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Paula M. Blas
Director

Defined Benefit Plan
Quarter Ended September 30, 2014
Quarterly Performance Meetings and Annual Investment Manager Reviews

November 20, 2014
Retirement Fund Conference Room

Board of Trustees Present:
Joe T. San Agustin, Chairman, Board of Trustees
Wilfred P. Leon Guerrero, Ed.D, Chairman, Investment Committee
Gerard A. Cruz, Trustee
David O'Brien, Trustee

Staff Present:
Paula M. Blas, Director
Diana T. Bernardo, Controller

Other Present:
Maggie Ralbovsky, Wilshire Associates
Ivan Fong, Intech
Christian McCormick, Intech
David Gullen, Robeco
Robert Ernst, Northern Trust

Intech **Pages 2-12**
Robeco **Pages 12-22**
Northern Trust **Pages 22-31**

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Intech

Wilfred Leon Guerrero: Okay, so same routine you got 45 minutes to lead us on discussion about the portfolio and please address the regulatory agency issue and the organizational change issue it's part of meeting our fiduciary responsibility. You do know everyone. Ivan Fong: Yes I've seen everyone here before over the past two times I've been here. Paula Blas: Last week? Gerard Cruz: Paula didn't see Ellen though. Ivan Fong: Ellen was there. Paula Blas: He was just saying that she was she only came that one day. Ivan Fong: Obviously she was there with David as well. I was just telling Christian that David presented to her at a conference in Manila last week. Paula Blas: He misses coming here. Christian McCormick: Unfortunately I don't have the accent and that puts me, I learned that investment management sounds better with an English accent.

Ivan Fong: I'm Ivan from Janus based out of Hong Kong, Janus Capital based out of Hong Kong. Christian from Intech based out of Denver, overall everything is good at Janus Capital. Janus Capital led two peak highs in 2014 and Mario Charles joined us a noble prize winner and of course we had Joe Grosse join us as well recently actually on the 29th of September having departed from Intel on the 26th of September he's setting up a whole new branch of fixed income capabilities for Janus as well. So those two we hope we'll see continued growth from the Janus side, Intech of course continues to contribute to Janus Capital's growth overall they had a very good year, it maintained all institutional plans we had in the Asia Pacific region. We have significant mandates in Australia, in Korea, in China to name a few and all those assets stay with us, and there are a few significant ones in there as I said. But we had a talk about that Intech portfolio with your Retirement and so I'll hand over to Christian.

Christian McCormick: Hello good to see you all again. I think it's the 4th year again or maybe even 5th year. 5th year actually. Just as Ivan mentioned we don't need to spend a whole lot of time on the organization unless you'd like to. Regulatory no outstanding issues as you see legal issues whatsoever with Intech. It's been a very quiet year and you always want a quiet year from the compliance and regulatory perspective. A few things that have happened organizationally, we have not had any personnel turnover, we've added to our teams in different spots but no changes on the investment team. Based out of Princeton the research group and really no changes in executive management either so not a lot of movement there. Something that we did just complete that's worthy of note is up until this point we're still going forward, Janus as you know has been our parent company since 2002. As we went through a succession plan which finished several years ago, the two former primary owners of Intech were selling their shares as part of that succession plan in their retirement to Janus. So Janus ownership to Intech was increasing year over year and currently as of the beginning of this year that stood at 97% ownership so Intech employees collectively as a group own 3% of the firm. We're a fairly large firm, 50 billion in assets so that's still a meaningful amount but I think optically 97% didn't look very good to the market place especially to the consultant community. And in addition to that as Intech grew as a firm and more importantly in terms of retention for our research group in Princeton, something that Adrian our current CEO and CIO spearheaded and took about a year and a half to complete but finally did as of the end of October was he changed the compensation structure to add 10% of Phantom Equity to Intech so what that basically means is the actual ownership doesn't change that 97% 3%

but now instead of 97% of the profit interest flowing up to Janus being the parent company that will only now be 90%. So it's a significant move in that we're not giving Janus anything in return, Janus is basically agreed to give up that 7% extra in profit interest that they would normally get so we can keep that within Intech and have that as part of the compensation structure internally. So it has multiple pieces there, their actual phantom equity share which will go up and down in value based on Intech's valuation just like common regular equity would, and then there's a profit interest piece but it was an enormous vote of confidence although it took a year and a half mainly because of figuring out the tax implications. For Janus to give up such a significant portion but I think it was a recognition on Janus' part that the way compensation was structured especially for the investment team in Princeton wasn't ideal. Christian McCormick: So in 90/10 again visually Janus still has control, none of that changes at all that looks a lot better than 90,7, 3 both in actual dollar terms and just on a piece of paper. So that was complete at the end of October, just this past October. We did not put out any formal announcement but we've just been telling clients and consultants in our meetings with them.

Aside from that as I mentioned not much else going on. We have seen a significant improvement in flows in the business. So for U.S. based clients you know U.S. Large Cap equities have been something of a four letter curse word the last 4 or 5 years even though the asset class as a whole has been doing well. There have been significant reallocations out of U.S. equities to International equities, emerging markets, private equities head spun multitude of other asset classes. So, Intech being primarily a U.S. Large Cap equity manager we have seen significant out flows because of that. The good news was in 2014 we actually had more new clients join Intech than we had terminations or clients leave Intech. We still had slightly a negative outflow for the year because of current clients reducing their mandate sizes, there's still a lot of rebalancing going on where clients are taking profits off the table from the U.S. equity run-up. But overall we brought in more new assets than we lost assets out of termination and that's the first time we've had that since 2007 so it was nice to see that as well. So in short everything organizationally is going very well no personnel turnover the flow side, the product side things are going very well in our relationship with our parent company is going well.

Christian McCormick: On page 3, now going to your particular strategy, so unfortunately we had under performance since we saw you last and that has pulled down longer term performance since inception. So I'm going to break this down if you'll remember there's a couple broader influences to our strategy over time that explains a lot of the attribution. One is what is the volatility environment? Kind of think of that as how calm or how sporadic or wild is the volatility market in the market place that will affect returns. And also our process in all and I'll touch on why it tends to overweight or like if you want to think of it that way or make bets on this smaller Large Cap names within the benchmark. So these aren't Small Cap stocks you're still benchmark to the Russell 1000 growth that's our universe but our process or our model tends to favor stocks that hide volatility versus the benchmark and have low negative correlation to other stocks. So those tend to be the smaller names within the benchmark and this makes sense when you think about it intuitively the bigger a stock is the more it tends to behave like the benchmark self or draw the benchmark return. So the Large Mega Cap securities tend to drive the benchmark up or down and in order to find that difference of movement that we're looking for we tend to overweight the smaller names.

Well over time that effect tends to wash out it tends to just be as much as a net negative as it is a net positive but over the short term you're going to have a significant influence on performance. So something that we've seen this year in particular was an enormous head wind from the mega caps outperforming the smaller names primarily led by technology names such as Apple, Google, Facebook, things of that nature and I'll actually give you some numbers behind that. But that has been the primary driver underperformance and that was really in the 2nd and 3rd quarter you can see the quarter to date on page 3, I want to make sure you have you do through October it was a very strong quarter. October was an exceptionally good month in terms of out performance. The good news is November so far we're about another 60 basis points ahead so we're getting close to being even for the year. So we're seeing a nice rebound but you can see by the 5 year number it's still been a very healthy environment overall for those 2 factors that I've mentioned, it was really just this year pulling down our longer term returns and I'll touch on some of the actual attribution behind that.

