally discourage mechanical operation, like if it's on monitor for 2 quarters it goes on to watch, if it goes 2 quarters on watch it's automatically terminated that is not a good practice you want to make an intelligent thoughtful decision based on why, what the circumstances are every step of the way not have a mechanical process.

If we loose confidence in the new management at Nuveen it's going to go from monitor to terminate in one quarter there is a lot of reason for all of these. So, I would not recommend making it mechanical as far as notifying people there's arguments on both sides. You now are expressing a concern as a group if you proceed with the recommendation but you've got an awful a lot of money in the hands of relatively sophisticated investors and if you frighten them out of this all their other options frankly are worst for them. This is a multi asset class fund it's got a risk posture that is targeted to their retirement date. It is a structure that they cannot easily replicate on their own they have neither the skill nor the tools to do what is being done here.

If you want to draw the line things go on and off monitor for a number of reasons. If you want to notify people that somebody is on watch and there you've got the cocked pistol that might be a reasonable compromise. You have to decide what you're going to do, but I'm real concern that you're going to frighten people on with this and they're going to go running off to the fund that has the best recent performance. Wilfred Leon Guerrero: We're on record here so you're also recommending that we do not notify the participant. Terry Dennison: Yeah. Wilfred Leon Guerrero: Okay, alright. Paula Blas: That's what

this month our manager research people are going to sit down with the new portfolio management team there and give me assessment of what we think our view would be going forward but Bartlett Wear really was the key player there and I think his departure certainly merits putting them on monitor, but this is not a monitor for performance, it's a monitor to make sure that we're comfortable with the new team.

Vanguard Windsor II Fund we're leaving on retain that's fine, the Franklin Fund maintaining on watch this is another one of those cases if you want to look at the actual performance look at page 32. The Franklin Fund only slightly underperformed for the quarter just a tiny bit below the median, again we don't want just to blow people out it causes a lot administrative issues of having to notify participants and the best example of why we don't want to do that is the history with Windsor II Fund. If you remember we were pretty close to removing them felt that we understood the reason for under performance which had to do with again this issue of their strategy not being precisely in tune with the market stuck with them their on a routine basis and basically it turned in to be a pretty good performer. So, we're not prepared to recommend replacing the Franklin Fund we are seeing a bit of improvement and if you look at the performance relative to the benchmark they underperform by 80 basis points on a base of over 1000 basis points so they're not that far off.

The Baron assets actually recommending removing from watch this is another case of holding our fire and suggest that probably turned out pretty well you could see their performances improve dramatically for 3 and 5 years. For 3 years their 1st quartile and 5 years middle 2nd quartile performance relative to the bench mark has been pretty strong.

Champlain were retaining they continued to be an excellent performer a lot of times in the 1st quartile top 25%. The only other change is Thornburg going directly to place on watch the more critical of the two statuses. Hear the difference in our mind and this becomes a judgment call it could have been monitor or watch the reason we're going right to it is you can see if you go back and look at the performance of the Black Rock Funds they're always a little below the median and always a little below the benchmark but not by a huge amount and in the case of Thornburg if you look at the performance for one year there return is half the benchmark it's really become pretty starkly and you can see for 5 years top of the 2nd quartile so they have gone down in performance relatively abruptly we're not prepared to recommend replacing them but I think of the summit more severe notice taking of putting them on watch directly is appropriate here and again it's kind of a judgment call we talked about it internally but we felt that the message again to ourselves. The message is we're more concern about this because it's not a chronic minor underperformer were seeing a sharp change for being pretty darn good for 5 years again 31st percentile even for 3 years just a little below the median and a little less than the benchmark it's really taken a nose dive again we're not suggesting replacing them. In quick summary that is the set of recommendations it's a little bit more that you're use to seeing but we just wanted to reflect that we're now seeing some trends in some cases we like and some cases we dislike.

Wilfred Leon Guerrero: What is the difference again between retain and monitor? Terry Dennison: Retain means we have no issues we're very comfortable with the people, the process, the strategy, the performance, the risk all of those factors. Monitor is we're

waiting would be but I will say from a national perspective. Number 1 we see this very healthy because we're seeing the people very diversified and heavily weighted to the asset allocation funds which we're going to keep them diversified and obviously equities are much more appropriate long term investment for retirement securities and overcoming inflation.

