



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

Trustees:

Joe T. San Agustin
 Chairman

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

Antolina S. Leon Guerrero
 Secretary

Gerard A. Cruz
 Treasurer
 Audit & Operations Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

James R.F. Duenas
 Trustee

David M. O'Brien
 Trustee

**Quarter Ended September 30, 2013 Performance Meetings
 & Annual Investment Manager Reviews**
 November 20, 2013
 Retirement Fund Conference Room

Board of Trustees Present:

Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
 Gerard A. Cruz, Trustee
 Antolina S. Leon Guerrero, Trustee
 Katherine T.E. Taitano, Trustee
 James R.F. Duenas, Trustee
 David O'Brien, Trustee

Staff Present:

Paula M. Blas, Director
 Diana T. Bernardo, Controller

Other Present:

Doris Flores-Brooks, Public Auditor, Office of Public Accountability
 Maggie Ralbovsky, Wilshire Associates
 Christian McCormick, Intech
 Ivan Fong, Intech
 David Gullen, Robeco

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

Intech
Robeco

Pages 2-22
 Pages 22-34
 Pages 34-45

Economic & Capital Market Environment & DB Plan Performance

Gerard Cruz: Welcome back. Bill 170 passed? Paula Blas: Transmitted to the Governor on Friday. The Governor is not here. Gerard Cruz: That's the modernization. The modernization that's correct. Prudent investor. Maggie Ralbovsky: Didn't reference though but on the record it wasn't that. Gerard Cruz: Okay, so we're going to have to wait for Ray Tenorio to sign or for him to come back? Paula Blas: I don't know the Governor's office is giving me the impression they're waiting for him to come back. Gerard Cruz: Okay. I think he will, right? Paula Blas: Oh yeah. It passed unanimously down at the Legislature. Gerard Cruz: It's pretty complicated, pretty dry reading I can't imagine. Maggie Ralbovsky: Won't have any issue with that? Gerard Cruz: No. Antolina Leon Guerrero: We'd only have an issue if it was only passed by a democrat. Paula Blas: Okay. We're on.

Wilfred Leon Guerrero: Okay, Maggie. Maggie Ralbovsky: Good morning. Wilfred Leon Guerrero: Okay, because Doris Flores-Brooks is here we can start. Maggie Ralbovsky: Okay another quarter, I'm going to review this smaller book, it says quarterly performance review. Wilfred Leon Guerrero: Which one? Maggie Ralbovsky: Not the outlook, not this one the other one. This will be for tomorrow. Sorry, I meant there was another big one which you don't have. It says performance review actually it's not the quarter. Gerard Cruz: We get this tomorrow? Or we're not going to get this at all? Maggie Ralbovsky: This is for your reference. We actually have. Gerard Cruz: Somebody at UOG was asking for information on performance. Maggie Ralbovsky: This is the big one that has all your holdings and attributions and history. Gerard Cruz: Okay.

Maggie Ralbovsky: Okay. The 3rd quarter, it was a very strong rally quarter for the equity market but it was not without drama. The major drama was the Fed watch. If you recall the 2nd quarter was when the Fed surprised the market by indicating they may start a taper by reducing their purchase of the \$85 billion dollar government securities that was initiated during the QE period. During the 2nd quarter the market has formed a consensus that the Fed will start to just purchase \$75 billion instead of \$80 billion so a reduction of \$10 billion dollars of printing money. That was the market consensus until September 15th came along when the Fed actually did not taper at all. They were continuing the purchasing as was as they were doing before and that surprised market on the upside. And another event that happened during this quarter was the fact that Larry Summers dropped off the race it wasn't exactly a race but he removed his name out of the nomination as the next Fed Chairman which left Janet Yellen, the only contender or the obvious nominee for this job which the market also celebrated. And I have documented some of her past comments on page 3. It is very characteristic of her, there are two things that's very characteristic of her. Number 1 is that she has her own model in trying to control interest rate path and she calls it optimal control path. And in that model there is a very large component as an input that is the labor market indications. Much bigger input than the regular Fed model that many people were using to forecast where the Fed funds rate is going to go. So her model takes significant concentration the slacking labor market and given the labor market condition right now, the market interpreted this tendency to be that she will stay on the accommodative side with the other side for longer, that's number 1.

Maggie Ralbovsky: Number 2 is that she has published writing, her published writing has indicated that she thinks QE was very successful in helping this country avoid depression and create jobs. And that was not a consensus by a lot of economist. Some people believe QE only creates the next bubble doesn't really create jobs, and that was not where she stands. She believes QE was very successful and the unemployment the countries experiencing right now is not structural it is cyclical meaning when there's more money in the system, more jobs will be created. There's people on the other side thinking that hey it was a structural issue, these people simply do not have the matching skills for the new job being created so she's on the other side of the debate.

Maggie Ralbovsky: So I have a labor market gap chart on the next page which reinforces the belief that the Fed funds rate, the Fed might still stay on the more accommodated side maybe until next March. Gerard Cruz: Until next 2014? Maggie Ralbovsky: 2014, March 2014. Gerard Cruz: I was hearing 2017. Doris Flores-Brooks: I thought it was longer. Maggie Ralbovsky: Oh you're talking about the Fed's funds rate, I'm talking about taper. Gerard Cruz: Oh the taper. Maggie Ralbovsky: Taper. Yeah. So in a way the Fed's fund rate controls the interest rate but to the shorter end to zero. But QE controls the shorter end. Gerard Cruz: Right. So you're saying tapering of QE by March 2014. Maggie Ralbovsky: 2014 that's the. Doris Flores-Brooks: When you say taper going from 80 some billion to 70. Maggie Ralbovsky: \$75 billion. Well but the thing is that the psychology in the market is what matters right. So even during the 2nd quarter of this year the Fed did not taper but the interest rate went up because people were expecting it to happen. So that expectation is actually part of it but I think the consensus were it has to be the case that at some point they're going to stop this QE which is going to probably depends on how they do it, how fast they do it, when they do it, how they guide the market. With my experience another shock in the fixed income market which is relevant to our discussion tomorrow as to what we do to the fixed income allocation because we has been in a fixed income core interest rate dropping kind of environment for the past 15-20 years, it really is if a reversal of that happens it's going to be having a very long term impact to the fixed income sector. The salad day is over as people say.

Gerard Cruz: No I mean but we're not the first to realize that right and certainly the managers who manage our portfolio of bonds would also realize that, so by now wouldn't they be hedged against a rising rate environment? Maggie Ralbovsky: Well how do you hedge that? If you think about it so everybody thinks everybody knows interest rate will go up but you cannot price it fully because there's arbitrageurs out there that actually can borrow at zero. Gerard Cruz: But wouldn't you come shorter on the duration curb? Maggie Ralbovsky: Yeah you can be shorter on the duration curb but if you think of the past if you think of the interest rate right now at zero, for the zero period pretty flat from 0 years to like 3-4 years, it's pretty much zero interest rate. Gerard Cruz: Okay. Maggie Ralbovsky: So you can stay on shorter side but still you can sustain a loss because your coupon is not covering up that volatility. So this is the first time in history where the standard deviation of the bond sector is now lower is now higher than the coupon you're getting. Gerard Cruz: No and I agree and I don't dispute that what I am saying though is that that is a market function, it's not manager specific so if the whole if the tide drops then everybody is going to. Maggie Ralbovsky: Exactly. Exactly. Gerard Cruz: Feel the same pinch. Maggie Ralbovsky: Exactly. Gerard Cruz: So shouldn't then all I mean so whether we're in the right manager or I mean wrong manager is irrelevant the market

right? Maggie Ralbovsky: That's right for the core bonds. Gerard Cruz: So shouldn't then we accept the fact that that's going to happen and reposition our portfolio to account for or at least be considering to reposition our portfolio, okay. Maggie Ralbovsky: Exactly that's the discussion for tomorrow. Gerard Cruz: Okay, so let's go. Maggie Ralbovsky: Okay, done. David O'Brien: I think this is a key point but you know one of the things I think implicated Gerry's question was whether or not the market's already priced in, Maggie Ralbovsky: Yes. David O'Brien: You know this view and therefore if it's already priced in, why do we need to take more dramatic action we've already warned the down side? Gerard Cruz: I think she's talking about the absolute rate rather than. Maggie Ralbovsky: His question is great. That's a great question. So everybody is expecting the interest rate to go up so the interest rate curb the yield curb is reflecting that consensus. The issue is that an absently low level of interest rates, the volatility of the bond sector is already surpassing the yield. David O'Brien: Understood. Maggie Ralbovsky: So there is a 67% chance you know for one standard evasion movement you are probably not going to be enoughly compensated by that volatility by the. David O'Brien: For the risk. Maggie Ralbovsky: For the risk. That's right. So this is actually the first time in history for the past. Gerard Cruz: I agree ever. Maggie Ralbovsky: Ever. That the volatility has surpassed the yield. David O'Brien: I think this is the most important question, everybody's portfolio for the most, all asset allocations. Gerard Cruz: Especially those that are liability driven. David O'Brien: Well in particularly for our group you know where you know they're all at that age level where fixed income is a larger component, a larger and large component.

Maggie Ralbovsky: You know that's another good point because if you think of the yeah if you think of the. Antolina Leon Guerrero: Boy you are just getting brownie points today and stars. Maggie Ralbovsky: If you think of the life cycle funding everybody's you know the target day fund in all 401k plans, they are all moving when you get older they all moving to core bonds. David O'Brien: That's right. Maggie Ralbovsky: Because that's what people knew in history that was the safe sector. What if that is no longer the safe sector? You know that is a very, very important question. David O'Brien: And see as I think it becomes even more important for our members who are in the DC plan where the sophisticated thinking being the investment management advice isn't forthcoming, I mean I think it's one of the major flaws of the DC plan. Maggie Ralbovsky: Of the life cycle funds set up was based on historical experience and if history doesn't repeat as history, if history doesn't repeat for the future then historical experience may not be the good guide for the future. So I do think the life cycle funds are the topic in this environment.

Maggie Ralbovsky: Okay, so there are some economic slides data points on page 5. The key point here is that if you look at the job creation number on the bottom right hand side, it is slow but steady we are creating jobs, the pace is slow enough to keep inflation under control which also is a indicator that the Fed is watching, they are watching inflation as well and inflation is low a job creation is not very strong which will keep them at bay for longer. David O'Brien: You know longer term, you know what I've heard about Yellen is that inflation has been a secondary concern of hers meaning that you know if our portfolio is you know out 3, 4, 5 years, you know where is Yellen 3, 4, 5 years on inflation? Is she going to stick with the you know how to say it the accommodative policy even at the expense of the inflation which is another issue for our group you know here. Maggie Ralbovsky: Yes, I think inflation is very under priced in the capital markets. The 10 year

average priced into the market places below 2%, it's at 1.9%. So right now if you look at the statistics that fits the current inflation level but the market there is no way in my view that the market is going to do surprise on the downward side when inflation the surprise has to be on the upside which is another shock to all asset classes.

Gerard Cruz: But then it's not so much as surprise if everybody expects it right, it's just a matter of when and how fast. Maggie Ralbovsky: Yeah well the market has not priced into that expectation of inflation above 1.9% in 10 years. Gerard Cruz: But you can't but if there's so much liquidity out there right? Maggie Ralbovsky: Yeah that's right so liquidity has not translate it's translated into financial inflation I guess all the asset classes pricing has all gone up but has not translated into the CPI type of inflation because labor market is still very slack. Gerard Cruz: And housing markets slack, labor market slack. Maggie Ralbovsky: And commodity market is slack because of emerging market's demand is dropping. There's many, many moving parts but Yellen is taking putting inflation on secondary concentration when she considers labor market very strongly. Yeah so the exit is really a tricky thing you know exit of the QE for the Fed is a very tricky thing, nobody has done before has done this before and how to guide the market is very tricky. Doris Flores-Brooks Flores-Brooks: You know just from a historical perspective when did we begin this common shortly after the crash and so how much have we been buying right now, what's the portfolio with the Fed? Maggie Ralbovsky: If the Fed's balance sheet is over trillions like 1.2 trillion or something, yeah so. Doris Flores-Brooks Flores-Brooks: Like 80 billion a month right or so? Maggie Ralbovsky: Before that they had TELF and PPIB other programs, QE1, QE2, QE3. Doris Flores-Brooks Flores-Brooks: So at 80 billion we're almost talking what you know well over a trillion. Maggie Ralbovsky: Their balance sheet is over a trillion right now, they are letting some of the expiration expire without reinvesting it and they are trying to exit Fannie Mae, Freddie Mac because they have exited. Doris Flores-Brooks Flores-Brooks: Is that contributing to our debt because I don't know because we're buying this but we don't have the real cash, so how are we financing this buy?

Maggie Ralbovsky: Well. Doris Flores-Brooks Flores-Brooks: That shows you I don't understand economics as well. Maggie Ralbovsky: That is on the fiscal you are talking about the fiscal side. Doris Flores-Brooks Flores-Brooks: The Fed is buying these bonds. Maggie Ralbovsky: The Fed is printing money to buy it. Right hand side left hand side, cancels out. It's printing money to buy U.S. Treasury right, so it's like its all government. The debt is created by fiscal policy. This is monetary policy. Doris Flores-Brooks Flores-Brooks: So that fact that we print money we don't create debt. Maggie Ralbovsky: We print money to support a debt that's already been created. Doris Flores-Brooks Flores-Brooks: Okay. So in other words they're continuing borrowing does not have is not increasing business debt. Maggie Ralbovsky: Well debt is created by not by the Fed. The Fed is holding money to buy the debt. Doris Flores-Brooks Flores-Brooks: To buy the debt okay. David O'Brien: They are printing money to keep the interest rate down that's why. Doris Flores-Brooks Flores-Brooks: Well I know that but it's just that my accounting side is what I debit, what do I credit. Gerard Cruz: But they're two, but the Fed is. Doris Flores-Brooks Flores-Brooks: What do I debit, what do I credit? I bought cash. So that's the part my mind can't understand. David O'Brien: You're crediting the major banks balance sheets, that's what you're crediting because that's why.

Doris Flores-Brooks Flores-Brooks: On the Fed's books what did I debit, what did I credit?
Gerard Cruz: On the Fed's books. Doris Flores-Brooks Flores-Brooks: Because I bought these bonds.
Gerard Cruz: You have bonds right, so you own those bonds. Doris Flores-Brooks Flores-Brooks: Is that an asset?
Gerard Cruz: It's an asset. It's an asset, so you own these bonds. Doris Flores-Brooks Flores-Brooks: So what is my credit?
Gerard Cruz: Your credit was cash that you printed. Doris Flores-Brooks Flores-Brooks: Out of nowhere.
Gerard Cruz: Right out of. Doris Flores-Brooks Flores-Brooks: Out of nowhere. Maggie Ralbovsky: But the debit of buying is already out in the market. It's either they buy or somebody else buy it at a higher interest rate so the goal is to push down the interest rate. Okay, so. Gerard Cruz: The fiscal policy drives government debt and on the fiscal side Federal is you know we're still operating the sequestration levels. Doris Flores-Brooks Flores-Brooks: But you can take this to the extreme and we could do this forever and nothing will happen. Maggie Ralbovsky: We cannot do this forever because when interest rate goes up the long hand will fail. Doris Flores-Brooks Flores-Brooks: But technically you could because we keep on doing this. In theory right in theory you could take this and never stop accommodating policy.

Maggie Ralbovsky: You cannot. You cannot because. Doris Flores-Brooks Flores-Brooks: You cannot why? Whose going to tell me I can't stop printing. Maggie Ralbovsky: Because there's nothing. Doris Flores-Brooks Flores-Brooks: And your democratic colleagues are creating the. So in theory right you could forever you know because that's why I'm saying my understanding. Gerard Cruz: You could so long as the U.S. dollar remains the reserve currency for the world, when it stops and things like oil no longer trade in U.S. dollars and it doesn't become the reserve currency and there's some other thing out there, then the proceed value becomes significantly less than what it is now. Doris Flores-Brooks Flores-Brooks: Yeah but whose the likely candidate? China? Gerard Cruz: They've been talking about it. Doris Flores-Brooks Flores-Brooks: Yeah but China right now has a lot of structural problems. Maggie Ralbovsky: It could go to gold. Gerard Cruz: It could go to gold but you know the French Franklin at one point. Doris Flores-Brooks Flores-Brooks: Those economies are so much smaller you're talking who are the potential candidates? China, possibly India. Well China's structure is because of it.