Christian McCormick: So if you look on page 6 just to give you a snapshot of the portfolio and this will give you a good idea as I talk about some of the specific attribution, you see in the top left hand corner, something that never changes is we're always a well diversified portfolio. So we have 266 names in the portfolio, always have hundreds of securities, look at our Beta. From a Beta and standard deviation perspective we actually tend to be better than the index, and that hasn't changed. So a nice factor there is that we're slightly lower risk than the benchmark itself. But if you go down to the weighted average market cap number, you'll see in our portfolio we stood at about 53 billion versus the benchmark so less than half of what the benchmark is. Now 53 billion is still a Large Cap security it's definitely not a Small Cap stock but versus the weighted average market cap of the index you can see that we are significantly lower and we actually spell that out a little bit better for you in that portfolio market capitalization table below. As you can see the stocks that have a market cap of 100 billion or greater so these are the biggest of the mega caps. Only about 6% of our portfolio is in those stocks versus the benchmark of 35%. So a significant underweight to those mega cap names and you can see we make up for reeling the stocks at 2 billion to 25 billion where we have significant over weights versus the benchmark. And just keep that in mind, I'll touch on what that size attribution actually quantified to during the year. And then the top right you can see our sector overweights and underweights. An important factor there is that's just a by product of how we select the individual stock so over time we don't have a consistent overweight or underweight in any particular sector. Maybe it consist an underweight information technology but even that changes and then you see the top 10 holdings where we give you our weight versus the benchmark weight and the difference between the two. So you can see a significant underweight to Apple which is one of the biggest names in the benchmark about 6% of a 674 stock benchmark is all in one stock which gives you an idea of how those mega caps can drive the benchmark all by themselves.

Christian McCormick: So in terms of attribution, I'll start off with actually page 8 which gives you an idea of the size effect as we call it. We call it diversity, right we're mathematicians so we have to have fancy names for everything we can't just call it size. But this diversity proxy which you're looking at in the chart over time is any period of time when that line is trending downward, you can think of that as a time when capital becoming concentrated in the larger mega cap mix so that's going to be a headwind to our performance any period of time when the line is trending upward that tends to be a tailwind for us. You know we're not trying to time the ups and downs here, you know again this is just a by product of why we choose the stocks that we do based on their volatility on correlation characteristics. But since we tend to overweight as I showed you with the numbers, those smaller names you know you can see that there's going to be some noticeable headwinds. In particular our portfolio should do a fairly good job of adjusting if it's a very gradual shift say of 2000 to 2003, but if you look in the financial crisis that sharp downward shift and then 3rd quarter 2011, sorry I'll try to visually show you here and then even recently in this quarter which we spelled out in the box, these are very sharp abrupt shifts, really flight to quality and you notice that when the market gets panicked it tends to shed those smaller riskier names and the capital flows into the larger what are perceived to be safer names at a very quick pace and that is a significant headwind job performance. So you can see really in the recent quarter and we saw a little bit of this in the 2nd quarter the move out of the small mid size names into the mega caps was severe and very abrupt and that's a significant headwind to our performance. And if you look on page 9 and page 10, I pulled out the 3rd quarter attribution for you and also the year to date attribution which gives you better ideas since we haven't seen you since last November. Looking in the 3rd quarter in particular, you'll see the 140 basis points. So if you go to the allocation effect which is the 3rd column from the left over on the far side, you can see that we had 140 basis points of negative excess return just because we were overweight those smaller names and underweight the mega cap names and it was fairly pronounced so almost 80 basis points came from underweighting those mega cap security names. And on page 10, showing you the exact same numbers but now year to date through the end of 3rd quarter instead of just the 3rd quarter and you can see the 160 basis points. So that's a fairly significant headwind to have to performance for our alpha engine to overcome or for the model to overcome. Now we do see the flip side of this, October was a great example, as that turned around and as risk kind of came back on the table and I think investors got a little bit more comfortable with what they are seeing in the U.S. and Europe, you know we saw the flip side of that but you do get the benefit but over the long term we expect it to be a wash but over the short term it could be a significant negative factor which is what we've seen this year at least in the 3rd quarter.

Christian McCormick: On pages 11 and 12. Wilfred Leon Guerrero: Christian just trying to understand what you're doing here. Your portfolio destruction is not driven by stock selection but rather on the mobility, right? Christian McCormick: Right, so we're selecting stocks but based on that, not based on any fundamental. Wilfred Leon Guerrero: You mentioned here allocation effect and residual effect, can you explain what that is? Christian McCormick: Sure, it is a lot of terms we're throwing at you. You can think of the allocation effect is just the effect on performance from being in a certain group of stocks so just by way of example on the next couple of pages you'll see an allocation effect that's related to sectors. So you can be in a group of stocks and they can do well or poorly based on the fact as it grew they happened to be in favor or out of favor. So we may own or be underweight say technology stocks let's say we're underweight Apple, which we are. So we're underweight Apple choose a specific stock as an example which will probably help. So while we underweight Apple, well the two things that we're looking for is we want to find stocks that have a lot of volatility relative to the benchmark and you can think of that as a buy low sell high type premise. So as that stock moves up and down over time, when it moves down in value we tend to buy more and when it moves up in value we're selling more and over the long term if we get enough up and down movement we can generate an excess return kind of do that buy low sell high. And we don't think we're going to get that from Apple when I say we mean the model doesn't think it's going to get that from Apple versus the benchmark itself.

The second piece is when you look at Apple, does Apple tend to behave differently as the other stock in the benchmark or the same as the other stocks? Wilfred Leon Guerrero: Apple is one of those that you're describing as mega...Christian McCormick: Right as the biggest actually the biggest. So it is the biggest name and so we can think of it as we want to find stocks that zig while others zag. So we want to capture the volatility but I mean it's really the same thing you do as an overall asset allocation where you know you have your equity allocation, your bonds, your other asset classes and you invest it for percentages because you're trying to get a certain return but diversify weighting on a risk. You get that hopefully because these asset classes don't all behave in the same fashion you know equities go up, bonds should go down, etc that's what we're trying to find. We're trying to get that same diversification effect by finding stocks that lower negative correlations to each other. So we have an underweight to Apple because we don't think it's going to generate enough volatility for us and two, because it's such a big part of the benchmark it moves or drives a lot of stocks with it. So stock going to move up with Apple and down with Apple.

Christian McCormick: So because of that we were underweight we just don't find the proper characteristics and so in particular and in the information technology sector if you look at names such as Apple, Google, Facebook, Microsoft, Tech stock tend to be dominated by these large mega caps securities and we'll probably going to underweight most of them which we do, we underweight them. But as a group technology stocks may be doing well just a lot of investors may like them, may be driving their price up that would be an example of an allocation effect. So we're tech stock just as a group are doing well and so technology stocks are moving up in value, but because we've underweighted a lot of them, that would show up in an allocation effect as a negative because we are underweighted group of stocks that's going up and the allocation effect would be positive if that then group of stocks went down in value because we own less than the market does, so that's an allocation effect.

The residual is kind of everything left over any piece of your access return is left over after you net out with that allocation effect is. And the allocation effect is really just comparing you know how much do you own of a particular sector versus the benchmark and what was the return of that sector? So going back to the size example to help you understand that or at least spell that out a little bit better, if you look on page 10, so here's a good example, you can see that market capitalization range so stocks that are over 100 billion dollars you know we own an average or an average of our portfolio was about 7½% of our portfolio was in those Mega Cap stocks and overall the total return for the year was about 14.33% the Mega Caps. The benchmark owned a much, much more or higher significant portion about 33% of the benchmark stocks were in those Large Mega Cap securities and they returned about 12%. Well if you look below on the Russell 1000 growth index we're summing it all up, the overall benchmark return 7.86% that number there and so you can compare that to that 11.8% number in those mega caps. So the mega cap securities in the benchmark outperformed the overall benchmark by almost 4% and so the benchmark owned more of those stocks that outperformed the benchmark than we did and so that was a negative. Does that make sense?

