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Defined Benefit Plan
Quarter Ended March 31, 2013 Performance Meetings
& Annual Investment Manager Reviews
 May 29, 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, Trustee
 James R. Duenas, Trustee
 Antolina S. Leon Guerrero, Trustee

Staff Present:

Paula M. Blas, Director
 Diana T. Bernardo, Controller
 Rosalia T.L. Bordallo, General Accounting Supervisor

Other Present:

Doris Flores-Brooks, Public Auditor
 Maggie Ralbovsky, Wilshire
 Rob Lund, Income Research & Management
 Jeffrey Detwiler, Garcia Hamilton

Economic & Capital Market Environment
Income Research & Management
Garcia Hamilton & Associates

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Economic & Capital Market Environment and DB Plan Performance

Paula Blas: Maggie, start with good morning. Maggie Ralbovsky: Good morning, I'm going to start with. Wilfred Leon Guerrero: Before you get started Maggie, I don't see on the agenda what the heck is this Great West, is it Great West? Gerard Cruz: Oh no, MetWest. Wilfred Leon Guerrero: MetWest, are we going to discuss that? Maggie Ralbovsky: We are going to discuss MetWest and Winslow, both have very severe negative changes. Gerard Cruz: Winslow? Wilfred Leon Guerrero: I want to make sure that Gerry is here. Maggie: Yeah so you want to talk about those first? Wilfred Leon Guerrero: No, no I just want to make sure Gerry is in attendance. Gerard Cruz: I will be here. Maggie Ralbovsky: You're leaving at noon right? Gerard Cruz: I am leaving at noon. Maggie Ralbovsky: Let's talk about the quick update. Wilfred Leon Guerrero: No let's do the agenda first so we know. Maggie Ralbovsky: Oh I'm sorry. Diana Bernardo: Do you have an agenda? Maggie Ralbovsky: I do not have an agenda. Maybe I do have an agenda. Oh I do have an agenda. Yeah economic and capital market environment, right Mr.Chair? Wilfred Leon Guerrero: Yeah but when are we going to get to those guys? Maggie Ralbovsky: Those guys will be the DB plan performance at 11:00. Wilfred Leon Guerrero: Oh and we're going to do it during the DB Plan? Maggie Ralbovsky: Yes. Wilfred Leon Guerrero: Okay.

Maggie Ralbovsky: Page 3, I want to give everybody an update from the research topics. The first page on page 3 is the assumption asset class assumption change. Every quarter we update this and listed on the first column is the 2013 expected return and the change is represented in the change column. So you can see that we downgraded equity returns slightly because of the very strong performance. We also upgraded you can see inflation slightly even though I think it's very slightly, it's very hard to say that's going to be the case. We know today bond market sold off, significantly sold off because the data was very strong. So we may be surprised at some point this year when the market starts to price into inflation. I want to give you also a quick update as to how return projections are made. You can see page 4, this is the long term real return since 1881 the stock market returned 6.7% on average. This is a 10 year trailing real return, so this is a 10 year rolling return. Now if you decompose the 6.7% on the next page, you can see that a 6.7% is composed of 4.4% dividend yield and 1.8% real earnings growth and 0.4% PE expansion. PE expansion means that you know 100 years ago every dollar of earnings may be worth 15 times, so a person who buys a stock will pay \$15 for every dollar of earnings and sometime later this year it becomes 15.4%, 15.4 times that's what PE expansion means. Means how much more the market is willing to pay for every dollar of earnings. And that is a one time item you cannot count on that. So if you focus on the other two items for the real return, dividend yield has been a very major part of long term real return and real earnings growth. And real earnings growth it is widely agreed upon that real earnings growth in long run converges with real GDP growth because the companies in an economy can not collectively grow faster than the real GDP. So if you think of current real GDP growth is less than 1%, the current S&P dividend earnings is around 2.1% you are looking at a very much lower real return for the future than for the past, because you can think of that the fed has mortgaged the future for to save us from the financial stress because they really have made the yield so low which is an indication of future return.

Now the next item is the funding study. Every year we do a state funding survey and you can see based on the 109 state retirement systems, we collected data for maybe the next page is better page to look at. Page 7, the bottom chart is the funded ratio based on either the both market value and actuarial value. Actuarial value is a smooth valuation some systems out there adopt a smooth technology, smoothing method. So if they had 20% loss this year we do not recognize the loss in 1 year they sort of smooth it out you know recognize it in 5 years. And that's why the actuarial value looks a little bit better because some of the market loss in the past 5 years has not been fully represented in the smooth value. So if you look at the market value which is the blue line, majority of public funds are in the range of 50 to 60% or should call 60% funded, that looks like to be the load 60% funded ratio. I do want to put that into context. Our plan is about 45, 44% funded. However, the discount rate for these plans are also different. The average discount rate used by public pension funds is 7.75% and I do believe our discount rate is less, its 7%. So I think if we use 7.75% that will put us right in the mode of 50, 60% funded.

Gerard Cruz: Yeah. Okay. Maggie Ralbovsky: The next page is the average asset allocation. The average asset allocation you can see that U.S. Equity is 28%, International equity is 20%, so if you add those up it's about 48% in equity. And we know that we have about 60% public equity plus the REITS. So, Government of Guam fund GGRF has about 70% equity. The average of 48% equity however does not include you can see the private equity. So if you add private equity and the real estate it's very similar sort of 70 30 kind of allocation as well we are having the only the difference is that the universe collectively is more diversified in our current asset allocation, our current asset allocation is basically 3 asset classes. We have global equity, fixed income and real estate. And real estate is being represented by public traded REITS and you can see the universe comparison has a lot more asset classes represented. And I'm really hoping to push forward our initiative so we can further diversify. Antolina Leon Guerrero: I'm sorry you are saying the universe is much more diverse, what are you saying? It seems it's equities and fixed income and.

Maggie Ralbovsky: So, you see the other category over there. And you can also see there is non-U.S. Fixed income, there's private equity. Gerard Cruz: Private equity. Non-U.S. and other. Maggie Ralbovsky: And the other categories actually has been gaining. Gerard Cruz: Real estate is represented by REITS? Maggie Ralbovsky: It's not. Most people are having maybe half half real estate mostly are not represented by REITS. Gerard Cruz: So what would be real estate? Maggie Ralbovsky: It would be private real estate funds. Gerard Cruz: Oh so an actual investor. Maggie Ralbovsky: That's right. So you don't have to buy properties yourself, you could participate in open ended funds and they would pass through the rent from these properties. And those will be more stable in terms of valuation because REITS actually use a lot of leverage. REITS tend to have like 60 70% leverage and those private real estate funds tend to have less leverage, so REITS are more volatile. So in 2008 for example, REITS adjusted in like 20 minutes REITS adjusted for the whole years drop and private real estate took long time for the appraisal data to adjust down. Gerard Cruz: Sure. Wilfred Leon Guerrero: Maggie, can we go back to this return. First of all, why are we going back 130 years? Maggie Ralbovsky: Why do I do 130 years? Oh for this one, this is just the public data available. We didn't pick 1881 per say, but this is the long term. You see it's very stable in this range. Well stable is a relative term it's sort of in this range. Wilfred Leon Guerrero: Okay. Because you change the times span and the average will change but okay so it's the average return is 6.7. Maggie Ralbovsky:

6.7 is the real return. Wilfred Leon Guerrero: Is there any implication to our expected return of 7.5? Maggie Ralbovsky: 7%. Wilfred Leon Guerrero: Are we supposed.

Maggie Ralbovsky: I have an answer to your question directly, you're expected return 6.6% actually I calculated in this file. But based on this projection, for the next 10 years our expected return for your current asset allocation is 6.6%. Gerard Cruz: Our actuarial expected is 7% right so we're short. Maggie Ralbovsky: That's right. Does that answer your question? Wilfred Leon Guerrero: Yeah, I'm just. Maggie Ralbovsky: This is the market. Wilfred Leon Guerrero: Right now I understand but when you talk about you know this unfunded liability and what have you. I'm getting to the point where I'm looking at these things now and their just numbers. Maggie Ralbovsky: Okay, so what does that matter to you is your question right? Wilfred Leon Guerrero: Yes. Maggie Ralbovsky: Well what matters to us is that we know we need to reach 7% that's our goal right. With the current asset allocation we're getting 6.6% we need to do something right. So there 2 things you could do. You could increase the risk you're taking and we know we are already taking a lot of risk, in my view you have 70% in public equity, so. Wilfred Leon Guerrero: Yeah so that takes us back to my original question, this time period here, you have 6.7 average but that goes 130 years back. If you change the time period that can change.

Maggie Ralbovsky: Okay, if you look at every data point on this red line these are 10 year number okay. So if you look at the most recent 10 years it's actually below 6.7% right. And in a 10 years ago and if you look backwards 10 years it's actually less than zero. One point 10 year return was zero less than zero you see that. And 20 years ago it was above zero double digit above zero, right. So you could draw your own conclusion as to what time period is more relevant but to me this pattern is pretty consistent. It's in a wide range it's in a range and we wanted to observe how this average was achieved in the past 130 years, it was you know you can dissect it into dividend yield real earnings growth and its expansion and you cannot count on PE expansion and we know the current real earnings growth is 1% or less. Dividend yield is 2.1% which tells us the 6.7% may be a very high number. But I do want to point out this is the real return so there's inflation on top of that. And so the 130 years inflation is about 2.5% so you add to that, that would be the nominal number. And our 7% return projection or expectation, our goal, our target is a nominal number so there's inflation component in that.

Antolina Leon Guerrero: I mean I think you know it's just over time what I gather is over time I mean it just sort of averages out to this 6.7 so I mean I think if we looked at 50 year gap if we looked at 40 year gap we're going to see that it comes back to 6.7 and I think the point that Maggie's been trying to get us to consider over the last few quarters. Rosalia Bordallo: Can I ask. Okay the 6.7 over time has dropped, it used to be 8 over time. Antolina Leon Guerrero: Well she's saying this is real return because if we did it if she had included inflation it would be 8%. Rosalia Bordallo: But what I'm saying is no. Maggie Ralbovsky: She's right. You're right if you delete the last 10 years this average would be higher right. Rosalia Bordallo: Okay, so my question now is now that the market cause you're only going up to 2011, the market in the last year and a half almost has been shooting up, how does that affect this number?

Maggie Ralbovsky: This is actually not 2011, this is 2012, this is end of 2012. So, it was a 10 year. Paula Blas: These are 10 year intervals. Maggie Ralbovsky: The data stops at 2012 because 10 year number becomes positive at end of 2012. Well these

are 130 year averages you know. You can say that a couple years data will shift a little but it's not going to shift dramatically. Right. I think more important is not absolute number 6.7% but how the absolute number was achieved. And you can see there's a drastic difference between the historical condition versus the current condition with regard to the eve out there in the market place.

James Duenas: So on 2012, what was the return? Maggie Ralbovsky: On 2012 the 10 year return. Paula Blas: For the fund? Or for? Antolina Leon Guerrero: For the universe. Maggie Ralbovsky: Well obviously its somewhere for the 10 year returns right it's a little bit below. Well this is 10 year number, this is 10 year annualized return so it's right below 5% with 10 years. Rosalia Bordallo: Because the major part of the 10 year period is a really down period, the crash in 2005, 2006. So if you're looking at a 10 year period you know, you have almost 5 years of bad years, really bad years. Maggie Ralbovsky: Well the market crash is actually not unusual for the past 40 years there were 20 year period that. Rosalia Bordallo: I can see that. We have the 21, we have 41. Maggie Ralbovsky: Tomorrow I actually have a chart to show you how much the draw down you see it happen very frequently. Wilfred Leon Guerrero: And this 6.7 is on equity? Gerard Cruz: No total, yeah it's odd. Maggie Ralbovsky: Equity only. Gerard Cruz: The S&P pretty much right? Wilfred Leon Guerrero: What about fixed income? Maggie Ralbovsky: Well fixed income maybe even more dramatic right. Right now 10 year well today after sell off is 2.1%. Wilfred Leon Guerrero: Okay.

Maggie Ralbovsky: Okay, so I guess the message I want to send here is that we really have a need to more diversify the asset allocation and I think I really wanted to have us take a step to push forward our statutes initiative so that we can take these opportunities in the market place. Right now we sort of have our hands down, we can't really do anything. Should we move on? Okay. I'm going to skip the corporate funding study we also did this for the corporation but it's not a very relevant data point. I want to go to page 14. Page 14. Okay. Page 14. Some data points as of end of March. I circled the inflation number and you can see inflation has not really been a problem so far, the Fed also has made it clear to the market that it does not want to increase interest rate tighten condition until there is a 2.5% inflation or 6.5% unemployment rate. Today I think unemployment rate is a 7.2, 7.3% and inflation you can see the running rate is very low, it's below 2% and the market is currently pricing into 2.3% inflation for the next 10 years. So the expectation right now in the market place is still very benign in with regard to inflation. I do think that expectation is subject to change when data comes along maybe towards end of the year, the market may re-price that inflation risk. Today is a good example the 10 year treasury sold off significantly. The government bonds was down 1.5% this month, month to date. 1.5% of bonds you know in 1 month is pretty severe. So that means the market is recognizing an increase in risk of inflation so it's trying to price up the yield curve on the long end.

We do currently have a pretty significant allocation into core bonds and core bonds alone and core bonds you know it's the least protected category in the bond market for inflation shocks because it doesn't, it's not like high yield had some upside on the growth adjustment. Core bond is basically one for one nominal bond prize. So that's another point I do have concern of I do want to diversify into some other categories in fixed income. Gerard Cruz: Are we able to do global? Maggie Ralbovsky: We can't. Rosalia Bordallo: No you can. Maggie Ralbovsky: Well. Rosalia Bordallo: You can at

foreign. Maggie Ralbovsky: But it has to be high grade rated. Rosalia Bordallo: Right. Maggie Ralbovsky: Right. So then what's the point? Gerard Cruz: So we can't do high yield? Maggie Ralbovsky: That's right you cannot do emerging debt. Rosalia Bordallo: That's a matter of policy out. Gerard Cruz: Policy? Rosalia Bordallo: Well yeah unless they change it and then it goes to Legislature. Paula Blas: Oh you mean investment. Rosalia Bordallo: Yeah you need to change your policy and then go to Legislature to change the law to allow for high risk, because that's what it is.

Wilfred Leon Guerrero: You're looking about a time period here of at least 6 months. Maggie Ralbovsky: Well we have already been talking about this for 2 years right a year and a half. Wilfred Leon Guerrero: Yeah, I know that but I don't know here. Gerard Cruz: The high yield is that part of legislation that's stuck? Maggie Ralbovsky: Right. Wilfred Leon Guerrero: I know that you've been pushing this thing and that we've been having all kinds of discussion about it but the bottom line is that unless the legislature changes the law, we really can't do anything. Maggie Ralbovsky: Right, that's why we have to take a step to introduce the law right, it hasn't been introduced how do they approve it? How do they change the law? Wilfred Leon Guerrero: Where are we, I think the recommendation is that it's been already sent down to the legislature right? Gerard Cruz: It's already been approved by the board.