The only concern as the market absent flow there's going to be more heavily weighted to equities than other smaller plan there's going to be perhaps more volatility again I see this as being a very healthy sign of your plan. We've seen government portfolios that have much as 50% stable value and fixed income and that's horrible again I like to applaud you for that. On slides 8-9 you are going to see the various different funds so now you're going from just the overall asset allocation to this specific funds and the waiting in terms of the total portfolio as well as in dollars for each and so your largest holding is the BlackRock Life Path 2030 fund which has a total of 24.2% I'm looking top page 9, 24.6% as of the end of the year of the entire participants and again the total percentage of participants in the Life Path fund is 70.8% again a very positive perspective.

One thing I will point out in slide 9 black box lower bottom corner you are seeing a relative number of investment option per participant to achieve a diversified portfolio most financial planner will tell you need a minimum 4 or 5 different negatively correlated asset classes as of the end of 2012 your average holding was 1.8 that's of course is heavily skewed because those people that have one option the primary option is target date funds so, again you're seeing a very good overall plan health for asset allocation.

On slide 10, actually we'll just look at the combined so which is slide 11 this is asset distribution of the combined plans and you will see that it drops a little bit to 68% in terms of the total allocation to target date funds. But consistent with the breakout of the 401A Plan and 457 Plan your largest holding is BlackRock 2030 institutional funds. I guess you'll probably have a pretty large number of people retiring somewhere around 2030. There's a lot of detail that I'm going to skip pass but it's there for your reference on the 401A and 457 plans in terms of cash flow on slide 12 and 13 you're seeing the beginning balance, contributions, transfers in, loans, interest, fees, hardship withdrawal other distribution so you are seeing a total cash flow report for each one of the funds that's information there for your reference.

Skipping to contributions you had a total of \$33.3 million dollars in contributions in 2012 and \$29.3 in the 401A plan almost \$4 million was in the 457 plan and your contribution very much closely on slide 15 mirror your overall asset allocation so if you want to see where the buck is going instead of where the buck is you typically refer to the contribution activity but the truth of the matter is that it mirrors very much your asset allocation so would suggest that your asset allocation shouldn't be change dramatically in the next couple of years.

Let skip to slide 21. Your overall plan participation is 13,500 participants obviously the lion share of that in the 401A plan almost 12,000 participants in the 401A at the end of the year versus 1,583 participants in the 457. In a few minutes once we get pass the accounting we are going to give you some statistics and some information how you might

was a 457 deferral they'll match it up with what their expectation will be from the 401A plan. The 17,128 unique clicks will be just an account overview which is very common.

We redesigned our new web which was rolled out to last year and there's a big enhancement that's forthcoming and we'll talk about a little bit. But we redesign the website so that the most common things, the most common clicks are right there in front center when you come in. So, we found the 3 most common things broadly across all our government plans was they want to know, what was my account balance? what was my last contribution? and what's my personalized rate of return? So, there was 3 numbers are the first numbers you're going to see when you come in.

So, that was really quick on purpose it's really just accounting the money in, the money out. I want to give you a real quick update on Great West because it's been awhile since a senior officer been out to visit you and then Alice will guide you through conversation about strategy and what are the things that you as the Board want to focus on communication, education, and just major initiatives for the New Year in goals.

Just real quickly and I apologize that I didn't formally introduce myself and I'll spare you my credentials I am the Senior Officer for Great West government business my predecessor was Greg Seller he did this job nationally for 32 years and retired last year and my wife and I who had been with the organization for number of years moved from the East Coast to Colorado to run the business nationally. I spent roughly 20 years in public market retirement defined contribution plans it's all I have ever done and it's something I'm incredibly passionate about and it's just a great honor to have the privilege to work with you on your plan and promoting retirement readiness for your participants. On behalf of the 32 hundred employees in Denver and the team here on Guam I like to thank you for this privilege and honor and for the partnership that we share with you and it's been a wonderful partnership, there's no friends like old friends it's been a very good and long standing partnership.

I would be remised if I didn't tell you that Great West is stronger today than the day that you hired us, we are larger today than the day you hired us. I was rebid with Terry's presentation I've sat through a lot of those but it's kind of a little bit of everything but it didn't paint a rosie picture of what happened this past 5 years and I'm very pleased of the way that Great West financial as an organization has been under the weather this economic climate we are the only North American Life Insurance Company that was not downgraded during the great recession. So, for the entire 5 year period of time Daughton Phelps, Moodys, Standard & Poors didn't knock down Great West. Today we have the second highest category ratings which is very, very important because not only are you relying on us as your record keeper but we have guarantees related to our secure foundation product where we provide guarantee minimum withdrawal benefits to your employees, those benefits are only as good as our financial integrity of Great West.