Wilfred Leon Guerrero: No. Go on. Christian McCormick: We weren't in the right spot. Think of it as we're not in the right spot and we're not trying to predict what those spots are ahead of time because it's not the nature of our process but it doesn't matter whether you're trying to predict ahead of time if you're in the right spot or the wrong spot you're going to benefit from it or hurt by it just from the way the market moves. And I think if anything if I've done a terrible job of articulating it this far the one thing to take away is that it washes out over time it tends to help us as much as it hurts us. Gerard Cruz: What does the allocation affect? Christian McCormick: Yes in terms of sectors and size. So on page 11 and 10 spelling it out even here just to cause further confusion you know part of the size effect shows up in if you look on the information technology so that's one two three four from the bottom, both for page 11 and page 12, page 12 is probably a better example because that's year to date, it's much longer period. We've had an underweight information technology so that allocation effect, yes, it did hurt us but if you look over in residual selection effect so that's the effect in owning the specific stocks. So information technologies as I mentioned, that sector tends to be dominated by the large mega cap securities those names that I've mentioned we actually quantified on the next page so we tend to underweight those stocks well those stocks as a group have been doing well. So not only does the sector underweight hurt us but the individual names hurt us quite a bit as well which was those 81 basis points. So if you look over on the far right, that residual selection effect column, that negative 81 basis points for information technology, that's underweighting Apple, underweighting Facebook, underweighting Microsoft that's where that shows up. Now we're not underweighting them because we don't think the new IPad is good or we think facebook is going out of business. We don't' invest in stock based on fundamental reasons right just trying to capture that volatility but over the short term, fundamental effects will certainly have an effect on our portfolio. Gerard Cruz: So from the stock standpoint, greater volatility is what you're looking for? Christian McCormick: Right greater relative volatility versus the benchmark. So think of it as the benchmark itself has volatility, we want to find stocks that are going to have more volatility than the benchmark over time.

Gerard Cruz: But then from a portfolio standpoint, you prefer movement steady in one direction? Christian McCormick: We just prefer steady movement. Gerard Cruz: So not a lot of volatility in portfolio but high volatility per stock. Wilfred Leon Guerrero: I thought you like a lot of volatility. Gerard Cruz: They like it all. Christian McCormick: Page 7 is probably a great example of that. When we say we like volatility, what do we mean by liking volatility? The portfolio adjusts over time by itself. It's part of the dynamic nature of the model. It's always in terms of the information it's looking at its shedding old information and is constantly is bringing in new information. So since it does adjust over time, what is an environment that we don't like? So on page 7, what you're looking at in the bars is what we call correlatively stock volatility. A way to think of this is how different or how much movement do all the individual stocks have within the benchmark versus the benchmark itself. So let me give you the extremes, the extremes would be as if every single stock in the benchmark went up by 10% one day and down by 10% the next day, there's no difference. All the stocks in the benchmark are equal, they are all moving up by

10 and down by 10. The flip side to that if that was the case, there would be no bar here at all in the graph. The high point of these bars is when there is a lot of dispersion so one example may be now half the stocks are moving down by 30% one day, this is an extreme example. The other half are moving up by 30%, you're going to turn on CNBC and the market is not going to have moved, right. The two effects are going to wash each other out but if you open up the hood, the stocks were extremely volatile up or down 30% that would be an example of one of these high bars.

Gerard Cruz: Is that an environment that you do well in or poorly? Christian McCormick: No, we tend to do poorly and it depends on how fast moving between the two if that makes sense. So overall if you look at the period of the tech bubble, so you can get an idea 97 leading up to the tech bubble and the bursting in the far left and the global financial crisis, the type of environment we prefer out of the periods of stability where volatility is not moving up or down by that much. So 2003 to 2007, 2010 to present and if you look at the 5 year number of our performance it has responded to that stability. What throws us for a loop is when the market or stocks within the market shifts between a high volatility environment and a low volatility environment quickly. Gerard Cruz: That's understood. Christian McCormick: We have stability and then all of a sudden the global financial crisis, it's almost like a tidal wave coming out of nowhere. Gerard Cruz: So how long does it take for your model to get back? I mean because when that happens you don't like that so then how long after that does it take your model to get back to this. Christian McCormick: It varies it depends on how extreme, so our look back period is 4 years and we're updating the model weekly. So you can think of it as your 4 year look back period almost you could use your fingers and its moving forward a week at a time. So an old week of price data gets dropped off altogether and then the most recent week comes into it. So even if using your fingers for 4 year period, a period like the financial crisis takes a while to funnel through that 4 year look back period and not only that although we've added some enhancements to the model to do with that, that spike up is so dramatic, 10, 20 times higher than the levels of volatility that we saw from '03 to '07 since that is going to have an outsize effect even though it's a shorter time period on that entire look back period. The enhancements we've made have been meant to minimize the effect that those outliers have on these extreme events, but it can take a while to filter through. David O'Brien: So if you were to have another sharp turn around in the market, you guys would perform the benchmark. Christian McCormick: Probably we could get lucky and just happen to be in the right stocks but what coincides with these periods so when volatility spikes upward, as I mentioned as I showed you in the size chart that tends to be a flight to quality, so when that period happen we intend to underweight those securities. And also you're right it creates a lot of noise it almost confuses the model to a degree and that there's so much commotion and so much sharp changing going on. The model is having a hard time figuring out what do I need to look at this 4 year look back that will help me construct the portfolio going forward.

David O'Brien: Page 11, is that why your residual attribution on health care is so pronounced? Christian McCormick: For underperformance? David O'Brien: Yeah the 1.04 on page 11 health care section. Christian McCormick: Yeah I mean on that one what I'm showing on page 7, those are certainly longer term effects, but yes there is an abrupt shift you know when you look at page 7, I'm showing you the entire market but that will certainly filter down to very similar behavior in particular sectors so certainly there and certainly on the technology side. The health care the main driver of that was we tend to be overweight in the smaller biotechnology names because they are smaller and have more volatility and there was a huge outflow out of those stocks so that affected us when there is that flight to quality in the 3rd quarter. David O'Brien: But that has turned around for you some now? Christian McCormick: Yes with October, November right. Does that answer your question on volatility? Gerard Cruz: Yes. Christian McCormick: On page 13 and 14, I'm probably throwing a lot of numbers at you but page 14 will maybe help spell it out a little bit better. Here we actually show you the top 10 contributors and detractors and page 14 again that's the year to date data so probably more relevant.

If you look at the right hand side, the top 3 detractors Apple, Microsoft and Facebook. So these huge mega cap securities we have big underweights to them and then even number 10 is Google so 4 out of the top 10 detractors year to date were all from the technology sector and it makes sense intuitively why we're underweighting those, we will see the flip side of that. Part of that was in October, November that we did see the flip side but when you look over the top 10 contributors we tend to see both of these cancel out I mean our best top 10 stocks can cancel out our worst top 10 stocks. Year to date in this case you can see that the underperformance coming from those big tech names has really overwhelmed any positive performance we're getting from some of those others. So our detractor's at 3.3% negative are almost double not quite as worse as the net positive we've gotten from our top 10 contributors and that has been driven by those large mega cap techs. Again an effect we expect to wash out, we have lots of data that shows that it does wash out over time and we're not saying the tech sector is good or bad, or the stocks are good or bad they just don't exhibit the characteristics that we like so we're probably going to have a systematic underweight to Apple as long as it's one of the bigger names in the benchmark and we have. Apple hurt us a lot in 2012, helped us in 2013, it's hurt us again this year it has some flows but the reason why we're underweighting it has remained the same and true to the model.