Maggie Ralbovsky: Euro the euro is the. Doris Flores-Brooks Flores-Brooks: The euro behind Germany? Gerard Cruz: I mean it's far fetched now but if we continue on the route we're going you know and as you said take it. Doris Flores-Brooks Flores-Brooks: Some of the people are going to bulk, you know if we continue we're going 5 years on this accommodate and it looks like there's no end in site right now right. And when you say we're going to go from \$80 billion to \$75 billion a month, you know you do that for a year or two then you go to \$70 billion, you know it's going to take a long time before you come to zero. Not in my lifetime. I'm just you know just taking the extremist point. You know at some point when are we going to stop. Maggie Ralbovsky: But the thing is if we had they're not been QE, we would. Doris Flores-Brooks Flores-Brooks: Sure. That I definitely agree. I think just from the, you know I think the world we would have collapsed and although there hasn't yet been enough literature to kind of do that post thing. And I the question is would it have been less if we had saved Lehman? That's always the question too. Would it have been less if Lehman had been saved. Because we bailed out AIG, we bailed out you know all those other things.

Gerard Cruz: But AIG's bailout we made actually money on right when they paid us back in tarp. Doris Flores-Brooks Flores-Brooks: One of the few. Gerard Cruz: All. The only one we lost on, all the tarp program made money. David O'Brien: Yeah that's right. There's only one of the automotive ones, was it. Gerard Cruz: GE or GM. David O'Brien: GM yeah. Gerard Cruz: But even them, no they paid back. Everybody paid their tarp back with interest. Antolina Leon Guerrero: So what was the difference with GM, I'm sorry? Gerard Cruz: They sold off Allied bank which was their big. They became a bank holding company ultimately and created Allied bank which eventually filed bankruptcy now owned by Aquanet small book. But anyway. Maggie Ralbovsky: JP Morgan had to pay all that with high remain billion dollars in settled for Behr Sterns then they dropped for \$2 a share. Gerard Cruz: They got a tax break for it. Maggie Ralbovsky: It was funny that the Government had them do this now they're the government sued them and put an end. It's a lot of manipulation. Gerard Cruz: I mean it was, not to rehash the past but it was just an unprecedented time, what was happening was happening so fast and so dramatic. Doris Flores-Brooks Flores-Brooks: And the real issue though is that they're too big to fail as continuing and nothing has stopped that, and too big to fail continues and so the next calamity what are we going to do again bail it out? Because nothing has the banks have gotten bigger as opposed to smaller and so we continued marching down that same, we haven't learned our lesson we never learn our lesson.

Maggie Ralbovsky: Okay, so the U.S. equity market, page 6. It's a big year in CU today was close to 21%. Gerard Cruz: You said 20 right in January? Maggie Ralbovsky: Did I say that or did somebody else say that? Gerard Cruz: It's a number. No you said 20. Maggie Ralbovsky: And if you look down small cap growth 33%. Significantly outperformed small cap value. Now you understand later on I'm going to show you all our managers drifted growth where you should have made. So it was also a very strong quarter. Then if you look at international market it was even a bigger quarter. If we were hammered however if you look at year to date international market on page 7, the top line, that was the total international market. Basically the entire gain for this year was done in 3rd quarter. Before that they were plucked with one quarter up one quarter down. Then emerging market however, year to date was negative. This was the reversal of the prior 10 years trend. If you look at 10 year number from emerging market was 13% annualized which if you try to figure in the year to date the negative it was even more significant before this year that the rally for emerging market came to a stop. And they are actually very sensitive to the U.S. money trade policy because when you think of global capital markets money is fluid. They go to where the reward is the most, if you can borrow from the U.S. at zero at very little interest rate, where do you buy that? Where do you go to buy the assets many a lot of that money went into emerging market and when interest rate started to go up that money came out of the emerging market very fast and because those economies are very small it relatively speaking compared to the money that flew into that market this proportional impact was significant. A lot of that was expressed in the drop in the emerging market currency as well. You know some of this Brazil and India those countries was open it opened economy got hit harder than countries with less open economy like China. Because China was protecting its own capital markets.

Maggie Ralbovsky: So emerging market was really the hardest hit. Another thing that is going to happen is that MSCI which is the company that puts together these benchmarks or these indexes is going to change their country composition for these different indexes.

At end of this month they are going to take Greece out of their EAFE index the developed market index. Greece now is going to be downgraded to emerging market and then they are going to move Katar. Doris Flores-Brooks: Greece is going to be now on the emerging market? Maggie Ralbovsky: Yes. Katar into the emerging market as well. So that's. David O'Brien: Into the emerging market. Maggie Ralbovsky: Into the emerging market. So they are going to take Greece out of the emerging market and put Katar into the emerging market. And these two shift is not significant it's 2% of emerging market index, however next year they are going to have a significant event, they are going to take Korea and Taiwan out of the emerging market and put into developed markets and that's 25%. Gerard Cruz: Korea and Taiwan? Maggie Ralbovsky: Korea and Taiwan. And so if you think about the current segmentation of our portfolio we have the emerging market as well as EAFE separate and when that event happens you going to see the emerging market manager selling Taiwan and Korea and the EAFE manager has to buy Korea and Taiwan, I'm not saying overnight because it's not index fund, the manager can do this in steps but still you know it's being you're going to create an artificial turnover of a very large proportion in capital markets. They are trying to manage that, they are trying to define the benchmark shifting steps, but still this is an event that's going to come. Which has made some clients convert their EAFE and emerging market allocation into an ACWI allocation. So if you hire a manager that does All Country World ex-US you will not experience this kind of an artificial turnover.

Maggie Ralbovsky: So I want to turn this out on the table, I know we do not have the ability to shift so fast in this format, but had we been able to shift that fast, that would have been the direction we probably should go. Why do you. Gerard Cruz: What direction? Maggie Ralbovsky: Is to. Gerard Cruz: Hire a. Maggie Ralbovsky: Yeah an ACWI ex-US manager instead of the EAFE. Doris Flores-Brooks: What kind of manager? Maggie Ralbovsky: So it's the first line ACWI ex-US. So that is an index that combines emerging market and EAFE in the same and next year there's also going to be some changes. Gerard Cruz: That's the manager that spoke right? Who's the. Maggie Ralbovsky: You know Fisher is the ACWI manager. Fisher actually does ACWI. James Duenas: What is ACWI? Maggie Ralbovsky: All Country World Index. All country world ex-US. David O'Brien: And who is in the frontier? Gerard Cruz: Renaissance. David O'Brien: Yeah Didn't I say Renaissance? Maggie Ralbovsky: You mean which countries are in frontier? The biggest one is Nigeria. Nigeria and some of the African countries like Kenya like any of the. Antolina Leon Guerrero: Somalia. Maggie Ralbovsky: Vietnam. Vietnam is in that and next year they are going to be upgraded into emerging market. So there's going to be some changes. David O'Brien: Philippines? Maggie Ralbovsky: Philippines is already in the emerging market. So Vietnam is in frontier and Nepal is in frontier. Gerard Cruz: Mongolia. Maggie Ralbovsky: Is Mongolia in frontier I think? Yeah so there's about 20 countries. David O'Brien: We don't have Renaissance. Oh yeah right here's Renaissance. Gerard Cruz: UOG does. David O'Brien: Yeah they've been great. Maggie Ralbovsky: Iran Iraq. James Duenas: There's also Asia and Europe. Maggie Ralbovsky: A lot of the Asia European countries are emerging market. The frontier market. Doris Flores-Brooks: What's the difference between emerging and frontier? Maggie Ralbovsky: Frontier, this is the definition by MSCI which is Morgan Stanley Capital International, used to be a joint venture to Morgan Stanley Capital international but then they later on separated so now countries so what the definition is

that they look at different criterias. A lot of that was compound by World Bank. For example there's criteria's of average GDP, how old the capital market is.

Doris Flores-Brooks: So a lot of them tried to fix all of this to just go to the top one, right?
Maggie Ralbovsky: There are people who are very agonistic, you know they say why do we rely on somebody else's definition on what kind of country it is and we just go to that our country world, so there's that.
Doris Flores-Brooks: Okay. Makes sense.
Maggie Ralbovsky: The frontier market is actually very not very liquid. That's why we had this huge rally because money floating to a little bit counts a lot. Some countries are actually very illiquid.
Gerard Cruz: So have or has the emerging markets has it rebounded? Since QE3?
Maggie Ralbovsky: No actually well it was.
Doris Flores-Brooks: Is China now you're saying all these other countries, where's China?
Maggie Ralbovsky: China is in emerging market, China is one of the bigger ones.
Doris Flores-Brooks: It's still. It's still considered emerging as opposed to developed?
Maggie Ralbovsky: Oh yeah China will not emerge for while yet. Capital markets has to be open has to you know you have to be able to freely trade a lot of them. Things in China still controllable.
Doris Flores-Brooks: Must not be the world currency.
Gerard Cruz: No.
Maggie Ralbovsky: It's not even freely convertible yet.
Doris Flores-Brooks: Right that's what I'm saying. So by default the U.S. is still in.
Gerard Cruz: For a period yeah for a long period of time is durable.
Doris Flores-Brooks: At least in the next decade.
Gerard Cruz: Oh yeah.
David O'Brien: That mean you're right with Korea and Taiwan coming out of the yen.
Gerard Cruz: Yeah.
David O'Brien: That's why you're there.
Gerard Cruz: Yeah it's huge, we have a. Are we meeting with Capital or not this time, our emerging market manager it's huge.
David O'Brien: Did you talk to Renaissance guy?
Gerard Cruz: Yes.
David O'Brien: Yeah me too. What was his name?
Temming, Kemming or.
Gerard Cruz: He was British, what was he British? Maybe I didn't. Actually no I did because I know I talked to somebody.

Maggie Ralbovsky: Okay, let's move on. Page 8.
Gerard Cruz: Are we okay, page 8.
Maggie Ralbovsky: Page 8, is where I'm on.
Antolina Leon Guerrero: Just keep talking Maggie Ralbovsky.
Gerard Cruz: I hear you.
Maggie Ralbovsky: There's segment rotation chart.
Gerard Cruz: He's going to ask you the same question later anyway.
Maggie Ralbovsky: The segment rotation chart if you look at the graph, the reason I want to put this up here is it helps us understand why certain managers underperform, certain managers over perform. If you look at the top left hand chart, small cap out performed large cap in a big way. And that also another important indication because if you look at every bull market in history it always is led by small cap and it always ends by large cap out performs. So if this relationship switches for sustain period in time you could be prepared for the end of this cycle. So right now it looks like rally has some legs, looks like stow probably even though had a 20% year probably going to have a pretty good year. Mark your calendar.
Gerard Cruz: I'm ready to write the numbers down. Well you did well this year, you called it right.
Maggie Ralbovsky: The small cap rally looks like still on hold even though quarter to date, this quarter they underperformed large cap. So if this trend does not you know change for sustain period in time it's usually considered that it's a good indication for the rally.
Gerard Cruz: So small cap out performed and growth out performed.

Maggie Ralbovsky: And growth out performing big way. And International out performed for this quarter if you look at the right hand side, emerging market out performed this

quarter however for this year the dominant thing is that U.S. outperformed and EAFE outperformed emerging. Gerard Cruz: EAFE up, oh okay International. David O'Brien: So what are we supposed to take from that? Maggie Ralbovsky: What we supposed to take from that, you can say that EAFE is cheap compared to the U.S. very, very cheap. The reason it stays cheap is because people still can't see how they that's right because they are having this new bank stress test that can go into effect before end of this year and next year they are going to start publish the result. And many, many projections is they have so much of the bad stuff on their balance sheets, banks have to overload they have to sell out before they can become consider very capital wise strong. So people doesn't see a lot of transparency, because it was not a lot of transparency that's why there's still people, but market could not decide if Europe is cheap enough. David O'Brien: So you don't think it's because the European Central bank or the EU Central bank whatever they're called had become more accommodative. Maggie Ralbovsky: They are not accommodative enough I think that's what the market is saying. Because if you look at since 2008 there's something called beautiful deleveraging which is to keep your nominal interest rate lower than the nominal GDP growth. Only America and UK have done that. Japan started to do that in the past year for last 20 years Japan was in the ugly deleveraging which even though the interest rate is so low, nominal interest rate so low your nominal GDP is even lower than that. So if you have your nominal interest rate higher than the nominal GVP and you're in the deleveraging phase, you're not helping because your debt is still good to go grow because interest rate is still nominal high. If you look at European Union as a whole, that was the case the past 5 years even though in Germany was different, so there's issues out there. You can take care of Germany or you can take care of the whole European Union because of the disparity in conditions you cannot take care of both. And the European Union has been trying to influence by Germany so they are very tight in terms of condition and as a whole the deleveraging is not being accomplished because of the nominal rate is too high. And now recently we started to become accommodative which is well confined. If they follow the path of becoming more accommodative their issue is Germany is going to become over heated. So they have a lot of bad issues. The stock still probably going to slowly get out of it. David O'Brien: So you're saying international probably expected to continue to outperform EAFE? Maggie Ralbovsky: I think if they, yes I think if they start keep there accommodative policy, they're cheap EAFE is cheap. But I do not want to discount the fact that they have problems structural that will probably take a long time to fix. A lot of money being raised by a private market by private equity managers in the form of European opportunities and that is because of this exact issue that the banks need to get rid of some of their loans and some of them are very small loans. It cannot go out to auction out they just basically sell off piece meal sometimes through negotiations so a lot of the private credit managers are raising money because they have European off shoots that have these I guess you can call connections or you can call channels where they get invited into these closed group discussions and they basically ask two people for a bid, how much you going to bid for this piece of loan and we get a very good deal out of it and the banks you know get rid of it so they can meet the capital adequacy environment. So that created a lot of opportunities in the credit space.

Maggie Ralbovsky: Okay, so fixed income, this is the portion that was difficult you can see that year to date was across the board negative except for high yield. And high yield is high yield has been steadily positive the reason is because the companies actually have taken advantage of the capital market condition. They have pushed out their near term

maturity debt into longer term maturity debt at very low financing cost. And that has made default rate to historically low. Right now default rate is below 1% and historical average somewhere between 3½% or 4%, so the spread is way over compensating the default risk. Gerard Cruz: What's spreads? Maggie Ralbovsky: The spreads right now is here, same page you see this 3.6, oh no I'm sorry this is the yield, on the left hand side. Oh yeah I have another page. That's right, Page 11 is the spreads. 567. Wilfred Leon Guerrero: Paula you know that bill that the Governor signed? Paula Blas: The governor hasn't signed it yet. Wilfred Leon Guerrero: Oh I mean the Legislature passed. Does that allow us to get. Maggie Ralbovsky: It's 8%. Up to 8%. Wilfred Leon Guerrero: What kind of rating are we looking at? Gerard Cruz: Just less than investment grade anything less than investment. Wilfred Leon Guerrero: How low? Paula Blas: It does not specify. Maggie Ralbovsky: It did not say. It did not say. Doris Flores-Brooks: Are you going to recommend or is the governor going to pass it? Maggie Ralbovsky: Tomorrow we are going to discuss that. Right now you can see the spread is 567 basis points and if you look at history for the longer term this is actually average spread. We no longer have that free launch you see on the left hand side at one point was 2500 basis points above the treasury. So the entire high yield was 1800, it was a ridiculous evaluation at the time. We no longer have that we are at historical average but because default rate is below average we are still adequacy compensated by this spread.

Gerard Cruz: So five what are you saying? Maggie Ralbovsky: 567 is the right spread right now the spread it is. I skipped a page international fixed income market on the top you can see that it was more volatile, I'm on page 10. This quarter the international market did well because of the Fed especially emerging market debt. That's sort of towards the middle of this table you can see the EM local currency and it's supposed to be saying EM one of them is hard currency one of them uses local currency. Gerard Cruz: Which one? Maggie Ralbovsky: The EM. Yeah one of them is hard currency one of them is local currency. The top one's local the bottom ones hard. Gerard Cruz: Okay. Maggie Ralbovsky: So the EM currency however is I think is expected to still be very weak because these countries sort of don't have their money to repolity they rely on the U.S. money to repolity and their condition is very different from the U.S. so it's going to be misfit for a while.