Over the course this past 5 years we been growing today we are the 4th largest record keeper in the business but more importantly to Guam we are number one in the Government space and 1.8 million of our 4.5 million participants are government and the only thing that I do is government and the only thing that my team does is government. So, today we record keep the plans for 19 of the 50 states plus the territory of Guam, we

perspective on this in fact they were going to incent or require income projections on defined contribution statements. We decided to spend the money and program a quick calculation and the income projections that are both on the statement and going to be on the web shortly. Take a person's current balance and their current contributions and their asset allocation and they project all of those four using the Monte Carlo simulation to age 67 and that is the default. Now a lot of people say well I don't want to retire at 67, I want to retire early and what not but the default calculation will give them a real quick income based on all those factors.

On the web when they log in right next to their account balance, their last contribution and their personalize rate of return to the right of that is what we are calling RICP or the Retirement Income Control Panel and a participant will see that same calculation but they'll have the benefit and say you know what I want to change some of those things I want to add in my spouses IRA or 401K plan, I want to retire early and so they push the button and they can just adjust these things and then it will real quickly give them their recalculation. And I truly believe and we did a pilot of this during the 4th quarter for a number of our clients we've already seen a change in behavior so people going from I see my income and immediately going and saying I got to increase my contribution or I got to change my asset allocation. So I think the retirement income control panel combined with the income being predominately displayed on statement is a very big leap forward and very important for helping this behavioral finance concept and Spindell advice.

From a plan sponsor perspective, from a Board perspective one of the biggest enhancements and you all will see this not next month but by midyear we did a similar thing for you the Board we are the first in the industry to create a retirement readiness report card and you'll see this again by midyear. Behind tab 10 you'll see a little bit of information about the report card but what we've done is we're going to be able to tell you based on 11,000 members and everything that I just mentioned their current contribution, current assets, current asset allocation will be able to tell you what is the overall plan health, what are those employees on track to replace as a percentage of their income. So, you'll get a graph very similar to what you see at the bottom right hand corner it's a very thorough report that will show you how many people are 70% or more replacement ratio, how many are 50%-70%, how many are 50% and less and that's typically the way that we think of retirement readiness we think of how much of your current income are you going to replace and most financial planners will tell you that you want to target 70-75% plus replacement income as importantly as kind of knowing the overall plan health we're also going to be able to slice and dice this by age and gender.

And so you'll be able to see people that are 20 or 30 years old how prepared are they and so on and so forth. So, you'll see different age bands and as a Board I think that would give you new information to judge how is this plan working, are people saving enough. Wilfred Leon Guerrero: Brent you had a final study and in that study I'm curious and interested in knowing if the projected retirement income is not what the people are expected. What is the normal reaction? Brent Neese: Well their reacting in a positive way in that they're seeing the number they're saying that the number is not enough and we saw 5% of people that went in and did the calculation increase their contributions and so they went right from using that calculator to making a change to increase contribution we saw 15% of the people that went from the calculator go in and change

pretax, payroll, it's easy to do, it's cost efficient and I would say as a Board and not to get too far ahead into Alice's stuff but the two things that you can do because your asset allocation is really good. The two areas to really focus on is improving participation in the 457 so there is a supplement and number 2 controlling the distributions because there's a lot of hardships and withdrawals, I mean nobody is going to prepare for retirement if they're spending it along the way. Gerard Cruz: I think we've cap the hardship, withdrawals. Paula Blas: You just made it a little bit stricter as far as being able to take out hardships but they're still available. Alice Tajeron: In the 401. Paula Blas: But the 457 have loans. Gerard Cruz: I don't know why, but getting people into the 457 it's been a challenge and I think the reason why the allocation in the 401 looks the way it does it's because we created that as a default when we transferred over, when we move people out of stable value as a default we moved them to the target date funds as a default we taken on almost internalistic goal and you can't do that with the 457, you can't require it.

Brent Neese: You can and so it's interesting again I'm getting ahead of myself. So, the State of Indiana, State of Texas, State of Virginia and a lot of cities and again this is relatively new concept in terms of behavioral finance but what they've done is instead of asking participants if they want to join the 457 there asking participant's if they don't want to join. So their turning the enrollment process on its head and what they found is that when you do that 95% of the people say stay in the plan.

So, where as only 17% of the people today are taking the action you know what I want to get enrolled. If you ask it the other way if you said listen we're going to enroll you in the 401A you got the employer contribution and we're going to default you to 1% into the 457B and by the way you don't have to, if you don't want to just tell us, I don't want to and you have a process which we can show you how to do, that they elect not to participate. We are seeing that it's dramatically changing things again I can give you case studies from a lot of the states that are now doing it and we are seeing some of the states are automatically increasing incremental.

