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 STABILITY • SECURITY • REWARDS

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**Defined Contribution Plan**  
**Quarter Ended June 30, 2013**  
**Quarterly Performance Meetings**  
 July 25, 2012  
 Retirement Fund Conference Room

*Trustees:*

**Joe T. San Agustin**  
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**Wilfred P. Leon Guerrero, Ed.D.**  
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 Investment Committee, Chairman

**Antolina S. Leon Guerrero**  
 Secretary

**Gerard A. Cruz**  
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 Chairman

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 Members' & Benefits Committee,  
 Chairman

**Katherine T.E. Taitano**  
 Trustee

**James R.F. Duenas**  
 Trustee

**Board of Trustees Present:**

Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee  
 James R.F. Duenas, Trustee  
 Antolina S. Leon Guerrero, Trustee

**Staff Present:**

Diana T. Bernardo, Controller  
 Rosalia T. Bordallo, General Accounting Supervisor

**Other Present:**

Terry Dennison, Mercer Investment Consulting Inc.  
 Doris Flores-Brooks, Office of Public Accountability  
 Alice Tajeron, Great West Retirement Services

**Economic & Capital Market Environment**  
**DC Plan Performance**

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## **Economic & Capital Market Environment**

Wilfred Leon Guerrero: Joe T. San Agustin, Paula Blas, and Gerard Cruz will not be present.

Terry Dennison: Let's start with the bound book, page 1 underneath tab one take a look at the performance quarter while the market got a little wobbly in May and we talk about why the wobble. So, for the quarter it was booked very good one of the things actually comment last time if you look at the blue bars domestic equity both on the left hand side second quarter in year to date there's very little difference between the various sectors of the market large cap, mid cap, small cap, growth core value all of the indices performed about the same.

Which is a little bit unusual typically there is some kind of differentiation it's a small cap market or growth market but this time it's been very even it's actually been that way for a number of quarters now we can trash that with the dark blue lines, teal colored lines down for international equity you can see that for the quarter everything was down and emerging market continue to struggle and we'll talk some when we get into the economic part what's going on with emerging market. Obviously the emerging market is China and China seems to be slowing down dramatically and that's going to have a major impact in fact if you look at the bottom two bars the commodity indices you can see that commodities have lost significant value. We've seen gold go from almost \$2,000 an ounce to a little over \$1,200 an ounce and it's not just precious metal, its industrial metals just about everything you could think of and largely because China's not buying anything.

Realistically the Australian market which has struggled has done very well because basically they dug up the country and shipped it to China. The country has a lot of iron ore that's why everything is red there and been shipping iron ore well the Chinese don't need as much iron ore. Turn the page at a brief look at the economy if you look at the upper left hand corner at the GDP growth we're getting to be pretty consistent 2% in that range the issue with that really is one coming out of recession we would have expected much higher GDP growth there's a fair estimate that GDP growth is got to be about 2½% range to historically for unemployment to go down one of the issue there obviously into the not just the first of the baby boomer hitting the retirement age but beginning of the fat part of the baby boom generation moving into retirement.

So, another factor call labor force participation is also an issue so that we are not sure exactly how much GDP growth it takes to reduce unemployment but as we know unemployment at about 7½% is still significantly above the desire rate to 5 and if you look at where unemployment is 60 months after the end of the recession we would have expected employment be back to pre recession level and its not and will talk some more about that.

If you look at World economic growth look to the lower left hand you can see the US amongst developed countries is doing about the best 2014 numbers are a consensus estimates from the economist some of these have been including the IMS in the World Bank estimates growth around the world have been trim back. In fact you look at the trend of estimates for growths there constantly being trim back realistically they tend

to estimate growth one or two years out quarter by quarter and every single estimate is lower than the prior estimate so that the growth just isn't coming through.

The one kind of bright spot and it does show the effect of very stiff medicine is in Japan which may have broken out more than 2 decade nearly quarter century of weak growth. You could see that we're showing estimate for 2013 at 1.8 and 2014 at 1.5.

Germany is still in the positive but has weakened some their exports are down partly because the demand from other Euro zone countries is down. Italy and Spain are doing very poorly. Doris Flores-Brooks: How come France is not here? Terry Dennison: Well we can't do all the countries we can get that we'll talk specifically about France because that is truly a mess and in fact I will probably use the term the elephant in the room twice once talking about the Detroit bankruptcy and the second talking about France. Just to give you a taste France is losing 8,000 jobs a week because of closing businesses. Doris Flores-Brook: The Tour-de-France didn't help. Terry Dennison: No, no. The little café is doing pretty well. Wilfred Leon Guerrero: What's happening in France?

Terry Dennison: Well basically they're getting into the same kind of economic stagnation that the other Southern European countries are they have a very rich labor market, taxes are high, their share of public spending is a percent of GDP is over 50% and significantly above twice what's in the U.S. And the reality is that the vitality is leaving it's too expensive to do business there what they call the social charger like social security and health care are very high there's a huge disincentive to hire people and that's not able to stimulate any growth.

You could see on the far right hand side 3 of the brick countries China, India, and Brazil. Again the estimates for except for China the estimates for 2014 better than 2013 China now is probably slip 7% growth for 2013.

And that is getting to be a danger point for them because they need tremendous growth basically to keep their population happy so they basically the Peoples Bank of China the PBOC has a target range and the floor of that target range is 7% if they can't get the economy growing 7% there will likely to be problems. Doris Flores-Brooks: And what is it now? Terry Dennison: Now pretty much at 7, I saw an analysis in the European paper today that basically say they're now at 7 and decelerating slowing. One of the big stories is the currency I know would affect the economy here because the yen is going from eighty to a dollar, from a hundred to the dollar.

Look at upper left hand corner on page 3, basically you could see the dollar this is an uncommon circumstance is basically stripped than most of the major currency. The Euro appreciated the small amount larger because nothing went wrong. There basically one whole quarter where it doesn't look like the wheels were falling off but the 3<sup>rd</sup> quarter looks more bad news you can see the Australian dollar drop 11%. Again we talked about the exports to China had dropped dramatically and if you look at the measure that the economist use called purchasing power parity even at this most foreign currency are over valued versus the dollar.

There's no force like gravity that makes things have purchasing power parity but they tend to move to make things cost about the same everywhere in the world. One of the amusing examples of purchasing power parity in the economist magazine is the Big Mac Index and they had updated in the last issue they would look at the cost at the Big Mac in local currency in 30 or 40 places and everywhere except India where the Big Mac is made with chicken it's called Bajaraje Mac something you might be able to impress people at cocktail parties. The reality is that it's very expensive in many European countries. Doris Flores-Brooks: To buy a Big Mac. Terry Dennison: To buy a Big Mac. Doris Flores-Brooks: Like what? Terry Dennison: In Sweden it's like \$7.50. Antolina Leon Guerrero: Just sort of an indicator.

Terry Dennison: It's one of the few goods I mean half joke and half serious one of the few goods that there is an actual representative price for exactly the same product and save India everywhere in the world. Could you compare automobiles around the world Japanese cars tend in general to be small because the roads are small and narrow, the cars in Texas tend to be large that's just the nature of the Texas mind. The reality is that it is one thing that's easy to price and is pretty much the same everywhere in the world so it's actually not a half bet. Now the real definition of purchasing power parity is a basket of goods. Wilfred Leon Guerrero: What did you say about India because they don't eat beef there. Terry Dennison: They eat Bajaraje Mac it's made with chicken. Wilfred Leon Guerrero: They eat what? Antolina Leon Guerrero: It's made out of chicken instead of beef. Wilfred Leon Guerrero: Okay.

Terry Dennison: But you can see the vast majority of this huge decline versus the dollars is either exporters like Australia and Canada or emerging markets. The emerging markets down about 8% versus the dollar in the quarter. And you would think that US fiscal policy or monitored policy wouldn't make much difference to the value of the emerging market currencies but this crash happen as soon as the Fed talked about, talking about, thinking about reducing QE2 as soon as they said maybe we will taper it. Doris Flores-Brooks: You said QE2. Terry Dennison: QE3. Doris Flores-Brooks: You meant stop buying bonds. Terry Dennison: Yes. Doris Flores-Brooks: Okay. Terry Dennison: QE3, as soon as they mentioned, not that they were stopping not even if they were slowing but they sort of talking thinking about slowing. The US stock market went up, the Japanese stock market went up and the foreign currency crashed. It just shows you how interrelated everything is.

I'm going to skip some pages here because some of this is not as relevant here and don't want to spend your day here. If you go to page 5, this page is title Valuation Review and we do not have a crystal ball we can't tell you if the market is going to go up or down but one of the tools that market people use is something called valuation and it's basically the usual measure price earnings ratios PE is basically how many dollars you spend to buy a dollars worth of earnings. Obviously, earnings go up and down so it's not like both the P and E can change but the relation between the P and E is significant.

When I was growing up in the 50's-60's PE ratios were typically around 10. At the end of 1999 during the craziness in the stock market PE ratios were 40, 50, 60, or infinite because they had no earnings at all. But, historically now I think we would say any

PE ratio less than 15 is cheap meaning good bargain any PE ratios greater than 18 or 19 is starting to get a little more expensive. You are not getting as many dollars of earnings for your dollar of price as you would like to get. What we're seeing is valuation prep up a little bit what this means is the market getting more expensive as it gets more expensive the balance of likely movement moves from up to down because no tree grows to the sky and the valuations can get to pricy largely because of emotion. People see everything is going well it looks like the economy is improving so let bid up the price of stocks. Well eventually people say wait a minute these stocks are not as good a deal anymore and then they go back down again. One of the things people struggle with is they try to address valuation is future earnings growth.