Maggie Ralbovsky: Okay, page 12 is our chart of diversification and you can see that. Gerard Cruz: This is us? Maggie Ralbovsky: No this is intern market and then you can conclusion you can draw is that there's no asset class debt that is the winner every year so diversification is really important to smooth the ride. Okay, our portfolio, tab 2. Gerard Cruz: How did we do? Maggie Ralbovsky: We did very well this quarter if you see page 14. Wilfred Leon Guerrero: I want to know what the year. Gerard Cruz: Number yeah we need the. Maggie Ralbovsky: Oh the year, the year is on the. Wilfred Leon Guerrero: We meet the 20% projections. Maggie Ralbovsky: I think we are a little bit we're 14.36. David O'Brien: Maggie before you go there, all these charts are calendar year to date or fiscal? Maggie Ralbovsky: Oh these are quarterly. David O'Brien: These are all calendar years? Maggie Ralbovsky: Oh yeah those are calendar I do have a fiscal year for GGRF later. So page 14 is this quarter, the quarter we outperformed the benchmark by 66 basis points. The only composite that under performed was for fixed income. Gerard Cruz: Oh but minor 3 basis points. Wilfred Leon Guerrero: This is as of September 30th? Maggie Ralbovsky: This is September 30th quarter yes and this ranked at 24th percentile in

the universe. Gerard Cruz: 24th? Maggie Ralbovsky: 24th, so if you think about world worth for this quarter we overweight all that, we overweight U.S. equity, that was the biggest. Gerard Cruz: Contributor. Maggie Ralbovsky: Yeah international equity. So, okay the next page is our managers. David O'Brien: What percentile were we the year before? Maggie Ralbovsky: Oh I have a chart on that. David O'Brien: Okay, I'll wait.

Maggie Ralbovsky: So page 15 is the managers score card. We have very good managers. We have 2 managers that's ranked average that's Fisher and Garcia Hamilton and we do have there is an update after this page was put together and we will discuss later in detail that's Security Capital and that was actually downgraded in the past week by Wilshire. Gerard Cruz: Why is that? Maggie Ralbovsky: Because they had a fund they're managing for JP Morgan, it was a pretty sizable contribution to their AUM, and there was a very large redemption for that fund, I think they lost half the money. Gerard Cruz: Managing for JP? Maggie Ralbovsky: Okay, so they are owned by JP, yes. So they have a mutual fund that's labeled as JP Morgan Real Estate Securities Fund and that fund lost half of its assets during this past quarter because it's very large. Gerard Cruz: Redemption? Maggie Ralbovsky: Yeah redemption. Because a very large redemption was generated like 7 dollars a share capital gains out of 13 dollar of NAV, which they will have to distribute to clients. Then they decided that would be too honourous to people who are in the fund so they liquidate the whole fund. So I don't know how that helps, you generate even more. So I don't understand how that helps but they decided liquidate the whole fund which will reduce their profitability for the future because it's a pretty significant portion of their AUM. If you have a reduction in profitability you will probably have to reduce compensation to people. So that creates our concern as to whether it's going to create morale issues or you know resources we downgraded them last. Probably above the average but right now. Gerard Cruz: Because their management style is still the same they just lost assets under management. Maggie Ralbovsky: They just lost assets under management. So that's why it was downgraded, it is currently on the focus list we took them off the focus list so.

Gerard Cruz: They are a small boutique anyway right? Maggie Ralbovsky: They're yeah well they're part of JP Morgan. Gerard Cruz: But they were an independent they just bought JP Morgan for distribution is what I understood. Maggie Ralbovsky: No they were bought by Washington Mutual from a prior acquisition and then when Washington Mutual was sold to JP Morgan, JP Morgan accidentally hacked them. Well Bank One, no they were part of Bank One then JP Morgan bought Bank One accidentally fired them as well. Gerard Cruz: But they remained an independent operation? Maggie Ralbovsky: Yes. Wilfred Leon Guerrero: Maggie, what's happening with REITs? Maggie Ralbovsky: What's happening with REITs. If you think of REITs large portion of REITs return comes from income. So people if the interest rate goes up it hits them significantly badly because it's almost like bonds. Wilfred Leon Guerrero: We're hearing that the market the housing is getting better and. Maggie Ralbovsky: But it doesn't track that. That's the problem with REITs, we actually did a study for REITs to see I know for this fund we're trying to gain real estate exposure through REITs but it doesn't track real estate market at all. Gerard Cruz: What does it track? Maggie Ralbovsky: It may track it. Here's why because REITs the return comes from leveraging. So REITs is an entity financing entity, the basic go to market they borrow money and they issue equity and then they use that combination to go buy property so they tend to have very large very high leverage. REITs inherited

inherent leverage right now is 50%, historically ranges from 40 to 60%. So if you think about the risk to their return, the contribution from property market becomes a very small portion. The capital market contribution is much larger than the property market contribution. So their return volatility and correlation becomes heavily correlated with capital markets not very correlated with property markets at all. That's right, so it becomes it really is not a. Wilfred Leon Guerrero: Financial. Maggie Ralbovsky: It's a financing vehicle. So it really has really has not been doing what was intended for many investors to do is to gain exposure to property markets, it doesn't do that. So you either use that as a diversification tool or you should probably convert that into a private non levered real estate vehicle, like a Commingle fund if you want real estate exposure. Gerard Cruz: The downgrade for Fisher and Garcia Hamilton, I'm sorry Earnest Partners or no, no it is Fisher. So Fisher and Garcia. Maggie Ralbovsky: No those are not that. Those have been ranked average before. Gerard Cruz: Oh really? Maggie Ralbovsky: Yes. Gerard Cruz: Okay. Maggie Ralbovsky: So the reason Fisher is ranked at average before is because it's a top down macro kind of shock and they are hit and miss was very mixed so if you look at their track record of whether they you know their macro calls or it's very hard to do the right macro calls for the whole world. So hit and miss more the merry consistent. Gerard Cruz: And Garcia? Maggie Ralbovsky: Garcia is a very small shop that just as resource side is ranked pretty low.

Wilfred Leon Guerrero: What's your rating do we have poor? Maggie Ralbovsky: We have poor, we have below at poor, below average, average, above average, good and excellent. Very few at excellent, those are very few. Okay. Total fund here you can see that the relative performance between GGRF and the benchmark very good relatively speaking except for fixed income under performed a little bit. Now longer term, this is the fiscal year returns on this page, page 17. Fiscal year return was 14.36%, I think last year was 19%. Gerard Cruz: So fiscal year to date that was and that would be Q4, fiscal year Q4. Maggie Ralbovsky: Yeah as of September so this is a whole fiscal year. Antolina Leon Guerrero: That includes October? David O'Brien: Where is the fiscal year to date, oh there it is. Boy you know, we were at 14.44. Antolina Leon Guerrero: Who was? Doris Flores-Brooks: Who was 14.44? David O'Brien: UOG. Doris Flores-Brooks: Oh UOG, wow very good. Wilfred Leon Guerrero: 14.4? Paula Blas: Close. David O'Brien: Yeah no kidding that's what I was saying, I mean I was just saying. Antolina Leon Guerrero: Must be our investment chair his presence on both committees. Wow. Maggie Ralbovsky: And also to your question David O'Brien on the ranking it's here. So we ranked on the past year, this is the fiscal year. We ranked 26th percentile on all the public fund universe and then for the past 10 years you can see 30th percentile. I also have a chart on the risk return ranking on the next page, page 19.

Maggie Ralbovsky: So this chart is the universe comparison not just looking at return but also looking at risk because the return can be end period dependent. You could you know really have huge swings and have one quarter good one quarter bad. And you can see that this quarter we ranked 30th for the past 10 years, this is 10 year chart for return and 29 for risk. So the return does come from the taking higher risk. And this chart is looking better now in a way that return risk is if you draw a trend line higher risk is being compensated. Just a quarter ago it was flat and if you look at 2 quarters ago it was negative, so you know 2 quarters ago for 10 years higher risk does not translate into higher return. Now in the capital market is eventually hopefully behaved this way because

otherwise the capital list society will collapse right. Capital is not compensated by risk. So however you do observe certain funds. This is all public funds in our data base. You do observe certain funds. Doris Flores-Brooks: How many in that database? All together. Maggie Ralbovsky: A hundred. You see ten years is a 102. Doris Flores-Brooks: So when you say those are your clients? Maggie Ralbovsky: No those are tucks so it's a thing that Wilshire compiles but its trust company trust universe comparison services. That's a registered service. That collects all the funds that uses custodian bank. So all the custodian banks will pull their data together. Doris Flores-Brooks: And when we compare this is similar type.

Maggie Ralbovsky: It's all public funds. U.S. public funds. Doris Flores-Brooks: U.S. Maggie Ralbovsky: Yes. Doris Flores-Brooks: So it could be cities, counties. Maggie Ralbovsky: Yes. Doris Flores-Brooks: Any states? Maggie Ralbovsky: Yes, States. Doris Flores-Brooks: Okay. Wilfred Leon Guerrero: And the numbers again you wanted your ranking you wanted it smaller right? Maggie Ralbovsky: So lower better for return but the higher the better for risk because the risk is also based on so the number goes high to low so if you 29% on risk means also you take the higher risk, you know what I mean? So the numbers are ranked from top down in terms of large number to small number. Wilfred Leon Guerrero: Ok, if we return the rank at 30 that means that we beat 70% right? David O'Brien: There are 2 lines like that, that's where we want to be in this squadron. Maggie Ralbovsky: So in the North West squadron, right? Wilfred Leon Guerrero: Maggie since 30%, 30 right. Maggie Ralbovsky: Okay, so David O'Brien draw the line which was if it's great Doris Flores-Brooks: Can't see it, can't see it. David O'Brien: So we're here, this is us right? So we want higher return lower risk, that's generally what we want to do. North West. Wilfred Leon Guerrero: On your ranking, Maggie Ralbovsky: Yes, on my ranking. Wilfred Leon Guerrero: The net return 30%, 30 that's 30 percentile. Maggie Ralbovsky: That's 30% that beats 70%. Wilfred Leon Guerrero: Okay and on the risk. Maggie Ralbovsky: On the risk you also take you also take higher risk than 70%. Wilfred Leon Guerrero: Okay. David O'Brien: Her earlier point was we're taking we're getting our excess return a bit from the excess risk that we're taking. Maggie Ralbovsky: Right. But there is opportunities have moved to the North West quadrant a little more so diversification. Wilfred Leon Guerrero: And this this is what we've been talking about you would like us to take more risk right? Maggie Ralbovsky: No, I'd like you to improve the diversification so for the same amount of risk you are taking get a better return. Doris Flores-Brooks: That's why it's a high yield. Maggie Ralbovsky: That's part of it. Okay. Gerard Cruz: No more. Antolina Leon Guerrero: We're going to talk about the buckets. Back to the buckets. Doris Flores-Brooks: It's not intuitive, I didn't do well in economics.

Maggie Ralbovsky: Okay, I'm going to move to page 21, page 21 is the comparison of our current asset allocation versus the actual versus the policy, and you can see at the end of this quarter we were under allocated to fixed income and over allocated to U.S. equity. Part of the reason was because of the rally of U.S. equity and you know so that part of was created by. David O'Brien: Pushing us there. Maggie Ralbovsky: That's right. Antolina Leon Guerrero: It wasn't something we did. Doris Flores-Brooks: But it was fortuities. Maggie Ralbovsky: But I believe the policy would ask us to reallocate at this point because. Gerard Cruz: I think we're still within target. David O'Brien: Do we have a range? We have a range right and then a strategic allocation within the range. Maggie Ralbovsky: I do believe. There is a chart, the long sheet that has that. Gerard Cruz: I

think we were under fixed. But we weren't necessary over range in U.S. equity so we could have taken it from. Maggie Ralbovsky: It could just be when we pay benefit we take it out of U.S. equity. Gerard Cruz: Yeah it's possible too. Paula Blas: Yeah, that's what we did. Gerard Cruz: But we're within range. Wilfred Leon Guerrero: I don't understand this thing on the bottom. Maggie Ralbovsky: The bottom just calculates the difference of what the policy target is and what the actual is and if the bar is above the middle that means we are over allocated compared to the policy in U.S. equity. And the largest underweight is fixed. Gerard Cruz: Yeah we're just under ranged. Still under the max. At 35, 6. David O'Brien: With this new law if it is in fact signed, will we go to another asset allocation exercise is that your intent. Maggie Ralbovsky: We will talk about it tomorrow, yeah. David O'Brien: And then you guys run your model to come up with whatever the policy target will be. Maggie Ralbovsky: That's right it's in this book. Antolina Leon Guerrero: She was here a year ago. She just waiting for us to catch up. Gerard Cruz: She just took the one from the shelf and went whew took off the dust.

Maggie Ralbovsky: I did run some things before. I run all the way and I expect to be somewhere in between that's where we end up. David O'Brien: So we've been waiting for the legislation? Gerard Cruz: She's been waiting. David O'Brien: Maggie's been waiting. Maggie Ralbovsky: Oh, we have been, we're one entity, we're united, we're unified. Okay. Gerard Cruz: Okay that works. Maggie Ralbovsky: Okay. So I'm going to move so this next couple pages is a cash flow page. If you just look at the total, page 23. So we started the quarter with 1.45 billion, we had a distribution about 15 million, 15 million and we had investment gains of 78 million for the quarter. That and with an ending value of 1.5 billion. The next few pages is a historical tally of the same information although we do not have any information prior to when. Gerard Cruz: Okay. The returns for fixed income I know just so I could this in my head, that includes dividend coupons right? Maggie Ralbovsky: It does it's total return. Okay so the next few pages is there for historical tally purposes and you can see that since the time since the beginning of time. Gerard Cruz: Since the beginning of time? Wow.

Maggie Ralbovsky: Actually since 2006. Antolina Leon Guerrero: Beginning of data time? Gerard Cruz: Of your time? Oh not even. 93. Maggie Ralbovsky: Since 93, although since historical, very, very early. Doris Flores-Brooks: The fund was in existence prior to that right it's just you don't have any data. Gerard Cruz: Yes the funds yeah. Maggie Ralbovsky: There was no data. So the data we had actually there was no detail data until Mercer yeah so that was until actually yeah so then you see anyways. Gerard Cruz: Got it. Maggie Ralbovsky: Okay makes more sense in longer term. Page 30. Gerard Cruz: 30? Maggie Ralbovsky: U.S. equity. Gerard Cruz: Okay. So everybody except Numeric. Numeric is Nancy? Maggie Ralbovsky: No. Gerard Cruz: Oh, Numeric is quant shop. Small cap quant. Okay. Maggie Ralbovsky: Numeric underperformed this quarter, however this is the manager that has been outperforming all the way through since inception, very strong numbers. So really this. Gerard Cruz: Yeah. So it's a nice compliment to Eaton Vance. Maggie Ralbovsky: To other managers. And Eaton Vance. Gerard Cruz: Finally. Maggie Ralbovsky: Finally out performed this quarter although since inception there's still way under so we are keeping them on watch. Gerard Cruz: But they are complete fundamental shop though right so that's who compliment to. Maggie Ralbovsky: Yeah so really Nancy you know we saw them last quarter right? Yeah we saw them last quarter. Gerard Cruz: We saw Christine or Kristen. Maggie Ralbovsky:

Nancy I thought was on the phone. I have some historical numbers for Eaton Vance, if you look to page 33 and 34. Maybe we start with 34 then I come back with 33. Page 34, this is the universe comparison of this Eaton Vance strategy compared to the benchmark. The benchmark is Russell 2000, the way you read this chart is that this is the universe of all small cap core managers, the middle line is the 50 percentile line so any dots above the line is above the median and any dots on the top is really at the top in terms of performance. And all these dots are rolling 3 year numbers so they're long term numbers and you see that this is the space where most managers in the long run should outperform because the middle because the Russell 2000 is actually ranked usually below the median line, you see that? So it's less efficient space that's why we use active management in small cap and you see that Eaton Vance historically was a very strong performer but in the past couple years they really had a very difficult performance.

Maggie Ralbovsky: And part of the reason was explained on page 33. Page 33 at the bottom I have a chart. The chart at the bottom is to divide up the Russell 2000 index into the high debt equity ratio versus the high quality versus low quality securities. And you see the red line which is the low quality security really had a significant rally. So the more levered you are on your balance sheet the higher the rally which was actually very logical if you think of the Fed's decision to flood the market with liquidity, money goes to where leverage is, and that really has a tremendous impact in the small cap sector which impact Eaton Vance significantly because the manager really is looking for higher quality kind of security. They stay away from REITs for example, they stay away from some of the very highly levered companies which hurt them. So we are watching this manager and. Gerard Cruz: This is one in one quarter though right over several quarters, I mean they're typically Eaton Vance is typically a solid performer. Maggie Ralbovsky: They have underperformed past 2 years, we are put them on.

Maggie Ralbovsky: On page 35, this is the styled map at any managers in your portfolio is registered in the big letter the capital letter, all the small letters non capital letters are indexes. So if you compare the capital letter with their indexes you can see that most of our managers are growth, have a growth tilt right now. The growth paid off and managers you know hopefully this is. Gerard Cruz: But that's typical though right because when value is in favor what we've seen was they tripped to the value side. Maggie Ralbovsky: Yes so hopefully that can be the case but we do also have an index fund so in case you know that's the anchor, in case people don't time it right we at least have that anchor there but as a total you can see the X is the total of all these managers. We do currently have a growth bias so when the tide turns if you catch managers off guard we may under perform. Gerard Cruz: Because there was a point when most of our managers were looking value. Maggie Ralbovsky: That's probably earlier in this decade. Gerard Cruz: Right. David O'Brien: I mean that's the basic question is how long, how much longer this market has legs. Maggie Ralbovsky: And these two if you observe historically the bias growth or valued bias does not systematically pay off, it goes through cycles. So if it pays off one cycle the next cycle it does not pay off.