Antolina Leon Guerrero: But it was already approved at the last board meeting. It was really when that light went on when Maggie, when she explained and all of a sudden everybody was like oh we're actually going to make more money and it's going to cost. I mean the light went on and that you've been talking about it for 2 years but we. Maggie Ralbovsky: It was approved two quarters ago, two quarters ago. Wilfred Leon Guerrero: The way we were perceiving is that we were trying to protect what we got and when you said well you could make more money that's when. Antolina Leon Guerrero: Legal counsel has been looking at the legislation right? Paula Blas: No, it's done. Its ready to be transmitted but we had some reservations you know from the Chair, with regards. Antolina Leon Guerrero: In terms of the time. Paula Blas: And just the content of the law, he was stuck on the. Gerard Cruz: He was stuck where? Paula Blas: You know the prudent portion of it. Antolina Leon Guerrero: Did we address it though? Paula Blas: All it really is. Yeah we tried to tell him, just that word alone is. Gerard Cruz: He doesn't like it? Paula Blas: So I said maybe we should just change that word, because all it is really just talking about an individual. Gerard Cruz: A reference and it's an intent it's on the intent so it has no. Paula Blas: From a fiduciary standpoint you're just being prudent not necessarily the whole modern portfolio theory. Maggie Ralbovsky: You know not necessarily the case although it's good to leave it that way, you could interpret that way you know. So. Paula Blas: He'll be here tomorrow, so. Wilfred Leon Guerrero: Can we pin point exactly what needs to be done. Paula Blas: He'll be here tomorrow, so we can pinpoint from him exactly what it is. I know from the last discussion I had with him it had to do and he even brought it up at the board meeting because there was a board meeting where he wanted to move forward and he said hold off, he had an issue with it. Gerard Cruz: I think that was the last one right? I think though, I think the issue was timing. Paula Blas: Timing and.

Wilfred Leon Guerrero: We've been at this thing for 2 years, but even if we all the board agrees we can't you're looking to me at least 6 months, and by that time I don't know things, the market would have changed. Maggie Ralbovsky: Well if we don't do anything 6 months it won't happen right so we have to do something. Right. Wilfred

Leon Guerrero: Can you go back to this economic review? Maggie Ralbovsky: Yes. Wilfred Leon Guerrero: Okay, the statement here says the Fed's will continue to be aggressive and what have you, as I understand it the market right now is pretty much being propped up by the Fed's right? Maggie Ralbovsky: Yes. Wilfred Leon Guerrero: What does that mean? Maggie: What does that mean? That means there's a lot of money in the system, it has to buy something because if it sits in cash it earns zero. It basically earns negative if you're figuring to inflation. So that's exactly the strategy the Fed has been using is to encourage risk taking because risk taking means it pushes up asset prices and make investment more profitable because the country after 2008, the problem was a lack of demand, right. There was a lack of demand on all kinds of things because people had to delever they had to pay off debt. Wilfred Leon Guerrero: And the Fed's are doing it because they are trying to bring down unemployment.

Maggie Ralbovsky: Right. Because there's no activity. Wilfred Leon Guerrero: And they're. Maggie Ralbovsky: Bring down interest rate. Keep it that way, keep interest low that way so that people can buy risky assets. Because you have less of an incentive to keep your asset in a safe place, there's no return in a safe place. And the Fed was telling you go take risk, I'm going to protect you on the down side. Wilfred Leon Guerrero: And this is basically been Obama's. Maggie Ralbovsky: It's not Obama, this is Bernanke. Wilfred Leon Guerrero: Okay. But the point is that this has been going on in the last several years, right? Maggie Ralbovsky: That's right since 2008. Wilfred Leon Guerrero: And in the last several years I hear you guys talking about there's money being parked by the private sector. At what you know the business is, I don't understand why would a businessman sit on his money for 4 years not doing anything. Maggie Ralbovsky: Because there's no demand. Well if you think about. Gerard Cruz: Where you going to put it? Maggie Ralbovsky: That's right so what are you going to do with your money. You have to produce widget but if you produce widget nobody's buys it then you don't produce it. Wilfred Leon Guerrero: I know but there's an encouragement being made by the government to invest and then there just not taking place. Gerard Cruz: But those are the only levers the government has right, to reduce interest rates to create an expansive fiscal policy or monetary policy but those are not enough to incent businesses to invest, I mean just because money is cheap, if a person does not have a job the interest rate could be zero, he's still not going to qualify for a home because he doesn't have a job. So, cheap money is good under cyclical down turns but I think what we experienced was more secular was more it was just different. It was deleveraging it was people just being over extended, their values on their homes are no longer theirs so they can't borrow against it. They were losing their jobs. So it's you have to let all that thing ring through the system and 4 or 5 years. Maggie Ralbovsky: Right now is about the time, that's right. Gerard Cruz: It's about the time where all that has run through the system and that's why we're starting to see small pockets of uptake. Maggie Ralbovsky: That's right. That's why today is an important day with the data on housing significantly stronger than expected and also the consumer confidence number was significantly stronger than expected. Gerard Cruz: Housing starts were high. Market values in San Francisco those areas were very strong. Maggie Ralbovsky: So the market has a question mark on how resolved the Fed is to hold the policy. Wilfred Leon Guerrero: So I may be jumping more, what's Wilshire saying about what's going to happen?

Gerard Cruz: Last time you were here you're saying 20% equities right? 20%. Maggie Ralbovsky: In returning equities? Gerard Cruz: In return. Maggie Ralbovsky: We

think this year equities U.S. Equities will be very strong. Because the liquidity not just being printed by U.S. but right now Japan is doing it, UK is doing it, Europe is doing it. So all this money has to go somewhere and it is the consensus seems to be in the world that U.S. is the most stable place to put that money. So you see Japan has this huge rally of prices in their equity but a lot of the money also has gone to the U.S. market just purely because there's so much money chasing risky assets it's going to have a support for the prices but we do believe towards end of this year, the market is going start pricing into more inflation scenario because it cannot be both true. It cannot both be having very strong demand and have a lot of liquidity and have low inflation for a long time. Right now it's probably at a goldilocks situation but it's not going to be forever goldilocks situation. So that's the thing market is trying to judge is to when it's going to start happening. And right now market priced into 2.3% in 10 year inflation. Is that the right number. I think the market keeps coming back to that question and today the market got spooked because of the strong data, you know the Fed also has been changing its tone.

Bernanke most recent speech in that speech he pointed to he hinted to the fact he may stop buying mortgage back security. Which was \$85 billion dollars a month, printing \$85 billion dollars a month to buy mortgage back securities. But that also had made the market little bit guessing and another uncertainty is that it's widely expected he's going to resign sometime this year and who would be the next fit chairman will be the question that market is hoping that Janet Yenan who is the second in command right now in the Fed, to be the chairman because she will continue the same policy but there's indications Obama might not like that kind of direction. So there's all kinds of uncertainties with that decision so bottom line I think right now we still think U.S. Equity is going to be having a pretty good run this year simply because the liquidity is out there and U.S. is very strong compared to the opportunities out there. Does that answer your question? Wilfred Leon Guerrero: Still very confusing. Maggie Ralbovsky: Well it is if we have a crystal clear crystal ball. Wilfred Leon Guerrero: The Feds are trying to keep inflation below 2.5? Maggie Ralbovsky: The Fed is trying to have that as a target. Gerard Cruz: It's lower now. Maggie Ralbovsky: Yeah, it's lower. If it's too low it's uncomfortable for them right, because we know Japan had well the trick is to have. Wilfred Leon Guerrero: Wow somebody owes a lot of money I like that. Maggie Ralbovsky: Well if you owe if you, oh you loan people money? You owe money. If you owe money you want inflation, you want high inflation because your money in the future is worth less. You owe people \$10 today, you owe people \$10.

Wilfred Leon Guerrero: No, no when I'm making my payment I'm looking at the principle being paid and the mortgage and then. Antolina Leon Guerrero: You're looking at interest. Maggie Ralbovsky: It's pricing nominal terms, its pricing nominal it doesn't adjust inflation right. You want inflation. If you owe a lot of money you really want inflation. Wilfred Leon Guerrero: No, I don't. Maggie Ralbovsky: Yeah you can inflate out of all debt problems right because you owe somebody \$100 ten years from now, if \$100 ten years from now is worth lot less than today you're really happy. Gerard Cruz: Let's say you bought your house for how much, let's say \$50 thousand in 1970, whatever the amount.

Wilfred Leon Guerrero: My house is about to be paid up but my apartment. Antolina Leon Guerrero: Okay, so you're apartment let's say you bought your apartment. Gerard Cruz: For \$120 thousand 10 years ago and you had hyper inflation, today it's

worth \$400 thousand and your debt is still 100. Wilfred Leon Guerrero: I guess I'm looking at my mortgage payment on that apartment. Gerard Cruz: Yeah but you can sell your apartment now. Wilfred Leon Guerrero: It used to be more of it going to the interest and less to the principle now it's like. Gerard Cruz: All principle. Wilfred Leon Guerrero: No, its \$7 thousand, okay I pay \$7 thousand dollars a month and \$2 thousand going to principle and. Gerard Cruz: 5 to interest. Wilfred Leon Guerrero: Yeah. Maggie Ralbovsky: That has nothing to do with inflation, you just refinanced your mortgage that's why. Did you refinance your mortgage? Gerard Cruz: No its commercial loan. So it's adjustable. Maggie Ralbovsky: So its adjustable rate but still the rates are going down. If you owe money to somebody you really want inflation because you pay them with less of the purchasing power. Wilfred Leon Guerrero: I don't see it. Maggie Ralbovsky: Why don't you see that? Why don't you see that? Why don't you see that I don't understand why you wouldn't see. Wilfred Leon Guerrero: I can't. This thing started out as a million dollar loan and it used to be like you know the monthly payment was \$7 thousand dollars a month and most of it was going to interest. Now with the interest rate down \$2 thousand is going to the principle and.

Maggie Ralbovsky: Yeah that's how amortization works. It doesn't matter what interest is even if it's fixed interest rates still the more. Wilfred Leon Guerrero: Yes it does, because whenever they adjust the. Maggie Ralbovsky: Okay. Adjustable or fixed doesn't matter the longer it is the further away, the closer to the amortization ending date the more you pay. Wilfred Leon Guerrero: I know the bank, guys like him will tell you will give you the money right now and all this because. Paula Blas: Guys like him. Gerard Cruz: I know, sorry. Maggie Ralbovsky: Anyway you should be happy when the inflation goes up when you borrow money. When you borrow money you really want inflation. Gerard Cruz: You should be happy. Antolina Leon Guerrero: Uncle Fred if you didn't borrow the money you wouldn't have the apartment building you know it's sort of like this debate on student loans, everybody keeps complaining about the interest rate on student loans so it's like well then don't go to college. Maggie Ralbovsky: 50% of them have defaulted anyway. 50% of student loan has defaulted. Antolina Leon Guerrero: Right. Maggie Ralbovsky: So that's why interest rate is high. Paula Blas: But there's also a limit now they won't even I think there's only so much they're going to be able to lend out on student loans. Maggie Ralbovsky: Because of default rate is so high. Gerard Cruz: Oh, per student? Paula Blas: No, I mean just how much they are allotting to just lend out, period. So if you don't catch the bird, catch the worm early you may not get funding. Maggie Ralbovsky: So the trick. Wilfred Leon Guerrero: Okay. So the Feds, they got an objective on their movement at that we give it to that point where the inflation is they're comfortable on inflation at the 2.5 and the unemployment is less than 6.5, what's going to happen? Maggie Ralbovsky: If it reaches that point? Wilfred Leon Guerrero: Yeah.

Maggie Ralbovsky: They are going to stop buying mortgage back securities and they are going to let whatever they hold. They hold trillions of dollars of government debt right now. They just let it roll off without reinvesting government debt which eventually will push up the interest rate. Wilfred Leon Guerrero: Okay. But at that point is the private money going to come into the picture or what? Gerard Cruz: That's the hope but imagine it's kind of like. Maggie Ralbovsky: Everything priced off treasury right, everything priced off it. Your mortgage is priced off treasury because treasury interest rate is so low, everything is priced low, right. Do you accept that?

Wilfred Leon Guerrero: No, I'm not arguing I'm just trying to understand this thing. Maggie Ralbovsky: Yeah so all I'm trying to say is that if treasury interest rate government bond interest rate goes up everything goes up. All the prices for financing will go up for everything, right. In the mean time if it depends on how fast the interest rate goes up, financial asset will have to adjust its pricing if it goes up really fast. All risky assets and bonds have to adjust down in pricing because the next buyer will require the kind of spread. Gerard Cruz: Higher return. Maggie Ralbovsky: That's right so therefore pricing will have to go down. That's what market is afraid of is 1994 happens again. In 1994 the Fed basically spooked the market 7 times, raising interest rate 7 times to the surprise of the market and bonds sold off tremendously. Gerard Cruz: They had to close the market, they had to close the bond market. Maggie Ralbovsky: For bonds yeah, bonds were very volatile that year, and so market is afraid that may happen although Bernanke was telling everybody he's not going to let it happen. He says I'm going to manipulate the curve the entire curve that's his own word he used the word I'm going to manipulate the whole curve, he's not going to let it happen. Although it really is a question whether although the market if the market can push it. Well he has unlimited printing power. Gerard Cruz: Yeah, but once you stop buying mortgage backs, that is. Maggie Ralbovsky: That doesn't mean he cannot do it again right, if it goes up he could always do it again. The market is basically judging whether Bernanke really will provide that put, the Fed put, the Fed put meaning the Fed will protect you on the downside. If interest rate goes up too high he's going to start buying again. That's what he thinks to be indicating that was the thing he's going to do, so. The whole thing here everybody is guessing is interest rate, how fast and how high they'll go. But nobody is thinking it's going to go down, right so which is to say for bonds there's only downside there's very little upside, there is no upside. Gerard Cruz: There is no upside. Maggie Ralbovsky: Yeah. So, recently there are couple large public funds who have redid their asset allocation, they reduced bonds to 15-20% and they bought alternative you know like risk parity and stuff like that, low vaults strategy not directly back to the equity market but to these other alternative strategies to basically reduce debt bond allocations because it sort of is the view that you really don't have much of the upside bond.

Gerard Cruz: Yeah so much so that that might be the equalizer the only buyer of long term bonds is the government. Maggie Ralbovsky: Yeah there's some insurance or private pension has to hedge that. There's a hedge because corporate pension has to buy some long bonds just to hedge their liability. So, shall we move on? Yeah. Okay. In the interest of time I'm going to quickly go through the capital market for equity you can see page 16. It was a very strong equity market for first quarter. U.S. equity was up close to 11% especially small cap, you see small cap was up 13% and small cap has outperformed large cap significantly, this is consistent with the beginning of a boom market which is when small cap outperformed.

Maggie Ralbovsky: The next page, page 17 you can see that international equity lagged really lagged especially emerging market was down 1.6%. There's a very clear rotation out of international equity and coming back to the U.S. which is perceived to be the really strong story in this deleverage recovery kind of cycle. Although I do believe this quarter we are currently in that has changed. The Europe actually has been quite strong. Page 19 is fixed income market. You can see fixed income was negative especially long term fixed income with exception high yield. High yield was the only positive sector in the fixed income market and high yield if you look across, for 10 years was 10% return which actually beats all the equity. The long term bond cooled

off even more. Yeah go ahead. Gerard Cruz: You know your earlier slide that talked about the funding status of all these public funds. Maggie Ralbovsky: Yes. Gerard Cruz: And then we just got out of the discussion about fixed income and government bonds and their low yield and extreme volatility and higher risk going forward. So how has a liability driven invest or a liability driven. Maggie Ralbovsky: Corporation? Gerard Cruz: How is that strategy?

Maggie Ralbovsky: That's mainly for corporations, right. Because the public pension fund don't have that kind of a frame work, you don't use LDI for corporate for public pension funds but for corporate pension funds the reason LDI is still very popular is because the legislation requires them to match their asset behavior with their liability behavior. Gerard Cruz: For their pension funds. Maggie Ralbovsky: For their pension funds because if it goes out of whack they have to put in fresh cash to stabilize that funded ratio. Gerard Cruz: So what happens when the bond markets. Maggie Ralbovsky: Goes up, right. Gerard Cruz: Or goes well the bond market sells out, right. What happens when the. Maggie Ralbovsky: That's right. So when the yield goes up their liability goes down because their liability number is measured. So their discount rate is not expected return, their discount rate right now is 3.8%, it's a double A curve, double A corporate curve. So if double A corporate curve goes up by 1% their liability goes down by 15%.