Now earnings is what's left after revenue minus cost well companies have done a great job of reducing their cost structure they've been changing the way they manage inventory to the point where if you buy a shirt in the mainland at a penny store an order goes out to China to make another shirt I mean nobody has warehouses full of stuff anymore similar they been reducing labor cost where they can either by using more automation or off-shoring to cheaper localities people are use to thinking factories having lots of people running around doing stuff. The reality is you go to a factory or auto factory and the floors are white and there's a couple of people in lab coats running around attending robots so when people says well we need to get more jobs in the auto industry you know I've never been in the auto plant.

We have all this issues in the mainland let's built high speed rails because we'll create a lot of jobs they were thinking made railroads back in the 1860 guys with hammers. Now, they have this machine 2 blocks long and they put ties and rails in the back end and it spits out leg rail in the front end there's about 9 people working there mostly again watching the robots. So that's one of the reason why the economy is stagnant, growth is stagnant, unemployment is high because we just don't need as many people any more to produce the dollars worth of GDP. If you look at GDP per employee that number has soared. Well unless you can sale something there's no point of making it and if you can use half as many people to make it, you lay off half the work force. Doris Flores-Brooks: Isn't that a good thing, efficiency.

Terry Dennison: Efficiency, yes. One of the things that Europe struggles with is a very rigid labor markets. They don't like to hire people because you can't get rid of somebody once you hire them it's a lifelong commitment it's longer than getting married is hiring somebody in most of these European countries. So you have great labor market virginity and you have people in Italy there's a whole bunch of cost that happen when you cross 50 employee so vast number of companies have 49 employees and there not willing to add the 50<sup>th</sup> employee they'll just turn business away they don't even want the business if they have to cross that line and these are sort of the artificial constraints. One of the reason of the US, Canadian and North American economy in general have done so well is that they don't have that kind of rigidity and now it's creeping in.

We'll talk about the effect of Obama care that the affordable health care act has cost on employer if they have people working more than 30 hours a week. So one of the reasons that unemployment seems to be going down is people are getting hired part-

time. Because they don't want to have pay this cost so they hire waiters, people work at theaters low end jobs they don't hire full-time they hire them to work 20 hours a week. It's a kind of job sharing it's just that the wealth creation in the economy is a lot less. A lot of times government do things that seem like a good idea and they assume that people won't adapt.

Well of course they adapt something's get more expensive if you have more than 50 employees, they have 49 employees so that's part of the reason that the US is actually doing better than other countries. Getting back to this earnings issue one of the problems with forecasting earnings is you have to figure out how much of a dollars of sells is going to pass through the cost structure to come out as profit and they have to forecast revenue. One of the things that we're seeing and it's not uncommon that peoples earnings forecast are higher that you can justify with their revenue forecast basically there saying that companies are going to continue to improve the profit margins well that gets very hard to do. So because we're not getting much top line growth the first line on the income statement is revenue you're not seeing the top line growth but somehow these companies who are not selling more are continuing to increase their profit which is nonsensical. I mean it's like having a house that's bigger in the inside than it is on the outside I mean you can't do that.

So, one of the reason that people are getting edgy about how high the market is and these high valuation is the only way there supportable if we assume earnings are going to grow. Here's revenue and here's profit you can't keep saying profits going to grow 10% a year if revenue isn't growing at all and that's what we are seeing. So, that's why you see the market getting a little edgy because of these issues with the valuation. Doris Flores-Brooks: But, I thought that company extracted as much as it becomes efficient as they can and there isn't much room for growth. Terry Dennison: That's why the flaw in this argument that they outsource what's outsource able, they automated what's automatable, they have squeeze the value chain everywhere they can there's just no more tricks to pull out of the hat. You know they automated everything that you can automate.

If you have a robot it doesn't want to join the union, doesn't need health care, and doesn't need the same kind of health and safety issues so you're seeing automation replace people. And because capital is so cheap, if you got interest rate as low they are its a lot cheaper to buy equipment than it is to hire people. And yes once you buy the equipment of the course the government gives you very attractive depreciation and acquisition tax treatment.

So in a sense one of the things tax code the reality is there incentive built in the tax code that actually have a negative impact on unemployment. You're actually incented to buy robots rather than hire people. You buy a robot you get investment credit you can depreciate it doesn't bring in unemployment insurance it doesn't bring in health care insurance. And now you are seeing stuff not just because the robot is clever but also because of the economics of it. You're now seeing these Japanese robots look like people. I mean people now are looking as using them as nurses or nurse aid. Antolina Leon Guerrero: The Jetson's are alive. Terry Dennison: So, the reality is and they had a robot maid, the housekeeper was robot.

We've been redoing our house we've gotten rid of a lot of areas that collect dust but still fighting dust issue we live in a desert environment doesn't rain as much as it does here, and we got a robot vacuum cleaner we told it don't fall down the stairs, and it learns it's intelligent it actually explores the house and wanders around seemingly aimlessly and builds a mental picture, it's a Rumba. Somebody figured how to crack the Rumba, so now you can actually have the rumba control by your home automation system we have a computer that runs the house. Actually I can talk to the house on my I-Phone, and now the rumba can take instructions. If people are coming over can you do a quick clean I can tell the rumba to come out of your little barn and clean the house. This all sounds like the Jetson thing about it were going to be in the Jetson's going to be tougher for unemployment.

Page 8, one of the big things that happen again as soon as the Feds said we might start thinking about doing something, interest rates shot up. If you look at the 10 year yield it increased during the quarter from 1.87 to 2.52 part of the reason that's significant is that's basically the rate from which house mortgages are based that is the average duration of a house mortgage. So you can buy a 30 year mortgage would you sell a house, you'll get rid of that mortgage and get another mortgage. The average life of a mortgage is close to 10 years.

So what you see is mortgage rates go up 50 or 75 basis points in 2 months. And I mean literally that just slam the door on house sales. Because affordability declines you know basically if you have X dollars to spend you back out how much house you can buy by saying how much house can I finance with a payment of that amount. What happens is instead of being able to buy a house up here, now you can only buy a house down there. One of the fascinating things is in June since retail sales was down. One of the biggest drops in retail sales was in places like Lowes and Home Depot. So, not only just at the retail level but also the wholesale level sorts of things you use to build houses wood, pipe and wires those sales went like that because rates went up.

Obviously rising rates bad for bonds the Barclays aggregate fell 2.3% short rates obviously did not rise as much if you look at the yield curves in the upper left hand corner there you can see the treasury still very, very low until you get on 3 years. And then all of a sudden it just pop up you can see a gap between the red line and the teal line which what it was 3 months ago and the black line is what it was a year ago so if you haven't refinance your house you probably missed it.

Next let's skip a couple of pages here, let's talk about Terry and his notes what our thinking is about things. At this point Global growth is between 3 and 4 percent and probably declining. U.S. maybe 2 to 2½ a lot of people expecting it to be higher in the 3rd and 4th quarter because seemingly the effect of sequestration which has impacted some people that work for the government and the tax increases including the employee portion of FICA will be somewhat in the memory stage it's still there it's just people would have adapted. We think that estimate is too high we think 2<sup>nd</sup> quarter GDP maybe will be 2, not 2½ which will make the full year less than two.



The China we said now is really down to 7% part of the reason Global GDP forecast gone from 4 to 3 is China. Developed outside the US minus 2, minus 1 even in the developed world outside of the Euro zone obviously Australia and Canada which are big exporter of raw materials are seeing unemployment rise growth slow.

Again, it is illustrating and showing of a very different world depending on where you are, we're seeing the US move toward lower but at least normal than economical conditions growth is positive it's edging up a little bit there's a lot of head winds to it we think longer term growth in the US will be a lot slower we talked last time about the fact that every decade since the 1950's the average GDP in the US has been lower. If you look at the decade in the 50's it's X look at the decade in the 60's ten year average 70's, 80's, 90's so the reality is the ability of the US economy to create wealth to grow is slipping one way of thinking about growth is number of employed people times productivity growth.

Let's look at those two factors productivity growth is certainly not negative but it's not growing like it use to we've automated everything you could automate. We're using computers we're using more intelligent tools were not going to get the GDP growth from productivity improvements that we have gotten through the 50's, 60's, 70's, 80's, 90's.

The other thing is number of employed people now were actually fairly fortunate despite the fact that immigration is a politically sensitive topic we do have some inward immigration so we do have people coming into the country less than we had but coming into the country to replace people who are retiring.

The reality is while many people discovered they don't have the money to retire or they have to work part-time or have to make other arrangements the reality is we're now seeing the wedge of baby boomers begin to move into period where they would retire. Realistically if you were born 1948 which is the 3<sup>rd</sup> year of the baby boom generation are heading 65 and it's only going to get bigger from here that wedge grows every year. So, what we are seeing is labor force participation the percentage of people 18 to 65 in work which historically has been around 65% as long as 68% some of that them unemployment some of the under employment but what's happening is the population is aging.

Now this is a huge issue outside the US because countries not just Italy but even Germany had natural population growth reproduction static population you need 2.1 children per woman. Realistically a lot of these percentages are in the 1.5, 1.7 so the reality is the population is already replacing themselves many of these don't have much immigration this is an issue obviously in Japan hardly anybody immigrates to Japan. It's an issue in China, so the reality is that the ability of the Global economy as we age to grow is diminishing even in sub Sahara Africa which obviously had very high birth rate even those are declining in part because of increasing affluence.