Christian McCormick: All is being equal, underperformance is always disappointing, you know we expect to see it that the models constructed so that it's not trying to time things over the short term. You know hopefully something else you can hang your hat on is that our source of excess returns is very different than a traditional manager. So you may have one manager trying to find if Apple's going to go up or down or maybe love Apple and over weighted and tend to be a good diversifier to other managers because we're getting our excess return from volatility capture versus a fundamental bet on if the stock which can go up or down. Dave O'Brien: So meeting your target of 3 or 4% above the benchmark I assume that's your target. Christian McCormick: Yes. David O'Brien: You're far from that, the longer term, so what's it going to take to reach that? Christian McCormick: There is nothing that we see within the market side resistibly we won't hit that. The reason why I paused is that the wrestling with folks like Ivan and myself have with our research group in Princeton so they all have PHD's in art sciences, mathematicians, physicist, so they look at things in a very academic sense. So I'll be honest their version of long term is a lot different than the practical version of long term. I will say all of our strategies hit their long term targets over period of 10 years or greater. Now that's a long time to wait but it's remarkable that we set these targets in inception and then all of our strategies that have a long enough time frame to hit them, at this point

10 years do hit that long term target. So there's nothing we've seen recently that will lead us to believe that it can't hit that or that it won't be able to hit that.

Dave O'Brien: What is going to happen differently than what you saw you know seen over the past X years 5, 6 that's going turn it around say 4, we've been with you for how long almost 9 right so we're more than half way there. Christian McCormick: Over the long term markets do tend to revert to say normal behavior but certain average behavior and periods like the tech or global financial crisis tend to be spikes of difference you know it's more of an exception rather than a rule. As long as the rule holds and we think it will continue to hold, that's what will lead to our outperformance. In the mean time understanding that bubbles happen and you don't know that they're going to happen until they happen no matter what you do a terrible job at predicting it we've added quite a few enhancements to the process to deal with those bubble periods a lot better to where there's like the financial crisis a sudden shift that's prolonged in the higher quality names making our process a little bit more nimble to maybe move into some of those larger cap names just until things calm down. We've made enhancements in way we trade the portfolio in where we used to systematically trade no matter what was going on in the market place. Now we try to make it a lot smarter so that we are not trading in the market environments or trading environments where we would call it just spinning our wheels in other words, there's trading just to trade. We're going to trade less than and when markets are calmer we'll have a lot more confidence and our estimates will trade a lot more to make up for that. So I think the enhancements especially in the trading side and the fact that over the long term stability tends to dominate more than bubbles do, is what we'll need to do for out performance.

Wilfred Leon Guerrero: Your security selection is based on, let me ask this most firms they start off with a universe in terms of their selection and usually they have a criteria, in your particular case you're just using strictly mathematical process and what you're doing is you're looking at the volatility of that particular stocks in order for you to make your selection, it's not like the way the other people normally do is like this stock should go up because winter time is coming and people would be buying whatever, you're particular case is strictly mathematical and I guess what I'd like to know is, when you make your selection it's based also on the volatility at that particular stock? Christian McCormick: Correct. Wilfred Leon Guerrero: Okay. Christian McCormick: Yeah the analogy was always helpful for me is, you can think of it as that's how we select individual stocks but ultimately we're trying to put together a portfolio which makes us very different. That's why I use that asset allocation analogy for view the same you're looking at the different asset classes that return expectations they're not going to hit it but they do and you expect them to behave relative to one another in a certain way correlation. So you are trying to put together the overall Government of Guam Retirement Fund to hit an actuarial target and diversify away as much risk as you can. That's exactly what we're doing at the portfolio level with stocks, we're trying to find that combination of stocks that would give us a 3 to 4% excess return over time. Such with the models actually that's how it chooses how much volatility it wants that's its target but then diversify away as much risk as we can using the correlation.

Christian McCormick: So you can think of Intech as we're trying to put together a puzzle and we are completely... Wilfred Leon Guerrero: Mathematical process. Christian

McCormick: We're completely indifferent to anything else other than how the puzzle piece fits in with all the other puzzle pieces. Another typical manager both quantitative and fundamental they're trying to figure out this puzzle piece is going to go up in value or down in value and if they want to own it or not own it because of that. We don't care what the puzzle looks like really I care how it fits with all the other puzzle pieces and in order to put together that portfolio against the excess return over time. What makes it tricky is that the puzzle pieces are changing in shape all the time because the market changes. But believe it or not volatility is actually easier to estimate than the direction of stock prices. So if you look back over time we've proven this empirically is that stocks have a certain volatility historically tend to have the same volatility going forward they don't tend to change that much except when they get from smaller to bigger whereas trying to predict which stocks are going to go up and which ones are going to go down is actually very, very difficult, very challenging, there's some managers who do well. I own fundamental managers in my 401k alongside Intech it's just a different way of viewing the world.

Wilfred Leon Guerrero: You're weird. But, then I guess that's why we hired you, everybody is doing the same thing... Christian McCormick: I spend time with our mathematicians, they're weird I won't argue. Wilfred Leon Guerrero: I think we're getting into the time, I don't know whether anyone has questions? Paula Blas: Just your housekeeping. Gerard Cruz: I think you answered the housekeeping, right? No regulatory issues? Organizational Changes? Paula Blas: No. Christian McCormick: I mean we added lower employees but not at the executive or investment team level you know like IT things of that nature. Wilfred Leon Guerrero: So long as Wilshire still likes you. Maggie says you're okay, then I guess you're okay. Gerard Cruz: What you say Maggie, are they okay? Wilfred Leon Guerrero: They're part of the focus list. Christian McCormick: Yeah, but when we go see Maggie in Santa Monica, you know other field consultants they let us in through the side door they don't want us talking to anyone else, it's always private. Wilfred Leon Guerrero: Okay thank you very much.

Maggie Ralbovsky: Being published this year, one of which something called flash boys. If you haven't been following that it is written by a pretty high profile person who tries to let the general public know that the trading left behind things trading in the U.S. has been really unregulated through a large extent in his words it's been rigged. There's the high frequency traders who's taking advantage of other people and Intech trading being a very important component of the management process has done some research on that and Christian was prepared to discuss that but given the time, we'll probably should defer this discussion 'til next time. So he has some research here. Ivan Fong: If you're interested to know about the movements of markets in general obviously that's not the realm of Intech but what equities are going to do in the coming years, what bonds going to do next year. You might like to keep an eye out for Bill Grosse he likes to make big macro calls. His view of the world is very bleak, going forward he expects equities to sort of be single digit returns, definitely not double digit returns you've seen over the past several years. Wilfred Leon Guerrero: Single digit? Ivan Fong: Single digit. He's expecting bonds to be low as well 3 or 4% at best. Obviously we're in a rising interest rate environment in his year the whole world is linked to those interest rates. If you look at equity prices, you know when you want to price a stock you obviously discount some of those dividends at a discount rate if that discount rate goes up you know that's going to have down load pressure on your equities rather than upload pressure. Besides several significant headwinds in the global economy too much leverage, demographics, technology, displacing workers as significant headwinds to global growth and with couple with the interest rate environment is not seeing much room for growth in equities and bonds are going to be challenged as well as I said given the rise in interest rate environment. So I'm not sure if that's good news for a pension fund obviously pretty bad. But that's his view as a macro guy and those as he's joined us recently and I'll share with you any other predictions that he makes but that is one input into how you might want to see the world going forward. Wilfred Leon Guerrero: Okay. Christian McCormick: Okay. Gerard Cruz: Thank you for coming. Christian McCormick: It was good to see you guys again.

Robeco

Wilfred Leon Guerrero: Same routine, you have 45 minutes that takes us up to noon time. David Gullen: Okay, perfect. Wilfred Leon Guerrero: In addition to your performance we'd like to know about any regulatory agencies interested in you and whether you have organizational changes could you address that. We need to take care of our Fiduciary stance. David Gullen: Thank you and thank you as always for the opportunity to get together as well as for the agenda you sent in advance, very helpful. In terms of regulatory or other types of issues nothing to report there. Organizational changes no changes to report there. You'll see our asset under management have grown appreciatively since we last met our AUM is up approximately 15 billion dollars this year to date bringing it to about 65 billion and in terms of the team, we've added a few associate analyst over the last 12 months which is part so of our model for our investment team we've tend to hire our analyst young. We've blank slate and just indoctrinate them in terms of our approach and philosophy in process which I'll provide a quick refresher on in the course of our meeting this morning.