Maggie Ralbovsky: Now there's two things people can do, there are people who be saying let's just forget about growth and value let's just do core. There's another thing you could do is to say hey lets have an index allocation then we let the managers time the market, hopefully they time it right. That's an approach we're having. We do currently have a

pretty good allocation into the Russell 1000 index which provides you know some stability in this. Gerard Cruz: You think that's a better way to go? To do it that way, using index fund and then an anchor then allow managers to drift one way or the other? Maggie Ralbovsky: I actually think using core managers in a bigger way is better. Gerard Cruz: Really? Maggie Ralbovsky: Yes. I actually did my own study for the past 10 years, I actually have a very interesting chart which is to say what's the chance a growth manager and a value manager combined into a core composite that will be the benchmark consistently. So you calculate the possibility of that growth manager consistently outperformed and the value manager consistently outperformed and put them together its being complicated if you have these two managers you combined the probability it turns out to be less than 5%. And if you have one core manager or multiple core managers, that probability is increased to 25%. David O'Brien: But you allow to perform. Maggie Ralbovsky: To outperform consistently as a whole. Gerard Cruz: So multiple core managers? Maggie Ralbovsky: Multiple core managers. So you have enhance core, you have a long short core, one 30/30 core. David O'Brien: Go ahead go over the cores again, it's basically a cap core. Big cap. Large cap. Maggie Ralbovsky: So basically you have a large cap core, small cap core instead of growth and value. Because you see the value manager doesn't do value right now right does growth right. Gerard Cruz: But we had a core manager. David O'Brien: That's right. Maggie Ralbovsky: But the core manager was growth was. Gerard Cruz: At the time. Maggie Ralbovsky: No it was consistently growth, we looked at history they have always been growth. And Russell 1000 is much better then. Gerard Cruz: I think they out performed pretty dramatically to date. Maggie Ralbovsky: Because they're growth. Antolina Leon Guerrero: But they were hire as the core. Maggie Ralbovsky: That's right hire as the core. David O'Brien: So you're saying go for domestic right you're saying go with the index for core for mid and large. Gerard Cruz: No index. Active manager. Maggie Ralbovsky: No. You have a large cap core index or portion of that then you have a. David O'Brien: Mid cap. Maggie Ralbovsky: No then you have another large cap core active and you could have another large cap core extension, you could have multiple core managers do different kind of core, then for small cap small and big cap you do core which is the one we are doing right now. We have two core managers in small cap even though Eaton Vance has this growth bias. You see Numeric is very core. David O'Brien: So what you are saying putting the indexes in? Maggie Ralbovsky: In large cap. David O'Brien: Not mid cap? Maggie Ralbovsky: Not mid cap no because mid is less efficient. David O'Brien: Oh, I see.

Maggie Ralbovsky: Okay, so 37 it has our long term historical return for the managers and you see that we have very good managers here. We are keeping Eaton Vance on watch because of historical under performance since inception, this has been over 3 years now and they are under performing but the most recent core is very charging, so hopefully they can take themselves out of the watch. Now International, page 39. Page 39 we have two managers underperforming both of the large cap equity managers underperformed this quarter and International small cap as well as emerging has outperformed. There is no notable organizational changes and we're not making any recommendation right now with regard to this and I think we all understand why these two managers underperformed. The Earnest the reason they underperformed is because very similar to Eaton Vance's issue that they are focusing on the higher quality and this manager is very concentrated manager. They hold like 45 securities so they take a very high tracking here, meaning they don't track the index. And when their style is not in favor they

underperform, when they are in favor they can outperform in a big way. So that's obviously well we're hoping that they because of their very solid in the research process we think they have pretty good chance to eventually be right.

David O'Brien: So the focus list is a positive thing? Maggie Ralbovsky: It's a positive thing that's our top picked managers. Okay. So I'm going to move to page 42 and you can see the style map for this composite. Wilfred Leon Guerrero: The comments that you have regarding Fisher, them getting involved in publication. I think we've been hearing. Maggie Ralbovsky: Involved in what? Application? Wilfred Leon Guerrero: Publication. Maggie Ralbovsky: Oh publication. Wilfred Leon Guerrero: The concern is that they are diverting their pension from. Maggie Ralbovsky: It's just one person, Ken Fisher. Wilfred Leon Guerrero: I'm sorry. Maggie Ralbovsky: It's just one person, Ken Fisher. Wilfred Leon Guerrero: Yeah I know but that's my whole point is that this thing keeps coming up and it doesn't seem to bother the investment side in their effort. Maggie Ralbovsky: You know Ken Fisher he is part of the team but he's not A team, there's other people doing the research and job. And I think Ken Fisher is really one top down kind of guidance, he doesn't really involve day to day very much. So I know your concern was a does he spend too much time writing books. Wilfred Leon Guerrero: No it's the other way around because even with Mercer they were concerned about this company the Fisher getting into the academic side rather than the investment side. Maggie Ralbovsky: We don't rank Fisher very highly as you see we rank them as average manager because they the consistent. Wilfred Leon Guerrero: Seems like his passion is in academics. Maggie Ralbovsky: In writing books. That's one bigger points, like I said earlier I don't think he's not part of it. We have four people on the committee and he's part of it. Wilfred Leon Guerrero; I'm just pointing out I've been noticing this Fischer he keeps coming up about writing books and doesn't seem to affect the investment activity. Maggie Ralbovsky: Right. Page 44 is the manager returns, you can see that Earnest is the one that's underperforming since inception. Although it's only been 2 years, 2 and half years so some people think of this as you know market cycle tend to run longer than 2 years so we really want to give them more time to judge. It's a very highly ranked manager we really like them so hopefully they'll turn around. Antolina Leon Guerrero: Earnest? You like them. Maggie Ralbovsky: Yeah. We at research like them. The other managers are doing well. Capital Group is another one we have a little bit concern of how much money they have under management in the emerging market space. But they since we managing it they have 25 different portfolio managers dividing up the portfolio, so each person is executing it as smaller portfolio which mitigates some of the issues of you know being very large very smaller asset class. So it seems to be managing that. Bottom line there's no recommendation change for this composite at this time.

For fixed income composite, page 43, we currently have one manager on watch which is Franklin Templeton. And we still recommend to put them on watch. I'm going to show you some detailed analysis why we still recommend to put them on watch. The Income Research did under perform this quarter but longer term they are still above water. So why don't we take a look at these data points, page 48. This is again the universe comparison chart and the first you can observe is that the benchmark tend to be ranked below medium. This is another less efficient asset classes where managers tend to outperform in long runs, we do recommend this to be actively managed. Now you can also observe that Franklin really has not performed very strongly. Most of the time they ranked

below medium and most recently ranked below 25th percentile. They had some strong performance earlier in the period but hasn't really done that. David O'Brien: Six years ago. Maggie Ralbovsky: That's right so we still recommend keeping them on watch and if we if our new asset allocation eventually gets executed some manager has to go. And I want to leave all that on the table.

David O'Brien: Could I just ask you a question, Franklin is domestic and international? Maggie Ralbovsky: No it's domestic. David O'Brien: Domestic. Maggie Ralbovsky: That is the name of the company Franklin Templeton International. So page 49 is the universe comparison of the other 2 managers. And you can see that Income Research we said this quarter underperformed but they ranked more above the middle than below and they most of the time out performed. So this is a very different chart from the Franklin chart same data going. So Garcia Hamilton even though it's a very small manager they just keep, keeps generating good returns. David O'Brien: You know they're the same for us and what I noticed you have them ranked average. Maggie Ralbovsky: The reason ranked them average is it's a 4-5 person, David O'Brien: They're small right. Maggie Ralbovsky: They're small and their resource score is really low ranked but they're one product company and they play very high credit rating space. David O'Brien: Plus you know they went through a management turnover they lost Davis and whoever the other one. Maggie Ralbovsky: Yes, they basically. David O'Brien: And they did just as well, I mean Garcia stepped in and. Maggie Ralbovsky: They did just well in fixed income side, they lost the entire business in equity side, they started at the equity shock. David O'Brien: Oh they did? I didn't know that. Maggie Ralbovsky: So now they have 2½ billion dollars under management for fixed income which is a very critical size. Because below which you probably will not be able to make money to support people to a point 5 billion fixed. So you know low margin business in 2½ billion which is a break even point that's why we rank them low because there's a survival issue there. David O'Brien: Got it.

Maggie Ralbovsky: Okay, page 50, Doris did you say you don't understand this chart? Doris Flores-Brooks: I always have a hard time. Maggie Ralbovsky: This is a style map so on the right access is the duration. Wilfred Leon Guerrero: Maggie, you know this we have this overlapping problem sometime on the holdings and we're just wondering because Diane doesn't keep track on that thing, do you guys keep track of that? Maggie Ralbovsky: Holding overlap on what? Wilfred Leon Guerrero: We have two different managers and then maybe do buying the same thing. Maggie Ralbovsky: So, so now I'm asking does that break any guidelines? What's the issue with that? Wilfred Leon Guerrero: You may have two managers, but they are all doing the same thing so you might as well just have one manager. Maggie Ralbovsky: No actually you see the positioning is different so even though you buy the same security but you may not buy them in the same maturity, the same size, the whole portfolio positioning for this sector is actually more important than what security buy. This is not a, so what's driving a fixed income portfolio return is 90% is duration. So duration is the average maturity so to speak even that's a simplification so the average maturity of the portfolio versus the benchmark drives the relative performance. The other piece obviously is the credit so if you say hey I'm having concerns of all the concentration credit, that would be a valid point in a lower grade.

Wilfred Leon Guerrero: I just want to make sure that we don't have two managers and they're all buying the same thing. Maggie Ralbovsky: Which is no problem in the core fixed income space, in my view. It's not a problem in the core fixed income space. But it would be a. Wilfred Leon Guerrero: Is it the whole idea to diversify to insure that the managers. Maggie Ralbovsky: Well with diversify as I said diversification is not about not buying the same security in the core fixed income but rather in the majority of the driver performance is duration so peoples views, how they construct the portfolio and also organizational diversification. Wilfred Leon Guerrero; Okay. Maggie Ralbovsky: But it will become an important issue if you have a lower grade fixed income because then credit becomes a driver so if you buy a like Lehmann. Wilfred Leon Guerrero: Maggie, this is not just on fixed income it's also an equity and you know we really need to keep track of it because otherwise you may think you have two different managers but. Maggie Ralbovsky: Okay we do track them looking at the style remember. Wilfred Leon Guerrero: Right. Maggie Ralbovsky: So then just because people buy. Paula Blas: Give us security that's both growth and could be viewed as growth and value. Maggie Ralbovsky: Well, Apple. Paula Blas: Yeah exactly, you may have two of our managers holding the same. Maggie Ralbovsky: Yeah. You do have. Wilfred Leon Guerrero: You think you have two managers but in fact there we only have one. Maggie Ralbovsky: That is actually not in a big way for equity because we do have you see the managers styles are quite different, right. For fixed income you probably have a lot of overlap and the reason is that a portion of this is treasury. Wilfred Leon Guerrero: Do you have the ability to be. Maggie Ralbovsky: We can but it's not included in this though. People pay half a million dollars for that kind of monitoring. We actually aggregate all the exposure for fixed income equity. You have to run all the securities into the system and model all the ones that hasn't been modeled. So if you look at the fixed income holdings, a lot of those securities are not modeled meaning there's structures securities right, mortgage tronds, asset back security tronds, you have to model them security by security and that is significant amount of work. We have a data group that actually does that. You know like I said certain people pay certain bonds pay like half a million dollars for that to be done. Although they have larger usually have much larger portfolio.

David O'Brien: But you could do something similar simpler right you could basically decompose and who has. Paula Blas: We do have that. Maggie Ralbovsky: Yeah we could run this. David O'Brien: Has web securities. That might answer your question Fred is this. Antolina Leon Guerrero: Well, no I think his concern is whether or not overlapping jeopardizes or restricts diversification and that's really his question. Maggie Ralbovsky: So if your question is whether that jeopardizes our diversification then the answer is no right now, because we do look at all the style diversification. Wilfred Leon Guerrero: My first concern is that are we checking this thing out and because I'm trying to thank Diana and I talk about it but I think it should be done on a regular basis you know check it out. Diana Bernardo: We know certain stocks are bought by more than one manager and we should be able to provide a list which we used to in the past of which managers hold the same items but basically Maggie is saying it's not a concern. Maggie Ralbovsky: It is not a concern for me right now no. All the holdings are here and we also run the overlap. We run overlap percent of the managers. Paula Blas: To make sure that they're still within the 5%. Maggie Ralbovsky: That's right it's not significant at all. And on the fixed income side, really the thing you look at is duration and you know this map. You don't want to look at the overlap because you can see a lot of overlap the whole 30% is

US government and then mortgages and then corporates it's just big, the credit. So here's why, once upon a time somebody asked a core fixed income manager how many securities do you need to replicate the index? Five he says five because all you need to do is to get duration right to get the credit quality right because the core fixed trade very similar. So you buy a single security of one company versus a single security of another, they trade almost like the same. It's not like high yield security where credit drives the pricing, in this portfolio duration drives the pricing. Wilfred Leon Guerrero: Okay. Maggie Ralbovsky: So if you look at a duration, speaking of that we have a chart here, the duration of this portfolio in this particular quarter is actually quite similar, all the manager's position similarly and you can see that the Lehman act the Barclays act is also in the duration is on the Y axis. So if you look at the Y axis very similar. Now what the difference people are taking is the quality. The quality is on the X axis, the higher the quality you got more on the right hand side, the lower the quality is on the left hand side and very interestingly Garcia Hamilton is actually lower quality because they hold a lot of corporates, it actually it got out of the. David O'Brien: That's been their style though, their style is been a look at spread the corporate to the higher quality. Maggie Ralbovsky: Their times however they do not see the value in the spread they will go big way into government yeah so they do sector rotation quite actively. David O'Brien: But you know what this also shows it that the consensus of the market is get your duration down to the same spot so the fixed income market guys are all on the same. Maggie Ralbovsky: Yeah that's right. David O'Brien: They are all thinking alike is what it says, to me. Maggie Ralbovsky: Trying to hide from durations. Duration is bad right now. Doris Flores-Brooks: Why is duration bad? Maggie Ralbovsky: Because if you're thinking interest rate is going to go up duration is going to hurt you. Doris Flores-Brooks: Oh the longer you have.

David O'Brien: Everybody believes that interest rates are only heading north. Doris Flores-Brooks: Well you've been so low I mean that's logical right at some point. Because we can't keep this low forever. Maggie Ralbovsky: Okay, so page 51 and 52 are the fixed income composite versus the managers and as we said earlier that Franklin is on watch and we continue to keep them on watch. It's showing that income researchers under in since inception but a portion of that was because of the legacy portfolio they inherited and they didn't get out of that last 3 years is more indicative. Okay the REIT portfolio there is a change since this book was put together and that was that Security Capital was taking off of the focus list. So they are no longer on the focus list, we need to cross it out. I said earlier we said earlier that they lost they liquidated a very large portion of their AUM, so that's the source of our concern. Wilfred Leon Guerrero: I don't understand your recommendation on this Security Capital. Maggie Ralbovsky: Yeah, Security Capital. Wilfred Leon Guerrero: It's not the recommendation it's your comment, they underperform but they're on your best list. Maggie Ralbovsky: The focus list is not performance driven list. It's the organization driven list. Antolina Leon Guerrero: You just took them off. She just told us that they took them off the focus list just last week. Doris Flores-Brooks: No longer. Maggie Ralbovsky: No longer on the focus list.