As your affluence grows your tendency to have large family diminishes so the reality is worldwide we talk about debt demographics this is the demographic, the population bond and the sense that I've mentioned before China will get old before it gets rich.

In fact we might be getting to see that now because of the accumulative effect of the one child policy they had in the law, in Italy it was just practice. So the reality is that they have already reach peak population, countries like Italy are actually seeing their population fall because there not reproducing enough to be able to maintain a stable population.

We think the Global growth is going to be very difficult going forward. Doris Flores-Brooks: But population growth world-wide is continuing to grow, I saw some study. Terry Dennison: The rate is slowing the absolute numbers is growing still, growing in sub Sahara Africa it's still growing in Islamic countries somewhere in India but everywhere the rate of growth is slowing. If you look at the fertility statistics or the actual number of people the rate of growth normally be exponential it's become more linear do not go down in the absolute sense but the rate of growth the second derivative of it there's going to be more people but those people they don't produce as much in the develop countries they're producing more in the developing countries because they're not in the same place in terms of automation they're not in the same place in terms of more sophisticated business models.

We're not saying gloom and doom simply because of that but there is an issue how we maintain the rate of growth that people now demand. 30 years ago the Chinese knew they were poor, the parents are poor, the grandparents are poor they expected their kids to be poor. People's expectation have change and that's we're we get into the social aspect China doesn't grow at 7% people are going to become unhappy they're use to being able to buy cars, being able to buy houses, and all of a sudden the growth isn't there and they need growth to maintain some kind of social stability and that's one of the issues that are out there.

We talk about the crashing of commodity prices I think that's certainly an issue because it indicates the demand if you're going to build something it's probably made of steel if there is no demand for steel that means people aren't building things. So it's an indicator of future economic activity.

We turn to the US in short term this has been in terms of either real which adjust for inflation or nominal which just the actual growth not adjusted. GDP growth for this cycle has been the slowest since 1948. Doris Flores-Brooks: What is it since 1948? Terry Dennison: GDP growth was measured in nominal or real term slowest of any expansion since 1948. The 1st quarter of 2012 through the 1st quarter 2013 nominal GDP that's not adjusted for inflation grew a 3.3% below the level of the entry point of every economic contraction since 1948.

So, if the economy is slowing again this is the lowest starting point of that slow down since 1948. Real GDP past four quarters 1.6% even less than the 1.8% growth rate in the 2000 dramatically less than the 3.8% average growth rate for the last 223 years. Doris Flores-Brooks: What's the average again? Terry Dennison: 3.8% is the average growth rate for the last 223 years. Doris Flores-Brooks: And that 1.6, less than half. Terry Dennison: 1.8 for 2000 remember I said if you look at the simple average by decade not looking at the economic cycles but what happened in the 50's, 60's, 70's,

80's, 90's. GDP growth has fallen every single decade so the ability to create wealth is diminishing.

I already talked about the downward pressure on standard of living. If you look at standard of living which is disposable income adjusted for inflation what you have to basically maintain your lifestyle we're at the same place we were in 1995, living standards have not improve since 1995 that's 18 years ago.

So, if everybody feels kind of poor like why haven't we seen the ability to buy new things the reason we feel a little bit better than we would that's because stuff got a lot cheaper. There was an interesting article in the Economist I read about the fact that crime has diminished dramatically everywhere in the world and part of the reason for that is it isn't worth stealing things any more. Why steal a CD player that cost \$30.00. We're used to buying amazing things not only could you not conceive of 30 years ago, you couldn't possibly buy 15 years ago, couldn't afford 10 years ago and now there almost a throw away.

If you go and buy a DVD player they will basically try to sell you a service agreement which is the world's worst investment I just tell them I'm in a different circumstances than Mr. and Mrs. America if it stops working we'll throw it away and buy another one. Part of the reason crimes going down is there's nothing in your house that you can sale for anything because computers use to be \$5,000 back when \$5,000 would buy a car. Now computers are \$400.00 you can spend \$400.00 in dinner so things are cheap that's why we feel less poor than we really are. The stuff we have to buy has generally gone down in price.

If you look in terms of disposable dollars how much you have after taxes adjusted for inflation your standard of living has not increase in the last 18 years. Doris Flores-Brooks: So that explains why there's so many people eating out. Terry Dennison: Well eating out is rather expensive services are much more expensive than products. You can buy a television set a fairly decent 22" TV set that would keep you occupied for years for the cost of a decent meal in a restaurant. My model I have a London fog men's raincoat and I've had it for 30 years it looks like it was just bought it cost 30 years ago maybe \$150.00 things are cheap. Transient things travel, food, entertainment those all got expensive objects particularly that have some permanence to them like a raincoat if you take care of it are cheap they just keep getting cheaper.

We talked about the fact that the increase in jobs three quarters of the increase in jobs are in four of the lowest paying industries retail trade, temporary health services, hospitality and leisure and the reality is that a lot of these are part-time. Part time job average an increase of 93,000 per month on the first half of 2013, full-time jobs 22,000 a month.

So, when you hear this job creation number we created 175,000 jobs three quarters of those are part-time and they're part-time in part because of the impact of the informattal care act because that's going to be another expense. The full-time employment is a proportion of adult population this isn't labor force participation this

is people full time work 47% of the working age population it's less than half the people in working age population of full-time jobs.

Wilfred Leon Guerrero: I think page 10, Performance Review under commodities can you explain the sentence on commodities have posted heavy losses because of growth concerns in China. Terry Dennison: Absolutely, China is an enormous consumer of things like cement, steel, copper because they basically in the last 50 years converted their 40 years have converted their economy from almost medieval agrarian economy to a modern industrial society. They were importing 40% of the steel produced in the world, 60% of cement produced in the world.

They stop growing and all of a sudden these ship loads full of stuffs stop and now all of a sudden the demand for all of these commodities be it precious metal people think of gold as jewelry and reserve but there a lot of other precious metal. If you look at platinum which use catalytic converters stop buying cars the demand for platinum diminishes.

Canthalone one of the rare earth metals because the Chinese by the luck of geology actually have supply in the world which you need for producing electronic components like smart phone. Canthalone it's an element in the actinide group in the periodic table and you just need a little bit to build things that make these work. And rare earth if you remember your chemistry section in the periodic table the actinide series and the lanthanide series they're chemicals that are very rare in nature but have very unique chemical and electrical properties and they're critical for making integrated circuits computers use and there was an issue because the Chinese produced most of the world supply rare earth elements and because they were pissed off about something basically are not going to sale them anymore we're just going to keep them and of course price of these things just ballooned.

Well they've discovered that they still have mines in California and some in Canada. So, all that's done is really get the mining going again in other places so all of these commodities were being consumed by this enormous engine in China remember the Chinese economic model complete mere image of the US. The US economy is 70% consumption, 30% investment, the Chinese economy was 70% investment and 30% consumption. So they were building these cities where nobody lived, building factories they have no use for that's all stopped. One the people's bank of China has raised interest rate they've been trying to avoid having housing bubble they were building houses like mad not because anybody wanted them or even could afford them but because the city got money for selling the land. The contractors of course were interested in building stuff the fact there was nobody to buy it and there was a concern about a bubble. So the people's bank of China said we are going to slow the economy now the problem with driving the economy can you imagine driving a car where when you turn the steering wheel the wheels generally go in the direction you turn but it can take two or three blocks for them to move and occasionally they go the other way and you step on the accelerator and the car generally goes faster except it takes a couple blocks for it to accelerate sometimes it goes very fast and sometimes it goes slow and sometime the brakes don't work at all that's what driving the economy

is like. The Chinese economy is even more difficult than say the US economy because they don't have good data.

In US economy the Federal Reserve knows what's going on in the banking system every hour. Major Banks report their capital position every hour to the Federal Reserve. When I was in the banking business in the 70's there was something called a day light overdraft if you were actually over drafted with the Fed during the day you had to pay interest so you couldn't just run a big overdraft during the day and get some money and pay at the end of the day. They were figuring overdraft versus the Fed because the Fed was the clearing house for checks they were doing it every hour. Peoples Bank of China doesn't' actually have much of an idea, much of their banking systems is informal. They have informal banks if you want to get a loan typically you don't get it from a bank you get it from friends or friends of friends.

So they don't actually know what the rate of credit growth is in the US. The Feds know exactly what the rate of credit growth the bank of Japan, the bank of England the Deutche bank all of them know exactly how fast the economy is growing. The Chinese have to guess they go out and look to see a lot of cars on the road. So that's why it's so difficult for them to manage their economy so they put on the brakes well the problem is that this time the brakes hit a lot quicker a lot harder than they thought going to and now they're probably going to try to accelerate but they still have this huge unbalance economy it's unhealthy to have an economy that's so involve with investment because eventually you stop investing sensible things you start investing in stupid things but your spending the money and you're not getting anything that worth anything. What's the value of a city with no buildings and houses where nobody lives that's why you see these commodities crash? Wilfred Leon Guerrero: Okay, I was reading it wrong I'm thinking it's growing, I don't know that's why I couldn't figure it out, concern is lack of growth.

Terry Dennison: Back to the US housing which has gone from basically being the sick part of the economy if you think about housing back in 2007, 2008, 2009, you had all these repossessed houses, houses that are waiting repossession there were areas in the east side of Los Angeles out towards the dessert where there were subdivision where nobody lives, shopping centers that were completely empty that were just built in speculation because you can get the financing. If you are a builder if you could get money you built, if you could sell it that's even better but the object is to build it so the reality is that a lot of that has been absorbed.