Gerard Cruz: So then okay. So then in order for that to work you have to be at or close to a fully funded status. Maggie Ralbovsky: For you to do the LDI strategy, yes. Gerard Cruz: And then the so when they're matching their liabilities to their assets they're holding the securities to maturity? Maggie Ralbovsky: No. Most pension funds are still in the process of entirely hedge. Their hedge ratio is somewhere around 35% so they won't get hit on the asset side but it's much less on their hit on liability side. So when they get better and better funded they will become more and more hedged. Let's say they're 120% funded they will probably be 100% hedge. Gerard Cruz: Okay, so they don't have the funding problems. Maggie Ralbovsky: Oh they do have funding problems but much better than the state. So maybe we take a look at that, so page 11 is the corporate funding ratio and you can see that majority of the plans are 70, 80% funded well that is not apples to apples comparison with the 60% funding of public fund because we said public fund discount rate was 7.75% on average now you can see the corporate fund on page 12, the top chart is their discount rate and right now the median is 3.88% that's the green number there. So they are using a 3.88% expected return basically to measure their liability and public funds are using 7.75% return. If public funds are using the corporate funds funding discount rate it's going to be like 20% funded. So corporate are much better funded than the public fund area even though the fund ratio didn't tell you that story, it's all hidden in how its measured.

Gerard Cruz: Are government funded or internationally public plans for international pension funds, are they in a better funded position? Maggie Ralbovsky: Well not really it depends on the country I guess, if you look at Australia they have the futures fund they have those sovereign wells fund those are okay. But if you look at Korea, if you look at Europe. Gerard Cruz: So why is it such a still very popular strategy, why is still being pushed so hard? Maggie Ralbovsky: With public pension funds? Gerard Cruz: Yeah. Maggie Ralbovsky: Well if you think about the goal of the society part of the goal is to provide for the people who have no way to provide for themselves, which include the older people right and everybody has to get old. So it becomes a. Gerard

Cruz: Not everybody. Paula Blas: Not everybody, he's not going to get old. Maggie Ralbovsky: Okay. Antolina Leon Guerrero: He has a new plan. Maggie Ralbovsky: Right. For those who will get old, so the society has to provide for them and you could say that to provide them you could pay as you go, that's what the U.S. is doing for U.S. doesn't have a social security trust fund right, right now so social security is pay as you go so you could always levy taxes on younger generation to pay for the older generation or you could save the money, put the money aside to pay for it if you do a study it's better off to put money aside to pay for that because you could invest that money instead of you always have to get fresh tax, so you don't have that upside and if you compare DB versus DC, DB plan is much cheaper than DC plan for the same amount of benefit because you can arbitrage life cycle. DB plan at by itself can be viewed as a perpetuity, if you're perpetuity you'll have a very, very long horizon therefore we can take more risk. If you're human you do not have unlimited horizon you actually have a declining horizon, you have to gradually take risk off the table therefore collectively speaking, it is much cheaper to fund the DB plan than to fund the DC plan for the same level of benefit, that's why people are doing it.

Gerard Cruz: That's why people are doing it? Maggie Ralbovsky: That's why the more socialist kind of society are doing. Gerard Cruz: No but doing the DB, I understand that but why an LDI strategy? Maggie Ralbovsky: Oh why LDI, oh I'm sorry I totally misunderstood your question. Paula Blas: I thought she answered LDI? Maggie Ralbovsky: I did not answer, the whole speech I made was public pension plan. Gerard Cruz: No, I understand that. Maggie Ralbovsky: The reason people are doing LDI is because government wants them to punish them if they don't do it. So here's how the government punishes you, if you're a corporate pension fund, the government tells you what discount rate you use every year okay, you cannot like public pension fund we can say we use 7% this year, you know no one is going to tell you what we can say what might be too high or too low, but you are not mandated to do anything. You could tell yourself you could tell everybody here's how I justify my discount rate, right.

Maggie Ralbovsky: For the corporate for the corporations you do not have such ability. You are given the discount rate. It's legislated by the PPA of 2006, the Pension Protection Act of 2006. And it says you have to use this average of double A curve, double A interest rate curve which currently sits at 3.88%. Now that's how you measure your liability, the lower the discount rate the higher your liability is because your liability is a discounted future it's a present value of all future commitment. So the lower the discount rate the higher your liability is. Now then you use your assets to compare with the liability. Liability is defined in this way. And if the ratio is below 80% you have to immediately fund to 80% in cash and if it's below 100% you have to bring that within 7 years to a 100% funding. Okay, so it punishes you when you have a mistracking, therefore you have the incentive to make it track. Gerard Cruz: How do you mistrack if you're the government and you're setting the rate? How does the corporation. Maggie Ralbovsky: The corporation has the mistracking, if you do not invest a lot in bonds, right. Because your liability is measured by bonds. And your assets if it's entirely in equity you have a mistracking you're punished when this ratio goes the other way but you do not get rewarded when it goes your way. Let's say you become 120% funded you cannot take the money out. It sits in the pension plan. So you have this one way incentive of really you don't want to lose because when you gain you don't get the money, when you lose you put in cash. So that's why LDI is actually

very popular even though interest rate is so low it's still very popular. Gerard Cruz: Okay.

Maggie Ralbovsky: Okay, I'm going to move on I'm actually going to move on to. I'll leave you all these other things you can read up on, the alternative investment. Gerard Cruz: Alternatives. Maggie Ralbovsky: I'm going to move to page 35. We have some pretty heavy weight discussions of our managers but I want to give you the total plan performance on page 35, we start here and you can see that we do have underperformance in U.S. Equity, in non U.S. equity, in REITS so all equity categories have underperformed however, our total fund outperformed and that is because we have an over weighting in U.S. Equity. So we have. Gerard Cruz: U.S. Bonds. Maggie Ralbovsky: U.S. equity, we have an overweight in U.S. equity because U.S. equity in absolute terms did the best. Our total fund actually outperformed. It's not because our manager outperformed it's because our asset allocation was favorable compared to the policy. So this is favorably compared to other public funds, you can see page 38 is the universe comparison.

Gerard Cruz: This says I'm sorry but on this one I'm looking at core fixed income as being the outperforming. Maggie Ralbovsky: Core fixed income is outperforming the benchmark however the absolute return is only 0.39%. You can put a lot in that you still under performed right. Paula Blas: Don't look at the green bar. Gerard Cruz: I'm looking at the graphs. Antolina Leon Guerrero: Then those use the green bar if you don't want us to look there. Maggie Ralbovsky: If you look at page 40. Gerard Cruz: Oh 4 0, I thought you said 36. Antolina Leon Guerrero: It's part of his new plan, stay young. So if you say 40 he says I'm 36. Not a plan. Antolina Leon Guerrero: It's the GC plan. We have DB, DC and now GC. Maggie Ralbovsky: So, page 40 you can see what I was saying is that we over weighted in U.S. equity and underweighted in U.S. fixed income because U.S. equity was the best performing asset class even though that the managers underperformed the asset allocation has brought us above the benchmark for the total fund. So asset allocation really is the most important driver. But that does mean we probably need to watch out rebalance take money out of U.S. equity when we pay benefits we're sort of bumping to the maximum.

Maggie Ralbovsky: So I want to move on to talk about our U.S. equity managers because we have some pretty negative changes happening this quarter. Page 49. Gerard Cruz: It's 45 in my terms. Antolina Leon Guerrero: I got that. Maggie Ralbovsky: We have two managers that have significant changes the summaries are on page 50 and 51. Sorry I am shifting this to you. Page 50 let's look at Winslow. Doris Flores-Brooks: I guess I missed the overview. Wilfred Leon Guerrero: Wilshire says it's going to be very good. Doris Flores-Brooks: Well the markets good right now, right? Wilfred Leon Guerrero: Wilshire said take the money out. Maggie Ralbovsky: Okay, so Winslow. Winslow during this quarter actually in March, Bart Wear he is retiring he has announced his retirement and Clark Winslow has also giving up his CIO position. This is viewed very negative by our manager research group because if you recall this company was sold in 2008 to the Nuveen and there was a 5 year contract for them to be paid out which is pegged on how much AUM they are going to manage at end of this 5 year. Antolina Leon Guerrero: AUM is? Maggie Ralbovsky: Assets under management to be managed at the end of 2013. When they sold the firm, the firm had \$5 billion dollars under management and today they have \$35 billion dollars under management, 7 times more. And these people got paid out very well because their payout was linked to AUM increase in the past 5 years but no

more. Going forward there's no strings attached to whatever happens to the firm. They actually recently closed their strategy. There's no more incentive for them to. Gerard Cruz: Stay. Maggie Ralbovsky: That's right. So Bart Wear and Clark Winslow's direction we think is basically gradually cash out. They were the original partners of the firm now I guess the torch has been passed to Justin Kelly and this person has no strings being attached to the future incentive plan. So, Wilshire actually views this very, very negatively. I do want to say this probably is a very material change if you think about the set up of the strategy for the firm. And then was the asset under management significantly increasing their performance has been deteriorating, it's almost like a negative correlation when asset went up then performance go down. Performance has been very difficult.

Gerard Cruz: So what's your recommendations on this fund? Maggie Ralbovsky: Let me talk about MetWest and then we can talk about my recommendations okay. Antolina Leon Guerrero: MetWest again. Maggie Ralbovsky: Okay. MetWest again, yes. So what happened was MetWest had 3 founders at the beginning of time. They had 3 people who founded the firm. They had Howard, Steve and Gary. And Howard and Steve left in October 2010, they started this firm called Aristotle. At the time I know the Board had debate on what to do and we kept the money with them and Gary was the last remaining partner and he was running a main strategy there not directly this strategy but he was directing the management of another strategy and also directing the organization and he has quit. He has resigned and he has a garden leave, because in his contract he has a 60 day period he cannot go work for a competitor. But. Gerard Cruz: 60 days? Maggie Ralbovsky: 60 days. Gerard Cruz: That's it? Maggie Ralbovsky: And it is widely anticipated he's going to join Aristotle. And in addition we have Jay Cunningham who was one of their original analyst. He joined Aristotle and then we have a whole bunch of people including the main traitor which is Andy Shapiro which was their senior traitor, he left in April and he also joined Aristotle and the person who was covering this account, Eric Smith he joined Aristotle and there's couple other people, Sandra Incontro she was the president and. Gerard Cruz: Did they say why? Maggie Ralbovsky: Risk control, he joined. Okay, here's what I heard from the people, I'll give you 2 sides of the story.

Maggie Ralbovsky: From the people who left and they're saying that the Wells Fargo, Wells Capital which bought MetWest had a reappointment of the new CEO, their old CEO retired end of 2012. The new CEO came along this year and the new CEO has set a different agenda about this organization. He wants to merge more of the platform with the Wells Fargo platform. He will leave the management of the portfolio alone but he wants to merge everything else like trading, like sales, like marketing, like everything. So make this firm less of an independent entity and the changes has started to take place beginning of this year which made the trading people traders and the client servicing people very uncomfortable and then they left. And they also have been heavily, heavily pitched by Howard Gleicher. Howard when he left in 2010 he had a none compete which expired end of last year. So now he could compete directly he could solicit directly so he's soliciting all these people and he's soliciting their prior clients as well. So that's from side of people who left.

Maggie Ralbovsky: From the people who didn't leave, I actually met with Jeff Peck and he's saying that these people who left because Howard has promised them he's going to pay them well and in reality the people who haven't left is being paid very well by Wells Fargo, so it is the Wells Fargo's decision to let these people go because if Wells

Fargo decided not to match whatever payment Howard has promised these people, for people who didn't go were the people who Wells Fargo has promised to pay them better than what Howard is promising them. Gerard Cruz: Yeah but the brain power is leaving, the guys who created the platform, who's seasoned now at MetWest? Maggie Ralbovsky: Jeff Peck. Gerard Cruz: How long has he been with this firm? Maggie Ralbovsky: He was one of the people Howard hired, however he was not hired as a portfolio manager, he was hired as the researcher. So he was a researcher now he's made the portfolio manager. And he has hired a whole bunch of new people and there were 7 people working for him now and most of them have 1 or 2 years of tenure with MetWest. So I met with him and he was basically saying. Gerard Cruz: How about Mark Heath? Maggie Ralbovsky: Mark who? Oh Mark Heath? Gerard Cruz: Yeah. Rosalia Bordallo: Is he going to Aristotle? Maggie Ralbovsky: I don't think so, is he? Well you know him. Gerard Cruz: He's trying. Maggie Ralbovsky: He's trying? He's trying to go to Aristotle? Oh really, so it seems to me. Gerard Cruz: He's talked to Gary, I know. Maggie Ralbovsky: Yeah, okay so this is really seems to me it is a wholesale change, like the whole firm will sort of defect into Aristotle and I did some analysis of their performance, on page 52 you can see. Antolina Leon Guerrero: Of MetWest performance? Maggie Ralbovsky: Of MetWest and Aristotle so if you think about when Howard Gleicher left 2 years ago, it was the same portfolio because Howard went over and started the firm which had hold the same portfolio and that portfolio has drifted, if you look at 52, significantly drifted. You see the blue squares are the Aristotle sort of style and you can see Wells Fargo has significantly moved towards a more index thing approach. When I say more index I mean more tighter in terms of access risk, you're taking less and less risk against the benchmark. Which is to say that not only the people have changed, I do believe the style has changed.

Maggie Ralbovsky: So, where does that put us? I see we have a growth manager that needs to be fired and a value manager that needs to be fired. And if it's up to me, I would take both of these pieces and put them into index fund pending future decisions. Pending future decision because I. Wilfred Leon Guerrero: I'm trying to figure out what the percentage is the total between both Winslow and Wells Capital? Maggie Ralbovsky: Winslow we have 6.6% of total assets and MetWest we have 7 it's about \$200 million dollars. Gerard Cruz: 200 that's a lot. Wilfred Leon Guerrero: That's quite a chunk for proposal. Maggie Ralbovsky: Well I'm not saying taking the money out of the market I'm saying index it. Wilfred Leon Guerrero: Yeah, I know. Maggie Ralbovsky: We have an index manager. Blackrock. Doris Flores Brooks: I know I came in late, so this all equity categories underperformed their benchmark amid a strong equity, is that part of the reason? Maggie Ralbovsky: That is not part of the reason, the reason for. Doris Flores Brooks: Underperforming the benchmark. All equity categories underperformed their amid a strong equity rally is it due to the managers, the underperformance is due to the managers despite the rally. Gerard Cruz: That's correct.

Maggie Ralbovsky: Sometimes when market rallies significantly active managers underperform because this kind of rally tend to be low quality driven because people push up all the low quality stocks because those are I guess more bang for the buck. So but the consideration of maybe terminating these two managers is not because of the market rally, right. It's because of the organization. Both of these have significantly negative organization changes and so we could put them on watch for another quarter or so, but in my mind, what are we trying to watch them for, right. So we already know that the style has drifted. We already know this Winslow

organization is significantly different from when we had hired them. Wilfred Leon Guerrero: MetWest is something that we've been expecting, this Winslow is something that just came up. Maggie Ralbovsky: It came up in March, this happened in March, Winslow, yes. And this is they're actually you know I think very negative because if you think of the second tier bench it's actually very shallow for Winslow. Gerard Cruz: I think Mark's the most senior.

Doris Flores-Brooks: So when would you come back for a recommendation as to put the index on to reallocate? Gerard Cruz: We can do that now. Maggie Ralbovsky: I want the Board to discuss that. Doris Flores-Brooks: No, your recommendation is to put it into index but then my next question is the selection of the new manager. Antonina Leon Guerrero: Then we put out a search. Maggie Ralbovsky: Oh, the new manager. Gerard Cruz: We can do it the same time. We can. Maggie Ralbovsky: You have to RFP and all that. Rosalia Bordallo: Liquidation on that also and then authorize the issuance of an RFP. Doris Flores-Brooks: So you are going to a betting period? Maggie Ralbovsky: Here's what I think. I think we should move to the index fund for now because I want to discuss the asset allocation as well. So I don't want to rush to search for growth and value manager and eventually we'll have to change asset allocation. So in my view putting into the index fund is cheap and you're for sure not going to underperform, you know why not? Gerard Cruz: Yeah but these two have been creating some. Maggie Ralbovsky: Well if you look at it, okay. Look at this April, look at April. There's a flash here, there's a flash report here so we can take a look at their performance.