I've provided 2 sets of materials, you have an update on the portfolio and organization, I also thought you might find interesting some exhibits regarding some macroeconomic information I had that emailed out earlier this week so if you don't have it, no problem I can just kind of point to the exhibits. So let's start with performance. We have been working together for almost 6 and half years, so we're greatly gratified for that opportunity. Six and a half years and as you'll see presented on page 1 through October 31st is a snapshot date, the mandate has compounded an annualized return on gross of fees. Your fees are about 31, 32 basis points by the way. 10.19% that cumulatively corresponds to an 86% return over that period. The benchmark is up 58% with a 7.37% annualized return. Providing that performance advantage cumulatively of 28 percentage points over the benchmark which works out to about a 2.82% per annum advantage. In terms of the performance on the information presented here, your 1 year number right about in line on a netted fee basis 16 points 7/8 percent compared to 16.46% for the period. Calendar year to date through October underperforming with an 8.8% return compared to 10½% for the index so a penalty of about 1.66 percentage points.

David Gullen: That's a function of really 2 things, from a stock selection point of view just not quite enough in the health care and the technology areas, cumulatively that cost about 1.8 percentage points. Your health care holdings were up 7% year to date compared to 15% for the index. There are a few names that count for half of that difference, one is we didn't hold any murk, murk we think is expensive it's done very well though, against high expectations that just doesn't fit our risk report profile that we like to bring into your portfolio. HMO, Cigna there was some pressure on the shared price regarding some cost trans we sold that name from your portfolio in the 2nd quarter and then express scripts which is a pharmacy benefit management business it made a major acquisition, it's gotten past education issues now we think that it can focus on the growth. And with technology our holdings at 14% compared to 19% for the index that cost about 0.6 percentage points relative performance. That was attributable mostly of two things, one we didn't hold Intel we don't it's done very well and performance wise it's performed better than expected but we still feel fundamentally it's wrong footing competitively and just not an attractive risk reward proposition for our clients.

Secondly, we had a name called NetApps that disappointed expectations we saw from the portfolio moving on. We have been and continued to be under weight REITs and utilities. There's been a fair amount of yield chasing by investors. You know the picture I'm sure in terms of what the bond market looks like today that's led to some movement within the equity markets to find bond like substitutes that's bid up the prices of REITs and utilities commensurately. We don't find a lot fundamentally attractive there prices are expensive but those two parts of the market have done well this year-to-date period and that's cost us about 40 basis points.

So that's more than the depth you see there that accounts for about 220 basis points of penalty which means the remainder of your portfolio which is the majority of your portfolio actually outperformed the market over this period. But again we're looking to buy and hold names according to 3 criteria's regards price, quality and business momentum on catalytic characteristics that should work over four market cycles and as you can see kind of over the 3, 5 and since inception period that's a more stable baseline a good sense to have this philosophy and approach which has been working for your portfolio. Speaking of just a quick recap of our approach our 3-circled schematic that's provided on page 2, we'd like to put your portfolio on stock by stock basis. Right in that shaded area in the middle is the only portfolio named collectively provide evaluation edge of quality advantages as regards fundamentals and whose underline business momentums. So in terms of earnings growth, balance sheet trans, cash flow characteristics are moving in the positive side of the ledger. And we will shade your portfolio and stock by stock some names will have better valuation attributes and they may have momentum attributes, some names may be such high quality you'll never quite get flat on it's back type valuation characteristic but you're owning a good business at a reasonable price it continues to do things should unlock value for share holders. And similarly you can have businesses whose momentum has been very strong and we think sustainable foreseeable future and valuation is a relatively attractive proposition given what else is available in the market place and we have a little bit of each in this portfolio and I'll detail that to you in a moment.

David Gullen: But the valuation picture today, I'm sure as Maggie's been discussing with you as well, there's been a big what they call re-rating in the market and that's pretty much run its course which is to say there was some big mispricing coming out of the financial crisis. Valuations have kind of recovered their better reflecting kind of the underlined fundamental merits of earnings, growth and outlook and therefore there no great dislocations in the market. We think valuations are fairish to foolish and I'll show you some at the market level as a whole, I'll show you some exhibits there. And so where we have been finding pockets of opportunity for you from a valuation perspective has really been around the free cash flow characteristics of what we own which is to say there's no sought, cash is king and price that you're paying for that cash flow generation which you as a share holder are kind to us and owner of the business is trading at very inexpensive levels historically so we look at free cash flow yields, you'll see in a moment, our yields about twice that of the market think of it as like a dividend but it's free cash flow which means management can pay a dividend, it can buy back shares, it can pay down debt, it can make an acquisition or if the business is just performing well it can reinvest that capital because it's going to earn a higher rate of return that might be available to you elsewhere.

So its many leavers that management unlocked value for share holders that continues to be a pocket of opportunity we're bringing into your portfolio today and in terms of the underline business momentum in the market, it's been fairly good in terms of the earnings momentum of U.S. businesses and we're seeing pockets of opportunity here in terms of returning the money that the cash that businesses have been kicking off by buying back shares or initiating or raising dividends. And we have some names that are benefiting from the M&A activity going on we don't have many take outs but you're finding ever greater consolidation in certain industries right now, which puts them in a better position prospectively in terms of their earnings volatility and fundamentally just kind of improving their profile going forward from where they had been in the past because there's less competition and greater economies of skill for their businesses.

Wilfred Leon Guerrero: What is your universe in this? David Gullen: So we will look at names with a market cap greater than 2 billion dollars that trade on U.S. exchanges and the number typically runs us about 1,000 names or so that will come in... Wilfred Leon Guerrero: And then you select... David Gullen: So we own in your portfolio 85 names. Wilfred Leon Guerrero: So you look at 1,000 and then it gets down to... David Gullen: Then it gets down to a number like that. We don't have a pre-determined number of holdings but we do avoid undue concentrations. So it limit each position size to no greater than 5% and it won't have an exposure in a given economic sector greater than 35% and just look for these characteristics on a stock by stock basis. So we don't try to put the two terms of concentrate in other words try to find the best 3% available out on the market. We're happy if we find around the best 5% or so and just put probabilities in our favor in terms of taking advantage of these nominallies that work overtime as regards price, as regards quality, as regards momentum and that's precisely how we've been constructing your portfolio.

David Gullen: If you look at page 3, this is a time series for this Large Cap portfolio dating back to 1995 since inception and we look at what we're plotting here is just what it's priced to earnings profile it's been the lower the value, the more attractive the product is the blue line, the Russell 1000 value the green line and then S&P 500 the gray line. So if you look at valuations there you can see we've consistently been at a discount to our index and to the bottom market and notably during times where bottom market can get pretty out of whack like you saw in the late 90's there during the TNT bubble. Wilfred Leon Guerrero: Dave, OROA stands for? David Gullen: Operating Return on Operating Assets.

So that's quality metric that we employ to kind of gage the quality of the business that we're buying and by quality you hear this term a lot. What we mean is identifying companies that have high sustainable returns on their capital, so capital like you as a shareholder may claim to. So it's the operating income divided by the operating assets in a business and it's a clean cash on cash type of return that gives us an idea of how good of a compounder of retain capital of businesses over time and takes out some effects that can come with other metrics like are we that include goodwill and inquisitive history that can come off truly just how good organically the business is. And we can use that metric to about 1,000 names or so that we looked at in the market place and it enables us to provide apples to apples comparisons of different companies and say okay, how are they screening through in terms of this kind of quality metric, fundamentally we've been getting into the weeds in terms of understanding the businesses drivers of growth and profitability, what's it do? How does it make money? What are its advantages in terms of competitive position of cross structure? What's the quality of its management team? What do we think of its prospects going forward? What are we paying for that today and are we seeing a relatively good deal for that? Are we being compensated for the downside risk that come with normal business and is there sufficient upside potential to provide attractive absolute returns of a full cycle?