Gerard Cruz: So, we can automatically increase at certain intervals. Antolina Leon Guerrero: 1% intervals are manageable. Gerard Cruz: As you get an increment every 5 years maybe increase to 2. Paula Blas: If you change it to automatic enrollment or to an opt-out process that's going to require legislation changes because it's set up as voluntarily 457 plan.

Brent Neese: We can help you research that our legal staff will be happy to take that on for you we've done that government by government there are anti-garnishment issues and things like that can come into play but we are happy to help you. Paula Blas: But, we're also in the process of restating the 457 Plan because we are including the 457 Roth in there as part of an option. So, it's all being done and legal is almost done with and we'll do it all together so we can actually change it at the same time from voluntarily to an automatic enrollment.

Brent Neese: Well, I can tell you again I'm going to turn it back over to Alice because she has some things to cover with you, but I would tell you there is no other decision that you can make as a Board that would have a bigger impact on retirement readiness to

where and how much they should spend down which bucket they should pull from first so that's really they have DB plan, 401, 457, social security it will tell them given your current situation where you want to pull down from your SS first or take it from your DB it tells you. Brent Neese: Don't elect your DB until 65. Wilfred Leon Guerrero: Just is to be clear these were the goals for 2012. Alice Tajeron: No, I am sorry sir these are the industries practices and trends this is what's happening in the industry and everywhere that's marked yes that's where the fund is so basically a picture of where you are in comparison to what's going on.

Brent Neese: It's really just an inventory a lot of these things you may have already discussed before like Self-Directed Brokerage is on there and I'm not sure if that's actually best practice or not it's something that other plans are doing. So we just want to say here's what is out there, most of the things you are doing, some of these things that you're not, the ones you're not doing we want to make sure you are aware of. Alice Tajeron: There not recommendations there just saying this is where you are, these are things that we may have discussed and things that we can potentially discussed. Wilfred Leon Guerrero: I don't want us to be in a position where you're recommending stuff and we keep ignoring it and like the automatic increase is that something that was recommended last year. Alice Tajeron: It wasn't recommended. We've not made recommendation here, we're just showing you where you are compared to the industry and what other plans are doing and what's out there the practices and trends, so on my comments side these are just are notes. Katherine Taitano: Issues and topic before that we've been discussing they're in the deep or have been discussed before. Alice Tajeron: Yes. Brent Neese: And in both, the first two which we talked about which is auto enroll and auto increase again if it was possible we will certainly would recommend that and it would change your retirement readiness if that's something that you can do that will take discussion, possibly legislation it's nice to do these things all together. Alice Tajeron: And as things change Mr. Chair these are items for you if it's applicable to what it is the Board wants to do. Wilfred Leon Guerrero: Can you check the one about the automatic increase because some people at the Chamber of Commerce are saying that this Board has known about the contribution being made to retirement plan of DC people have been low and the Board has not done anything to increase it, that's where I coming from.

Brent Neese: This slide will be the first time that we presented this to you so it's not as if you have ignored this, is that what you're getting at. Wilfred Leon Guerrero: No, there's criticism that the Board has not done anything about increasing it. Antolina Leon Guerrero: Which is erroneous because we spent 3 years looking at options to figure out a way to address that. Paula Blas: And the hybrid was a way to addressed that. Wilfred Leon Guerrero: I just want for due diligence purpose to make this thing clear. Alice Tajeron: That's an option for the Board that requires discussion with the Board because there's going to be legislation and policies change so that's what I'm trying to indicate here that this is not a recommendation we can discuss it this is definitely something that you might want to consider it's out there for you to discuss.

Brent Neese: And it is a new trend and the states that I've mentioned that have done this, have done this in the last year to two years and in fact it came out of whatever created the qualified default investment option (Terry help me out) the legislation that created. Paula Blas: I think PPA. Terry Dennison: Yeah, Pension Protection Act, PPA. Alice

2012 goals what we have accomplished. Alice Tajjeron: On page 7 our scorecard on metric and objective these are the ones we have discussed.

Wilfred Leon Guerrero: This is the one we've discovered that you keep recommending. Alice Tajjeron: That was the reality investing with managed accounts that was the one we had been recommending and talking about and then the Board took action along with the inclusion of the 457 Roth. I do understand, I do recall the discussion with regard to this line up here called. Paula Blas: I know what it was "best practices". Alice Tajjeron: Best practices the issued that you had was last year was term best practices so that was deleted from industries and we just indicated industries practices and trends, as oppose to best practices. Brent Neese: Which is more appropriate, again some of these we just want the Board to know what's available.