That's not much of a shadow inventory of houses anymore use to be the thought was kind of like the savings and loan crisis of the early 90's where people thought the house prices in Denver which was a kind of the epicenter saving and loan crises will be flat for years because as soon as they went up a little bit more distress houses went out in the market. I was up in the Bay area worked with a client up there she had an office. I was looking at the headline in one of the San Francisco paper in certain areas in the Bay Area house prices were up a 1/3 last year, 33%. Doris Flores-Brooks: Who could afford it?

Terry Dennison: It's very difficult. If you talk to people with modest income in San Francisco and want to live in the city and their apartment is a size of a decent size closet and paying \$2,000 a month for a 150 square foot apartment it's not growing and people want to live there, but you are seeing now house prices begin to rise and house transaction increasing that was because rates were so low. Mortgage rates were the cheapest it's been in anybody's memory interest rate starting to go up the Fed mumble a few things and the rate on which house mortgage prices are set went up 75 basis points. We are serial refiners on our house I have a spreadsheet that figures out if it's worth doing and if it's worth doing we do it so we were always refinancing our house. The net was we got a rate lock in mid May for 4%, 30 year jumbo loan and we would close it next Wednesday and if we had started the process next Wednesday rate will be 4.75. Doris Flores-Brooks: It's cheaper from Jerry. Terry Dennison: But, the reality is how rapidly it's changed it used to be every other ad was mortgage companies talking about ridiculous loans you don't hear them anymore or you don't hear these are the lowest rates in history talk anymore they just shut up basically it's just like turning a valve on a housing market. Antolina Leon Guerrero: Although if you think about it 4.75 is so much better than what it was when we first bought our house. Doris Flores-Brooks: Yeah, I can remember 7%. Antolina Leon Guerrero: Right, it was a good rate.

Terry Dennison: We don't think that absence some kind of shock geo political or economic that rates are going to continue to go up like we've seen. We have seen a reaction because people were low to believe that Fed will never raise rates again then talked about it all sudden that bubble burst. If you look at inflation is actually below where the feds wants it the Fed wants inflation between 2 and 3 percent because the fear of any central bank is deflation where prices fall because that's what's going on in Japan for nearly 25 years.

And deflation is extreme called a deflationary trap and if you know that things are going to be cheaper tomorrow than they are today why buy anything today just wait until the prices get cheaper. So they actually have a target for inflation not CPI but another statistic which is a little less sensitive to things like gasoline and health care. They want between 2 and 3% inflation, and inflation now running well below 2. So, in actually they wouldn't mind some inflation in fact you can argue that one of the reason they wanted to push rates up a little bit by buttering these people.

I mean these people are very, very skillful they don't say things accidentally they don't blurt things out they forget sometimes they just say well we're not going to pump money in the economy forever and watch rates shoot up because that should produce a little bit of increase in inflation. Not enough to be worrisome not 5 or 6% but they like to see the two. We're now 60 months into a economic recovery doesn't seem like it but that's the actual number 60 to 64 months is the average time in the Post World War II period where the economy grows. We're about ready for another recession this is getting kind of long in tooth this is getting to be rather an elderly economic pickup and the net results going to be. Doris Flores-Brooks: We've been down at the bottom longer. Terry Dennison: Down at the bottom longer we're not as high up as we should be. Remember I said if we aren't a contracting period this is the lowest in terms of economic growth of any beginning contraction since 1948. So they're very afraid and

they understand the damage that very low interest rate is doing to the economy because it is damaging the economy. You are getting bubbles because money is easy to get you are seeing silly investments bubbles in gold that deflated very well.

So they are aware of the negative impact of this it's just very hard to stop it without having very undesirable affects you just mumbling something and you saw the stock market crash, you saw the dollars sore which is not incidentally good it's great for tourist going from US to elsewhere, bad for exports all of our exports are now more expensive.

Realistically we don't see a big further increase in rates. We don't see rates 10 years up to 2½ you don't see getting to 3½ or 4½ part of it because inflation is less than 2% and there's really not a lot of inflationary pressure out there. Wage demands are very low because unemployment is so high I want more money or I am going to leave isn't much of a threat when they can replace you with somebody on the unemployment line very easily. Commodities which drive inflation have fallen a lot except gasoline so the reality is everything has gotten cheaper which in a sense it's a negative impact on inflation were so low it can push us into deflationary period. Long term obviously we still got the debts, the deficit, the demographics and political gridlocks still with us.

Let's talk about municipal finances and Detroit. If there is a wild card negative scenario out there not this week in a sense Detroit is a side show the problem is Detroit is the appetizer the main course will be Chicago and Illinois. Detroit is almost a cartoon I was actually going to send it around, there was a very interesting blog on one of the British newspapers are you familiar with Ayn Rann's book Atlas Shrugged. Doris Flores-Brooks: I've heard of it. Terry Dennison: You'll hear a lot more about it she wrote in 1957 a description Atlas Shrugged and wrote a fictional mid western city that happened to have a big automobile company the 20<sup>th</sup> century automobile company and she talked about houses that are empty shells, schools abandoned with no windows.

In 1957 at the time when Detroit had the highest personal income of any city in the United States you read this and it's creepy your skin crawls when you read her description of this town. Detroit is completely derailed, 911 response time is 50 to 60 minutes if you are going to get sick or have problems plan well in advance. You can buy a three bedroom house for a dollar in fact they can't sell them for a dollar one out of every three city ambulances is usable 2/3 of them won't run. And the problem really is the long term debt they spent money figuring let the good times last forever. They have \$3.5 billion in underfunded pension liabilities and total long term debt 18½ billion they have no way to pay it. The city has basically gone bankrupt and there's interesting in the PDN today a very good discussion of municipal bankruptcy. I'm somewhat familiar but then again I'm not a lawyer but it matters here.

On page 9, your money and it's a very interesting discussion and it talks about the pension being at risk obviously the municipal unions don't want pension cuts but the reality is what's going to happen when they have no money literally the pension checks bounce. And I think you are going to see a lot of places say well maybe that is the only way we can save ourselves is basically just declare bankruptcy and stop

paying everything. There's a State constitutional issue because the state constitution they can't cut pensions.

The reason that there's all this litigation now is municipal bankruptcy is Federal and people are going to get an education on the supremacy clause and the US Constitution. US Constitution says Federal law trumps any state law so it doesn't matter that their protected by the Michigan constitution if the federal judge says no more pension, there's no more pension the constitution doesn't mean squat. So it's going to be very interesting this is actually a little deal the big deal is Illinois and Chicago. Illinois state pension fund will completely run out of money in 3 to 4 years.

Doris Flores-Brooks: But I heard that California was on the verge also but because of the stock market California has rebounded, California almost like Illinois but the stock has redeemed it or did we just push that can down the road. Terry Dennison: Their liabilities continue to grow there impossible, there was a study done. Antolina Leon Guerrero: Why is Chicago so different from Detroit? Terry Dennison: The magnitude. Antolina Leon Guerrero: Okay. Doris Flores-Brooks: But, I thought that was 10 years further down because I've been having discussion with Bill Holland is the state auditor of Illinois. It's kind of like Illinois is like the laughing stock. Terry Dennison: Using preposterous assumption because public funds get to pick their own discount rate. Using preposterous assumption they're 40% funded. Doris Flores-Brooks: We're 60% funded. Terry Dennison: If you discounted using corporate rules which actually are realistic they're probably 20% funded and their cash flow is so negative they're just going to run out of money.

Doris Flores-Brooks: Are rate fund contributions less than pay outs but what's the degree with them. Terry Dennison: I have not seen the actuary. Doris Flores-Brooks: Our rate is high by comparison, are they going to increase the rate? Terry Dennison: Well the problem is the municipalities don't have the money to pay it. Doris Flores-Brooks: That's the difference that was one of the things that I saw in an audit with Rhode Island the problem is a lot of these cities have been allowed to do their own fund and had given more benefits away than the states. State pensions are actually lower in benefits than city pensions. Terry Dennison: But, they're also poorly funded the problem with Illinois they will increase benefits but wouldn't pay. They had a pension contribution holiday I mean reality is if you looked at 1999 everything was hugely funded at the time when we were working with public funds. I was working the State Arizona they enacted permanent benefit increases unretractable benefit increases based on where the fund was at the end of 1999.

So there funding went from a 122% to 75% and just give you a sense the pension under funding in Detroit was \$3½ billion, \$19 billion for Chicago and \$97 billion for Illinois. So the rating agencies are getting much more aggressive in incorporating. Doris Flores-Brooks: Chicago was downgraded. Terry Dennison: The issue interestingly is not as much actual pension liability as oppose to retirement medical. There was a study done 61 major US cities had enough money to cover 74% of pension liabilities but only 6% of health care liabilities.



Doris Flores Brooks: The people in Detroit there like us but they're not members of social security so they don't have social security to fall back on in the event it goes bankrupt so that's the problem also. Terry Dennison: There was a study done called Wyoming Gap in cities released in January 2009 numbers which is the most current the total for all the cities looking at retired employees for health care was \$217 billion dollars.

Doris Flores-Brooks: Health care alone not counting benefits. Terry Dennison: No, that includes the benefits for all the retired employees for health care and benefits \$217 billion. Doris Flores-Brooks: But, once retiree turn 65 can they turn to federal government. Terry Dennison: Well that's what Detroit's going to do, going to push everybody into Medicare the thing is they don't have to pay for anything. Most of these plans you get 100% coverage anything you want your family dependent coverage for life. Doris Flores-Brooks: Through the fund. Terry Dennison: That's why these health care plans and again Arizona which is been one of the most sensible state, they just started funding post retirement medical to start to accumulate some money 10 years ago and even today it's probably no more than 20% funded.