Doris Flores Brooks: All I'm saying is it seems like lightning glacial speak compared to how you would deliberate and deliberate and deliberate and deliberate before you fire someone. Paula Blas: But now we have a way of being able to park it somewhere else and still be able to get. Gerard Cruz: A return. Maggie Ralbovsky: So if you look at MetWest, it did have done very well in the last year you can see that compared to the index. Wilfred Leon Guerrero: What are you looking at? Maggie Ralbovsky: I'm looking at the flash report, page 2 compared to the index, I'm not comparing to their benchmark now. Gerard Cruz: Page 2? Maggie Ralbovsky: Page 2 of this one you can see that two managers had Winslow had significantly underperformed right. Winslow under performed by 3% for the past year and compared to the index. So index fund was the market, so index fund was up 17.21% and Winslow was up 8.7% and if you add that to MetWest right, MetWest was up 19% and if you add these up its 27% divided by 2 is 14%, so you still underperformed the index, right? Gerard Cruz: Yeah, but I mean just on the 5 year on the inception dates. Maggie Ralbovsky: Oh yeah I do not dispute. MetWest was a great manager before. Gerard Cruz: I understand. No, no, I agree. You're not going to hear an argument from me. Yeah, I agree there's a difference. There's a difference.

Gerard Cruz: Winslow, they really grew though. Maggie Ralbovsky: 7 times in the past 5 years. Gerard Cruz: They were really aggressive and their comparable as Intech right? I mean their compliment. Maggie Ralbovsky: Yes. Intech is quan. Gerard Cruz: This one is fundamental. And we're going to put it in an index. Maggie Ralbovsky: Another thing we could do is put it Intech, I don't want to take that though because. Yeah because you have a lot in the active manager, rather take the passive manager. Gerard Cruz: But Intech seems to do well in this kind of market environment, right? Maggie Ralbovsky: Yes because of volatility helps them. Gerard Cruz: Right, so I mean maybe we put some there. Maggie Ralbovsky: That could be

an option. Some in with Intech and some with Robeco and I do want to balance, so if you want to put some in Intech I want to also put some in Robeco and put the rest in the index. Gerard Cruz: The index. Yeah.

Doris Flores-Brooks: So how much are you talking about moving? Gerard Cruz: 230, about 200 million. Wilfred Leon Guerrero: Actually she's talking about. Doris Flores-Brooks: That's 20% of your, almost 20% of your total portfolio. That's a big move. Gerard Cruz: That's a big amount. Wilfred Leon Guerrero: She's talking about the two money managers. Gerard Cruz: But these changes are pretty severe. And there's no, I mean it's not a short term change, this is a management change. Rosalia Bordallo: That's 6.4, 6.5. Antolina Leon Guerrero: It's about 15%. Doris Flores-Brooks: Winslow and MetWest. Gerard Cruz: Oh here's a market value, they're at a hundred. Rosalia Bordallo: We are already at 1.5. Gerard Cruz: Are we at 1.5? Rosalia Bordallo: Yeah. James Duenas: Why would you want to put it in Robeco? Maggie Ralbovsky: Why do I want to put it in Robeco? Because I want to be balanced in one on the growth side and value side. Wilfred Leon Guerrero: You know I've been trying to tie this one what we were talking about earlier when the need to change the law and we can get into. Maggie Ralbovsky: I do want to change the law but our hands are tied right? Wilfred Leon Guerrero: Right, and it seems like. Maggie Ralbovsky: I want to take the money out of equity and put into risk parity. And I gave you last time I was asked to do what if scenario. I did what if scenario I'm going to talk about tomorrow. Gerard Cruz: Okay, good. Maggie Ralbovsky: But without changing the law I think we have to be creative to go to risk parity. I guess we could think about classify that as commingle fund and move our current commingle fund the classification or cap or like interim fix or something we probably can brainstorm that. Brainstorm that.

Wilfred Leon Guerrero: We're going to be messing around with this type of portfolio and I think we can do it at the same time maybe that would be better. Maggie Ralbovsky: Well we could use Blackrock as the transition manager and merge these two into the index fund, the transition cost would be quite low and given how much active management fee you've been saving this it's actually a positive trade. The Blackrock fund charges 2 basis points and these managers charge 45 to 50 basis points. Gerard Cruz: I think we're cheaper. How much is MetWest charge? It's cheap we got in there early, I think it's 25. Maggie Ralbovsky: Really? That is cheap. I do have a. Gerard Cruz: Is it? I know we got in there. Rosalia Bordallo: 32. Gerard Cruz: 32? Rosalia Bordallo: Yeah. Gerard Cruz: Okay. Rosalia Bordallo: It's still less than. Gerard Cruz: Less than market. Winslow maybe not, right? Winslow is a newer manager. Rosalia Bordallo: Right. Maggie Ralbovsky: Winslow I think 50. Gerard Cruz: Yeah I think we're just off the sheet on Winslow. Diana Bernardo: Maggie, should we maybe consider moving some into fixed income? Based on the market versus target there's a 5% difference in fixed income. Gerard Cruz: Target? Diana Bernardo: We're at 25% on the allocation. Gerard Cruz: On total fixed income? No. Diana Bernardo: No you don't want to. Antolina Leon Guerrero: But are we still within range? Gerard Cruz: Yes, we're still within range. No I wouldn't move into fixed income. Not now, no. Diana Bernardo: Yeah we're still within range. Gerard Cruz: That's a tough market to these days. There's only one way rates are going. Okay. That's just something to stew on for a little bit right, we don't have to make a decision now. I think we need to make a decision before Friday. Maggie Ralbovsky: Okay. So that's one discussion there and we have another manager that's underperforming. I do have a couple pages later, I think what I'm beating is dead

force at this point. Gerard Cruz: Anything else on MetWest? Maggie Ralbovsky: I do have a couple of other pages on MetWest, page 52 and 53, you can use that as just basically a supporting material to say. Gerard Cruz: Should we get Mark in, Mr. Chairman? Should we try to get in touch with Mark Heath and have him come in and maybe discuss the issue or no? Wilfred Leon Guerrero: What that was since. Maggie Ralbovsky: Well if he wants to go to work for Arristotal that's a very strong. Gerard Cruz: I don't know. Wilfred Leon Guerrero: Gerry, you talked about getting involved with the procurement process and I. Gerard Cruz: No, no not the procurement, I'm just talking about having him come and maybe explain the changes to his firm. Doris Flores-Brooks: Whose his firm? Gerard Cruz: MetWest. Doris Flores-Brooks: Oh he works for MetWest? Gerard Cruz: Yeah, he works for MetWest. Just to come maybe get his. Wilfred Leon Guerrero: Yeah, but you said he's already flowing.

Gerard Cruz: No I don't know that for sure, that's just in there that's gossip, that's an adult rated gossip, I don't know that for sure. Maggie Ralbovsky: Really his friends have all left right? His friends have all left. Gerard Cruz: His boss, Eric. Maggie Ralbovsky: Yeah, Eric has left and all the people who. Gerard Cruz: I think he's most senior. Antolina Leon Guerrero: So he might stay. Maggie Ralbovsky: Sandra was Eric's boss. Gerard Cruz: Sandra too. I don't know if he's shopping, that's just you know word on the street, I don't know that for sure. He hasn't told me that. Wilfred Leon Guerrero: Thinking at really the position of this thing from earlier when you just want to get rid of them. Gerard Cruz: Yeah I'm careful now. I still have a plate full of crow. Maybe not, but maybe so, so I'm just going to. Antolina Leon Guerrero: Well we can give you a 181 years and it will probably even out. Don't worry about it. Since you're going to live much longer than us, you'll see it come back. Wilfred Leon Guerrero: You know what's it like last time we had a similar situation and change in personnel and your recommendation was to put them on watch and I don't know which one. Maggie Ralbovsky: These are like total collapse. Gerard Cruz: That was Terry. Wilfred Leon Guerrero: That's what I'm saying. Maggie Ralbovsky: Oh that was Terry? You're talking about Howard Gleicher? That was Terry.

Maggie Ralbovsky: Okay, you put on watch because you want to prove something. In my mind what are you going to prove in these 2 cases? I have nothing to prove sort of, right? What do you want to prove? Watch. Gerard Cruz: That the platforms the same probably not the stock pickers are gone. Maggie Ralbovsky: It is not the same and they both have been underperforming. Gerard Cruz: And this is everybody, this is everybody. This is the president, all the 3 CEO's, the founders, all our client service people. Maggie Ralbovsky: The only person left was a person. Gerard Cruz: Mark. Just kidding. Doris Flores-Brooks: I didn't know he was portfolio manager. Paula Blas: He's not the portfolio manager. Doris Flores-Brooks: I mean by default he will be, right?. That's my point. Gerard Cruz: He will be. Rosalia Bordallo: Everybody left. Doris Flores-Brooks: The last one turn off the lights. Gerard Cruz: Exactly he's going to turn off the lights. And it looks like their style is drifting to Wells Capital. Wilfred Leon Guerrero: You know if all the people are gone, it's a different manager. Maggie Ralbovsky: It is. And this chart proves it, basically drifting totally from the original style. Gerard Cruz: And you have a new make up in Aristotle you know, that's the team that really is MetWest. Okay. Winslow though.

Maggie Ralbovsky: Winslow we we're actually very negative on Winslow with this change. Gerard Cruz: Okay. So put this in a form in a recommendation. Okay, third manager. Maggie Ralbovsky: The next two managers that needs, well Eaton Vance

has been underperforming so it's been on watch. Gerard Cruz: Who is Eaton Vance? Maggie Ralbovsky: Eaton Vance is Nancy. Gerard Cruz: Oh Nancy, she did well last quarter though. She made up for it. Maggie Ralbovsky: Look at April, it was horrible. April they were down 3% for that month. But this is a thing I want to watch. The reason this one is not a firing situation it's a watch situation is because we understand why they under perform. It's not because they have a change of style, not because a change of personnel, sort of a material change, people are not happy, but the fact that are in a asset category where a lot of ETF's trading have really skewed that portion. The biotech is actually the best performing sector in the small cap. And huge hugely outperformed the rest and also REITS, small cap REITS because those are highly levered positions. If you think the feds is giving you a guarantee of low cost money, what would you do? You lever it up right, you buy the most risky thing. So that's what happened in small cap category which made her style very hard because her style is fundamentally stock market, stock picking which picks you know company that have strong fundamentals, low debt you know high which is totally opposite to where the market is favoring right now. So we sort of understand why she underperformed and we want to watch if.

Gerard Cruz: Do we have a compliment for her, yeah we do Numeric. Maggie Ralbovsky: We do Numeric. Numeric has been doing well, Numeric has been doing really well, you can see that you know the combination of these two. Gerard Cruz: Okay. So actually then that's that mandate then that's basis performing as we've constructed it collectively. Maggie Ralbovsky: Exactly. They team up together. That's right. Gerard Cruz: You have two negatively correlated managers. Maggie Ralbovsky: Exactly so this is very well constructed sector. Gerard Cruz: So why would we put them on watch if the fundamental problem then is the fact that the market. Maggie Ralbovsky: I will put Eaton Vance on watch Eaton Vance on watch because of the return. Gerard Cruz: Yeah, but it's because the markets not in favor, it's not the manager. Maggie Ralbovsky: It is not but then you asked the question, you ask the question whether these changes can be long lasting or fundamental how long can we sustain under performance you know so that's why we put them on watch. Gerard Cruz: But under performance relative to their benchmark right? Maggie Ralbovsky: Yeah. Gerard Cruz: But I know I mean I see the numbers I mean it's pretty severe 400 basis points. Maggie Ralbovsky: That's why we put them on watch we're not firing them right, and I do want to point out that Numeric. Gerard Cruz: But they haven't changed their style? Maggie Ralbovsky: No they have not. I do want to point out another thing, that is Numeric has announced that it's seeking a new parent to replace TA associate in February so I did write it here. Which we think it may be a positive thing because TA associate.

Wilfred Leon Guerrero: What does that mean? Maggie Ralbovsky: That means okay TA associate is a private equity. Private equity firms they go out to buy assets then eventually when they realize their value they will sell it and this event is happening very soon. So, TA associate has made it clear to everybody they want to sell their stake in Numeric and that's Numeric's parent. So we think that half the catalyst to be good because if Numeric can negotiate in this transaction more equity holdings for their professionals it can be a positive thing. On the other hand it could be a negative thing, but I do think all the indications is that they're going to make this a positive thing. They very well have. Wilfred Leon Guerrero: Maggie, you lost me, wait a second. Numeric is. Maggie Ralbovsky: 51% owned by TA Associate. Doris Flores-Brooks: Private equity and they want to sell. Maggie Ralbovsky: That's right. Doris

Flores-Brooks: So the question is why. Maggie Ralbovsky: No, it's not why. We know why because private equity firms is not going to hold something for over 10 years, they always want to realize their investment. We do know why they want to sell, the question is who they're going to sell to under work terms and Numeric has been very proactively communicating with the clients to say our goal is to protect independency, our goal is to increase holdings for our people so the parent eventually will be selected has to be consistent with these goals.

Gerard Cruz: Did TA do anything aside from just provide capital? Maggie Ralbovsky: Just passive investment. Gerard Cruz: So no distribution, no marketing nothing just equity. Maggie Ralbovsky: No, just equity. So it really depends on who these stock has the next one. So decision has been monitored but I have good feeling this is going to turn out not be at least be benign but I do want to update that this is a new announcement that they made. Gerard Cruz: Alright. Whose, Numeric? Doris Flores-Brooks: In light of their performance also which was way over, there performance well exceeded 7% over the market, 25% return. Maggie Ralbovsky: Yeah he was actually very important in designing the model. Now he went to work for AJO which is another Quant shop and he is now running mainly in emerging market strategy there so he sort of rebuilt the model and all that over there but I do think Numeric the bench is very deep and a lot of other people who are involved too. Gerard Cruz: It's a Quant shop right? Maggie Ralbovsky: It's a Quant shop, yes. Doris Flores-Brooks: What's that? Gerard Cruz: So a lot of their investment decisions are based on a computer model? So individual you know somebody who has like a good magic touch or golden pick is not important. Maggie Ralbovsky: Not like Winslow. Doris Flores-Brooks: And year to date though it's still way over. Maggie Ralbovsky: Yeah it's a good firm. Doris Flores-Brooks: So the return is doing very well? Paula Blas: That's why this type of market is for Quant. Maggie Ralbovsky: Yes that's right. Wilfred Leon Guerrero: Gerry, is this the firm that just uses computer and doesn't even take into consideration other factors? Gerard Cruz: This one and Intech. Maggie Ralbovsky: Well they do take into consideration because the factors are researched by people. The factors are not just black boxed factors those are factors are basically distilled information from human researchers. Gerard Cruz: But it's so much of it that any one piece doesn't have a major impact on the investment decision. Wilfred Leon Guerrero: I know we have one manager that's strictly computer driven. Gerard Cruz: Intech. Paula Blas: Both of them. Maggie Ralbovsky: Intech and Numeric. Gerard Cruz: Intech is just pure trading on volatility. Yeah pure volatility. Maggie Ralbovsky: More black box.