So as you can see on that bottom chart on page 3, you want a higher number because the higher the return on capital the higher the quality of business and you can see that we consistently had an advantage not only over the Russell 1000 value index, which is the benchmark for Large Cap U.S. stocks when they're in the value stock but also the growth year S&P 500 which is the gray lines. So we've consistently provided a valuation edge and a quality advantage over the opportunity set out there in the market. Unless there are any questions I'll turn you to page 4 which has a snapshot of the portfolio at the end of September in terms in these characteristics that we're looking to buy into your portfolio as a regards price or valuation, fundamentals quality as you can see the OROA statistic at the top. In the underlined momentum we have several metrics for that we used for that we just provide a simple tally for illustration purposes here whether or not its meeting or beating plan expectation as of the last reported period, 85% is a high number. A couple of things, earnings growth have been pretty good and management also has done a pretty good job of talking down expectations so lower the bar they can step over it.

David Gullen: Eventually as that bar gets excessively higher we should revert back to more normal head rates there. What's not presented on this page is a free cash flow yield. The products free cash flow yield is 4.2%, the market is 1.9% and that characteristic again is one of the main pockets of value that we're finding, we'll get into this in a moment. The financial names in particular credit sensitive names is probably screening through as the most inexpensive part of the market right now, but by and large everything is fairly fully priced. In other words fairly fully reflecting in the underlined merits of the name and so we've been leaning towards this fundamental circle which is higher quality names because it continues to be fair amount of compression around valuation landscape which is to say we can buy much better than average companies without sacrificing valuation to do so and so we're leaning towards these top circles which historically is what we've done and a little more of a tilt towards that fundamentals bar because within the large cap part of the market, that's one of the advantages to that asset class. Businesses get bigger for a reason, they get bigger because they're good at what they do they tend to be these higher quality type names that's a natural advantage you have to have an exposure especially on active basis to these kinds of companies.

David Gullen: Page 5 is a snapshot as of the 9/30 of your ten largest names as well as your market cap and then sector weightings. One thing I've note for you is you just have weighted average market caps here, your mega cap exposure which is mega caps at the end of the quarter were about 84 billion dollars if you just took the 3000 index and said show me the top 50 that were getting cut off, there are different ways to measure but it's a reasonable way to do so. It's about 43% so it continues to be at the margin again with this quality trade you can see we tended to be taking some of these bigger market generals if you will these mega cap companies into your portfolio. Now there many large mega names that we're not finding attractive but this is the biggest portfolio that's been in its history in terms of its cap distribution. We're just going to take what the market offers us and today that's what's being offered.

In terms of names as you can see you have a mix of names there since we last met. Names that are new to the top 10 are Capital One Financial have been in the portfolio last year, it's just moved up to appreciation and some adds at the margin. CVS as well has come into the top 10. CVS has a 6% cash flow, it's an inexpensive to piers, it's going to benefit we think fundamentally from the introduction of generic drugs and it's opening up these mimic clinics about 700 of them over the next 5 years or so that we think that will continue to drive traffic. And Apple, Apple has been in and out of your portfolio we bought it in the 2nd quarter on a dip and some shipments we thought it presented valuation opportunity we took position accordingly. Names that are out of the top 10, Occidental Petroleum, Cisco and McKesson. Wilfred Leon Guerrero: What kind of company is Berkshire? David Gullen: I beg your pardon. Wilfred Leon Guerrero: What kind of company is this Berkshire? David Gullen: So that's Warren Buffet's company so that's a combination of businesses, it's a holding company practically it's got an insurance business you know Geico you're familiar with, Berkshire Hathaway. It also has kind of old main line it owns a rail, Burlington Santa Fe, it also has another main line good old economy type company so we like the business for several reasons.

One and the name of the game going forward especially when you've got businesses that are kicking of a lot of cash is how good of capital allocators is management because as a shareholder I want my money with a management team that's going to do a good job moving my money around I may claim to it as an owner, so frankly none better than Warren Buffet at doing that. The business is trading inexpensive on some apart spaces as well as 1.4 times value the bottom market is 1.8 times book value. So you're able to buy a better company, better capital allocator with earnings leverage to improvement and demand. Wilfred Leon Guerrero: Most of your holdings are in financial. David Gullen: Yes it is, so 28% if you're looking at the right hand side of the page about half way down, you can see the finance weight we're the blue bar, Russell 1000 index the green bar. 28% of the portfolio in September was in financial names. 18% of that is in credit sensitive names and we've got that grounded top tier banks you can see a few names right off the top here on your top 10, you've got JP Morgan, Wells Fargo, Citigroup, Capital One. JP Morgan's trading about 1.3 times tangible book we think it can generate in our way of 10 to 11% which is pretty standard in near term. So with these names generally what we're finding is a business trading around book value, by the way the 1000 value index is trading at 1.8 times book.

David Gullen: Names like Citigroup are trading under book value that we think over the near term can generate returns on the capital of 10, 11% and to us that looks like a good deal on a market that we feel given where the valuations are, given the underlined fundamental corporate America would be consistent with the total return of the next full cycle of 6 to 8% from here. So if you could buy business around book value that's generating 10, 11% returns on capital you've got something that's relatively attractive basically what's available to you elsewhere in the market place. Now what's making them a little expensive, they're really 3 legs in the stool but their credit trends have recovered that part of the recovery is over in fact as you know from earlier we helped credit card companies and they benefited before banks by getting their credit cleaned up. Loan growth is improving but still compared to history pretty weak and they should be able to start returning capital in a meaningful way if not all their books in order if you will and that should be something planned out in the next couple of years. Flat yield curves are really tough on banks because their spread earners, they take short term deposits and they invest long and they earn the difference but when the interest rates are flat it's pretty tough for them to make money so as things normalize they stand to benefit from that. What valuations are reflecting today is that it's a challenging environment as an investor what you'd like to get especially as a value investors try to get a little something for nothing just to say look it's reflecting the fact that these conditions are challenging but it's not giving any credit to the value that we added once conditions start to normalize again, so we've been taking our positions in that part of the market accordingly.

The other part of finance which is material is insurance and there are two parts there. Speaking of interest rates, this portfolio has upside potential from a normalization of rates. One is the credit sensitive names, the others we have some life insurance names that we've been able to buy at reasonable valuations that will improve as rates go up. Conversely we're very underweight REITs and utilities. REITs and utilities do not do well when rates go up so as rates that's the absolute picture of the first two co-missions I mentioned. The omission should also help us on a relative basis as well as conditions start to normalize we're very underweight REITs, very underweight utilities rates go up they won't do well and we should pick up a benefit there. Within the insurance industry we've been very particular around property catastrophe, property casualty, businesses with property catastrophe in particular because there's capital coming into the market place from private investors they tend to demand a lower rate of return that insurance underwriters have historically and so to us it's unmargin not as attractive as it used to be so we been selectively trimming in that part of the market.

David Gullen: In terms of where we are on our sector profile I would just add technology continues to be an underweight why do we like it though, we think they're inexpensive relative to their earnings power. We're able to buy businesses that have somewhat defensive characteristics in terms of their earnings volatility. They have licenses and subscriptions and so they get a high degree of their revenues from recurring sources and given the nature of the business model they have earnings leverage to recovery and demand. The cast of this portfolio if you will we're situated for a moderate economic recovery, fancy terms for procyclical as conditions improve in terms of growth this portfolio would benefit and we're positioned to benefit from a normalization of interest rates both in terms of what we own as well as in terms of what we don't own. And lastly I would say health care we're right in line with the market but that's been an area and thinking of that fundamental circle that we continue to find some value there.