Maggie Ralbovsky: The REITs performance on page 57 you can see that one of the REITs managers since inception is underperforming, one of them is over performing. Our total will very much similar very flat to the index since inception. This is a sector that is going to be difficult when interest rate goes up so it has more sensitivity towards that. Okay

that's a quick summary. There's some details and information in the remainder of the book. There's a lot of information on this big book if you want to study all the managers' holdings and their attributions. We have attribution analysis. All the managers section there's attributions. Each section a manager that for comparison their holdings, their country allocations, their historical attribution analysis. They're attribution. You can have that book. David O'Brien: I can have this? Antolina Leon Guerrero: Have this replicated for everybody so that we have it available. David O'Brien: So you don't want me to take it? Maggie Ralbovsky: No you could have it, this is my copy I am not taking it back to California. I always take it. David O'Brien: We are the same way I leave books where ever they get. Maggie Ralbovsky: Okay so this. James Duenas: Is this an extra copy? Maggie Ralbovsky: Okay. Yeah you can take that copy. We have 2 we sending 2 copies right the big book you can take that copy. Paula Blas: Do we have one for accounting already? Diana Bernardo: Not on this one. Oh no, we do. Maggie Ralbovsky: Yeah they have another copy there so this is my copy you can take and this is extra copy you can take. Doris Flores-Brooks: The magic question is how long are we going to continue on an upswing on equities because it defies logic. Maggie Ralbovsky: It doesn't defy logic at all if you look 10 years we just crossed 10 year ago number. Wilfred Leon Guerrero: What are we looking at in terms of return for the next fiscal year? Maggie Ralbovsky: Can we stop this thing? Wilfred Leon Guerrero: Last year she told us 20%. David O'Brien: And she made it. Paula Blas: No. Wilfred Leon Guerrero: No she didn't.

(end of tape 1)

1:30 p.m.- 2:15 p.m. Intech

(Start of tape 2)

Wilfred Leon Guerrero: We'd like to do this to meet our fiduciary responsibility, in addition to your performance we would like to know about was there any regulatory agencies that have something against you guys, changes in personnel and I guess that's about it. Ivan Fong: Why don't we throw it over to Mr. McCormick to cover the materials that we are going through today first, I'm Ivan Fong just in case you guys so looking out at education plans in the region.

Christian McCormick: This is my 4th year here, still based out of Denver covering Intech on the client service side. Just going to go through a few things here very high level we did have a organizational change that I'll walk you through but overall as you know in absolute terms with the market it's been a good year. We've been able to navigate it well and deliver some out performance and the gross on net base for the year and organizational it's been a good year as well in terms of flows and assets as well. Good year over all. Before I start on page 2. David O'Brien: Of your hand out or this one? Christian McCormick: Yeah. It should be one of the same. Maggie is this on page 2. Yeah page 2. Just to give you a quick update on the organization overall so at the end of September we were about at 44.7 billion of assets under management as you can imagine that's gone up. Since Janus is our parent company and they're publicly traded so we have to we're a little bit restricted how up to date we can provide asset numbers enclosed being a publicly traded company but as you can imagine with what the U.S. equity markets and

international equity markets have done we're a little bit north of that 44 billion at this point.

84 employees overall and if you look on the top right that gives you breakdown on the type of strategies that we do, we're still the same as when we saw you a year ago and we used this mathematical process to manage large cap equities. Now we manage that in both the U.S. and overseas but all we do are large cap equities, we have recently launched a few emerging markets products, those are brand new and based on the few years of research that went in there but 99.9% of our assets are still on the large cap equity space which is where we find our mathematical model which is exceptionally well. And then on the pie chart below still dominate institutional asset manager, about 96% of our assets are managed for institutional pension funds across the world. So actually, I know Ivan wants to mention some of the recent around the Asia. Ivan Fong: Around the Asian exJapan as much as the Asian Pacific Region we've bought on a few 2 new large institutional plans that's Summer Well fund worth of 1.5 billion to S&P product which is nice. We also won over a Korean government pension fund as well and that has brought us in a little over 200 million to start with but that has grown to around 500 million as well and some of the existing government pension funds as well as so for Intech for exJapan region that has been certainly a good year for us and for Intech as well. We get a lot of support from institutional investors in the region.

David O'Brien: No large losses? Ivan Fong: Sorry? David O'Brien: No large losses. Ivan Fong: No, no accounts closed from agent funds. Christian McCormick: Then on page 3, to give you update on the organization so the way page 3 is broken down you're looking at all of our employees, the folks that are shaded in blue or purple whichever I'm not really sure myself what color that is. So Dr. Banner and the team below him on the far left, those individuals are based in Princeton New Jersey at our research office. Dr. Banner is both our chief executive officer and chief investment officer. Most the other individuals you see on the page shaded in yellow are based in our headquarters which is in Florida. So Dr. Banner being the CEO because of the CIO duties and overseeing the mathematical process so chooses to be based in Princeton which is where we want him, because we know it's headquarter in Florida actually where the operations take place, IT resources and most of my colleagues are based. Then David Schofield and Carl Moss just a few folks based in London which ten are international clients.

The organizational change that we had, just to take a step back, so historically the primary role of Princeton is a very academic environment. So Intech's mathematical process was based on or it came out of academia a theory called stochastic portfolio theory which I won't go too much into but Intech was founded back in 1987 and had its roots in academia. And so the way the Princeton office was set up was very academic in nature is they did produce some research pieces but they tended to be very technical highly technical mathematical pieces. Dr. Banner and all the PHD's you see there either had their PHD's in mathematics or physics so all the hard sciences and they tended to be a very isolated group. So they oversaw optimization they ran our process and they left the client relations, consultant relations up to others in the firm.

With Adrian taking over he thought that, that was a big gap in the way that Princeton viewed the world. He thought that being isolated like that and only looking at things at an

academic sense then that Princeton in his role both as a CEO and CIO didn't really have his I don't know finger on the post for lack of a better word you know in terms of what clients and consultants were looking for helping with very fundamental things such as performance attribution, helping clients you know understand why we outperform or we underperform, putting together research papers that could be read by more than just a few other PHD's in the academic world. So their role has expanded quite a bit so they're visiting face to face with a lot of our clients and consultants such as Maggie and Wilshire. They're running a lot more research papers, so their spirit of influences has gotten bigger if you can picture a circle around them this page getting bigger.

Christian McCormick: And if you look at John Brown, and he is my boss, among the client and consultant relation side he heads up that part of it. Those of us in that group we've also taken on a bigger role in writing research papers, speaking at conferences and things of that nature. So because of that we decided to eliminate what we called our finance research function so a lot of fancy terminology here but if you look just to the right under Vassillos there we have Dr. Danny Meldan and Dr. Robert Ferguson, so we actually let both of those individuals go, it was just recent a few days ago. And we eliminated that position all together because their role really was to do what Princeton is now doing. So a lot of that research, a lot of those face to face meetings with clients and consultants but now the individuals in the Princeton office are taking on that role in a greater capacity. As are myself and my colleagues on the client consultant relations team those positions became redundant of the essence. So we are going to hire a CPM, client portfolio manager to help us with a lot of the face to face visits. But having the two people there in that position just didn't make sense anymore. Important to note, they never had any sort of involvement or role with the mathematical process, that's purely done at Princeton and they weren't privy to the optimization or anything we do any of the research and that end of it, they were purely there really in the client and consultant relation support role. They were no longer a necessary portion. Two very nice gentlemen work with and extensively but Adrian made the decision to eliminate those positions. But it's no effect on your portfolios, no effect on the trading of the portfolios, so just wanted you to be aware of it.

So if you turn to page 4, just before we get into performance just wanted to give you a snapshot and a nice reminder of the way Intech manages money so we use this mathematical process really just to take a step back because we believe that a traditional benchmark the only factor that's considered on how a benchmark is put together are the size of the companies. So the biggest company is the biggest name on the benchmark, so Apple, Exxon, Mobil and so on, you know the 2nd biggest is the 2nd biggest name and on. And that is the only consideration. And going back to our founding, it was we believe that we could use a mathematical model to in essence reweight the benchmark to what we thought was a better combination of stocks and purely only looking at how big or what their size is. And we could reweight those and then use a rebalancing approach to generate excess return but more importantly risk management has always been the key of what we do. It's been inter goals become a catch word a nice catch phrase now especially since the global financial crisis but it's been part of our DNA ever since the beginning. And that's really validated by what you see on page 4. So what you're looking at is this is any one of our strategies, so use the same model and again the only thing that's changes is which benchmark we choose so international or domestic, value or growth and how risky the client wants us to be but it's the same mathematical process. So in this chart

you're looking at every single rolling 3 year period return we have for all of our strategies ever since our founding. And that line diagonal line in the middle would be an equal to benchmark return. So the way to read this is out of all these possible periods 505 we've outperform the benchmark across all our strategies in 82% of the time which is good. You know we're going to have some periods of underperformance, we accept that we expect that but that percentage of outperformance actually isn't the most important take away here, what we think is when we look at the periods of underperformance, those red dots, you'll see that they track very closely to the benchmark. So the entire point is when we do under perform, we don't want it to be by such a great magnitude that we can't overcome it quickly. And actually your accounts a very good example, it's when you initially funded us February 2009. 2009 was a weak year for us in terms of relative returns and we've already overcome that even though it was about 3½% down versus the benchmark and now netted fees since inception will be in the benchmark for you, so gross and netted fees as well. So the idea is to keep that red dot as close to the benchmark as you can knowing that under performance will happen and because of that it makes it a lot easier a lot shallower of a hole to dig out of and that's really key to long term excess returns, just make sure you don't spend a lot of time underperforming.

David O'Brien: What are the typical fees? Christian McCormick: For your account it's about 49½ basis points fixed fee. David O'Brien: And that's inclusive of expenses? Christian McCormick: Yes. So on page 8, you'll see the performance through October 31, we just updated it. So the month of October is the strong month, I just give you the gross fees because the net fee is there as well. I'll relay as of net. So 55 basis points ahead on the net basis, you can see the year to date, 1 year and 3 year numbers are very strong as well. And then since inception you can see it's not by a lot 3 basis points but we'll take it netted fees positive performance. Just a note about this year, it's you know it's always hard to take issue or fault with such a strong year in the equity markets right, no one is really complain about it and I certainly don't want to give you a reason to complain about it. This has been a tricky year, in a year like this we're certainly grateful to have out performance, but in a year like this we're really just expecting to navigate these type of markets especially in a risk control fashion and what I mean by that is although the market has been up, it's been a very strange year when you talk about you if the Fed is going to end their stimulus or not, you know everything that's happened around the healthcare law rule out, the U.S. Government fiscal shut down that happened in August. You know what we've seen is that although the market has been going up the sector of the industry that's the leader of that, it's been switching you know in the 1st quarter was defensive sectors and technology and consumer stocks and then seems to be switching a lot back and forth. And when the market is jumping back and forth a lot, our model is really just trying to make sure we don't get caught in a bad position and just navigate that successfully. So you can almost think of it as where ship just moved forward and the market is jumping around all around us and we're just trying to stay in the course. So we've been very grateful that the risk controls have worked as well as they had this year and be able to provide out performance in a year like this.

I do want to make a note I'm sure it was a difficult decision for you, but we certainly appreciate the confidence in the additional contribution of assets which I think came in was it June or July. Maggie Ralbovsky: August. Christian McCormick: It was a nice surprise. We appreciate that, thank you very much. And then on page 9, you can see the

inception to date of the original funding back in February 09 it was about 61 million, and currently we manage about 116.3 million, a lot of that is due to the contribution but you can see that since inception there's a change in asset value about 73 million .5 that's net of the contribution estimate this year so. From an equity market investment perspective, it's a good timing but for the fact it's took off and we've been able to add since then. And then the last page I'll touch on in terms of attribution and characteristics, if you'll look on page 11 just to give you a snapshot of what a portfolio looks like and then we have made a small enhancement that I do want to make you aware of but as you can see the top left, about 280 stocks in the portfolio, that number just changed slightly higher or lower over time but the important take away is that it's always well diversified we always 100 names, we're never a concentrated portfolio. And then a lot of the characteristic you see below that are very similar to the benchmark, we tend not to deviate too much. Our beta is actually lower than the benchmark itself and our standard deviation has come in since inception lower than the benchmark as well so from a short ratio perspective we're also performing very well. The one difference you'll always see in an Intech portfolio, is that weighted average market cap we tend to overweight the smaller names within the benchmark, these aren't small caps in the traditional sense this is the Russell 1000 growth index so most of the stocks are large caps, these are just the smaller large cap names and we tend to like the characteristics of those stocks on the whole better, versus the larger mega caps securities. But then you see again a breakdown the portfolio market cap you can see that for that overweight becomes pronounced as you look in the 2 billion the 15 billion market cap range. You can see about 41% of the portfolio is there versus about 24% for the benchmark and consequently we have a fairly significant underweight to those mega caps securities. And then on the right hand side the top ten holdings. So the shaded blue box shows the difference between the two and here this is really the only hard risk control that we have on the portfolio is that we have to be within and this is a good time of rebalancing and I'll explain that. Second, 2½% of whatever the benchmark weight is. So we rebound approximately only once a week and then we'll rebound back into that range. So this is just a snapshot that was taken in between trading periods which is why Visa you can see that's a little bit above the 2.5% difference, but the next time we trade in that stock we would bring it back into that stock range but we have to be within 2½% whatever benchmark weight is. So again, for example Apple is a 5% holding in the benchmark, the most we could own is 7½% and we have to own at least 2½ %. So that helps us control tracking going back to that scattered graph when I said we like those red dots to be close to the benchmark, that ensures we have to own a lot of the bigger names to some extent helps control the risk of the portfolio.

Sorry I have a few more charts, I apologize. On page 12, this is as of September not August but you get a snapshot of how we performed versus our peers. So you can see the one year which slightly behind our peers but the 3 and 5 year are greater we tend to be at medium or above especially the 3 and 5 year period. Over the 3 and 5 year period it has been a very difficult environment for active large cap growth managers and we think one of the reasons as I mentioned for this year in particular the markets been very jumpy. Can't seem to make up its mind with which sectors are leading, where it wants to go and that's been a difficult environment especially for concentrated growth managers but because we're well diversified and because the risk controls we've been able to track very closely. And so when the benchmark is ranking high, as you see the benchmark is in the 38th

percentile, over 3 years and 34th percentile over 5 years, we're always going to track very close to that number wherever the benchmark is, okay. Any questions?

Christian McCormick: And with that I just wanted to pass this out because I know that trading cost has been the topic that you've brought up so I know I'm not going to go through this now, I wouldn't dare want to bore you with that, this is only if you have some free time. Not very exciting reading but important reading for understanding what we do so the enhancement that we made actually been trading enhancements and the good news is that overall our turnover is going to go down our trading cost is going to go down because of these enhancements but the way we apply our mathematical process is if you go to page 28, this is a great way to understand what we do and also how we actually generate returns. So on page 28 this is a snapshot of how we go about rebalancing our positions. So you know with the 45 billion in assets that we have as you can imagine if we tried to trade 45 billion dollars worth of portfolio, we would simply be too much of a presence in the market, we would move stocks individually just because our positions would be so big. So what we did was we divided our client account into six different tranches as we call it. So we trade every single day but we only trade a particular client account every 6 business days so Government of Guam for example, we trade on Monday of one week, Tuesday of the next week, Wednesday of the next week. The reason why we do 6 business days is just in case there's some strange effect let's say Wednesday's a strange trading day in 2013, we wouldn't want the same clients trading on that day every single time. So we cycle through the days of the week. So you're only going to rebalance if it's your day to trade. In addition to that, if you see the light blue line in the middle that's the target rate, so when the mathematical model says okay this optimization we want General Electric to be a 5% weight, but then when we run the optimization again the next week it may be a 6% weight and you'll see that's going to change over time. So whether or not we're going to buy or sell some of the General Electric is determined by you know if you have in your portfolio if it is it Government of Guam's day to trade one but then two you can see these dotted lines we have around it those are trading bands so unless the stock weight exceeds it either to the upside or the downside, no action is taken. So you can see in this 1st example, let's just pretend this is General Electric, on this 1st trading day because it brings that band to the top side that means we're going to sell some of GE to bring it back to its target rate. And if you follow along to the next trading day we see it increased to the down side in this case we're going to buy some more to bring it up. So quite simply our process is really a buy low sell high when stocks move up versus the weight we sell some of them, when they move down we buy some of them. So we rebalance often but our trading costs are low on a portrayed basis because we're just adding or subtract small positions. Maybe buying a thousand shares selling 500 shares we're not you know trading millions of dollars worth of General Electric just smaller portions.

Christian McCormick: But what we found through research over the past few years is that even by doing it every six business days, sometimes the market isn't that ideal to trade in. So think of it as you know at the end of the year a lot of managers do window dressing because of the presence of high frequency traders and other high speed traders in the market around earning seasons of a particular stock, you can think of that as the trading environment is just extremely messy. There's a lot of information, a lot is going on but it's not really any trading on fundamentals. It's a lot of high speed trading just trying to get a

small position. And in that type of environment we can rebalance but the chances are the reason why we are rebalancing we may not be able to get much return for the trading that we're doing. So in those type of environments we're actually going to trade a lot less so we'll still trade every 6 business days but maybe even if say one of these bands is violated, we'll cut the position in half. We won't trade nearly as much just because we're not sure that we're going to get some sort of compensation for the fact that we're trading in the market place.