Gerard Cruz: And AXA was. Maggie Ralbovsky: Yeah AXA. Gerard Cruz: Former AXA. Maggie Ralbovsky: Okay so there is the update on performance on the April flash so you can take a look at the March. Antolina Leon Guerrero: Are we doing something with Robeco? Gerard Cruz: Robeco is sold right they are no longer. Maggie Ralbovsky: Robeco is sold yeah so I do have an update here. Robeco is sold to ORIX corporation. Gerard Cruz: ORIX the exterminators? Doris Flores-Brooks: No that's Orkin. Gerard Cruz: Sorry. Maggie Ralbovsky: And actually we continue to put them on our focus list. So I actually didn't think those list was a bad sale. Gerard Cruz: Robeco.

Maggie Ralbovsky: Okay, so that's the more eventful composite. For the non U.S. equity we do have under performance but there's no changes, oh actually there's one change we thought was positive which happened after this book was put together, was Capital they actually reduced the role of, what's their Fisher what's the guy 85 year

old person who started all these strategy? His last name is Fisher. Gerard Cruz: Cap Guardian? Maggie Ralbovsky: Cap Guardian. Gerard Cruz: I don't remember. So he is no longer.

Maggie Ralbovsky: He has been demoted sort of removed from day to day but we view that as a positive because they promoted two people from their long term ranks. The portfolio manager to be the lead for those strategies which we think is a great transition from an 85 year old man who moved to the next generation. Gerard Cruz: Maybe he's 80. What about just their size? Maggie Ralbovsky: Yeah that is a huge concern of ours. We think. Gerard Cruz: Should we be looking at another manager for that or at least a compliment manager for that mandate? Maggie Ralbovsky: I do think we should have an emerging market small cap manager. So emerging market space now has becoming more specialized, historically was just you know emerging market, now there's emerging market small cap managers coming along and there's frontier market managers coming along which are very complimentary to Cap Guardian. Gerard Cruz: Are they traded I mean like this like commingle fund now? Maggie Ralbovsky: Yes. So there's frontier market managers and there's emerging market small cap. The reason I think those kind of categories actually compliment with Cap Guardian because Cap Guardian becomes so large that they mainly focus on the more well known names of emerging market country, emerging market companies because they simply wouldn't be able to get into the very, very small cap or small markets because of their size. So, I do think that is a good consideration to have another manager to compliment the style. I don't know when we're going to do this though because I do want.

Gerard Cruz: This is about 70, how much do we have here \$70 million? Paula Blas: Almost \$80 million. Maggie Ralbovsky: \$80 million. Gerard Cruz: We started that at \$36 million. Maggie Ralbovsky: Huge success. Wilfred Leon Guerrero: Which one? Gerard Cruz: Capital, Cap Guardian the emerging market. Maggie Ralbovsky: Cap Guardian is 3 international strategies over \$150 billion dollars under management for the international strategy alone. So it's very. Gerard Cruz: They're huge. Well they're an insurance company right by. Maggie Ralbovsky: Cap Guardian? Gerard Cruz: Yeah cap guardian, they're not just money management. Maggie Ralbovsky: They have American mutual funds American funds and Cap Guardian which are a huge distribution. So they really are very large in the internationals which pushes them to the larger names. So we can discuss that we can discuss whether now is the time to add those managers. Gerard Cruz: How does that fit in doing so fit into what our goal is in reallocating? Maggie Ralbovsky: Yeah, so our goal of reallocating. Gerard Cruz: Would it just be parsing out this. Maggie Ralbovsky: You know I actually don't think it's going to undermine yet, its going to parcel out this because I think the goal eventually is to take some money out of the U.S. equity and U.S. bonds, mainly U.S. equity, U.S. bonds will be reduced to fund the expanded categories not so much emerging markets equity. Gerard Cruz: Okay. DFA. DFA is not new.

Maggie Ralbovsky: So the performance update, maybe we should look at the April update. You can see the managers have. Gerard Cruz: We're at 1.5 now right, billion? Maggie Ralbovsky: Right. 1.5 billion. Gerard Cruz: As of. Maggie Ralbovsky: So the Cap Guardian. Gerard Cruz: That's good, I remember when we were 900 million. Crap. Maggie Ralbovsky: DFA we do have some under performance in the near term.

Gerard Cruz: For whom? Maggie Ralbovsky: For all of them. If you look at page 4, all international managers under performed. Gerard Cruz: Oh in the near term, in the month, month end quarter to date. Maggie Ralbovsky: But there's no significant in going to make regional change except for Cap Guardian I think it's a constant concern of their size. Gerard Cruz: How about Earnest? Maggie Ralbovsky: Well Earnest is very similar to the Eaton Vance kind of situation, you know they are big stock pickers, high quality focus, catalyst driven it's just now working out right now.

Antolina Leon Guerrero: And what's the situation on Fisher? Maggie Ralbovsky: Fisher is top down manager so you see they're actually doing fine if you look at longer term. They did under perform this year so what happened was they over weighted I think materials. They are sort of top down manager, they have trend, they follow and the over weighted materials sector. They have their forecast of demand. Gerard Cruz: There what a Large Cap I mean developed. Maggie Ralbovsky: Yeah developed. They do have a little bit emerging market like 10% emerging market so I think you know they follow that kind of a pattern, sometimes they underperform but in the long run they are doing well. I think they do compliment Earnest very well one the top down manager, one the bottom up manager and Earnest is basically hit by the same factors that Eaton Vance was hit. Some relatively short term managers. I don't think we're particularly concerned about their underperformance right now.

Maggie Ralbovsky: Okay. So the REITS, the next one those managers, well if you look at April, Cornerstone marginally underperformed but very strong absolute return generator. I have no further comment on that, I do recognize they are under performing near term. Gerard Cruz: Oh the REITS, Cornerstone yes. But still a long term they do okay. Glad they're finally coming back. Okay. This real estate composite, this last section here, what is this? Is that just a. Maggie Ralbovsky: A combination of those two managers. Gerard Cruz: Okay. Oh I see it. Thank you. Maggie Ralbovsky: Okay. So we've discussed more of the recommendation. Antolina Leon Guerrero: Maggie, why is Franklin Templeton on watch? Gerard Cruz: Performance. Maggie Ralbovsky: Why is it on because since inception it was. Doris Flores-Brooks: Underperformed, I mean still on watch. That's the one. The other one you taking along. Maggie Ralbovsky: Yeah because there's something you want to watch for. It's not the material changing you have decided there's nothing to watch for, that's where I stand. You're going to hear from them today or tomorrow. Tomorrow you're going to hear from them tomorrow.

Income Research & Management

Rob Lund: We sent over copies in the mail. And how are you all for time? Gerard Cruz: You have 5 minutes. Maggie Ralbovsky: 45. Wilfred Leon Guerrero: Yeah and you can talk about anything you want to talk about. We're looking for number 1, performance and number 2, if there is any of the regulatory agencies that have issues with you and number 3, is changes in personnel, other than that let me see what Wilshire has to say about you. Rob Lund: Hopefully good things. Wilfred Leon Guerrero: Okay, so we'll let you lead the discussion for the next 45 minutes. Rob Lund: Perfect. So to start with the performance there is should be pretty easy to address because there hasn't been a lot of changes. But on page 2 you can see the performance of the portfolio across the various requested time periods and the key being across the majority time periods is that they are all very positive both relative

and absolute there's been a lot of volatility in the market place over the past couple of years but honestly the portfolio is really benefited from those volatilities. Coming at 2008 in that time period everything was very depressed in valuations we were able to add some bonds at very attractive levels and the market begun to recover very nicely from there. We've also have had a number of big macro events that are really driven in broad of markets. You've had federal stimulus that's been put into place with QE1 through QE3, with the treasury and Federal Reserve and perks in treasury securities and MBS securities, there's been a positive and technical for the market. What that's doing is basically moving investors away from safe haven assets so treasuries and agency MBS forcing them to invest in corporate bonds, or securitized bonds or the equity markets where you might be able to get a more attractive return than the other markets. So that's brought down treasury rates significantly which is how the absolute returns for the portfolio.

Gerard Cruz: How do you see that completing itself? Rob Lund: Yeah that's a good question and I think one think that you've come to find is what investors are doing now is analyzing every word that comes out of the Feds statements, and it's going to be very hard to forecast how it's going to play out to ruin unchartered territories this is their inactive measures that never been put into place before, if you take the Fed at their word they're going to be very clear in what their goals are and when they plan to search remove the stimulus, you would think just from perspective there's going to be less buyers their buying so much in the way treasuries and they're buying so much in the way MBS when they do walk away there's a big buyer, there's no longer buying which could cause the old levels to rise. That being said they surprised us before just in the sense the way the market reacts, how much is already priced in to that. But it really remains to be seen.

Gerard Cruz: How are you guys positioning the portfolio to take all that uncertainty into account. Rob Lund: So one thing let's say we're always going to be duration neutral. So we have the interest rate risks of the benchmark just from we build the portfolio from the bottom up we don't bank. Gerard Cruz: Which is what now? Like 4 years? Rob Lund: Actually just over 5. Gerard Cruz: Okay. Rob Lund: So a little longer and so the portfolio is going to have it duration as roughly in line with that of the index, as we think with all this macro variables it's just too hard to forecast. Interest rates we can't predict what the Feds going to do any better than anyone else. So we think we can really add value through picking bonds that we feel are superior than those bonds in index by doing our credit research and analyzing company fundamentals and expertise fundamentals. And what we have done in the portfolio you will see in a bit is we have trimmed down some risk in the portfolio. One thing we like to say is take what the market gives us. So when securities are really cheap you're going to see us hopefully buy those securities and sell what's more expensive. Recently you've seen such a rally in assets, that's why the performance is so strong so the corporate market for example if you would just look at that time period 9/30/2011 to 9/30/2012 corporate bonds outperformed treasuries by almost 7% just overall corporate index, so you have very strong returns from the corporate market.

Rob Lund: So we trimmed down some of our exposures. We have been historically overweight the corporate so we turn back that exposure a bit particularly to the banks so the corporate excess returns so additional return over treasuries is 7% financials the sector within corporate bonds was over 10%. So they performed extremely well. Banks were really beaten up in 08 and we were able to add those bonds at cheap

levels. Now that the performance has been so good we want to take some of those chips off the table and reduce some risks in the portfolio. We actually derisked a bit increased some of the waiting to some government securities. Yields aren't great there but just given the spread compression we're still overweight, I thought it made sense to bring down some of the risks within the portfolio.

Gerard Cruz: That makes sense yeah. Do you still own any securities in the transition portfolio? Rob Lund: Yeah portfolio is gone been fully liquidated I believe it's been just over a year since we transitioned out of it and that really worked out well for you to be honest. During that time period as I mentioned riskier assets performed really well. Some securities like those were very beaten down from 2008, 2007. Gerard Cruz: It came back. Rob Lund: Yeah, it definitely came back very well so non agency mortgages and lower quality securities definitely performed very well over the most recent 3 years. Gerard Cruz: Great. Great. Rob Lund: So there's definitely been a yield grab as investors are trying to move in to anywhere they can to get yields in the portfolios, we're just being caught incident of that and try not to buying into it too much and make sure we're still doing our homework and not just reaching for yield and buying companies that we feel are in a position to succeed into the future and we need to give up a little bit of yield in intern to do that it's better than them buying a poor credit just trying to boost a little bit of the portfolio.

Rob Lund: There's also a macro headlines that's come into the markets. Probably heard about everything that's gone on in Europe that's sort of been pushed to the back burner now. Still remains to be seen if that will come back up. But there are still potential head winds out there despite today you had couple of positive numbers that were released that caused treasury yields to increase but there still are some head winds out there that could quickly come back to the forth run that could push yields back down so. Gerard Cruz: Are they? Rob Lund: There definitely still are. Gerard Cruz: In the short term or in? Rob Lund: I would say probably in the not long term but not short term, sometime in the middle term and they come up quickly there's still the debt ceiling debate that could come up again in the next 6 months or so depending on how that goes. The negotiations happened between the House and Congress so these are interesting to hear. But yeah they can definitely come Europe can back into headlines, the most recent one was a few months ago was Cyprus that came in sort of spooked the market. Right now definitely the Federal Reserves is acting as a back stop to any sort of sell off in both the corporate secured market and also the equity markets just think you hear a negative headline come out and one of the immediate reactions you hear is oh the Federal Reserve will just continue their policy for longer which even the negative headline has come out the idea that the Federal Reserve will be supporting the economy for longer causes prices to appreciate. Right now it's unprecedented territories we just want to make sure we're doing our work from the bottom up, putting solid credits in the portfolio that should perform well across a number of market scenarios and not really trying to position one way or another. Thus performance it's been shrunk, if you have any questions there we'll be happy to answer them. Gerard Cruz: No, no performance has been good.

Rob Lund: Then we have a number of market slides here, on page 4 this just shows some of the key market events from the year. Number of the things I talked about, big things that have come out of Europe, the Greek collections in 2012, some accommodate ECB policy as well as the QE programs, as you can see the light blue line is the corporate spread so the additional yield you are getting from the corporate

bond instead of the treasury bond. And you can see that well just basically is grind tighter for the period of the most recent 12 months as we've been in a period of strong corporate bond returns on top of the deposit excess returns.

Rob Lund: Then the dark blue line is the 10 year treasury yield. And you can see it's been volatile. We saw big spike in rates today. This month in particular rates have gone up a fair amount and that will definitely lead to negative performance for bond portfolio. One thing we do have is a yield advantage over the index which we will look at in a second, that should cushion you some from an increase in rates. One of the things we talked about with all of our clients I know that time horizon in response is very long so to not focus on the short term movements I think is very important, as a bond investor you have a 5 year duration portfolio, if rates are to go up and your time horizon is 10 year say, you're doing much better off by increasing rates over the long run. You may take a market to market hit over the short term as rates go up the value your bond depreciates but over the long term because you can't say coupons being paid you can't say maturities have a deal, you're going to be better off over a 10 year period with rates going up than you are having them stay here at yield below 2% because you're going to be reinvesting at a higher rate year over year. So rising rates aren't necessarily always a bad thing they are for short term as a bond investor but over the long term you'd prefer to have higher rates because then your yield in the portfolio is just going to be higher you're going to collect that over time which is important to think about.

And then page 5, and it really doesn't take that long if you just think about the bond math yield but 5 years duration portfolio and interest rates go up a percent, you theoretically lose 5% of the value portfolio that day. But then you have to calculate your yield give it 2% yield that goes to 3%, so the course of a year you collect that 3% from your yield and so you'll be negative 2% for the year then next year starting off at a higher year and every year going forward you're getting a higher return so you will eventually break even relative to rates go down and its typically the time horizon. Gerard Cruz: The higher return comes from the reinvestment of your coupons right, coupon static? Rob Lund: The coupons static you're a set bond you do have within your portfolio bonds are going to be maturing next year bonds are maturing in the next 10 as those. Gerard Cruz: The higher rate to come with reinvestment. Rob Lund: Exactly. So with the reinvestment with the coupons, and the mortgage securities that are paying principle every month so you are able to reinvest those as well and higher rates are you are picking up higher return from that.

Let's talk about rates, page 5. People have been talking about increase in interest rates for a long time now and a lot of people that are very smart bond investors have been saying since 2009, 2010 that rates were going to go up and that obviously has not happened it went up today but if you look at it over that time period we're still at pretty low rates here even with the increase we've seen over the. Gerard Cruz: You think today was just a reaction towards news and it's probably going to settle back down under 2%? Rob Lund: It's very hard to forecast. It would surprise me it's really hard to forecast but we'll do it here, you've seen us get to kind of the range we're in right now pretty recently and then something negative comes out we push back down pretty quickly. I think a lot does I mean upon how the Federal Reserve reacts and what you hear coming out of their next meeting in terms of what they're going to do with their programs, if you were to hear that they might let things slow down sooner rather than later then I think you can see a little of a further increase in rates but very

hard to predict. And you can see that those rates have been forecast as I mentioned forecast can go higher for some time despite the fact we haven't.