Doris Flores-Brooks: Guam is pay as you go. Terry Dennison: People are getting older they're getting sicker cost are going up for medical care. If medical CPI is 2 or 3 times the increase of general CPI the dominoes are going to start to fall and that's going to be a very big deal and the idea that the federal government will bail out the cities, the counties and states is completely delusional they're on their own.

Doris Flores-Brooks: The federal government has nothing to bail out. Terry Dennison: Look at the politics. Do you think that senators or representatives from the other 49 states are going to take their taxpayers money and give it to Illinois? Doris Flores-Brooks: No, we need to start working with Detroit. Terry Dennison: Nobody stepped up to do anything for them they have no money. Yeah they could just print the money but then you'll have serious inflationary problem then you basically destroyed the economy.

So, I have said for years we as a society not just the US, but around the world made promises that are not going to be kept you can't make it work. Doris Flores-Brooks: And that's what Hiro mentioned because I just came back from Georgia one of the economist, that was one of the things we have to really start telling now that the promises we made we can no longer keep and no one what's to face up to that reality. Terry Dennison: I am reminded talking about economic issues in general this was in the European context the finance minister of Luxemburg when asked why can't you fix this said very so simply we know exactly what we need to do the trick is how do we get re-elected after we do it. Nobody wants to go to political campaign saying I am nothing in front of you except pain and grief and trouble.

It's all happy times are here again we'll just take care of all this. Doris Flores-Brooks: And taxes have to be raised that was the other comment. Terry Dennison: Yeah, absolutely you can make the numbers work. Doris Flores-Brooks: Taxes have to be raised and plus benefits. One of the things it's something for the Fund to really think about because I asked the question what's the solution and what Ip had said was that

we have to begin like what we've already done with social security but do it more, raise the retirement age because people are living longer. One of the things he did say they're going to be those who cannot work as a society you want to take care of them but those who can work need to work longer if your able and willing to you should.

Terry Dennison: Well, one of the things that has escaped a lot of attention is a lot of people who can't find jobs are filing for disability benefit under social security but it's become an alternative form and if you go to the right judge, you're in. Now you are seeing abuse of that system. What's happened is in a world that's basically become safer and people are working less hard because they have machines to do the heavy lifting and so forth you seen disability claim shoot to the roof. But, it's going to be a very tough message and the reality is you won't be able to raise taxes painlessly because the only way to do it, is raise taxes in the middle class that's where the money is and that's going to be a great message.

People are already over stretched and now we are going to raise taxes and cut benefits which causes trouble on one-side of the island because nothing else will work. Again. I am not a politician or philosopher I'm an engineer. Doris Flores-Brooks: I am an auditor only I can say look what happened when the classic point with Toni Stanford the good news was she stopped the annuity nobody had the balls to do it, when she stopped it she lost the election. I mean that saved the general fund people don't realize how much it saved but look what happened to her and nobody will now touch anything. Terry Dennison: The irony is you could have fixed a lot of problems 30 or 40 years ago for peanuts.

Doris Flores Brooks: But the thing about is that every President whether Republican or Democrat continues to promise more, George Bush was bad when he ended the Medicare thing and so on and it has just gotten worse with the Medicare premium on the drug thing that's what made it worse and the last that I saw the defense used to be 40 to 50% of GDP. Now, defense is less than 25% of GDP and social benefits are now 40% of GDP whereas before it used to be just the opposite. We're spending more on social on benefits that we are on defense. Terry Dennison: By 2040 the 3 major federal programs social security, Medicare and Medicaid will consume the entire federal budget and not much pass that they will consume the entire economy.

Doris Flores-Brooks: All the squeeze is coming in discretionary and they can only do so much because they make less than 10%. Wilfred Leon Guerrero: How come the gas prices have gone up? Terry Dennison: I don't know there was a dip we are in on what's called the summer driving season that may not be quite visible on Guam than it is in the mainland the demand is higher because people are taking driving vacation. Wilfred Leon Guerrero: Probably a seasonal thing. Terry Dennison: Gas prices tend to go up in the summer and fall and autumn. Doris Flores-Brooks: We get that affect regardless. Terry Dennison: It is a little anomalous because people are driving less, cars are more efficient it is a little bit anomalous but I could probably look up something but I don't have an answer to that why it's so expensive. Wilfred Leon Guerrero: Okay, there's got to be an explanation as to what's going on. Terry Dennison: The other thing is frankly taxes, I travel around the US a lot and gas is \$4.30 for regular in Los Angeles, \$3.85 for regular in Milwaukee, \$3.65 in Dallas so a

lot of it is taxes. I mean gas is the same everywhere but the reality is a lot of it is taxes and part of what's causing the pressure on taxes is as more people get hybrids or electric cars gasoline tax revenue is actually falling. So, to continue to fix the roads they have to raise the rate of tax because if you have to plug in hybrid you're not contributing any of that. Doris Flores-Brooks: But as actual consumption as oppose to the price decline. Terry Dennison: Yeah, because the fuel efficiency is so much greater.

I think the Euro crisis is about to blow again and at some point they would be unable to figure a fix for it. Doris Flores-Brooks: What I heard and correct me is they have the means to do it they just need to guarantee each others debt and nobody is willing to do that because this is a basket and the players are like Germany, I guess Germany is the biggest player. Terry Dennison: Yeah, the problem is all the debtor countries want to socialize the debt lets have Euro bonds guaranteed by everybody. The problem is the only money is the Germans this another anathema of the Germans and it's going to get worse because of what's going on in Greece. There was a report from the European commission that Greece will miss its austerity target again by wide margin the report alleges that Greek slacks willingness in capacity to collect taxes they expect their GDP to fall another 7% so they've had 5 years in a row of GDP declines of more than 5% you compound that their GDP is down more than a third from the start of this. They're making very little progress on reducing public sector employees because there's this huge fight and one little antidote here, now Greece is got obviously the mainland and a lot of little islands so they got a lot of low islands. On one island in Greece the school is small they have 18 students and 15 teachers.

This is why to kind of phrase the manures are about to hit the ventilator the Greeks are arguing we cannot survive unless we have another debt hair cut we have to cut our debt, it's become impossible to manage we cannot survive as a country unless we cut the debt. Well they're already choosing their words carefully screw all of the private bond owners so if there is another debt hair cut it's going to hit the taxpayers.

The Germans basically were told the German people were told yes we're sort of backstopping some of the countries but we're never going to have to pay anything. The problem is if there's going to be a debt hair cut it's going to cost the German taxpayers 20 billion euros. There is an election in 2 months if this happens basically the Germans would say either there out or we're out we were told we weren't going to have to pay anything. Which of course is a joke in the banking business the definition of a co-signer is a fool with a fountain pen and that's what they did they co-sign a bunch of loans the Greece that they can't pay. The deal was well will just lend our credit to you and this would never result in a loss. Well, the German finance minister went down to Greece and the Greek said we need to have a debt hair cut the German finance minister said would pigs fly.

The problem is that again they're running out of money and it's just falling to pieces. Italy is heading a debt trajectory that's gone over the danger line. The output in Italy has fallen since 2007 has fallen 10%. Interesting in a discussion in one of the European papers that I read about what's happened in Italy is a lot of the businesses and they were talking about a company that makes white goods they make

refrigerators, dishwashers they use to have 9,000 employees because they made everything that went into the dishwashers itself and now they outsourced all the part production to Eastern Europe or India now they have 2,000 employees that assemble them. So, what's happened is there's still a lot of Italian companies making things but instead of making the whole value chain the compressor, the insulation, the plumbing, the fixtures and the doors all of that has been outsourced so all their doing is assembling. Well now they've reduced their employment from 9,000 to 2,000 and the net result is that their whole industrial base is being hollowed out.

There is a new crisis in Spain partly political; the party that runs the country has been caught in a slush fund scandal. The Portugal is probably beginning to come apart the intellectual leader of the austerity movement has just thrown in the towel and said this is never going to work. We talked about France unemployment is 12% and rising, factories are closing all over the country they'll miss their deficit target by 3% of GDP by wide margin their heading down the Greek route.

There is a third political party called the National Front that's headed by Maria Lapen. Doris Flores-Brooks: In which country? Terry Dennison: In France and there now running level with the two major parties if they were in election. Doris Flores-Brooks: Remember whoever is the current one was never expected to win and then he won and so he's being challenged now. Maria Lapen has basically shed the Neo-Nazi tenure, her father started the party they're now running about 21% on national polls they won it by election for a seat with a heavy socialist majority which means that there now drawing not only from the right wing they're drawing from the left wing. And her platform is simple day one I'm out of the Euro they just walk away.

The UK is going to referendum they want to leave the European Union. Doris Flores-Brooks: I think UK has been saying their happy that they're not part of the Euro. Terry Dennison: It's interesting because there's also going to be a referendum in Scotland to become a separate country and the Scottish national party was arguing that we'll join Euro well all of a sudden they're trying to do a deal now to keep the pound which will be awkward for them because they have no sell or monetary policy. There's a lot of small countries in Central America that actually use the US dollars or currency. Doris Flores-Brooks: Well look at all Micronesia. Terry Dennison: And that's fine it's just when the Feds decides to raise interest rate they're not paying attention to these countries for a long time not just because of the chaos zone but for a long time the currency in Panama was US dollars. The currency in Zimbabwe is US dollar because after I think I've shown everybody a picture of the 100 trillion dollar in babwe note that I bought in UK, I bought in London for 5 pounds there not using US dollars.