The flip side is there are some periods that are much calmer when we think our estimates of the volatility is going to be a lot more accurate and during those periods we're actually going to trade a lot more aggressively. So we're going to take some time off now but we're going to trade more aggressively in other time periods. So this is an enhancement that as I mentioned trading cost will go down our turnover will go down overall but we do expect our return and then our tracking are a little bit to go up consequently. It's not a huge change but in particular our market such as the last 5 years since the financial crisis where there's a lot of commotion going on that's truly where we see the benefits. So you can think of it as an added risk control is you know we just won't trade as often when things are a lot messy in the market and we think that protects the portfolio.

Wilfred Leon Guerrero: What's your turnover rate? Christian McCormick: Turnover rate traditionally is probably about 110% on average but this portfolio probably dropped down about 90%. And again that's just what we measure turnover simply by the dollar amount we buy the dollar amount we sell divided by the value of the portfolio. So we will turnover in terms of value almost the entire portfolio throughout the year but not in terms of names. Most of the names stay the same it's just a lot of trading around those names. That's what the turnover is. Wilfred Leon Guerrero: And your holdings, what's your. Christian McCormick: In terms of the total holding? Wilfred Leon Guerrero: Yeah. Christian McCormick: About 280 in terms of the portfolio. So I apologize there's a lot of information, but just want you to be aware of that change that we made. Any questions that you have in summary it was a good year for performance and also good year overall good year organization so things are certainly moving in the right direction.

Wilfred Leon Guerrero: Lets go back to page 8, I missed it, I'm sorry, what's the difference between these 2, one is it just the gross fees and netted fees is that what the difference is? Christian McCormick: Yes. Wilfred Leon Guerrero: Alright. Okay, and for some reason I think Diana has not been taking money from you. Diana Bernardo: Yes, I think we recently took 3 or 2 million. Christian McCormick: Yes, recently and you have taken another 2 million year to date and about 22 million overall since inception. Wilfred Leon Guerrero: She's giving you 55 and you only get 3. Diana Bernardo: For now.

Christian McCormick: We rewarded you with good performance, actually the timing is good. Wilfred Leon Guerrero: So what can we expect from you for next fiscal year? Christian McCormick: The same. Maggie Ralbovsky: You need the number. We need a number. We wanted the number, right? Ivan Fong: Another 30% in return. Christian McCormick: Intech you know we're slow and steady, we're exciting manager. Wilfred Leon Guerrero: We like that. Christian McCormick: I hopefully I'll miss the good takeaways, it certainly doesn't seem like I don't know if the markets will go up or down. I'm surprised that it's been going up as long as they have but the fact that we have the big shocks that

we did this year in terms of the stimulus was going to be tapered remember back in May, the market are down they thought the stimulus was going to come off. And of course the U.S. government fiscal shut down, we'd like to avoid things like that just like everyone would, but for somebody that doesn't require down, those things are going to taper off anytime soon, so we navigated those very well. So I think you should expect to see something similar over the next year but there's going to be a lot of commotion, a lot of noise but the portfolio will probably be steady this time of year.

David O'Brien: I'm a bit new. How does your process and how does your model work in terms of I mean how do you guys do it? Christian McCormick: It's what we call volatility and capture process so going back to our founding when I mentioned that the cap weighted benchmark is just an efficient way to put together stocks and really has this root back and further financial history we have to consider assets move relative to one another, so the easier way to think about it is we approach excuse me portfolio construction the same way you do an asset allocation construction. And understanding that you want to have a target return but because stocks, bonds, real estate, all the other asset classes don't move in sync with each other at least well in 2008 they did but theoretically they're not supposed to move in sync that you can combine them in a way to get that return but diversify away as much risk as you possibly can. We look at it the same way and that's how we look at stocks is we think in order to put together an efficient portfolio you have to consider stocks volatility and correlation, how they move relative to one another.

So when we look at stock you know if you think it if we take the Russell 1000 growth for looking at each of these stocks individually, we're going to pull on each one at a time and we're assessing how volatile do we think the stock is going to be. We want to invest in stocks that actually we expect to have a lot of volatility because of the capturing the rebalancing process, and I've mentioned that's how we can beat the benchmark. So when it goes down we add more than will benefit when it goes up we sell some. And naturally the return generation piece but what's also important to us is the correlation so we want to find stocks we hope to have lower negative correlation to each other and that's how we diversify risk at the portfolio level. So it enables us to target the more volatile stocks but that volatility doesn't affect us at the portfolio level because of those correlations. So it's just it's one big optimization looking at those two main factors and then we have the risk controls as part of that. Especially that 2½% stock cap we don't have any sector industry constraint at all that will fall out as it does.

David O'Brien: And the volatility is all historical. Christian McCormick: Yeah so it's a 4 year look back period and we run the optimization weekly. So the oldest week of price data falls off the most recent comes on so it purposely engineered to be very slow moving to actually have a. David O'Brien: So this is like a momentum kind of. Christian McCormick: No. If and that's why this year was a good example. It is the portfolio that just kept going the same direction while the market was moving all around it. It is not designed to chase it because we're worried that if we chase it the market would just switch back to something different and we'll be caught. David O'Brien: And you don't chase it because what is it about the process that stops you from chasing? Christian McCormick: Just because it's that 4 year optimization. So you know let's say even if over a quarter of the market adjusts, that's one quarters worth of data that would be blended with the other 3 years and 3 quarters worth. So it's going to be mitigated somewhat, so we'll start to

adjust depending on how dramatic those changes are but we found in our experience that the market tends to revert or quickly change back either to a long term average. David O'Brien: So when you get a shock to the market like tapering, your portfolio responds by not moving much but just keeping doing what it's doing in terms of relatively correlation, so the shock can come and go and you just adjust slowly. Christian McCormick: Right exactly or it's almost as if I mean the shock is its now getting more into the intricacy of what the model does, is because that shock is so short lived and now that after that things in terms of a price standpoint have calm down a little bit, even the effect of that shock has is being more and more minimized. So it's in a very adaptive process. So if there's a.

David O'Brien: So in 2008, when you know when it really a shock, your model protected you from a downside which is pretty good. I mean you followed the benchmark. Christian McCormick: Right and we may still under perform but it is in that type of shock to reduce the size of the underperformance, to mitigate it. So that we're not 5, 10, 15% behind the benchmark, maybe we're only 2½, I think 3% is excuse me how far we were in 2009. David O'Brien: So you made no macro projections, you make no sector projections. Christian McCormick: No we think ultimately it's you know in the large cap equities especially. David O'Brien: Because you overweight in some sectors versus others right? Christian McCormick: And that's just a by product of the individual stocks volatility correlation so you can always think of it as if we're overweight in consumers discretionary it's just because the models found that it gets you know the volatility that it wants, and the correlation that it wants in consumer discretionary stocks more than anything else. So when you sum it all up it happens to be an overweight. But we think most we don't do prediction but the macro news will be reflected in prices and if it's sustained then it will be reflected over the long term and then the portfolio will adjust. So we're willing to miss on the short term even if it will mean maybe a really good out performance if it means protecting the portfolio. So we're not very excited.

Wilfred Leon Guerrero: On page 13, you have a number of members in the universe what is that? Christian McCormick: So this is we look at risk and reward, it's hard to do because it will be so many graphs. So with returns we show 1 through 5 and so on, this is just showing the number of managers that were in this part in this pool since inception. So since November 1, 2000 these statistics you see in the risk and reward charts we're being compared versus 187 other managers. We're manager number 188. So these are saying that many managers at least had a track record going back to November 1, 2000. And versus those 188 you can see how we ranked on a risk rewards standpoint which are those stats to the right and also a risk standpoint. David O'Brien: So those aren't all the large cap managers that's some of them. Christian McCormick: No this is an E vestment line just the universal years. I imagine very similar to Lipper or Zeffer any other pair groups. These are all a large cap growth managers and their universe have a track record going back to 2000 at least. Wilfred Leon Guerrero: And percentile rank, what does that mean? Christian McCormick: So just how we rank versus all of them. So out of those 188, you could see that the midrange or the median manager kind of depends on which statistic you want to use, let's just use sharp ratio. That so the very minimal of that pack, that manager had a sharp ratio of about .09 25th percentile means 25% of the top quarter of those managers had a sharp ratio .18 or better.

Christian McCormick: So maybe something more relevant if you look on the column on the far left, so standard deviation. So we're saying Intechs standard deviation since inception was about 16.3% let's say rounded. So if you look up in the chart here the lower that number the better. So we actually well below the medians. So the median manager had a standard deviation of 17.24% more and so half the managers had the standard deviation higher than that the other half had a standard deviation lower. So we were in the lower half, not quite the top 25% but close. And then if you look up in the chart, you see where the benchmark is which is that red triangle. So again it's a little bit confusing because in this risk chart the closer you are to the bottom the better. Wilfred Leon Guerrero: That's basically what it's saying is you're just about in middle of the pack in terms of performance.

Christian McCormick: No, here is a risk and rewards stats. Wilfred Leon Guerrero: Compared to other managers. Christian McCormick: Compared to other managers our risk is better than most other managers. This is what we want, our risk is lower you can think in that terms. And then in terms of return we're about middle of the pack since inception. And information ratio which is the amount of your excess return divided by your tracking error we're almost top. Wilfred Leon Guerrero: Using less risk and about the same in terms as most of your peers. Christian McCormick: Right and that's since inception. Lucky you've done better since you've been with us and that's going all the way back to November of 2000. So that's about a 13 year period.

Wilfred Leon Guerrero: And the downside deviation that's when the markets down? Christian McCormick: Yes. And then tracking error that's just around the benchmark return. How much your excess return changes to the upside of the downside. So when I showed you that chart that had all that blue dots, red dots that's reflective of that number. So the smaller that tracking error number is its higher those dots are around the benchmark return for the value. Ivan Fong: I just have a couple of points up in the supplemental information, I just have the most recent performance across all of Intechs strategies. All of Intechs strategies are based on essentially the same investment philosophy that Christian just outlined and so I suppose the Intech way from this would be across most periods across all strategies were blue so were happy to see the blue so we're actually outperforming the benchmark in a risk control manner.

Ivan Fong: I suppose this chart or this particular composite summary of Intech one difference you may notice since last time we were here is the inclusion of volatility strategies and that's being a major thing or a major criteria for Intech. And we raise that because at the recent investment conference in Manila, you all. David O'Brien: Yeah I was there, keep going I'm interested in this. Ivan Fong: Yeah so at that conference Gerry shared his thoughts on a few aspects of your Retirement scheme, in particular always two issues, one is his your focus on volatility and this whole area of volatility in investing is not only an interest of interest to yourself but also to a lot of other institutions across the region as well and around the world. I actually have some information on low volatility investing which I can share with you I'll leave behind or email you if you prefer. But you know as yields have going down more institutional investors want you know equity life returns without the risk essentially and that's exactly what these low volatility strategies are looking to provide. So I'm not sure if you want to add anything on low volatility. David O'Brien: And you provide how that the fund will develop. Ivan Fong: So basically Intech and Christian is probably better to explain. I'll give it a shot. So basically using

the same skill so essentially making use of correlations and volatilities for each individual stock to make better portfolios we need that maximize your return for giving up of risk or you can minimize a little bit of risk for the same return so basically instead of increasing the information I shared, we are look into increase the sharp ratio and that return stream for a portfolio which is low volatility in nature over the long run is opposed to rapidly give you a benchmark like return with the around 30-40% less risk than that benchmark that we're looking at. So, Intech has designed some strategies that cater for that area for that need in the market.

David O'Brien: So if we have a policy type the low volatility portfolio helps us by lowering the risk of that policy type. Our policy target is based on series of asset allocations right? Maggie Ralbovsky: He's talking about the particular segment of that asset allocation target so whether it does or does not on the total level you may or may not do that. I have to think about it. So instead of tracking Russell 1000 index, the new strategy will actually now try to minimize volatility but still may be not tracking. Ivan Fong: We're not targeting a tracking error were looking to minimize the absolute volatility so minimizing the standard deviation versus a targeting and active restore for tacking error and that's the key to that and it's specifically targeting. David O'Brien: That's beyond my intellectual capabilities. So I understand standard deviation it's just the deviation of returns, tracking error is. Maggie Ralbovsky: How much you're alike in terms of the movement of the benchmark. So the benchmark. David O'Brien: So benchmark goes up you go up, is that tracking error?

Christian McCormick: Yeah if you had a tracking error 2%, then regardless of where the benchmark is most of the time you'd be 2% ahead or 2% behind. Maggie Ralbovsky: So it's the standard evasion of the alpha is the sort of the tracking error. So now you sort of try not to optimize against the tracking error but optimize against the absolute volatility which may increase the correlation of values strategy which may make this more correlated with the value side. That's why I don't know if on the total level if it's going to increase or decrease the risk. David O'Brien: Your model your process depends on volatility plus correlation, right? Not plus you know and correlation. Christian McCormick: It's I mean you can always I mean there's you know with this whole notion of low volatility I could do quite few presentations on this in the U.S. to public funds, how it can be beneficial so we're in different either way so I'll give it to you kind of the reason why you do low volatility and our approach is you know the idea is you know with our growth fund you know 10 years from now we're going to be expect to be you know say you know x% ahead of the benchmark that you hired us to do. If we were to do a low volatility version of this growth fund 10 years from now probably be x% above the benchmark but the volatility that you would experience to get there would be a lot less. The reason why it's become popular or why funds are looking at it, is it doesn't really change your return target, you're still going to get the same thing out of equities, what it's doing is that most of the protection comes in down markets. So that's the big difference you're going to see. That tracking error number gets a lot bigger because in order to get that volatility protection we need to be far from the benchmark so you're like this, where let's say I'm just going to round up the equity markets are 30%, our low volatility strategy would probably only be up 19-20%. Now you're looking at it like 10% behind, that's a huge difference but what you do is with a low volatility strategy the benefit comes in down

market. So they're specifically designed to protect against 2008, so when the markets down 40% now you're only down 20 maybe even only down 15 and.

David O'Brien: So over the long return meaning you're still achieving the benchmark you just haven't had the ride either up or down. Christian McCormick: Right, that just that almost has more to do the reason why in the U.S. David O'Brien: And so you can construct the portfolio to be that way, that's what these funds are. Christian McCormick: So the way we do it is it's not really I mean we're experts in volatility that's what we do so it's always what we've done. So instead of caring about tracking so right now we have we try to beat the benchmark and we try to minimize the amount of tracking error. For a low volatility strategy what we just tell the model is ignore the tracking error, let that be where it needs to be but now focus on absolute standard deviation, minimize that as much as possible. And over time what we found that's about a 30-40% reduction which is meaningful and that tends to be in down markets is when you'll see that. You will see that in up markets too but. David O'Brien: That's why Gerry and I are interested obviously you know in a plan like ours you want to watch the shocks you know. Christian McCormick: Right. Exactly and that's why and also you know it's important because it maintains liquidity, you still have to pay benefits, you don't lose any of those other positives about equities that you need. It's highly liquid, it's transparent you could still use to pay benefits, but if that shock comes the equity piece of your portfolio will be much better protected on the down side. But you have to get used to as a board, I mean me coming in, say the markets at 30, we're only up 20 and.

Wilfred Leon Guerrero: When we had that the down market, we didn't lose as much as the other public pension plan. I thought it was because of, it was the ability on our part we're slow in reacting and I think we were between looking for other manager or something like that. I guess you contributed to that because of your strategy. Maggie Ralbovsky: They were not here yet. Ivan Fong: In spirit. Wilfred Leon Guerrero: I think the public the average. Maggie Ralbovsky: No. You were brought down 25% it's about average. 2008. Wilfred Leon Guerrero: Public pension? Maggie Ralbovsky: Yeah public pension brought down 25%. Wilfred Leon Guerrero: Yeah but we were not down 25. Maggie Ralbovsky: You were. You're talking about 2008. You're probably thinking of the fiscal year which has lost that worst quarter which was when Lehman went under. So if you're thinking the fiscal year you didn't count the October, the November, December, the worst 3 months you didn't count. That quarter you're down 12% for that quarter, and you didn't count if you just think of the fiscal year. Wilfred Leon Guerrero: Okay.