Rob Lund: Then page 6, we think about what the Federal Reserve are going to do. Also I find that these 2 charts on the top are pretty helpful. If you look at the Fed they have a dual mandate, one is to keep inflation at their target around 2%, the other is to keep unemployment as low as possible and they talked about a 6½ % target with that as well. And you can see that they're missing on both mandates right now. Inflation is below where they would like it to be and then also unemployment is higher where they were like it to be which would lead you to believe there's no reason for them to start to move away from the policies they have in place because they are starting to approach inflation issues and also unemployment is still pretty high. You would have to probably start to see a change in one of those two for the better before they would start to move away from the programs they have in place.

Then page 7 outside of just an improvement in economy, one of the things that's really been driving the fixed income markets is there's very strong technicals in the market right now, there is strong investor demand for bonds and there's a very limited amount of supply and when you have the Federal Reserve in purchasing \$45 billion in mortgages and \$40 billion in treasuries there's even less supply, very little long treasury supply, very little mortgage supply that again forces investors to buy corporate bonds and securitized bonds. The securitized market's already shrinking, several years ago there's a robust non agency market, that markets basically disappeared. CNBS the issue is nowhere near where it was in the hay day. And you have a limited amount of bonds for the investor to buy in this supply and demand type report is really driven positive returns for fixed income in general. One of the things we look at is within the corporate market is the new issue market so when a new company comes to market issues debt, you'd expect them to have the issue what's known as a concession to investors to buy that because if you're a company and you're taking on more debt you should be a riskier company to invest in therefore you should demand a premium as an investor to invest in that company. Those concessions are really shrinking and that's just due to factors there's very limited amount of bonds there limited supplies or if you're a very large money manager this is one area we think we can add value to our clients because in the grand scheme of things relatively small, if you're a very large money manager has a trillion dollars you need to.

Gerard Cruz: That concession's offered to a specific buyer as in bargaining to do or is it just? Rob Lund: It's to everyone that's participated in that new issue. So it's just the spread or the value they are issue in that new data is generally higher worth within where they are outstanding that is traded. But they don't have issue on however concession right now because the large money managers the only way they can get enough bonds to invest their clients portfolio is to crisp it into issue markets so the concessions are much lower, the biggest yield that came out recently is Apple, it met they just issued a record amount of debt. The biggest corporate bond issue in history and the deal was 3½ times over subscribed so they had 3½ times the number of orders for the number of bonds that they were looking to sell. So very strong investor they were at a really tight end price talks of coming at better level for them works for the investor but there's just been real demand for high quality fixed income right now. Gerard Cruz: Wow, really. Maggie Ralbovsky: Came in at a 2 point something, 2.35 % or something, just barely above treasury.

Rob Lund: Yeah wasn't a big spread but with a name like that if you look at it they have very little debt outstanding to begin with. Gerard Cruz: Yeah they are basically treasury. Rob Lund: Yeah so some people could argue that the credit call is better. So it's a high quality name, new name for a lot of peoples portfolio a lot of investor demand. But that's not uncommon, we've seen smaller issuers come to market they might not have a lot of debt outstanding and we've seen deals come 10 times over subscribed so they get 10 times the amount of orders for what they are looking to sell. Gerard Cruz: But at those kinds of yields I get the 2%. Rob Lund: They will be higher than that, Apple is a much higher quality insured the most so they really got. Gerard Cruz: Still if you can get it 3 or 4% these days that's not bad. Rob Lund: It's harder to find yield places right now. Gerard Cruz: Yeah. Good for the investor. Rob Lund: Yeah, seriously be careful with what you are invested in right now just because there is such a yield grab I think not us but others are getting a little carried away at times, you get worried that people are reverting back to their old ways, pre-crisis as you're seeing the high yield market really take off. You're seeing issues of bank loans and these things that we're one point trading at very depressed levels now, trading at very small yields relative to where they have been. You are seeing an increase of risk tolerance from investors, we're just being careful not to buy into that too much and keeping the portfolio high quality.

Rob Lund: And then page 8 just focuses on the corporate markets more. One chart where you noticed up on the top left hand corner, as much we trimmed back our financials particularly banking and this shows the spread within financial relative to the spread in industrial bonds. And just the additional yield demanded over treasuries and you can just see how much financials has outperformed industrials over the most recent year as that basis is really tight and then the banking sector is actually now trading inside the industrials for the first time post the crisis. And then within financials on the upper right hand corner, you can see the light blue line is banking and that sector is really performed the best and that's now the tightest trade and that's where we really kind of paired back some of the exposure of the portfolio just to take advantage of that strong return we're seeing. Gerard Cruz: Yeah money is so cheap.

Rob Lund: Yeah exactly and one thing we worry about money is so cheap like this and when you have investor demand like this you worry that companies are going to start to favor their shareholders as opposed to you as a bond holder, so we're really one of the concerns we have that we're paying close attention to particularly in the industrial space is share buy backs and any share holder friendly activity just because you as a bond holder, it hurts you from a valuation perspective on a companies balance sheet if their taking on more debt or if they're just a fund share holder activity that's one of the things we're watching. And that's one of the reasons people would argue that financials might be more attractive these days relative to industrials it's just due to the fact that now with all the new bank requirements from bazzle 3 they are forced to get all their plans approved by the Fed prior to doing any sort of MA activity here or anything of that nature. But that's something we are definitely keep on a radar.

Gerard Cruz: Yeah it's tough for now, you have to let them know they have to approve a branch closure they're just going to shut a branch down. Rob Lund: Really it gets approved by the Federal Reserve. Gerard Cruz: It's crazy. Rob Lund: It'll be interesting to see how all these new requirements affect the banks. I think there's still

a lot to be determined with how. Gerard Cruz: Maybe the community banks will be okay, it's the big banks that are going to have to review because that's a lot of regulatory burden and under a certain threshold a lot of bazzle 3 doesn't apply. Rob Lund: Is it over how much? Gerard Cruz: 10. Rob Lund: Ten billion. Gerard Cruz: But there's still a lot of \$10 billion dollar banks. Where it's going to hurt are I think those and I don't know that they come out with final ruling yet but value mortgage servicing rights is going to be a big deal under bazzle 3 that was never contemplated under bazzle 2 or any kind of capital requirements. Mortgage servicing rights are the rights to service secondary markets, so you have a lot of aggregators like GMECK before they were sold and it constitutes a huge asset base and having the new rules make it almost not competitive to have such a huge mortgage service book any longer so it's going to be tough on the financials for a little bit.

Rob Lund: Yeah there's lot of changes coming and one of the things we've watched out was for the banking sector also is just due to there's a piece of that called the early liquidation authority that investors are it makes us a little worried that it could cause banks to have to issue more debt, one of the things we're push is but too big to fail is to have if you have more debt as your protector depositors so if you were to see a big increase in issuance for some of the banks, that issuance could cause debts to wind out, so that was one of the other reasons. We thought just given how strong the performance in banking has been, turned back that exposure as well trying to get in front of that potential for risk. Gerard Cruz: Yeah, a lot of it goes into effect 2014 and beyond right and we haven't seen the end of if either so it's going to be interesting.

Rob Lund: Yes we just wanted to get in front of that. Just given you aren't getting much of you aren't getting a whole lot of compensation for those risks there for the price that we feel. Then on page 10, 11 folks on securitized markets, we think the residential market one thing we've noticed with the Federal Reserve in purchasing a fair amount of fixed rate MBS you see in chances to really add value to security selection within the agency MBS Market, one area we typically avoided as investors has been the traditional MBS pass through market. We avoided it just due to the fact that there is a nice bond term convexity there is negative convexity within fixed rates because if you are a mortgage holder you have the ability to prepay your mortgage at any time and if you're investing in mortgages as a bond holder you don't want to receive prepayments because then you're forced to go reinvest those prepayments at a lower yield because no one is going to prepay their mortgage.

Gerard Cruz: But if you have mortgage backs now I mean prepayments beats come down it must have in last year so the rates are ungodly low, speeds going forward can't be bad I mean they can't be. Rob Lund: You wouldn't expect them to be as high. Gerard Cruz: No. Rob Lund: There's stuff that's still risk one thing you can do is you'll see this chart in the upper right hand corner, it shows that prepayment speeds versus the refinance incentive, so one thing you see here is the refinance incentives the dark blue line, you can see that's a very high level, there's still a lot of mortgage holders out there that have a very high incentive to refinance but there's a lot of frictions in the mortgage bracket still, investors might still be underwater on their mortgage but the fact we have seen improvement in home values there are people that might be underwater on their mortgage, credit is a lot harder to get these days. You aren't going to get a no documentation loan like you may have been able to in 2007. There are frictions that cause mortgage holders that could benefit from refinancing to not be able to refinance. So we've been able to select bonds that might get a higher

coupon, so a 5% mortgage coupon with those borrowers that for some reason can't refinance their mortgage you're able to collect the higher yield with limited finance risk. So that's an area we.

Gerard Cruz: What's RHS? Under refinance incentive? Rob Lund: RHS Refinance incentive that is, I'm not certain where the RHS. Maggie Ralbovsky: Isn't that the left scale, right scale? Left hand scale, right hand scale. Rob Lund: Yeah, I think that's just where it shines because we have 2 actstacies going showing there. Gerard Cruz: Okay, okay. Oh. Okay, okay. Rob Lund: And then the other area the secured market conduit, we have a nice allocation portfolio CMBS commercial mortgage back securities, you have seen an improvement in commercial real estate, this is benefited the market, as I'm sure Steve has talked about in the past with you, we're only investing in what's known as the super senior universe of CMBS, so the most senior traunch of these loans, we're protected by lower traunches below you that act as credit enhancement. These are very senior securities the market has performed very well, this is definitely been one of the top contributors to performance in the portfolio. This sector was really badly beaten up back in 2008, 2009 as you would hedge funds that were owners of these securities and this was the most liquid thing on their balance sheets so they were forced to sell into a bad market which was push spread out wider despite the fact that these were strong securities that whether the financial crisis from a delinquency perspective.

Gerard Cruz: So these are the same securities but just held longer and whether. Rob Lund: So we've done some trades but for the most part we're all invested in that super senior universe, there's never been a loss taken on one of those securities since the history of that structure. Just because the way it works you have 30% in credit enhancement so you have 30% protection and what that means is that you need to have 30% at the underline loans all the fall and get zero dollars back before you would take a dollar in principle loss. Stead this 60 plus date delinquencies within the sector currently they haven't gotten any higher than 10% even during the worse of the credit crisis you would need an additional 20% to go back and get zero dollars back, if you were to look at fifty cents on a dollar recovery you need 60% of your loans to default. There are really dire scenarios that don't seem at all lengthy at all normal circumstances. Gerard Cruz: Sure, okay.

Rob Lund: And that's really from a market perspective, when you look at the portfolio on page 15, you can see how it's changed since the last meeting, one thing though is the yields come down a fair amount that's just been translated into the strong returns that we saw on the first page. As the yields down to 1.85 relative to the index of 1.73, so we have lost some of the yield advantage we have but we still have 12 basis points of yield over the index. The duration has extended that with a portfolio at 5.13 years and the index at 5.22 years and then also very high quality portfolio with double A average credit quality and double A average credit quality for the index. That word is convexity with a positively convex portfolio relative to the index it's negatively index if rates were to go up from here you would expect that convexity advantage to kick in and help your portfolio relative to the index.

Rob Lund: Down on the right hand side is the sector distributions. And one thing I mentioned is we reduced credit and you can see we were at 36% at the last meeting now we are right around 30. So turn that down about 6% with majority of that coming at finance went down from 17.6 to right around 13%, that's to trim that back a

bit and moved into lowering government sectors and then also some of the secure sectors as well. So we see that change there. Gerard Cruz: This is our portfolio? Rob Lund: Correct. Oh it's on page 15, I'm sorry. So that's just the what you had there that's just for the index. Wilfred Leon Guerrero: You don't invest below. Gerard Cruz: Investment grade. Rob Lund: Yeah we don't invest below triple A. Not within the portfolio. Wilfred Leon Guerrero: Would you like to? Rob Lund: So we've had clients that have come to us given we're definitely not high yield manager. That's not what we do but we've had clients come to us who were managing existing portfolios for and have asked if there's ways that we could get some additional yield into the portfolios, and that's one of the areas a few clients have given us additional flexibility to invest in, we're not going to go down and invest in C's and really low quality but we have battled in the double B's and the higher quality high yield market but it really depends on what your goals for the portfolio are and what your risk tolerance is.

Wilfred Leon Guerrero: We got a situation where our investment law comes from investing in high yield bonds but we can own a company, we can't lend them money, some of the companies that are issuing these high yield bonds are good companies. Rob Lund: There is value in the market, in high yield you definitely need to be weary a bit just yield are at all time low in that sector like they are in any other sector, so I think you need to do your security selection and make sure you are not just buying in to a. Wilfred Leon Guerrero: So, nothing below triple B right? Rob Lund: Not within this portfolio, no. Wilfred Leon Guerrero: But even with your. Rob Lund: So, we like I mentioned for a few clients have asked us to. Gerard Cruz: You do have some. Wilfred Leon Guerrero: You have? Rob Lund: We do, yeah. It's a handful of clients that have given us that flexibility though. We're definitely primarily still investment grade, that's our bread and butter for those clients that have asked us about. Gerard Cruz: How much of their portfolio is in the high yield stuff? Rob Lund: So I would say it depends on the portfolio by portfolio basis there's been clients that might have given us 10% on the allowance some the primary focus of the portfolio is yield and might have 30ish percent in that.

Gerard Cruz: So if they give you a 30% allowance you take it up to the 30%? Rob Lund: That would depend on their risk tolerance, so and their objective so the client tells us our objective is to get a 3% yield with a fairly short duration the only way for us to do that is by increasing that high yield bucket, so it's definitely much more of a focus on what our clients objectives as oppose to we're just looking at all these bonds and we derive at 30% allocation. Gerard Cruz: So what would be the benchmark to measure your success by that? Rob Lund: So again that's going to be client by client. For the most part they're clients that have allowed us. Gerard Cruz: Or is it just an absolute return they say we need 3. Maggie Ralbovsky: So if they say 30% in high yield it just bland. Gerard Cruz: Oh that's true I guess so.

Rob Lund: So somewhat bland, we do have clients that have given us that yield target, and its absolute return that's definitely not the norm but it's definitely a client. We also have clients that's just given us a 10% allowance to invest in below triple B's but our index is still the act. So they just gave us that additional flexibility. If you look at a lot of big mutual funds out there. They're considered core bond funds, they have allocations to blow triple B despite the benchmark, so it's not that out of the ordinary to have a small allocation but once again it's just vary clients specific. It's been an area and we are trying to figure out yield its something people have been

talking to us more and more about and we look to expand our product and come to a solution that helps our clients needs.

Wilfred Leon Guerrero: Government of Guam their rating is what? Gerard Cruz: Triple B. Maggie Ralbovsky: Double B. Paula Blas: It's not triple, it's double. Maggie Ralbovsky: Double B. Wilfred Leon Guerrero: How much? Maggie Ralbovsky: Double B. Gerard Cruz: Double B minus. Maggie Ralbovsky: I thought double B plus or something. Gerard Cruz: I don't know. Maggie Ralbovsky: I thought it was plus, it was right just one notch below. Gerard Cruz: Junk. Wilfred Leon Guerrero: What did you say Gerry? Gerard Cruz: No. The last one. Maggie Ralbovsky: The last one was high grade rated. Gerard Cruz: Yeah. Maggie Ralbovsky: Because it was revenue enhance. It was tax revenue enhance. Gerard Cruz: That's correct. Maggie Ralbovsky: That's right so that one was single A I thought. Gerard Cruz: But the G O. Maggie Ralbovsky: It was double B plus. Gerard Cruz: I don't know if it is it? Maggie Ralbovsky: Double B plus, I own one of those. It's triple tax free. Gerard Cruz: Now it's triple B barely a C. Wilfred Leon Guerrero: Government of Guam has never defaulted. Gerard Cruz: Never defaulted. We never defaulted we just have a high debt load but we never defaulted, no. Wilfred Leon Guerrero: But the other issue like you know how come you guys are not investing in the island? Maggie Ralbovsky: Well you do have municipal bonds here but these are taxable or. Rob Lund: Those are taxable municipal bonds. Those are taxable so you have the bads burning that came out so some of the bads and I'll just say have taxes come to market occasionally with taxable bonds depending what the project is they are funding it may not be eligible for the tax exemption. A lot of universities have issued taxable bonds recently at some of the big schools in the U.S. they've actually been issuing and a lot of them issuing 100 year bonds so 100 year maturity for the university just to take advantage of the low rates and tax more. Gerard Cruz: Pretty smart. Rob Lund: Any questions on the portfolio rather any questions I had on organizational changes and things of that nature. Gerard Cruz: No. Nothing on the portfolio. Organizational changes right, are there any?