That's not so easy actually the Argentina didn't use US dollars but they had a currency board that basically tied their currency directly to the dollar that's going to be an issue and the UK is basically saying we want out of the European Union completely. Doris Flores-Brooks: Terry you haven't talked about the Sequestration because that's more needed on Guam because of the DOD. Wilfred Leon Guerrero: I think it's helping the overall economy right, the market. Terry Dennison: It definitely has a huge effect one of my client's is a defense contractor and it is impacting them

pretty significantly it's also impacting more in the supply personnel a lot of people who work at military bases are civilians and is definitely affecting them they're trying to protect the uniform services but a lot of DOD employees are actually supplied in effect by commercial companies this company supplies a lot, there Federal services division but in particularly hard because they've been basically stripping out the contractor's for the military bases and leaving the uniform people. Realistically, I think the effect is more in defense and a few sort of amenity type things like the national park open seven days week stuff like that it has not seem to have the effect that as much as people thought very localize even the effect for many people paying an extra couple percent in FICA hasn't negatively impacted in all of these there's no way to isolate the effect of one thing because what you see is the effect of hundreds of things all moving at the same time.

The dollars is rising maybe that reduces import a little bit or exports a little bit makes imports cheaper. The economy is very complicated if you look at the kind of economic models that people build they're extremely complex just saying sequestration I've seen some statistics that said it's going to knock 75 basis points off of GDP maybe it did, maybe it didn't, how could you prove it because all of the other effects are taking place at the same time.

I didn't realize it had that much of an affect here because I thought most of the people here are actually uniform if you don't have massive numbers of contractor's. Doris Flores-Brooks: Well the number is relatively over 2,000 plus and that's going have an affect not only on the income tax withholding but section 30 so all of those because they were discussing that the other day. Wilfred Leon Guerrero: Doris, what is the percentage of federal employees here? Doris Flores-Brooks: They were saying it's over 2,000 plus. Rosalia Bordallo: Yeah, but it's not only the federal employees you got to understand what Terry is saying and this is what I see on the base, the military has been going to contract hire to do the lawn, to do all the maintenance, the shipyard, everything is all contract hire. Doris Flores-Brooks: Yes, but that's where it was in those kinds of contracts which I didn't realize. Rosalia Bordallo: Those get affected too I know the military is shutting down the commissary for 2 days it's shutting down on Monday and Tuesday, now. But, it's not just federal employees it's these contract like MWR is a big contract those guys have gotten hit. Doris Flores-Brooks: But, again we don't really have an economist to talk about our own. Wilfred Leon Guerrero: Is there an appeal for the federal employees plus the contractors. Doris Flores-Brooks: Well it was discussed the other day but the end results was despite all of these issues we raise revenues projecting for 2013 anyway despite all of that because there was two areas it look like more refunds as well as with us it's the estimate on real property that need to materialize despite all of that we still raised revenues in terms of deficit.

Terry Dennison: I hit the high points I didn't talk a lot about the emerging markets they're struggling a bit each for their own reason the BRICS countries Brazil, Russia, India, China, South Africa all of their own individual issues I think obviously because of its importance is it's the second largest economy the biggest issue really is China they really are slow to 7% and we're seeing an impact obviously their supplier of their imports Australia and Canada just under grade the US of course but that could be a big negative for global growth. I mean if they actually get below 7, one it indicates that

the government actually is either the banking authority aren't able to actually manage it.

Wilfred Leon Guerrero: Terry, you're predicting that there's going to be a growth in the rest of the year. Terry Dennison: The estimates are that growth will increase to something over 2 even some as high as 2½, we think that's high we think it might be more like 1.7, 1.8. We don't see a recession happening now 2014 is going to be difficult and again if you got one of these wild cards events things getting out of control China not able to move the economy a break down in Euro that's going to have a big shock affect because nobody know what's going to happen.

You can build all kind of decision trees and war gaming and stuffs but nobody actually knows what's going to happen it will be a big shock the observation about the stock market is it loves good news doesn't mind bad news but it hates uncertainty and what you're going to see is a flight to quality, you could see US treasury actually having negative yields. If you actually pay the government to take your money they don't pay a positive interest they pay a negative interest.

In fact another little factoid by regulation and also because of the way the system were built they could not issue treasury bills the negative rate of return well they now change that. Treasury bills are issued at a discount you buy them for .99 cents and when matured you get a dollar. They've now change both the regulations and the programming so if the demand was there it's happened in Switzerland were you give them a dollar and one cent and matured they give you back a dollar. Literally the flight to safety, the flight to quality will be such that you'll see interest rates just totally dive. You may not have an effect on Guam rates but you'll see short rates just dive because were the safest currency, the safest currency of any size you could argue the Swiss Franc pretty good there are other currency but if the second biggest currency in the world falls apart the New Zealand dollar probably is in pretty good shape except you couldn't buy enough of them to make a difference the dollar is the deepest market most efficient market so you're going to see a huge flight to quality. Doris Flores-Brooks: So where does that leave us on our pensions.

Terry Dennison: Well you know I think long term there a lot of issues about debt, deficits and demographics we talked about the fact that we're going to run into these promises people who were promised this stuff are not going to go quietly. You are going to have endless litigation endless uncertainty a lot of calls well you bail out the banks why don't you bail out Detroit. You need banks, you actually don't need Detroit, you don't need Chicago, you don't need Illinois you need banks because if you don't you are back to the middle ages. I mean people asked what do you need banks for? The people who say that have no idea what banks do, how they fit into the economy but we have no need for Detroit and Chicago. I don't know what to do about Detroit I thought about it as I was planning this if I actually was running Detroit what will I do? Burn down what's left and turn it into a forest.

I will send to Diana and she'll circulate this thing I found, it was a blog from the daily telegraph in the UK and it has a very lengthy description, and I think in the book it's called Starnsville talking about Atlas Shrugged by Ayn Rann her description of this

town in the Midwest with an automobile company and it just becomes utterly daringly if you've seen the picture of Detroit this is creepy she wrote this in 1957 it is a creepy description of the situation in Detroit. But that's going to be the first time that people who were promised benefits said they aren't going to get them. Hopefully what they would do, if I was running things what I would do I would say okay the first x thousand dollars a year is protected.

If you get \$30,000 pension you get \$30,000, if you get \$40,000 pension you get \$35,000, you get \$50,000 pension you get \$38,000 or \$40,000. There's a huge fight in a lot of states, Oregon among them about disclosing to the public what pensions actually are by person, because a lot of people are getting \$3, \$4 hundred thousand dollar pension, they want to know is why should this police chief of this small town get a \$300,000 dollar pension. So you just can't have 11% of the population get all these benefits paid for by 89% of the population politically it's impossible.

Obviously that 11% is very well organized they're not going to get out of a fight but they can't win the fight. And I have every expectation that they will fight until there's no money and instead of having a sensible approach where everybody takes a haircut and the weak is still protected nobody will get a dime everybody will just be cut off because same thing with social security, same thing with taxes if we did sensible things 30 years ago will have no trouble. But you could have fixed social security 30 years ago for today's money, peanuts. Doris Flores-Brooks: By raising the age. Terry Dennison: Raising the age. When Social Security started in 1938 the average person died before 65. The average male mortality was like 63, females like 67 relatively few females working. Doris Flores-Brooks: And why should the higher end who can afford get social security. Terry Dennison: Well the political argument with that is that if you pay in and don't get any then it's just the welfare program and the political support would evaporate. You know it'll be okay why am I paying and I'm not going to get anything now they actually do because they tax benefits. If you've got an income above \$15,000 it's taxable income to you so they're already taking a little bit to adjust for that. I mean the reality is that we just can't afford the promises.

### **DC Plan Performance**

Wilfred Leon Guerrero: Can we get into the performance now we're running out of time. The 401A Plan increase by .3, how much is that from contribution? Page 12. Terry Dennison: That's an Alice question. 401A grew 3 tenths of 1%, \$800,000. Wilfred Leon Guerrero: Do you know off-hand? Alice Taijeron: No, I have to look at the contributions.

Terry Dennison: Given that most of the places they were invested had positive returns and if you go back to the performance on tab 4 or tab 5 most of them are invested. Now my guess is probably losses because if you go to page 30, and look at the life path funds remember because of the way that we basically remapped money the vast majority of the dollars, if you look at the percent of all plans column on page 30 those are mostly negative numbers.

You have to look at the sign and not the color, the color can note something different than the absolute value but there's a lot of negative numbers there. Alice Taijeron: I actually know that there was a decrease that I have to report tomorrow for last month. So, I'll report that tomorrow. Terry Dennison: I would say it's more market affect, the market was down more than the contributions so that \$800,000 increase. Wilfred Leon Guerrero: Market value. Terry Dennison: Yeah.

There is a box on the bottom of page 12, obviously Alice needs to look at this but there are lower cost share classes available. The biggest impact would be to go for the first one the Black Rock Life Path Fund because that's where all the money is. We believe you are eligible to go from the institutional share class with the 85 basis points expense ratio with cash share that's 50 basis points. One of the things that I was asked to do.