Ivan Fong: We have a ton of information on the low volatility investing, I'll leave some of the materials behind and I can email, give you an update by email on anything that comes out in that area. But that's certainly one aspect to invest in is that Intech has been looking into and I just raised enough because it was raised at the Manila conference. The second item that Gerry mentioned was you know possible entering into high yield investing and to that end I just have a few thesis on our thoughts about caution around taking certain approaches to higher investing in particular. David O'Brien: Is that in the supplemental? Ivan Fong: That's in the supplemental yes. David O'Brien: And the same if the low volatility in the supplemental? Ivan Fong: Low volatility I'll leave some but this is fixed income related in particular we've been cautioning investors about taking index or passive approach to high yield investing particularly because at this point in time many

high yield or corporate investment grade bonds are now taking the call basically the duration was all of a sudden all of a sudden trading to maturity rather than trading the call which means that if you take a passive approach to high yield investing then you may be carrying a lot more duration risk than you otherwise would have expected and that has been over a very short period of time that duration risk and in other words it's income benchmark that's for your information in your spare time.

Wilfred Leon Guerrero: So you guys are going with. Paula Blas: The fiscal year. Maggie Ralbovsky: The fiscal year. You're talking about fiscal year. I knew you were talking about fiscal year. Because that last quarter it was a 12% down quarter. Wilfred Leon Guerrero: But I think at that point the other public pension plans was like 10% more or. Maggie Ralbovsky: Not everybody has the same fiscal year as September. So if their fiscal year is end of the year then their 12% ahead because of that quarter. That was the worst quarter. You'd think for a while not probably afterwards but there was a 12% down quarter. David O'Brien: This is recorded drop off right. Fiscal year. Wilfred Leon Guerrero: Okay, thank you very much. Paula Blas: Mr. Chair, your housekeeping. Wilfred Leon Guerrero: Do any of the regulatory agencies have issues with you? Ivan Fong: No. Wilfred Leon Guerrero: Okay, I don't want to read in the paper that somebody got arrested. Ivan Fong: No, Janus Capital group more broadly. You're very safe. Wilfred Leon Guerrero: Okay, thank you. Ivan Fong: I'll just leave behind a couple of booklets we have on low volatility investing I mean it's not all about Intech five sections, the last section is about Intech but the first four are about low volatility investing more and how there's a tradeoff between tracking error and absolute risk. David O'Brien: So it can be done, I mean the research shows the experience shows the low volatility can be done it's the taking off the highs and reducing the lows that we have to live with.

Christian McCormick: Yeah and it'll give you a breakdown in there you know. We managed about 2 billion now, we watched our first live strategy January 1, 2012, low volatility we're up to like 2 billion. So we have some live track record it's a very short and the simulations you can tell so we'll break it down by calendar year and you can see. In 2008 you know if you hire us then we look like a genius, if you hire in 2009 we look like an idiot because you're 20% by the benchmark, such a strong up market. Seems we have to accept that's where we're going but also I think how Maggie is helping design your overall plan because this is just the equity piece. So you can certainly design the overall plan to withstand those shock to the different asset classes you invest in towards a different approach. And you're in very good hands with her on that one. So we're just the equity piece. Paula Blas: Thank you.

(end of tape 2)

2:30pm - 3:15p.m. Robeco

(Start of tape 3)

Wilfred Leon Guerrero: For the record we'd like to go over any of the regulatory agencies had issues with you and if there's any major organizational change in Robeco and anything else you want to tell us. David Gullen: Sure why don't I address those items right off the top. There are no regulatory issues to report and regarding organizational

changes, as you may recall we're the value equity expertise for Robeco Asset management formally, that is our parent. There was a change in ownership at grandparent level. Which closed as expected. Forex corporation which is headquartered in Tokyo, Japan is the new shareholder there is no change to our investment philosophy process team. Though we will be expecting changes it's been very much a non event. There's an operating agreement in place at memorializes what would have been long standing practices in terms of our autonomy both government investment perspective as well as operational.

No changes to report with the team that's managing your portfolio. And in terms of just general business conditions when we last met, our firm had assets under management of 25 billion as we stand here today 12 months later its more like 45 billion. So it seems close to 20 billion dollars in growth in the last 12 months. Function are consistent and good performance in strong equity markets as well as for products as well as for growth in a few key areas including product that you are invested in which there is now 17 billion. Mid cap expertise that we have we also have long short expertise which is garnered a couple of billion dollars over well during this calendar year to date. So function of strong net asset flows and good performance in one of them strong equity markets. David O'Brien: And then count additions, deletions any major thing. David Gullen: No major changes to report there and the areas of growth have generally been both in our outlets overseas, we have distribution in Europe for our parent company as well as we have supervisory relationships with John Hancock and this strategy and a mutual fund format as well as in the mid cap areas. So they are certainly intermediate markets in defined contribution markets, principally. And then in the long short strategy that we have we put it into a mutual fund format and that's been popular in a medium market as well.

But on the institutional side we've been garnering winds of be it not as strong in mutual fund and other distribution areas and in terms of client departures, no material events to report there. So Diane, thank you very much for your guidance of prepared preparation for this meeting. So I've prepared our presentation material to bring you up to date. Performance wise throughout October in terms of a snapshot on the portfolio to coincide with your fiscal year end period of September and I can fill in any details subsequent to that. By quick review on performance I'll talk about our portfolio construction and characteristic, all the activity that we've been doing on your behalf during this calendar year period and please if you have any questions along the way kindly jump in.

David Gullen: So turning to page 1, this is performance through October 31st, these numbers are still preliminary as whom we went to print we hadn't have final audit on them but they're typically very, very close. And from left to right we have the quarter as requested. The 2nd column is your fiscal year period trailing 12 months ending September 30th performance for October and then calendar year to date 2013 and so forth. We've been working together in this U.S. equity large cap portfolio which we quite valuation discipline that drives our investment decision making so it's a value brand of investing. For more than 5 years now when we began in June of 2008, so that's your since inception period annualized. Over the past 12 months so for your fiscal year as you can see it's been a strong market. The Russell 1000 value index up 22% the S&P 500 for your reference among the chips a little over 19%, your portfolio this is gross in fees up 25.95% which added about 365 basis points of excess return.

That's been a function of two areas, one is we were able to out perform the strong market in terms of our stock selection overall market cycles, that is how we look to add value to your portfolio. It was a fairly broad base of contributors there, if you look at the U.S. equity market across 13 major economic sectors, we out match the index in 9 of those led by healthcare which is one of the larger active positions in your portfolio. We also got a benefit in terms of our relative performance by inactive coalition if you will, we have been under weight REITs and utilities and telecom stocks, these are parts in the market. We had about through this period on average we had about 2% of your portfolio on those parts of the market. The index on average had about 14% of its weight exposed to those stocks. They're expensive, there's a dividend yield chasing if you get under weight especially with utilities, they're handling mediocre businesses who will get into our criteria as relates to the fundamentals of the companies that we want to own. And they can generally we perceive as bond like substitutes so in an environment where there was anticipation of rates rising just as bonds prices suffer when rates go up or perceive to go up so to do these kinds of stocks rates utilities. And they are boxed the major telecom businesses. So our being away from those parts of the market, by virtue of our discipline as relates to pricing quality helped your portfolio as they those parts of the market REITs were down 2% for this fiscal year to date period, telecom stocks had a negative 3% return during this period. REITs, I'm sorry utilities were up about 9%, so all of them assets fallen that contributed about 2.3% of excess return to that picture. So take our stock selection add in the under exposure there is your relative performance advantage of 3.6% points.

Wilfred Leon Guerrero: You said you on health. David Gullen: It's one of its best 17-18% of your portfolio, it's one of the larger. Wilfred Leon Guerrero: You always talk about health care, what kind of impact can we expect from investing? David Gullen: Well there's couple of things, one the way we assess it is an understanding the fundamentals of the business, what are the key drivers behind the growth and the profitability of the business. How does it make money? Whether we think it will sustainability in terms of earning profits going forward and what are you being compensated for in terms of price from a risk perspective to owning that piece and when it comes to the healthcare picture, you've got few different kinds of businesses operating. The common denominator is generally certainty surrounding the near term healthcare industry has weight on stock prices. The fundamentals of the underlined businesses are not fundamentally changed. You think that price response is that step of what's fundamentally justified. And that creates an opportunity from our perspective to on a risk adjusted basis to buy in good value, buy a good business at priced that's inexpensive relative to its growth and profitability profile over a full market cycle. Not over the next few months but over the course of a few years.

So pharmaceuticals I'll use as an example, a lot of them have been facing patent cliffs that they have very successful drugs that come off patent that put a lot of pressure on the price. These businesses haven't forgotten how to make drugs they've just been to some extent a victim of their own success and as they work past that patented cliff and drugs come through their pipeline, they should be able to continue to add value and grow earnings. The meantime what they've been able to do is cut down on cost to help support their earnings growth and they tend to be very profitable businesses and kick off a lot of cash. So they're taking that cash and they're returning it to share holders either through

dividends or by buying back stocks, and if you reduce the share account on earnings per share basis you can help support your earnings per share growth rates. So the ways their levers taking pull continue to maintain value for shareholders is their pipelines come through. You have companies that we own as well like the McKesson that's a healthcare IT and drug distributor. They have large market share, fundamentally very strong business returns on the capital they maintain instead of paying them out to you as a share holder they hold on to it and grow that capital base and attractive rates at maturity.

So this is a high quality company and adequate business at a good price relative to what we think it's outlook is. And the growth opportunity that even though the near term is uncertain the timing is uncertain is the introduction of generic drugs. And increased volume to a larger insured population and this is right around the corner, this is something that's going to come out of a fuller cycle and we're being compensated for that in terms of the price we pay today. But in terms of its perspective growth and the catalyst that are in place to unlock that we feel with on a risk adjustment basis to take position there. And then you also have other we own a few of the HMO's they've been doing a good job on the cost side. Some of them like Cigna had some businesses that they've closed down a little bit and they've just been better allocated capital and what's been a more challenging operating environment for them because it's an environment that's undergoing some change. So it's constantly an equation not as to having a super high level of confidence in terms of what the precise outcomes going to be in the near future because that's difficult to predict. It's understanding what the fundamentals of business are, making an assessment as to how much they changed if they changed and what the market is discounting in terms of those changes is are you being sufficient enough not being compensated for the risk sitcom being in an owner and a company. And so it's a combination from a risk return profile of price and quality.

And in the near term we work very hard to make sure that the business either in terms of its underlined business trends are moving in a positive direction and that's what we refer to as business momentum, things are moving in the right direction. For catalyst that management is doing the right kinds of things with changes in place that are going to unlock that by what they might be doing on the cost side, which every business corporate in America has been doing things on cost side to help them earnings mature. Introduction of products, penetration of the markets, acquisitions of other businesses that might not be as strong and give them greater share and will help fuel growth when demand comes back around. And or businesses are kicking off a lot of cash that have management team that are astute in terms of how we're going to deploy that cash and in a low growth environment because the top line has been pretty sluggish, one of the ways and especially this is where being a larger cap company's is helpful we tend to have highly skilled management teams, businesses that might be a little more mature that are kicking off cash, that are helping support their earnings picture by buying back stocks and or returning capital dividends so that you can maintain earnings per share growth and you can have as an investor an important plank and total return platform of yield and price appreciation to earnings. So that's a long winded answer but it's simplemantic of the kinds of challenges investors face on a day to day basis when you are looking at companies that are in industries that are undergoing change and might be in transition that always seems to be the case, you just weighing out given an understanding of what the fundamentals of the business are, from a valuation perspective are we being compensated to the downside

risk and sufficiently so such that there's a pathway for upside potential through valuation pricey version to a fair value and growth through some catalyst momentum and identifying in business and go further out unlocked. We're seeing that in healthcare, we're seeing that in technology we're seeing that in consumer area, we're seeing that in parts of capital goods, basic industries, consumers durable area and that patterns the basic.

Unless there are any questions about performance then there is Diane regarding your guidance asked to just touch up on how the portfolio has behaved in the current market volatilities. If you look at the last 12 months, and this is for the period ending September 30th, the symmetric we refer to which is called upside capture and downside capture, it's a standard metric used for 3rd party sources. What it say is when the market goes up you go up more or less than the market does. When the market goes down do you go down more or less than the market does. So what you want to see is an upside capture that if its 100% it moves right with the market. So upside capture you'd like to see a little something up. Downside capture you want to see something under.

This portfolio in the last 12 months compared to the Russell 1000 value has an upside capture of 109% so it's gone up more than the market has gone up when it's gone up. And the downside capture of 85% which is to say it's going down less than the market. It's gone down 85% of the market when the market goes down. So that is and has been a very favorable risk return profile and we place particular emphasis on the ability to be able to protect capital better when the market starts to get a little challenging. David O'Brien: Okay. Before you leave this page, what are the fees? David Gullen: I can look that up for you and I know we don't have netted fees here so, and I circled back you typically for an account this size it should be around 40-50 basis points, but I don't have that. David O'Brien: Including expenses? David Gullen: I don't have the expense in terms of training and so forth. Diana Bernardo: It's a flat fee. It's a percentage I mean of their holdings. But we can get that for you. David Gullen: Okay, so let me know if you have any questions. And there's a standard fee schedule in the back.

We touched upon this a little bit but since we don't get too frequent of an opportunity to sit down together just a quick recap in terms of what drives our investment decision making you see it presented here in this schematic Three Circles. We're looking to take advantage of 3 anomalies that work over time firstly, inexpensive stocks outperform expensive ones. That's your valuation at this time. Businesses that generate higher returns on their capital out perform businesses that generate lower returns on their capital. That's the business fundamentals that's the quality equation. And then lastly businesses or companies whose businesses are improving outperforming outperform companies whose businesses are deteriorating and that's your business momentum criteria in there as well. And as you can see each of these criteria is important, price, quality and momentum but it's bringing them together at portfolio level where we want to see your investment. And that's you'll see the shady area bulls eye here before you and we'll bring in these criteria stock by stock. You are going find some managed for instance that have more attractive valuation attributes and may have currently momentum attributes or stronger fundamental attributes and may have valuation attributes and so forth.

David Gullen: For example, we own by this portfolio about 18% of it is in credit sensitive names grounded mainly in mega cap banks, be able to own these companies that add around book value in some cases under book value which is inexpensive given their historical and to what we think the returns on capital stand generate all the time. And so we've been shading in with those kinds of examples, more from the evaluation scheme of things, stock selection. Under fundamentals you've been able to buy some healthcare companies that are very high quality. Typically you are not going to find Johnson and Johnson trading out of the low market multiple because it's just a much better than average company that's how it became Johnson and Johnson. But only names like that can how we feel about where it stands today relative to top given changes ongoing in the business, we're bringing a value there and we're kind of shading in the fundamental circle with names like Johnson and Johnson.

And then in terms of business momentum we have companies like CBS which has been doing very well in terms of add revenues, affiliate fees, this momentum has been very strong as people offer a lot of cash is returning that to share holders. So that would be coming directionally from the momentum part. Bringing these attributes together, stocks to specific basis, where we seek your portfolio as a whole in stocks that are inexpensive. Inexpensive stocks with good companies that we think are doing the right kinds of things to get their share price to go up over time. We take a very diversified approach in your portfolio, we reported taking concentrated positions, we limited the position size to no more than 5%. We are now looking for a handful of names to determine the fortunes in the portfolio as a whole. We're looking whose criteria as it relates to price, quality and momentum to do that and this is part of how we can provide upside potential while management downside as well.

Lastly, as you see as long as names are satisfying this criteria they'll have a home in your portfolio, will come in and stay in, but should one of these circles pull away that's when it's going to become a candidate to sell. And there really two primary channels, its valuations circle, every name that comes in we look to strike it for evaluation, we update and monitor on an ongoing basis. We look at a lot of names as I mentioned, we own a well diversified portfolio named comes fully feisty and become a candidate to sell, we move on to the next case where we think is the more attractive return profile. And as we go through our holdings we can run through some example or that bottom circle, the business momentum service. So if you identified a company where trends are going in the right direction and they turn negative and it will become a candidate to sell. And see if we think the transitory problem or a more persistent problem and or in combination for its valuation is if the risk return is still attractive.

Similarly if you identified business where their catalyst from improvement they just don't materialize, they don't become candidates. These top two circles are longer term concepts by good businesses the momentum circle is a nearer term concept, we'll look for that catalyst to start shining through in kind of a 12 day team like period. So for instance we sold an energy business that Weatherfort that was selling down assets to kind of prepare its capital position that was going to be beneficial to shareholders but it just those asset sells were falling off schedule, we didn't see improvement in sight and while it still statistically inexpensive for the value proposition it's not materializing and so we just moved on to the next case. So this presorts I spent a little bit of time on it this is what

kind of depends all of our investment decision making as you know it will illuminate when we look at names and we look at the construction portfolio the criteria beneath it. So with that turn to page 3, which is your portfolio within this Three Circle frame mark, price fundamentals and all that.