Rob Lund: There aren't any so its very easy thing to do. We actually that's a lie. I'm sorry we add share holders pretty much every year, its something we've been looking to do is we expand the share ownership by our employees, so we were at last meeting we were at 24 employee share holders, we're at 29 now as we added 5 this most recent year. Just adding to current employees, so something we'll look to continue, be surprised next time we're in the area we added 4 or 5 more depending on who received that take on ownership. Gerard Cruz: Regulatory inquiries issues. Rob Lund: No regulatory issues. One thing I think Steve mentioned at the last meeting is Steve Curn who was a senior portfolio manager with us who left the firm a couple of years ago did pursue litigation with us and we have been going through that process for over a year now, fortunately I'm all out of details to share with you about the process.

Gerard Cruz: Is that an employment issue? Maggie Ralbovsky: Age discrimination. Anybody over 40 can file. Rob Lund: I think he was 40. Gerard Cruz: Really? At 40? Rob Lund: Questionable to ask the merits of the claim but it's working through the process. Gerard Cruz: Sure. Rob Lund: One thing that is a positive is there isn't a whole to lot to share about is because not too many people are getting dragged into it not wasting a lot time and resources it's a small group of legal people have been dealing with that and plenty of cash in our balance sheet if there was a settlement on any issues. And then other things to know, we have a few promotions and things of

that nature but nothing no portfolio management turn over no hints of that, the only promotions were Julia Hébert was promoted from an analyst to a PM, and Mary Farrell was promoted from an analyst PM to a PM, but other than that.

Gerard Cruz: Mary was promoted? Rob Lund: She was yeah, have you met Mary over here? Gerard Cruz: No. But it sounded like I did, right. Rob Lund: And that's really all the things and all the changes are pretty good. Wilfred Leon Guerrero: How flexible are you in reference to the make up of the portfolio? Rob Lund: In terms of what we can invest in? Wilfred Leon Guerrero: Yeah. Rob Lund: So say that we're very flexible with considering your guidelines so we can't buy anything obviously that's prohibited from your guidelines. I think our team structure allows us to be very nimble relative to other investment managers just due to the fact that we're privately owned, everybody is on one floor in the same building so if we want to change a target to own more corporate firm less corporate bonds and more secured type bonds, all the key people are at the one place so we can get together and talk about that right on the spot and can make decisions a little quicker than others relatively but we're still doing our homework at the same time and making sure we are not rushing into a decision either but we can act quickly if needed and have the flexibility.

Wilfred Leon Guerrero: So, you are flexible. Rob Lund: Yeah. Wilfred Leon Guerrero: I don't have anything in my mind I just wonder about this, I see something more that takes place in this island in terms of infrastructure, things are being built by I don't know who and just wondering what you know there is money to be made there can Retirement Fund can make some of that money. Rob Lund: So we're flexible I mentioned in notes got to be within the confines of the guidelines, we're negative to investment grade fixed income. Wilfred Leon Guerrero: Our law is very restricted so just, but we've been trying to get it changed and give the board more flexibility you know much more reason to change we could have done this. Rob Lund: Is there talk of them maybe making changes? Gerard Cruz: To the law? Rob Lund: Yeah. Gerard Cruz: We're working on it. Maggie's, that's why Maggie's here. Wilfred Leon Guerrero: Maggie is getting mad at us. Gerard Cruz: She's, you don't see it but she has a whip somewhere. Rob Lund: I'm sure that's going to be a difficult process to try to get moved through. Gerard Cruz: Yeah, that's an understatement, that is an understatement. Yeah. Rob Lund: Great, well that was all I had. Wilfred Leon Guerrero: Paula? Paula Blas: That was good, thanks Rob. Rob Lund: Well thanks for having me in. It's great being here. Wilfred Leon Guerrero: Thank you. Gerard Cruz: Thanks. Rob Lund: Thanks a lot. Gerard Cruz: Give Steve our regards. Rob Lund: I will do that. He was upset that he was missing the meeting, he was looking forward to seeing all of you. Gerard Cruz: Yeah, he says that all the time.

Garcia Hamilton

Wilfred Leon Guerrero: You have 45 minutes and you are going to lead the discussion and we are going to see what you have done and decide whether we are going to continue to keep you or not. Go ahead.

Jeffrey Detwiler: The pressure is on. Thank you very much great to see everyone again. And know what I want to say thank you, this has been obviously one of our longest relationships Garcia Hamilton and Government of Guam had a relationship for 10 plus years and over the years our presence here in Micronesia has grown and I

think that you know one of the main factors not primarily is due to the fact that we had a relationship with you for such a long time, so again thank you for that.

Gerard Cruz: We get these nice books. Jeffrey Detwiler: And of course I'm always out at A Pas Gerard Cruz: That's right we got to get our chairman out there. It's too far from Vegas. No it's not there's a Vegas resort world. Paula Blas: He doesn't like to gamble. Gerard Cruz: There's a church across the street just like where he's staying in Vegas. There's a church in the casino. Okay. Sorry. Jeffrey Detwiler: So back on track just an update on the organization, we're going to talk about you know how we've been doing so forth with your performance and then provide you with a sort of some market background update outlook and then you know answer your questions you guys might have.

Jeffrey Detwiler: So on page 1, organization, just a refresh, the firm was found back in 1988, we're 100% employee owned, 75% of the ownership is between women and ethnic minority partners. We have a very keen and experienced team that has worked together for a long period of time. You see there's 11 members on the investment team. 188 years combined of investment experience, 104 combined with the firm, 7 of which are CFA charter holders. Today the firm manages approximately \$3.3 billion in assets of that \$2.8 billion is in fixed income, whether its equity or fixed income, we use a high quality strategy to prevent any negative surprises. When I say high quality that means that able to fix income all the things we buy for your portfolio are treasuries, agency debt, agency guarantee mortgage securities and high quality corporate bonds.

Jeffrey Detwiler: At bottom you see a breakdown of asset 5 aggregate which is a strategy we manage for you, it's the largest at 40% and one of our longest composites as well long strategies. On the right hand side you have a breakdown of client type two thirds of our clients are public pension plans. It's just kind of been a natural fit over time historically approximately 2/3 of our clients have been in public space. On page 2, I thought it be interesting just to give you a feel for how the company has grown. We have added new clients over the past 12 months, we've added 359 million in the fixed income space, you see different strategies whether the aggregate short, the medium aggregate regardless of the benchmark we are always using our high quality investment strategy.

Some of the clients in the Micronesian area that we have added over the recent time has been Marianas Public Land Trust, FSM Social Security as well as the Micronesia Conservation Trust, Century Insurance, other clients who've been with us for a longer period of time, Palau as well as UOG, so certainly the Micronesia region is a very important part of our business as well. Gerard Cruz: Did you get GCC? Jeffrey Detwiler: Not yet although we've had discussions.

Jeffrey Detwiler: So on page 3, just a reminder on our golden philosophy and this is not change since day 1 of the firm, our investment goals outperformed our benchmark. Netted fees using high quality strategy with less risk and low turn over. We're not trying to be the number one manager, we're not trying to take on a ton of risk you've got a little extra return. We're not going to invest in anything like high yield, foreign bonds we won't do any derivatives or leverage of any kind. And that's stems from our philosophy on fixed income which is the fixed income portion of your portfolio has to do should be your rock so to speak. You take your risk somewhere else whether it be emerging markets or small caps or something along those lines but

you want fixed income to sort of be that rock in your portfolio, be that consistent position especially during times of stress as we've seen over the recent time period.

And this stems from our philosophy on fixed income which again don't hurt the client, so we want to preserve principle, maintain liquidity and provide a high current income so that all securities we buy we're keeping those tenants in mind and having a higher current income is important because the market generally moves sideways or if the market moves against you, you're getting extra income that will help you out. Wilfred Leon Guerrero: How rich is the idea that those in terms of sticking to high quality. Jeffrey Detwiler: 100%, we will only buy the sectors that I mentioned, high quality corporate bonds, treasuries, agency debt and agency guaranteed leverage back securities. So we will not purchase any CMBS, CMO's, asset back securities, we won't do any derivatives, won't do any leverages we won't buy any form of bonds. We believe that we don't have to and I think our performance bears that out. We think that we can stick with our high quality strategy and still out perform.

Jeffrey Detwiler: So to that point, pages 4 and 5 we have your performance. On page 4 we have it in the format that you requested and page 5 in the traditional format. So we can see for the month of April, underperformed by about 31 basis points but for the quarter, ahead by 84 that's as of March 13. For the fourth quarter 12/31/12 you can see ahead by almost 100 basis points. Then you have your 12 month since inception number you can see since inception the relationship goes back to September 2008, average annual return for your portfolio is been 9½% versus the benchmark at 6.56%. Gerard Cruz: That's really good.

Jeffrey Detwiler: Just and update for the month of May, we are ahead by another 60 basis points so that puts the year to date number ahead by approximately 110 basis points. So page 5 we have more of the traditional we have the month new date of one year, two year, three year and since inception. Gerard Cruz: So you guys are very high quality shop, that's been really good. But I'm curious and I'm sure you've been asked this question a lot so maybe you can just explain this to us, but so how do you foresee this whole interest rate cycle playing out and then given the fact that you are a very conservative and high rated type of investor or invest your rate to invest in high rated fixed income securities, how do you see continuing to build on the kind of returns that we're used to seeing given that?

Jeffrey Detwiler: So the first question with regards to interest rates, now on the next few slides we'll given that more specifically but generally speaking we've had what we call a recovery trade on for your portfolio since Lehmann Brothers which is generally speaking since inception of your portfolio with us. Which means that we have been positioning your portfolio for an economic recovery taking advantage of why historical spreads and I have some charts to talk about that as well, but also with a recovery your expectation should be that rate should rise and so we have positioned the portfolio shorter in duration meaning less interest rate sensitive.

Gerard Cruz: So what's your current duration? Jeffrey Detwiler: Our duration as of March 31 is 4.1 which the benchmark at approximately 5.1, we have started to cover that duration gap with the extreme rise in rates that we've seen this month. So our expectation rates are generally speaking range found but side ways to higher. So we touched a low earlier this year, 160 today I believe we closed at 215 on the 10 year. It is possible that we get to 225 but I don't think we'll get much higher at least for a

prolonged period of time but I think as we move into next year we could be talking about another 25 to 50 basis points and so forth and so on. What I don't expect to see is some sort of pronounced dramatic increase in rates something like 100 basis points expand in 3 months or something in that nature. Gerard Cruz: Okay. Jeffrey Detwiler: And then as far as. Gerard Cruz: That's on the both on long end and short end you're thinking or you're just talking on the 10 year? Jeffrey Detwiler: Really the more vulnerable part of the market is the 10 year out, so our expectation on the front end is that rates will generally be anchored in terms of 3 years and then, so what that would mean would be in curves statement. Gerard Cruz: Okay. And this happening within the next 12 months, this is your 12 month forecast?

Jeffrey Detwiler: Yeah, again generally speaking, sideways to hire but not in sort of a pronounced stand point and we think that that trend will continue probably for the next 12, 24, 36 months as long as the economic recovery continues. Gerard Cruz: So how do you position your portfolio for error or has it been positioning or you've been doing it? Jeffrey Detwiler: Okay. So I can jump into that now if you want or I can come to it. Gerard Cruz: Yeah you can come to it. Jeffrey Detwiler: As far as portfolio positioning, as far as how we can outperform say in an environment where low quality outperforms, I think that's the second question you had? Gerard Cruz: Well not so much but I'm just thinking with rates going up and you investing in the high quality, I guess that is the question how you perform when low quality starts to outperform the high quality.

Jeffrey Detwiler: Treasuries are under performing and so you know everything else is what's going to outperform so what you do in that still different things that you can do. Number 1 is I think higher income is going to be part of that so if you have a neutral portfolio position with the benchmark but you are getting more income, so everyone's kind of being hurt by a rising rate environment if you are getting more income that will help you out perform.

Jeffrey Detwiler: The other part is sector rotation. So if they're particular sectors and treasuries where we think that rates are going to rise they are going to underperform you underweight that sector and overweight the sectors where you think there's going to be spread tightly. Gerard Cruz: Where do you think that's going to be because you're in currently in treasuries agencies so where would that be? Jeffrey Detwiler: Sure so obviously anything non treasury, corporates still offer some spread and we got some charts to look at that. Agency mortgage back securities and again we only buy 15 years seasoned pools, so they are more of a shorter duration in nature type security than say a 30 year or hybrid or something in that nature. Those still have some spread in them as well. And then in the agency space, not agency fixed senior debt but that but agency callable and agency sub debt we think offer some value as well on the short end of the curb.

Gerard Cruz: Okay. So agency callable, those are direct debt then not past dues? Jeffrey Detwiler: That's correct, agency callables are in are direct obligations of the agencies they have a stated maturity but they have a call date prior to the maturity. What we buy are callables that we consider in the money meaning high coupon, a dollar price over par so the expectation is that they get called away from us. We buy bonds that have a spread not only above treasuries but also above the agency curve goes to the call date and to the final date. So the expectation is that this is a bond with a 3 year maturity as an example, so has a bigger coupon but has a call date one

year in the future so it has an effective duration of one year or less. If it doesn't get called the fact that we are buying bonds that have a spread both to the call date ends to the maturity over the agency curve. Yes you have coupons you have a cushion there. So there are areas to capture spread but certainly I think to the point the bond market is not going to offer as generous returns as it once did. The days of getting double digit returns like we've been able to achieve for you are probably you know not going to be seen for some time.

Gerard Cruz: So what is the calibrated expectation? Jeffrey Detwiler: I don't know. I mean it's been bond over bond. I mean it's been a tremendous opportunity for investors who had the foresight to take the advantage. Wilfred Leon Guerrero: Jeff, what is the difference between accrued interest and income received on page 4. Jeffrey Detwiler: Sure, so as an example if you got a bond that pays twice a year if you buy it on day 1 at the beginning of the year, it pays in June and December as an example. If we're talking about July from January to July you received income cause from that June payment, from June until December, your interest is accruing, you'll receive money in December but you haven't received it yet, so that payment is accruing. So the accrued interest is the amount of income that has not that you have not received. Wilfred Leon Guerrero: Okay.

Jeffrey Detwiler: So with that lets just jump into some of these charts to kind of discuss or visual aide some of the things that I've been talking about. So on page 6, we have a spread chart, this is one that I've been sharing with you guys for the past few years. What this shows is the additional income you received for buying a corporate bond versus a treasury security. That's what spread means so as an example you're to say the 10 year treasury is at 2%, if I were saying to you that the spread was 1.4% then the absolute yield on that corporate bond would be 3.4. So as we look over time and we graphed here the corporate sector as a whole and then as a subset of the corporate sector the financial index. You can see the red lines and the blue lines have provided some opportunity during crisis points, you see these peaks during the Asian Russian financial crisis back in the late 90's. In the early 2000's we had the dot com bubble, 9/11 and the accounting scandals with Enron and Worldcom and everytime when we look back at these peaks you can see you know you should have invested here but obviously it's difficult to do that sort of in the eye of the storm. As we move to the mid 2000's you can see sort of a steady, steady environment similar to the mid 90's as well where spread is both in financials and the corporate sector as a whole, we're right around 100 basis points or an additional 1% in additional yield above the treasury.