Antolina Leon Guerrero: We were looking at that did we get an answer. Alice Taijeron: I have it right here, it's for plan sponsor use only. Terry Dennison: Do I have to leave? Alice Taijeron: No. For discussion only. Antolina Leon Guerrero: Are you going to do it during investment. Alice Taijeron: That's up to you. These are the numbers you asked for comparison, how much revenues of potential will be lost if you move from the current share class to a lower share class. So, on these sheets what we have here is updated to June 30 because the last report I had was March. June 30 numbers, assets and comparison of the current expense. Antolina Leon Guerrero: I think Mr. Chair, that was something that you were all going to do during investment committee so you could come up with a recommendation to the Board there's going to be some details that needs to be gone over. Wilfred Leon Guerrero: Okay. Antolina Leon Guerrero: I just wanted to make sure I just knew that you were collecting some information. Wilfred Leon Guerrero: I know somebody was supposed to negotiate. Antolina Leon Guerrero: Yeah, to get you some facts.

Terry Dennison: I'm not going to spend anytime on the plan highlights save two funds I want to talk about the bottom of page 15 there's a discussion of the Franklin Small-Mid Cap Fund. Doris Flores-Brooks: On page 14, BlackRock LifePath Fund those are the ones that majority of money is in and you'd say monitor. Terry Dennison: Their performance has not been as strong as we would like it's not been so bad, if you go back to tab 5 and look at the performance the thing that's always tricky with looking at target date funds and that's what these are is you're not just looking at the performance of the constituents your looking at the impact of the life path.

And they are more heavy in equity at the longer end than the typical target date fund and lighter in equity than the typical target date fund nearer in. So if the equity markets do better than the bond market that will help them at the longer end the 2040, 2050 and hurt them at the nearer end. Now my personal view is I would rather have that pattern than the other pattern where they're heavier in equity near term because that's when you have what we saw with the 2008 decline where people in 2010 funds loss 30% of their money but you do have this funny twist there not always sort of above the median or below the median they're at the long end there above and then kind of twist down toward the shorter end they have more heavily weighted in the bond fund.



At this point this is an issue because this is where so much money is but if you look at the performance its negative. The other thing is that these are passive funds so you got the second interplay between times when manager doing active funds do better than the passive funds at this point our sense is if you look at the numbers there not so far off that it screams for action that's why it's continue to monitor.

The one we need to talk about seriously is the one on page 15 the Franklin Small-Mid Cap Growth Fund for a couple of reasons not just because the performances hasn't been very good but rather it isn't what the name says it is anymore. The fund has a name which participants could infer represent the kind of investment it is a combination of mid and small growth fund. And the reality is it's still growth but it's more strictly a mid-cap fund 85% of the names are mid-cap but only 15% are small-cap the median market cap is actually above the median market cap of the Russell mid-cap growth so it's larger than the mid-cap index and much higher than the Smith Index. The weighted average market cap has had 17 consecutive quarters of underperformance versus the Russell 2500 Growth fund and it's also isn't rated and it used to be B rated which means that our model is acceptable not great and now there's so little research interest in it, it's now become unrated.

The issue before the group is if we want to get rid of it what are we replacing with, you have a kind of I'm not a big fan of the symmetry is important but you have an A symmetrical structure. You have a passive large cap fund the S&P 500 you got active large cap growth and large cap value you got small cap of the value tilt and small cap of the growth tilt.

So you got active Large Growth Value, Small Growth Value and then you have Mid fund in growth so one argument would be to replace this not with a Mid Cap Growth fund maintaining this kind of symmetry but replace it with a Mid-Cap Core fund and basically say mid-cap were not going to have growth in value we're only going to have a core fund because there's been some looking at participant behavior most participants with no negative commendation most of your participants couldn't tell you the difference between mid and small and growth and value despite Alice and her teams wonderful effort to educate it's not an easy concept.

And there was a study that was done using data from Vanguard that basically found there's actually a correlation the more options you give people the lower of their understanding and participation and they're has been a shift in the way consultants think about this. Consultants use to say as many options as possible let people build their own portfolio to suit them.

Now we've been thinking more in terms of tiers. Tier 1 is what you put most of your money in which is the target date funds it's the right option for the 80% of the people who understand they don't know anything about investments but also for the 20% who think they do and are wrong.

But if you are going to offer a tier 2 which are individual funds instead of having populating the whole 9 square Growth Core Value large and small basically you want

to offer a few options as necessary to allow a participant to structure portfolio to suit their own risk and return requirements.

If you're showing people funds where they don't know what they are, either they don't use them which defeats the purpose, they misuse them or they just put if you gave them 9 funds they would put 1/9 in each box which is nonsense you would not want somebody to do that that's not good investment or they say what did the best chase returns they put all the money in the one that's been doing the best, well the problem is that things always revert to the mean the ones that are doing the best is doing the worse.

So our recommendation would be a move toward both simplification and to restore the symmetry so instead of this odd fund that doesn't fit the rest that you would go with a Mid-Cap Core option and the people who help me with this talked to Alice and we found four funds and you should do the full search. One of the things I tell people I train don't recommend getting rid of somebody unless you have some idea what you are going to do because occasionally you get embarrass to discover there is no other place to put the money.

There are four funds probably not familiar names although one of them will be Clear Bridge Mid-Cap Core which is rated B+ by us, Lazard Mid-Cap Equity B+, Hartford Mid-Cap fund and actually Champlain has a Mid-Cap fund we use that in the small cap. So our recommendation would be not just because of poor performance but an increasing frankly the labeling issue I mean we're leading people to believe that this fund represents this space in the market and it does not look like that anymore.

So we have checked, Alice has given us some information about share classes that will be available on her platform because her platform from Great West is personalizing. So that's the recommendation that we make to the group at this point Franklin is a poor fit for the plan its adding unnecessary complexity it's a relatively poor performer and we can make the plan more understandable to the participants if we get rid of this anomaly.

Antolina Leon Guerrero: Just change it to Mid-Cap Core. Wilfred Leon Guerrero: Recommending that will do away with Franklin Small-Mid Cap Growth Fund. Doris Flores-Brooks: We wouldn't do it just yet before you do it you have to choose. Terry Dennison: You want evidence that you've done your due diligence selecting funds not that you just came in with four names. I have a cheat sheet here and I told the people that helped me give me a cheat sheet so if they ask me what do you think is there some place to go that we can go because we are at Alice's platform and they're highly rated by us and so forth that we can actually implement this recommendation. Diana Bernardo: So will there be a recommendation for the replacement also. Terry Dennison: Yes, but not tomorrow. Diana Bernardo: Right, so does the committee have to say okay Terry can you provide us with recommendations. Terry Dennison: Yes, it's status quo until we have selected a fund and just verify that it's what you want to do. The four funds we have, have different ratings, they have different styles, they have different performance characteristics and they're different in up and down markets. I have some names but from a government's perspective you shouldn't just

pick somebody from this list I just want to make sure that a list exists. Diana Bernardo: So the committee's recommendation. Terry Dennison: Would be to tell us to do a search for the meeting in October. Diana Bernardo: For a possible replacement. Terry Dennison: For a possible replacement and we will include Franklin in the search not that we would want you to retain them but rather so you can compare and contrast at least before we know about we move forward with this one. Diana Bernardo: So the committee at this point is not recommending replacement quite yet until after the search. Terry Dennison: Basically, what you want to do is you want to know where you're going to go before you burn down the bridge so nothing has been decided other than we're going the first step to make the replacement.

There are two other recommendations here, I believe that Diana has been sharing stuff with you, a lot of stuffs been going on with the Nuveen Winslow Large Cap Growth Fund and the discussion on page 14 is an encapsulation there's some meeting notes in here look also on page 18 and 19. There is an individual who is the Chief Investment Officer named Barton Wear and we thought very highly of him he was the principal decision maker. What you got to be aware of is while he was there he was spoken of as the genius of the place and he was the key guy because the performance was good and as soon as he leaves he had a whole team surrounding him and don't worry about it don't leave. So there's always a little bit of positioning going on with the manager one of the things you pay us for is to sniff through the press release for the manager now that the key guy is gone what really is going on.

This was surprising most every senior people of money management firm's people do retire but they may give a year notice, 18 months notice of an intention to leave and this was a little abrupt. There is a discussion on page 18 about it flows over to page 19 he's leaving because he's interested a lot of philanthropic endeavors and he didn't feel that he could spend the time he wanted to on the philanthropic adventures when he worked with foundation in the line so he decided to retire that seems a little funny to us I mean it sounds like let's figure out a reason why he doesn't want to work here anymore.

They have filled in and if you look at the later of the two notes on page 19, one for June 11 it gets in to a discussion of new people they added a bunch of folks in fact we were there twice we did a meeting note on May 29 and subsequent meeting note on June 11 this is a fund that we have used a lot so we have got significant exposure to this so we've been all over this.

The earlier is really talking about the immediate steps they have a person they promoted to the CIO role Justin Kelly and they added a whole bunch of new people three new additions to the team that we picked up on the June 11 note at this point we're still keeping the B+ rating.

If you read the language we have a degree of confidence in this now they were A so it has been downgraded and if you look at the May note on page 19 the second full paragraph it says however Bart Wear was a very key player in the buy and sell decisions and without his contributions as a differentiated thinker, we believe

prospects for outperformance may not be as strong going forward and we downgraded it from A to B+ and in the second note we reaffirmed the B+.

At this point we are recommending that you put this on a watch, the performance last quarter was not terrific but longer term it was pretty decent rather on monitor. If we go to tab 5, page 32 you can see that they've been lagging the index they narrowed the lag some there's been a modest improvement in performance if you go back 3 years they're in the 31<sup>st</sup> percentile, 5 years 32<sup>nd</sup> percentile its' been drifting down a little bit.