Wilfred Leon Guerrero: I just want to make sure that the Board knows that they either take action and there's a reason for it. Gerard Cruz: Maybe at the next committee meeting we go through the ones that we don't do and make a decision to whether or not we should explore it further or. Alice Tajjeron: Just to let you understand it's not a recommendation. Gerard Cruz: I understand that. Paula Blas: But, these are just topics to discuss, they're just going to discuss it. Antolina Leon Guerrero: There are reasons why we do certain things like the Self-Directed Brokerage it's a conscientious choice on the Board, not to do that. Paula Blas: But just to refresh their memory as to why they're not doing it or maybe it's time to revisit. Antolina Leon Guerrero: We can have a special meeting, Gerry and Cathy could have a special meeting just for that. I think it's just Gerry and Kathy that should meet for that with Alice somebody from investment and somebody from M&B, its perfect.

Paula Blas: I definitely want to look at the online enrollment. Alice Tajjeron: What I can do is I'll print this out again I'll redo it and I'll just provide it. Brent Neese: It's a file format that will empower us to do on-line enrollment, on-line deferral changes and what not, so it's the way in which we exchange data, literally payroll data inter-change, it's the way which we interface with the 50 different payrolls. And so it's better technology and it allows us to do more with the technology, it makes it easier once you set it up but there is a bit of a hurdle when there's a set up we would have to send a team out here to work with payroll administrator's to do that. Most of our client's that go through it, it's the gate way to getting all the on-line stuff turned on, on-line increase, I definitely think that's one that's worth a really good discussion. Alice Tajjeron: We could do autonomous agency GPA as a test. Brent Neese: We don't have to do it on all 50, some could choose to do it, some could choose not to. Paula Blas: Payroll centers just hearing that. Brent Neese: It also allows for certain level of target marketing that you can't do now. So, there's a list of things that you can do once you have that interface set-up. It's kind of like setting up the monitoring that you did, once you put this market up there's lots of things you can do, it's a pretty good analogy, but not necessarily easy to get to. Alice Tajjeron: So, are we good, any questions?

Alice Tajjeron: On to slide 6, Brent had discussed briefly the things what we've been doing with technology he was describing this. Brent Neese: So you can see I've talked about the three things that people look at most what's my balance I apologize it's a real eye test, but on the top left hand corner you would see the daily balance, the

Integration, Payroll Center Bridge and so forth this is all ongoing as well as your Hybrid legislation. On slides 30-31 that's just an overview of the types of seminar line-ups we have printouts, handouts and actual power points seminars we conduct, marketing campaign as well. Any questions/comments?

Terry Dennison: Quick question if somebody is out in the field I'm just looking at rather the performance in BlackRock and Secured Foundation given the Secured Foundation performance is significantly better than the Black Rock just numerically, why do you have less than 1%? Gerard Cruz: Default. Terry Dennison: But, I mean at some point it's got to get through people heads that not only you get a lifetime income it's actually producing better returns. Gerard Cruz: It's relatively new also, right. How long did we have Secured Foundation? Paula Blas: Less than a year.


Brent Neese: I like to submit, obviously the default is huge and you started the discussion today to take a look at whether or not BlackRock is long term as you have that discussion at the next Board meeting the Secured Foundation target funds are fantastic alternative 10 years prior to retirement there just all index target date funds so there very inexpensive, very good performing its within 10 years that the guarantee applies so it's something to consider.

Terry Dennison: That is an option we said there is no competing fund but there really is. Alice Tajeron: We could map it. Terry Dennison: The discussion of do you want to advice the participants about the watch status. Again, I wouldn't but the question is there a competing fund indeed there is. If this being recognized is actually the same kind of animal in a broad sense this BlackRock I'm just surprised it's got about \$220 thousand dollars out of \$24 million dollars is invested in the target date fund. Alice Tajeron: Our participants don't want to do anything it takes a lot.

Brent Neese: Outside of the investment advisory services the counselors are prohibited of saying you should go in this fund, they can say you got a couple of target date funds here's the performance of this one, here's the performance of this one, but they can't say Terry you ought to make the switch the Board doesn't want that. Joe T. San Agustin: You can present to them that they really don't have a choice. Paula Blas: No, that's not the way we want to present to them. Brent Neese: We can certainly educate them to the difference as it turns. Paula Blas: Which we do. Alice Tajeron: We do. Paula Blas: You can't specifically tell them, you need to put it in here. Katherine Taitano: You can't recommend. Alice Tajeron: No, we cannot. Gerard Cruz: Well, thank you. Paula Blas: Are we done? Alice Tajeron: Yeah, we're done.

Respectfully Submitted:

Affirmed:


Rena Cruz/Marilyn Aguon
Recording Secretary


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