David Gullen: Our activity for the year to date period, this is a busy page it's on page 6, there's a key on the bottom, we've got it organized by major economic sector alphabetically top to bottom by column. Starting with basic industries on the top left and ending with utilities on the bottom right. If it's green it came in this year, if it's orange we sold it this year, if it's got an arrow up or down we increased or decreased and if it's black it's unchanged. And so you can see, I'll spare you the headache of trying to count this but we have 26 new names in the portfolio this year, 25 liquidations, total approximately about 85 holdings and our turnover year to date period has been about 32% so we're continuing to refresh this portfolio on a stock specific basis in terms of those characteristics we're looking to own as regards to price quality momentum. As well as exit those names where either their valuations have become full and we again we look at a thousand names, we don't take concentrated positions bring something in that's more attractive on a risk adjusted basis. Or a combination of valuation and momentum which is to say things have been going in the right direction and then reversed on themselves so we sell it from the portfolio.

Most of those orange names you see were sold for valuation purposes although we did have a handful where we saw a deterioration in momentum and felt that the valuations weren't compensating us for the risk going forward. So a name like Rock Tenn there was some price there container board there was some pricing issues there and we didn't feel we had the margin to support to justify holding it going forward that's under basic industries. Parker Hannifin is an industrial conglomerate has a fair amount of exposure to Europe, we saw deteriorating business trends again the valuation support didn't compensate us for the risk so we sold it from the portfolio. Bed Bath and Beyond it was statistically an expensive just couldn't seem to get out of its own way poor management execution. CBS has done well its valuation was fuller and we saw some weakening and advertising trend so we sold it from the portfolio. And otherwise we were selling names for valuation purposes during the year.

One item I would note in energy if you look at the prior page we looked to take an active position against the index. About 70% there's a metric called active share about 70% of the portfolio is differentiated from the index about 30% over lapsed and one area of differentiation as regards to energy you wouldn't see this just looking at the sector weight is 4% of the portfolio in refiners compared to 1% in the index. We're taking an active position against the market as a result to refiners and effectively the tracking revolution if you will has created an environment where U.S. refiners have a home field advantage in a global market place. They could get the inputs cheaper than their foreign competitors. They can create a product that they can then sell onto the global market place and that's created now for them a margin advantage that can't be found elsewhere. And in terms of discussion on our holdings, I'll stop there and be glad to answer any questions you might have in terms of what's in the portfolio or how it's constructed.

David O'Brien: So you really take on a really bullish new position in technology because you brought in Apple, you brought in EMC and you brought in Oracle, fairly substantial positions. David Gullen: Yes so we brought in Apple, it's had strong momentum we sold it earlier because we felt that the valuation had become fuller so when it hit a little bit of a speed bump on the 2nd quarter it provided valuation opportunity to bring it back in. In terms of EMC we established that was back in the 1st quarter really had a draught valuation but we feel that it's got a very strong and common advantage, data is going to need to be stored somewhere and that spot is about to benefit from that. In Oracle they're defensive characteristics around that business but their transitioning are a little bit between the licensing and subscription model and the optics of it aren't all that great but you basically if you got a longer view it's a fine deal for them so we felt that valuation is kind of missed. Market misunderstood really what the value proposition was there and we established a name. They also have a high share of recurrent revenues their profits and we like their ties to the crowd market. What we don't have is exposure to the kind of the social media type names that are just booming. A lot of these are the incumbent players that have some defensive characteristics in terms of their revenue streams but have ties to growth as markets demand takes off.

David Gullen: In terms for outlook I would just provide for you, you can all take a look at where we are now, this was in the exhibit that got emailed over but this is an analysis from the Lootho group they're out of Minnesota, they're great data advocators. What's most predictive of returns over the long term is the valuations in terms of your starting point and if you look at where we are today, and these data go back to David I think it says 57, so you're looking at roughly 60 years, 55 years of history. With where we're starting today which ranks about in the 8th decile, decile one is least expensive, decile 10th most expensive. History will tell you over the next 10 years and you can see where that is Paula on the 8th decile says now, historically the average return has been about 7.7% using quarterly data dating back to 1957. Which isn't bad given where valuations are today, there's been a little bit of a run it might be closer to the lower end of the range on kind of our 6-8% target but again this recovery has really been all about normalization on the heels of what have been a market boost by excessive leverage so there's been deleveraging, Corporate America did a fantastic job getting its house in order. Top line growth has been anemic as naturally as people are retrenching they are not going to spend as much however there continues to be an appreciable amount of earnings leveraging the economy which is just to say it doesn't take a whole lot of growth a whole lot of revenue to filter down to the bottom line. And Corporate America especially Large Cap companies have continued to defy the skeptics in terms of keeping their profit margins high and that's been a function of a wage growth that's been anemic that will eventually normalize they've not been spending a lot of money eventually since it's stronger they'll start spending more and also we're 25 years on in the globalization of supply chain so just input the cost are better and businesses are more productive.

Sticking with that has been a winning strategy over time and so far so good and that's been our view provided that we can get valuations that we think are reasonably compensate us for the operating risks of the businesses that we own. I talked a bit about free cash flow characteristics and why they matter and just impericably I think you might find this interesting and Gerry if you scroll forward to page 2 let's see one more, and one more before I have you thumbing through the whole book here we are page 7, we'll just continue this. This takes free cash flow yields and how they perform relative to the market dating back I think the starting point there is 57 again. So back to the late 50's okay so we're talking 55 years of history or so and it looks at the top quintile in terms of free cash flow characteristics on a quarterly basis takes a snapshot and then rolls out and looks at how it did over the ensuing periods one, three and ten year periods. That's the blue bar, that's the best quintile, the worst quintile is green bar and basically what that chart demonstrates is that owning attractive free cash flow characteristics has provided an advantage over the market in terms of performance longer term and the kind that is a characteristics we have been buying into your portfolio. Again we take a long term view and that's one of the advantages our clients have as an institutional investors is to let things deliver in the advantage where its most like used.

David O'Brien: So that's like something that mega cap will? David Gullen: Yeah within the Large Cap universe why it's been tilting up to the mega cap. You're generally find couple of things, you're generally finding businesses that have attractive cash flow characteristics, strong management teams, strong incumbent market, competitive advantages with valuations that are in line to depending on the business like in technology at a discount to the broader market. So the reason that the yields have kind of made themselves available is there's a discount in the market that's somehow these businesses like some of these older line technology names that are becoming obsolete. Their technology is going to become obsolete, it's going to be replaced and while there are some legitimate issues around that, it's not going to happen tomorrow. You see that with Oracle you see that with Cisco, which is also in your portfolio and in the meantime you got the benefit of the shareholder of having this calling capital that can come back to you by your dividends or buy backs from a team that's got a track record of being a good capital allocator and you're not sacrificing price to do that basically what's available to you and the opportunities in the Large Cap arena.

David Gullen: So to our definition of value that's a good deal. We don't look down on things simply on a statistical absolute we look at it relative to its own growth its own profitability profile as well as to quality metric what's available to you out at the market. We love growth we love profitability we shop what we're paying for it. So that concludes my formal comments but I welcome any questions you may have. Wilfred Leon Guerrero: What can we expect from you? David Gullen: Near term your guess is as good as ours. Where's that chart? Oh there it is. Near term your guess is as good as ours. Wilfred Leon Guerrero: No, yours is better. David Gullen: Okay, well here it comes I'm sorry to disappoint you, near term we don't know. David O'Brien: Near term meaning 15. David Gullen: I'm sorry? David O'Brien: 2015. David Gullen: 2015, anything short of a fuller cycle which kind of gives you anywhere from the 3 to 5 to a 10 year look the thing about cycles is you don't know until they're over. But we would say is kind of over 5 to 10 year look to us given where valuations are and given where kind of earnings fundamentals are 6 to 8. Wilfred Leon Guerrero: What I want to know is whether we can make double digit returns? David O'Brien: You haven't heard that answer yet. David Gullen: To your question, can we expect double digit returns from here? With all the usual caveats I would say don't get used to that. David O'Brien: But some of the fundamentals that you talked about, meaning the deleveraging on a firm level the deleveraging, the ability to build cost control in their models but still have in a normalization and consumer deleveraging as well with anemic top line growth, I mean one would say that if you get continued normalization continued deleveraging at the consumer level, they're going to come back for a more the top line growth could be fuel because it's been stuck little bit so the kind of the model will change so the earnings will still be there in the market but they'll just be a different source they'll be not so much crossing cost saving deleveraging kind of thing but more top line earnings. I was just listening to you trying to figure out how... David Gullen: Yeah in terms of what's been driving earnings, it's been coming from the cost side really and corporate America's done such a good job in terms of cutting cost and squeezing every bit of juice it can out of its existing assets that it's done well. But eventually it's going to have to start spending money and it's going to have to start paying people more, it's going to have to start paying people, hiring new people but where we are in terms of you know if you think about the three variables that determine a total return, you've got earnings growth, you've got dividends and then you have PE multiple expansion or contraction, what we had last year was phenomenal in terms of PE expansion, so don't count on that going forward.