David Gullen: If you look at the left hand circle there valuation, we have priced earnings priced booked the lower the number the more attractive. So as you can see we continue to find value portfolio level in a market which by the way we would define today as being perished, in terms of general valuation there are no categorical pockets of stress and there's been some multiple expansion in terms of price. If you look at markets over long cycles what drives market performance is earnings growth we've had earnings growth kind of below double digit percentage this year. In a market that's about twice that and so you've had price appreciation as investors have been more optimistic about the price you're willing to pay for earnings growth that they are discounting in the future. So generally markets fairish we've been able to buy companies that are in line to better in terms of price but as you look at the fundamental circle, we have a bunch of abbreviations here OROA, ROE this refers to algometric, what kinds of returns are we generating on the capital that their maintaining, operating returns on operating assets is effectively a profitability of the average operating assets in the business. So it tells us how efficiently their going to capital that they retain in terms of their profitability. The higher the number the better.

ROE is similar metric and long term earnings per share growth rates so which by the way are in line with the market. We think that the growth rate itself which is a third party number is probably high. But the point being that we've been buying much better than average companies at better prices. This is where we tilt your portfolio, this is top two circles and this is a winning formula over time and then we work very hard to make sure that underlined momentum of what we own on the whole is moving in the right direction. Just for illustration purposes, we have there 80% and what that says is 80% of what we own on your portfolio is meeting or beating company management expectations as of the last reported period. This is about in line with how the markets been. This is a high number, this will start as that bar gets successfully higher and difficult to step over this will start to come down. Coming out of the recovery you'll see very high percentage of earnings.

David O'Brien: So you're saying did I hear you correctly, you're saying that in terms of the prices you're finding for the stocks that you're valuating you still consider them fairish. Did I pick that up correctly? or did I. Maggie Ralbovsky: He said fairish. David O'Brien: Fairish, I never heard that word, okay, thank you. David Gullen: You know if you look at the market, we'll talk about it. It's kind of just to compare to historical norms you're kind of in. David O'Brien: That's alright, I just misheard you. David Gullen: Sure, 60th to 70th percentile and part of that has been the earnings growth has been okay but there's been a little more optimism in terms of price investors who are willing to pay for that. Diana Bernardo: Excuse me Dave, can you just discuss the chart on the bottom, here. David Gullen: Sure, this is a large cap portfolio. So this table on the bottom right on page 3 refers to the market capitalization of the portfolio as a whole. So market capitalization is the price for any given stock or you can take it from portfolio if you use averages is price in stock times the number of stocks shares that are outstanding, it will give you a statistic

called market capitalization. So if you get big companies and a lot of shares outstanding, typically so they're going to be even bigger and that's what divides the universe up. So what this table provides is just a demonstration of that you've got a large cap, large market capitalization portfolio, like the indices against of which are being compared. So a little over 90 billion compared to 1000 value index which this is an average number so this just says take everything that's in our portfolio get the average, how big is the average company that we own? 90.5 billion, how about for the index? 98.5 billion. How about for the S&P 500 index which is made up kind of a blue chip U.S. businesses? 103 billion is the average size, the average company.

Diana Bernardo: I was just wondering what that is. Wilfred Leon Guerrero: You want the 90 billion, right. Diana Bernardo: We need the explanation of the billion. Wilfred Leon Guerrero: She'll take that. David Gullen: So, she'll take that. So moving to page 4, and thank you for your question, we have on the left hand side the 10 largest holdings in your portfolio, on the right hand side the economic sector profile, 13 economic sectors your portfolio the blue bar the Russell 1000 value index the black bar, the S&P 500 the very bright green bar. In terms of the 10 largest holdings, they're no common denominators there somatically the common denominators are how these things are satisfying the Three Circle criteria that we discussed. Wilfred Leon Guerrero: What's a Berkshire? David Gullen: Berkshire Hathaway? David O'Brien: That's your buddy. David Gullen: That's Mr. Buffet. David O'Brien: Warren Buffet. Wilfred Leon Guerrero: Oh, okay. David Gullen: So it got its name because his first investment was a mill and Berkshire Hathaway and then he started buying more businesses so the business picture today it's been honored but he likes insurance companies so there's material part that are insurance companies. Premiums provide a float which is just.

David O'Brien: So your holdings in Exxon Mobil just went up. David Gullen: Did they? David O'Brien: Well if you're in Berkshire Hathaway he just put 3.9 billion in the Exxon Mobil, something like that. David Gullen: I didn't see that. David O'Brien: Did I misread that? Maggie Ralbovsky: I didn't see that either. David Gullen: I didn't see that. Wilfred Leon Guerrero: Dave, didn't you work for Mobil? David O'Brien: No. Shell. David Gullen: Oh for Shell. Okay. David O'Brien: Please. So in this list of your top holdings, any new comers? David Gullen: Since we last met, the new names which had been in the portfolio, they came into the top 10 over time would be Cisco and McKesson number 9 and 10. David O'Brien: Why do you Cisco I thought was having some downside problem? David Gullen: It did it came with a negative report on a free cash flow basis in terms of the yield it's about a 12% free cash flow yield which is very attractive fundamentally it's got very strong compositions, it's highly embedded in its client base but its near term momentum terms in this report is negative. Now we think it's temporary, we're going to continue to watch it, we think with its free cash flow characteristics it will be able to support earnings growth through buy backs. And so and it's become even more inexpensive since the news it will fill additional compensation to the downside. So it's in a new hole but we would continue to watch. David O'Brien: Casting you like because the move towards generics is that? David Gullen: That's why yeah so it's a drug distributor, also as a healthcare IT business, so small doctors office can get modernized. Those will see with generics and a growing insurance population we think the future holds there is one its volumes are going to improve, generics are more profitable for them to distribute. So their margin should

improve as well. And it's a business that's been doing quite nicely its valuation has moved up but we think they're still giving kind of its outlook a ways to go there.

Maggie Rabovsky: You're at \$3 billion dollars. David O'Brien: That's what I'm saying your top follies just became. David Gullen: How do you like that? Yeah. David O'Brien: Apparently a good move with your Warren Buffet. And anybody dropped out of here? David Gullen: Well since we're at the ones that fell out, General Electric which we sold for valuation purposes. David O'Brien: Because they met your targets? David Gullen: Met our targets yeah. And then Comcast is a name that it's been doing well but it's been very strong we would just kind of resize it. David O'Brien: Okay. David Gullen: And then in terms of just before we leave page 4, just no real material changes to the sector profile of your portfolio, as you can see finance is the largest overall weighting credit sensitive names which I touched on earlier and dealt into major banks. They're inexpensive; they're fundamentally done their balance sheets have strongly proved the capital ratio of the names we own are very strong. Underline momentum in terms of the credit has improved and you're seeing earnings beats on the basis of releasing reserves the other two lays in the stool you own in terms of the value proposition, still at runway before the long growth that's one of them that's been anemic that's well discounted into terms of valuations today as well as the abilities to win their way through the regulatory names to be able to start returning capital in a meaningful way to shareholders.

David O'Brien: This is financial that you are talking about? David Gullen: This is that's right major banks. David O'Brien: So the issue on they're sitting on excess reserves or whatever, how do you see that? David Gullen: We think that when they get permission from regulators to start distributing because they're meeting their capital ratios you have ratio 3 and there's chatter and confusion around that and so they were holding on cash now you know their name. David O'Brien: So the spreads are getting better you see them. David Gullen: Net interest margins are still pretty flat and that's something that Your Stevens will improve, we don't know when but it stands to reason as things it doesn't have to things just need to normalize and we'll be able to. David O'Brien: I'm just thinking going forward because I mean every manager I look at is over weighted in financials. Financials are performing great. Going forward the question is what happens with financials I mean they still have strong balance sheets, they are not lending much, their spreads have been minimal yet they made good money so, yeah I'm just wondering. David Gullen: We think there's still growth there so we look like in terms of what we think their normalized earning power is over a cycle as long growth. We're looking at long growth is expected to be at the bottom quintile perhaps even decile that side of history. So you don't you if you get some incremental improvement or better than feared results you can see some upside. But long growth needs to normalize and their capital ratio have gotten stronger as they get permissions from the regulator they can start returning that capital that's something we see in the next couple of years. David O'Brien: So you see financials staying overweight in financials. David Gullen: We do at this point yes and especially if you look at valuations. David O'Brien: It's not just the banks it's also. David Gullen: It's mainly its where we are, we're looking at the major banks, so if you look Wells Fargo, JP Morgan, Citi... David O'Brien: And energy, I noticed you are slightly overweight in energy relative to the S&P. David Gullen: S&P and that's so Exxon is our largest holding there. We look at it at a kind of a total, total yield basis but its free cash flow generation is different you know. Compared in net asset value it's attractively priced and what we're

seeing fundamentally is as projects you know are coming on line as you look out, they're depletion rates are better so the marginal barrel of oil that they can start producing down the line that upstream projects come are going to be more profitable and with that cash they will kind of support the free cash flow yields among dividends that's going to be very attractive.

David O'Brien: So you're a company based investment you're not a natural gas versus Shell or versus. David Gullen: Oh making calls on that? No we don't make calls on the commodity. David O'Brien: It's just the company.

David Gullen: That's correct. We take the forward curve that's given and do our analysis around whether we think compared to net asset value we have an attractive discount.

David O'Brien: And energy services, Halliburton I think? David Gullen: Halliburton would be the biggest yeah. Let's turn to page 5, we have the holdings. Halliburton would be the largest energy services business we have right now. We did have Cameron International services business as well. And that's we started establishing positions in those you see it's been in our portfolio all year but when the natural you know natural gas prices were really depressed and no one was putting rigs out even though you know the industry in those fields drain pretty quickly, what you like is a value investor is optionality I mean the current prices is reflecting the fact that these businesses weren't in demand but they were going to be in demand at some point and so we felt from price point of view we're being compensated to be patient. These are good businesses that will come back around so we started establishing our positions then.

We also have some independent ENP's as well as you can see. EOG is a name that we liked. EOG it's kind of transformed its business really from gas business to oil business, we like profitability characteristics there. Occidental Petroleum. David O'Brien: I was more wondering why you were you know I mean I appreciate what you are saying, why you were overvalued in the S&P but undervalued to the value index, I was just wondering.

David Gullen: You know that's, I don't know and that's sometimes what comes down in these benchmark. David O'Brien: I don't mean undervalued, under weighted.

David Gullen: Sure these benchmark dynamics in terms of their criteria what comes in what comes out, if it meets our criteria it's going to come into the portfolio. If it doesn't meet our criteria the metal benchmark goes on, and that's just somehow sometimes how it shapes out there. David O'Brien: Thanks that was my question. David Gullen: Your welcome.

Turning to holdings unless you have any questions on the other page, this is a busy tree or a busy page and thinking of the holidays, we actually refer to it as the Christmas tree because if its new it's green, if it's liquidated it's red, if it's black it's a name that's been in for the whole period. And the period that we're discussing here is our calendar year to date, so Jan-1 through September 30. And then we have it organized by all the major sectors, top left basic industries. Wilfred Leon Guerrero: Are you going to have the same thing for next year? David Gullen: Yes we will. Wilfred Leon Guerrero: And you going to get the same results? David O'Brien: Keep pressing him. David Gullen: Yeah right, I did mention at the Fund but your portfolio through yesterday calendar year to date is up over 31%, please don't get used to that. David O'Brien: You know in REITs you made an interesting statement earlier you said you know you can under weighted REITs significant and now I noticed you're into two new REITs.

David Gullen: You got some REITs that got pushed around a little bit with just investors discounting the likelihood of tapering what that would mean for so you saw some price action so that created some opportunities at the margin. You know what we liked about but with that said, your equity residential which we brought you in the 2nd quarter, it purchased Archstone which is just a high quality business and it's divesting from non core assets we've been just as a shareholder with think there's value.

American Homes for Rent they came in on the 3rd quarter, they buy homes and. David O'Brien: So it's more about the companies than your view of REITs. David Gullen: Exactly. We're not going to make top down calls and then try to fill the portfolio in and around them. Wilfred Leon Guerrero: Do you have the paper for the return on the REITs? David Gullen: Our REITs have not lets I'm going to tell you haven't done their share. I think we have been, yeah our REITs this year to date are down through September 3½% and they underperform the index. And that will have a little something to do with timing in part. Equity residential was the culprit there but we're looking to own these names over 4 cycles. We don't try to get to cute with the timing, if we think valuations there and we like things fundamentally that we've seen, just take a name then adjust accordingly.

So it's been you've got 83 names more or less in your portfolio. We've been keeping busy, the nature of the activity here is to just to keep that risk return profile refreshed on the stock specific basis. The majority of the names you see in red we sold for valuation reasons. And you will have some where either combination valuation and momentum or we just felt that the momentum we weren't being compensated at a price that wiggles around the momentum so we tell the neighbor to move on or just to for instance the name Vodafone just moved up the management team was being modeled and they weren't. Wilfred Leon Guerrero: So once you sell the time period you allow them to revisit company again? David Gullen: Sure yeah. Wilfred Leon Guerrero: What's that like? David Gullen: It will depend on what happens with the company. So we look at the entire universe. We look at the portfolio, those Three Circles that we went through have quantify has statistics for price, the quality, the momentum. And you can size and dice them. And you can put them through the portfolio because every name we have has a thesis that a quantitative express. And you take the investful universe and see what bubbles up what's looking attractive in terms of price and quality, what's attractive on pricing momentum. And we visit those numbers so there's no predetermined time period what we do is take what the market's offering and apply the criteria.

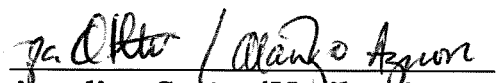
Wilfred Leon Guerrero: Okay, maybe we can sell this month and next month. David Gullen: Yes that's correct and we'll have names where we'll do that. One of the areas in the portfolio that I'll use as an example can be among some of these insurance names that property catch up to the insurers, they have pricing cycles sometimes the pricing cycles are weak and then they get stronger. Stocks are inexpensive and then they get expensive. And we can just kind of well take those names over times. So that unless there's any questions, I'd be happy to answer any questions you have about the names. Wilfred Leon Guerrero: Time is about right. David Gullen: Outlook there's some commentary there, in a nut shell if we look at the market earnings on page 6, you know our based case is that the appreciation is going to move in line with earnings growth. You've had multiple expansion this year, it just means we've had prices go up, investors are more optimistic


about where they how they feel about the future. To us near term who knows, we don't tend to be able to forecast how this market is going to perform over the near term. However as we look over a full market cycle for the next 5 to 10 years to us given where valuations earn today given fundamentals if you look at corporate America and their job and right sizing their business in cutting cost and the recovery profits which is been driven from the cost side and not the spending side has been simply remarkable and it continues to be a fair amount of operating leverage in the system which is to say it's not going to take a whole lot of the sales to feed down through the bottom line because they're doing such a good job in terms of how their mutual in costs.

There are no excesses to be rung out anymore and margins, profit margins continue to attract Q3 it looks to be a historic quarter in terms of margin profit margins performance. So if you look at fundamentals and combine them with the price you're paying for those fundamentals, we think conditions are consistent with over the next 5 to 10 years and averaging annual return of somewhere between 7 to 10% on a total return basis. That's kind of in line with the historical ones and that's what to us is the base case what we're looking at prospectively is the normalization of the economy and the market. The system has been delivering because it built up too much faster than it is to credit. That delivering just like household stuff suspending it gets its debt down when that weighs on growth because not spending money taking care of putting the house in order. But as those conditions as we dig out what's been a really deep hole, we're moving towards a more normalized picture. Prices are fairish to okay the fundamentals corporate America is very strong. And so we're kind of looking at a normalize type return environment. Over the longer term again that's a kind of 5 to 10 year look. Nearer term that's where volatility and sentiment and those factors push it out of the way, we don't have a crystal ball on that. We talked about organization and team those are on the pages that follow. No critical information to share there, however as always all of us at Robeco greatly appreciate the opportunity to work with you. I appreciate the opportunity to visit the Micronesia and see you in person. I gave my son Ted a math problem to share with his teacher which is my dad is 18 hours ahead, he has 21 hours of travel ahead of him, what time will he land hopefully if he leaves at 6:00, so we'll see. David O'Brien: Same day, 2 hours. David O'Brien: Yeah 3 hours, that's right exactly. David O'Brien: Change in daylight savings. David Gullen: That's right, there you are. But in all sincerity thank you for your business, we enjoy the opportunity to work for you this many years and we look forward to ongoing and ready to commit. Wilfred Leon Guerrero: Maggie says to go ahead and keep you. David Gullen: Thank you Maggie, I appreciate your vote of confidence and support. Thank you.

Respectfully submitted,

Affirmed:


Angelina Castro/Marilyn Aguon
Recording Secretary


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