We don't think this and we're pretty quick on the draw when key people leave but this is the intensive judgment call we don't think at this point we recommend replacing the fund the reason for putting it on monitor is to put on record that your concerned about it. That you want to see what happens we don't think it's going to fall apart. The danger is that historically it's been a well performing fund, the performance has been a little weaker lately if we just get rid of them we have to go in and find somebody else that somebody else has probably done well lately because that's the nature of the search is you tend to look at the last 3 years performance and the problem is that the market psychology changes we are going to buy somebody doing great for the last 3 years just at the time the performance turns down. So, while we're recommending replacing the Franklin Fund we're not recommending replacing at this point the Nuveen Fund or the Winslow Fund. Diana Bernardo: Terry I realize this is a DC discussion, I'm not sure if you are aware, can I just make a note on the DB Plan. On DB we went ahead and based on the last due diligence meeting terminated Winslow for DB. So, as a consultant what are your thoughts on that, in so far as the trustees terminating on DB and retaining on the DC Plan, could that be a concern? Terry Dennison: Well clearly it does cause a little blimp what are the circumstances and for reasons we all know I didn't have no idea what you've done then and I am confident in the due diligence that Wilshire has done behind that decision.

Diana Bernardo: On the DB side we can justify it on the basis of the increases in their assets under management over the last few years since we got them on board. Terry Dennison: They actually tried to moderate the growth and assets because it got up to \$35 billion and basically that's in a note here. I don't think you have to slavishly follow it. Antolina Leon Guerrero: In terms of what we do in the DB side doesn't necessarily. Diana Bernardo: And then on DB there was the issue they were drifting to the left side as oppose to what we required. Terry Dennison: You got not exactly the same issue, but conceptually the same argument could be made part of what I do. I want to make sure that you don't put yourself in an awkward spot if somebody later comes back and questions you. Diana Bernardo: Right, that's why I'm asking the question. Terry Dennison: Yeah, that's why I'm here to answer the question. Doris Flores-Brooks: I remember the discussion so you did make the decision but I think there's always a bias that this Board is only DB or DC, you made that decision on the DB side what is your rationale for the DC side for keeping them. Antolina Leon Guerrero: That's what we are talking about and that's why we are monitoring them.

Terry Dennison: I mean it is one of these it's not 51-49 but you could tip it to the other side and this information is interesting because I do worry about somebody later coming back and saying exactly what the public auditor said that you did the right

thing for Gov Guam's money and you were less diligent, less aggressive. Antolina Leon Guerrero: Except the other thing is there's a June note here there's information that we have today we did not have at our last meeting, we didn't know about the new people they hired, we didn't have that feedback. Rosalia Bordallo: Yeah, we did it's basically the same scenario that they were bringing in new people. Antolina Leon Guerrero: Did we know who they were? Rosalia Bordallo: Maggie said she didn't, it was relevant. Antolina Leon Guerrero: Interesting. Diana Bernardo: But, we knew about the departures. Antolina Leon Guerrero: I knew about the departure in fact when you said the name I felt like I've heard this name Bart Wear before. Diana Bernardo: I raised the issue, because although we have two consultants one for DB and one for DC, it is the same issue. Terry Dennison: It is a valid point I don't see this as being problematic at all consistency is a good thing unless we can come up with a good reason for not being consistent. Doris Flores-Brooks: You can't say it's not good enough to be in the DB but it's good enough to be in the DC that's from the public's perception what's going to hurt you if it wasn't good to be in the DB why is it good enough to stay in the DC. Wilfred Leon Guerrero: Well, I think from the DB side the recommendation is very strong, replace. This one is monitor. Rosalia Bordallo: Doris is saying if you have two inconsistent views you're still the same people how come there on one side and not on the other. Doris Flores-Brooks: There's one perception that the Board is more pro DB than it is pro DC. Antolina Leon Guerrero: There's certainly a perception but there's effort I think too on behalf of the Board to change that. Wilfred Leon Guerrero: Okay, I think on the summary on page 27 and 28, Terry. What Terry is recommending is on the BlackRock Life Path portfolio continue monitoring them and you're recommending that we ask you to search to consider replacing Franklin and then Vanguard is to continue retain and Winslow.

Terry Dennison: That's the one we've been talking about at this point I need to come up with a reason for you to keep them. Absent this new information, the recommendation was to keep them because we were pretty impressed with what we saw but it would be different the reverse if we wanted to fire them and Wilshire wanted to keep them that's not as troubling from a perception perspective this is the participants money as the public auditor said there ought to be a high degree of due diligence for everything but this is probably more important I would say at this point unless I could come up with a pretty good answer as to why we can justify keeping them in the DC.

Wilfred Leon Guerrero: Why don't we ask Mercer to search for new funds. Terry Dennison: Based on new information. Doris Flores-Brooks: Yeah, because of the decision that was made on the DB side. Let me rephrase the question to you Terry, if you were monitoring both because at one time you were, would you allow that inconsistency? Terry Dennison: No. Doris Flores-Brooks: No, thank you.

Terry Dennison: Because the point I will make is do not be consistent if it's coming from the same analytical process it would look illogical here you have two different analytical process legitimately to come to two different conclusions. So it's not like we think you want to fire them because you fired them in one plan and not the other but rather how important is inconsistency or consistency. A recommendation is still to put them on monitor in a vacuum but it's not a vacuum. We now have a piece of

information where it might become awkward for the committee to have to explain this. If I thought you should retain them no matter what, I'd pound the table I would say Wilshire was wrong, our interpretation of the facts are different and we think it would serve your participants best interest to keep it. My view of this is not strong enough to pound the table. I will pound the table if I need to, I will tell you if I feel very strongly that they should be retained despite the strength that Barton Wear brought that we are sufficiently impress with the new people the fact we downgraded here from A to B+ is basically saying we're not so sure. So, I will pound the table if it was the right thing to do but you know this is a huge bunch of new answers. Wilfred Leon Guerrero: But, you're going to think about it.

Terry Dennison: I will think about it if we agree to move ahead of getting rid of them they will simply be added to the search list because we have to do a search for this space too, so instead of just a search to consider replacing Franklin, now it'll be searches to consider replacing Franklin and Winslow. Wilfred Leon Guerrero: And the other one is Thornburg. Terry Dennison: Thornburgh and if you look at page 28 their not terrible and that's why it's place on monitor and not start the process of exiting. Again, it's simply saying that if you look at page 33 the performance it used to be great has been trending down and the differences between the benchmark and their return are pretty big.


So, I don't want the committee to have them be retained and somebody come back and say you weren't even reading the report because look at how badly they've been doing lately. It's not a replacement candidate at this point but I want the committee to be on record is saying were watching this because we don't like what we're seeing right now if we fire everybody who had a couple of bad quarters we be doing searches and replacements continuously and that would serve the participants. Doris Flores-Brooks: If I could go back again to the Black Rock on page 27 from an observation point of view all those reds bother me and that's for 3 years and 5 years and this is still relatively new again it's on monitor, that's my concern.

Terry Dennison: Well, again this isn't just optics or window dressing there is a concern we like BlackRocks approach, we like the way the shape of their LifePath is because it protects people near retirement. It basically reduces the risk that people near retirement are seeing because of the high exposure to equities they take equity down faster than other target date funds.

If you look at the performance relative to the benchmark there not missing by huge amount were not seeing like we saw with Thornburg where they're 600 basis point behind the bench mark you know some of these you actually have to look at it to another decimal place to see the difference. As far as the percentile ranking, the percentile ranking doesn't include just funds that are run passively it's all target date funds if you're in a cycle where active is beating passive which is not common but happens you're going to look bad. Doris Flores-Brooks: The good news is that they are still returns and the returns are not negative, the bad news is that it's not meeting with the benchmark. Terry Dennison: The important thing to remember this benchmark is their benchmark. The thing about target date funds is there's no generally accepted benchmark or index because it depends entirely on what kind of

glide path you want to have if you want to have aggressive glide path that has large risk assets or large equity allocation almost to retirement how you perform relative to the bench mark depends entirely on how well stocks did, if stocks did great you look like a genius, if stocks did bad you look terrible. The committee made a decision to have this kind of kinked curve because the people who have time to recover from a down market need all the earning power you can get. If you look at your average account balances there pathetic because the returns historically until we had the target date funds people weren't making good decisions, people aren't contributing enough, people are starting too late all sorts of reasons. So what we wanted to do is have for people who can tolerate a down turn because basically the markets are upward sloping basically we never had a period of more than a decade where the equity markets return negative results. So we're worried about people near retirement just happen to hit one of these down turn so we want the protection of relatively low risk assets near retirement but we need the earning power of high risk assets for people who are going to retiree 2030 or 2040 because it's the only way they're going to create enough wealth. Wilfred Leon Guerrero: How long did we have these guys on monitor? Diana Bernardo: I think they were placed on monitor just last quarter. Doris Flores Brooks: Just one quarter, okay. Because this is the one we need to be the most concerned about because that's where the money is. And it's only been on one quarter, so this is the second quarter. The market is doing well, right. Terry Dennison: Well the equity market is doing well and the bond market is doing poorly for a while we had positive returns on both sides. Wilfred Leon Guerrero: Okay. We only got one more issue. That's it, thank you very much.

**Respectfully Submitted:**

  
**Rena Cruz/Marilyn Aguon**  
**Recording Secretary**

**Affirmed:**

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