Jeffrey Detwiler: As we look in the late 2000's we had Bear Stearns and Lehman Brothers and really this was the greatest peak or the widest spread if you will since the great depression. And the decision we were making for our clients portfolio's at that time was we were not going to go into a depression that we would recover out of this and as we look at this opportunity this is a tremendous opportunity to add additional return for our clients. And so we moved into corporate bonds in a meaningful way. The red line as you can see started to recover more rapidly than the blue line which is the financials and so we were overweight corporate bonds but we began to overweight within the corporate sector the financial sector because that is where the most opportunity was available.

You can see some bits and starts in the more recent time period between things like Greece and the U.S. Treasury downgrade, but generally speaking the trend has been lowered meaning higher spreads meaning getting less additional yield, so bonds 101 when yields come down prices go up. So what has been happening over this time period is corporates have been outperforming treasuries. Their prices have been moving up more rapidly than treasuries. We've had an overweight this sector and this has been a primary driver of the out performance for your portfolio.

Jeffrey Detwiler: What we see today is that gap between financials and corporates as a whole has really come in and the absolute spread being 137 basis points on financials is getting closer to more of a steady state environment that more back to a historically norm of kind of good time so to speak. So what we've done with your portfolio is reduce some of that credit risk, taking some of the corporate bond risk off the table so for corporate bonds that have theirs spread has tightened I mean they would recover faster than others and the risk reward characteristics we feel are not as great as other securities we can potentially purchase. We have trimmed those or sold those and purchased agency mortgage back securities and agency debt.

Jeffrey Detwiler: Page 7, is an interesting chart in that it's one thing to say we going to get additional 1.4% in yield from corporate bonds when treasuries are at 5%, it's another thing to say you going to get additional 1.4% yield when treasuries are at 1 or 2%. So as a ratio to treasuries you can see some of these peeks are definitely more dramatic here in the recent term and that's because treasury rates are much lower than where they were historically. So as of April 30th you can see even at 1.4% you're getting roughly 2 times the additional yield of a 5 year treasury. So for us again corporate bonds do offer value, the opportunity is not as great as it once was but I think more importantly could take away from here is that treasuries are extremely over valued and so we expect this ratio to come down back to a more normal steady state environment and to do that not only will we see spreads timing but we do also expect to see rates rise.

Jeffrey Detwiler: On the next 2 pages we have some technical models. Now just a reminder on our firm, we do our own fundamental research first, we use the technical models as a cross check for fundamental work. We don't blindly follow what these models say, you know it's not a black box shop, this is just a good check and balance. So if the model is saying one thing and we're thinking another thing it forces us to do some additional homework to make sure we're right.

The first model on page 8 is the liquidity model. And what you can see here the blue line and the red line. The blue line being the liquidity model, the red line being the reason manufacturing index which we use as a proxy for the economy. So if you can get a sense of what manufacturing is going to do whether it's expanding or contracting, get a sense of what the overall economy is going to do and that should help you with your portfolio positioning.

The key factors here include the yield curve real money supply and rate of change global live. Basically factors that would either mean increasing or decreasing liquidity into the system. As we look back to late 2008, early 2009 where the red line fell off the cliff. This was the point where everyone was saying are we going to go into the abyss, are we going into a depression. The blue line here matched our fundamental research which was all of the liquidity that the Fed and the treasury putting into the

system, all these different unique programs, all of the things that we're seeing from a fundamental standpoint are telling us that we will recover we will not go into a depression and the opportunity that we saw on the previous page we would be rewarded for taking advantage of that.

And that's exactly what we saw, as you can see the red line has moved back toward expansionary territory. Again we still see the blue line in expansionary territory so that tells us that the economy will still continue to expand. Our expectation is that the economic growth probably won't be as robust as some would like we might kind of muddle along in sort of this 1½, to 2 to 2½ kind of economic growth environment at least for this year and maybe first part of next year but we do expect it to continue to recover. In this environment again I think that goes back to what I said earlier about rates kind of sideways to rise but not a dramatic move.

Page 9, this is the spread model. Again this is a technical model because these are cross check. It has very good predictive power with the direction of spreads. We're not trying to target a particular number, we just want to know our spreads going to tighten or widen which gives us a sense of should we be over weighting or under weighting particular sectors. Treasuries versus non treasuries securities. You can see the lines move very well together. You can see the peak there in '08 and '09. Looking here more recently generally speaking the spread model is still directionally headed lower so again our expectation is that its spreads will continue to tighten. So that is why we want to be overweight non treasury securities.

Jeffrey Detwiler: The key variables here are implied volatilities both in the equity market and the bond market so as an example the fixed index as well as the primary carry trade for FX crosses. And really what those variables are trying to tell us is the appetite for risk. If those variables are you know saying positive things then that means investors have what's called the risk on trade. If negative things then the risk off trade, if you have an expectation for appetite for risk growing then that should mean that's spread should type and that's how that model works. And it's a good cross check if it's obviously worked well for us over the years.

On page 10, I thought it be interesting to share with you some of the recent trade that we've been doing for your portfolio. I mentioned that we have trimmed some of the corporates in your portfolio that do not offer as good a risk reward characteristics as they once did because spreads have come down. For the credits the corporate bonds that we still like still offer attractive value in the financial sector specifically names like Goldman Sachs and Morgan Stanley. What we're looking to do is push out the maturity and pick up additional yield for pushing out the maturity. So as an example in 2008 and 2009 we were buying bonds worth of 2017 maturity, after a couple of years we sold those and bought 2019 maturities. Now as these 2019 maturities have rolled down the curve and are effectively 6 year bonds, we are selling those or buying bonds with a 2021 or 2022 maturity. So again pushing out that maturity and picking up yield. And what we're doing is we're picking up the yield curve plus additional yield so we want to get at least compensated for the duration but also compensated for the additional credit.

As an example, Goldman Sachs we push out the maturity from Feb 19 to July 21 so a maturity extension of almost 2½ years, the duration extension which is your measure of interest rates sensitivity and therefore the more important number 1.9 year

duration extension. A yield pick up of 70 basis points which was the treasury curve plus 17. So getting compensated for extending maturity but also getting compensated for taking on additional credit risk. So by doing this what we're saying is that we want to stay with these corporate bonds but still offer attractive value but we want to get as much income for your portfolio as possible without taking on significantly more interest rate risk.

On page 11, to your question Gerry about how we're positioning the portfolio, we have a pie chart of the aggregate index and a pie chart of your portfolio and then some key stats at the bottom. You can see the index has 37% of treasuries which is one of the main reasons why the index had such bad performance for this year whereas we have almost no treasuries. As rates continue to rise I expect us to close that gap but we probably won't get to a sort of a neutral position anytime soon.

Our corporate weighting has come down but we're still overweight that sector 49% versus 27%. Keep in mind we are maintaining the high quality buys even though we haven't overweight the last sector so higher quality corporates than what the index sounds. And then our we have an overweight to the agency MBS sectors, so if you think the agency exposure is a whole 50% for your portfolio versus the index at 34%. And then the index has some lower quality instruments such as asset backs and CNBS which is roughly 2%. So coming down to the bottom of the page, you can see the higher average yield and higher average coupon, so at 2½% versus 1.7, if you know the market doesn't really do much just generally kind of go sideways in terms of rates, spreads don't do anything, we'll outperform by approximately 80 basis points. Your duration short of than the benchmark and that has been terrific for your portfolio as rates have risen this year.

Jeffrey Detwiler: The next 2 pages are some risk controls that we have in place. We are constantly monitoring the decisions that we've made to make sure that we're not taking on any unnecessary or undue risk. The one thing I want to point out here on page 12, what we have is duration contribution by sectors so where is the interest rate risk coming from, which sectors. Obviously we saw that we have no treasuries securities and we have an overweight to corporate bonds. Now it's important to know what is your interest rate exposure because you could own 2 year corporates or you could own 30 year corporates or something in between that's certainly a different risk profile depending on the maturities of the corporate bonds you own. So we want to look at all these kinds of things not only on a percentage basis but also on an interest rate sensitivity basis.

So you can see where our risk is coming from is from the corporate sector and the agency MBS sector which is the areas that we find most attractive. But also note as you compare April '13 versus April '12, you can see that our corporate interest rates sensitivity at 3.14 versus where we are today at 2.67. That goes back to my point of reducing some of the credit risk in your portfolio as spreads have tightened. And where we've added to is in the agency MBS and the agency debt sectors.

And then on page 13, to your question about the yield curve, you can see we have an underweight to long securities. If you combine the 8 to 10 and over 10 part of the curve which is basically long bonds and old long bonds, we have 2.3% versus the index at approximately 15.8%. We have reduced some of that long end exposure as we felt that the long end is the riskiest part of the curve which has helped your portfolio

as the yield curve has steepened this year. My expectation again is that spreads will continue to tighten. The market obviously will not be as generous as they once was because spreads are not as wide as they once were. I think rates will continue to move sideways to higher so we're going to have a shorter duration than the benchmark however, I think that the yield curve will steepen, so we'll probably close some of that gap but we probably won't go all the way back to neutral or long anytime soon unless the move is so dramatic that we think its overdone.

Maggie Ralbovsky: How big a deal if the Feds stopped buying MBS? How much impact to that market? Jeffrey Detwiler: Well you know I don't think it will be too big of an impact. Certainly agency MBS was already performing well even before the Fed started buying securities. So will it matter? It will certainly matter because they are a big buyer, but everybody wants paper, everybody wants yield. So they were already buyers from before, and you know people are still looking for agency paper. Where the impact if any will be felt, and I'm sure there will be some, will be in 30 year mortgages and not so much in the 15 years space because that's the largest part of the mortgage banks security sector.

Jeffrey Detwiler: As far as will spreads widen time probably in a short term kind of just head line risk, spreads might widen, but I think longer term over 12 months after they made that announcement which I don't think they will but if they did they would certainly tighten. Wilfred Leon Guerrero: What triggers I'm hearing you say that you sell these coupons at way before the mature and some of them, like a 15 year period you sell them in about 10 years time or something like that, Maggie Ralbovsky: You're talking about the roll? Wilfred Leon Guerrero: When to sell you know when you loan I don't know what's the terminology for that your exposure I guess. Jeffrey Detwiler: Basically saying a bond that has maturity here, it used to be a 15 year security but 5 years later it's now a 10 year security, and 5 years later it's now a 5 year security when you sell that short security by a long security again?

Wilfred Leon Guerrero: Yeah, what's the basis of your decision to sell those? Jeffrey Detwiler: Sure. So we don't necessarily see that as much with mortgage back securities and the reason for that is because mortgage back securities are paying principal and interest as they go along. So, a bond that may have at one point been 5% of your portfolio, as time goes on we're getting back principle and interest. So it used to be 5% of your portfolio, now its 3% of your portfolio. What we are doing is not necessarily selling that 3% what we're doing is reinvesting the 2% that we've received back so to speak. We're not doing a roll with those types of securities. Where we will do a roll is with the corporate bonds. Where I mentioned you know that we bought a 8 or 9 year security, 3 years have gone by now it's a 6 year security. So what's important for us in making a decision about when it's a time to sell this bond and buy that bond is by looking at relative values.

Jeffrey Detwiler: What do I mean by that? What we look at is spread to the treasury curve. So as an example the treasury curve is upward sloping, so it's not enough to know that a 6 year bond has a lower yield than a 10 year bond. What's important to know is the 6 year bond you own how much of the spread above 6 year treasury exists and this 10 year bond how much spread over a 10 year treasury is it. So what we want to do is sell securities with a tighter spread and buy securities with a wider spread. So it's not enough to know that we are getting more yield by pushing out maturities. It's all we're getting more spread above the curve and so that decision is

made on sort of a case by case basis. Wilfred Leon Guerrero: But you used the treasury? Jeffrey Detwiler: Yes, you have to look at the treasury curve as your baseline. So it's not enough for me to say to you that you can sell this bond, this 5 year bond at 1% and buy this 10 year bond at 1.5%, is that a good deal or not? It's not a good deal because the 10 year treasury has a yield of 2% actually 2.15% so you wouldn't sell a bond that has a spread higher yield than treasuries, to buy a bond that has a lower yield than treasuries. So you have to use the treasury curve as a baseline. So going back to how we make the decision of when we do these actual things. We're a top down manager and what we look at is the entire market and say what are the cheapest parts of the market? What risk do we want to take on? So in this example and where we've been recently is we want to be overweight corporate bonds, and so our decision with the corporate sector is finding the cheapest corporate bonds we can. And the cheapest means the ones with the widest spread to the treasury curve. Naturally speaking as bonds roll down their spread should tighten to the treasury curve because their becoming less and less risky. So what we look for are opportunities to sell a bond that is tighter or higher in price roughly speaking versus a bond that is cheaper, higher in yield wider in spread lower in price.

Wilfred Leon Guerrero: I believe you. Jeffrey Detwiler: Okay. Gerard Cruz: No, I'm good. Thanks, Jeff. Jeffrey Detwiler: Thank you all, I appreciate it. Gerard Cruz: Oh just a little regular housekeeping items, any FCC, investigations, inquiries? Jeffrey Detwiler: No, none of that. No litigation, no FCC issues, no compliance issues. From an organizational standpoint I just want to make sure you guys saw and we did put out a release on it but maybe you didn't see it. Our controller Kevin Lunday has been promoted to chief operating officer. That was effective last year. Basically just a reflection of him taking on additional duties within the firm. So for organizationally still very strong. We continue to add new hands as you know our firm grows help facilitate that growth. We've hired a couple of new marketing people to help with client relations, client reporting that type of thing.

Gerard Cruz: No departures? Jeffrey Detwiler: No departures, no. The investment team has been in tact obviously Bill Burkorsky has been there since 2002. Nancy and myself have worked with him for several years. Over the past few years we've hired a couple of investment analyst. Karen Tass joined the firm in 2010. Wilfred Leon Guerrero: Here's your Karen. Gerard Cruz: Oh, there's Karen. There she is. Wilfred Leon Guerrero: Or was it Mary? Gerard Cruz: Mary. We'll go with Karen too. Jeffrey Detwiler: And then Ben Monkiewicz he joined our firm in 2010 and initially he had been doing some reporting work, client relations type stuff, administration type things. We have brought him along slowly as part of the investment team. So right now he is kind of taking some of the reporting and some of the for lack of a better word busy work off the hands of some of the analyst and portfolio managers, and he's just continuing to learn but as time goes by he'll be more involved with the fixed income team. So again just facilitating growth as needed.


Wilfred Leon Guerrero: And you're employee owned right? Jeffrey Detwiler: That's correct. 100% employee owned. Gilbert Garcia is the largest share owner. Between him, Janna Hamilton and Beth McWilliams, the firm is 75% women in minority. Wilfred Leon Guerrero: How old is Gil Garcia? Jeffrey Detwiler: Just celebrated his 50th birthday. Wilfred Leon Guerrero: He will be retiring in about 2 to 3 years. Gerard Cruz: It's a stressful job. Jeffrey Detwiler: I don't see that any time soon. I don't know if he will retire. Wilfred Leon Guerrero: That's the pattern I've been seeing.

You guys make your money in your 50's and you retire. Rosalia Bordallo: Why not, enjoy life you know we're all going to die. We need to enjoy life.

Jeffrey Detwiler: I just don't see him doing that anytime soon. Rosalia Bordallo: Always enjoy yourself before you get real old you know you don't want to be in the wheelchair when you go around. Wilfred Leon Guerrero: Yeah, I used to be impressed with these guys being employed young and see them retiring at their early 50's. Gerard Cruz: That was good. Thanks.

Respectfully submitted,

Affirmed:


Angelina Castro/Marilyn Aguon
Recording Secretary


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