David Gullen: And you're really down to an environment now where it's looking kind of like earnings growth plus your dividend and we think that earnings growth is going to be consistent with long term averages at a 5 to 6% and then tap the dividend on top of that. That's kind of the base case and as you know with base case is you always have a standard deviation around it but that's kind of what it feels like to us. As active managers though we would say we continue to find opportunities as we always have over a long period of time to add value over that but we're just going to take what the market gives us in terms of what our holdings are going to be, what our sector profile's going to look like and let those 3 circles kind of drive the configuration of the portfolio. David O'Brien: That's scared off by the long bull market cycle the length of the bull market. David Gullen: Yeah you know it is long there's been longer let me show you something here. So this bull market is been 5½ years the average since 1940 has been 4.8 years, the S&P is up 192% the average is about 154% so it's stronger than average that's for sure. They've been stronger but it doesn't feel to us like we're in an environment from valuation perspective while we would say they're full, they're bordering up complacent that's straight out greedy like you saw in the late 90's and certainly saw in parts of the market moving in to 2008. Nor any excesses in the system that need to get rung out like we needed back then so lets to say we don't see any necessary huge correction in the often however if you were to ask us last year you know would it be okay if earnings went over about 10% forecast to be about 10% this year in a flat market. We would have felt better about things if there had been a healthier development. But basically what we've had is a market going up almost pound for pound with expected earnings growth from here. It's been an unusual market and it hasn't for a market that's delivered 11% it sure hasn't felt good there's been so much volatility there's a very odd in April we had a big market reversal around some momentum characteristics. If you look at and I'm sure Maggie has taken you through, but it's fascinating you know the markets have become a little thinner. Once you start getting out of those Large Cap names it's been very messy down there with that said the Small Cap market is still trading at about 110% premium against its Large Cap counterparts and a little above average in terms of its richness not egregious but at the apparendum of standard deviation.

David O'Brien: So you like this space where you are now more before you put us in. David Gullen: We do on a risk adjusted basis, we feel comfortable of how we have the portfolio situated. And it's not an exciting story to tell, valuations have re-rated, there's continually an advantage to dip into quality that should show up the portfolios outlook on a risk adjusted basis going forward. Free cash flow generation has continued to be rewarded we know that it matters in terms of yield over time and we have taken active positions against the market that have penalized us specifically as regards owning bond substitutes because of pricing, because of the quality of what you own, but we're comfortable with that and as the interest rate environment normalizes on a relative basis will be beneficiaries from that on an absolute basis given our credit sensitive exposure and some of our insurance exposure we'll benefit from that as well. The devilish part is who knows the timing, all you know is what works over time so you take your position do it on a diversified basis and just continually refresh as appropriate given your disposition. Wilfred Leon Guerrero: Okay. Thank you very much. David Gullen: Always a pleasure, thank you very much.

Northern Trust

Bob Ernst: Your participation in our securities lending program and I'd like to conclude unfortunately with the discussion about our current fee arrangements and the need that we have to propose some alternative arrangements for you. Joe San Agustin: Excuse me, you know the main thing with it I just want you to clarify the main thing we made with you guys is primarily custodial agreement I don't want you to make second guess that making securities lending to be the primary. Our rationale for going to you folks is primary custodial agreement and asset administration not securities lending. Just because your statement seems to pass on the custodial relationship and want to go at securities lending. I want to take that back I want to go back to base 1. I want to talk to you, I would like you to concentrate on the custodial arrangement, how are you doing with our account, how are you making some accountability and transparency on our account because these I don't know Diana, the only time I get Northern Trust is this thing, we get it from Dan and it's computerized electronic right but we don't have a regular, quarterly or semi-annual report of actual activity as a custodial administration. We don't have anything at this point. I just want to get that because you're rushing it I don't want to rush it. Wilfred Leon Guerrero: But let me provide some input on what you just said because if you recall I think we we're treating this security lending as an administrative activity and then the Board decided that this security lending activity is an investment activity it's not an administrative stuff so that was why we're meeting in the investment committee. I think in terms of the custodial relationship it really should be done by I guess the Board but this is primarily what we're interested is on this one is just the securities lending and it's because of we decided it was an investment activity rather than an administrative activity.

Joe San Agustin: I just don't want to get the cart before the horse. Wilfred Leon Guerrero: Of course, what happens when you invite people like Northern Trust for example, they come here and want to talk about their bank. Our interest for this particular committee is securities lending and I think what the Chairman wants us to do is to review the relationship that we have with you in terms of your custodial bank and.. Joe San Agustin: Or maybe we can put that for another day because we don't have time for this thing. I bow to you and we can go to securities lending but I think there's enough issues that we need to revisit our position. Wilfred Leon Guerrero: I agree. Joe San Agustin: When was the last, 5 years? Bob Ernst: The contract started yes in October of 2008 so it's just been over 6 years now. Well if I may then let me first give you a quick update on Northern Trust. Certainly talk about our role as your custodian because certainly it is a very important role to the Fund and I think you need to be assured that your assets are with a financially stable institution and that we're providing the custody service that you need and the information that you require of but also support your investment managers with the investment activity that they are transacting on your behalf. So I guess if I may with that just a quick update on who we are as an organization on the first page here. I think we are a fairly unique organization in terms of our business focus. We essentially service 2 client types, institutional clients such as yourselves and other institutional investors around the world and then we also service high network individuals through our private banking activities which is primarily based on the mainland U.S. although more recently we have started to expand that service throughout continental Europe. But essentially for these 2 client basis we do two things, we provide asset servicing asset administration and we provide investment management activities. Now for you today we're providing custody related services but as referenced earlier we very much view securities lending as an investment service and so we review that as an investment activity. We have just under 6 trillion dollars in assets under custody, just over 4 trillion in assets under administration and just shy of a trillion dollars in assets under management. I think the other thing that I'll mention to the Board is that this year the bank celebrated its 125th anniversary which I think we are quite unique because we are the same organization as we are now as we were when we were founded 125 years ago. We've not been deluded or impacted by mergers or acquisitions, we are the same organization servicing the same types of clients as we were founded to do.

Bob Ernst: Looking at page 3 on the Northern Trust profile I won't focus on a lot of these statistics but I think it's important to recognize as I mentioned earlier that Northern Trust is a very financially stable institution. We have a very high quality balance sheet that's supports our businesses and supports our clients and we continue to have a strong financial performance although obviously the market operating have been strained if you will to say the least. But we continue to grow our revenue, we continue to grow our client based and why is that important to you well it allows us to reinvest in the business and allows us to deliver a higher quality service to all of our clients whether they be located in the U.S. or anywhere around the world. Looking at the map I think I've shown the map to you before it will show you our global footprint and most of our custody related activities at least for our clients in North America serviced out of Chicago where I am based. But as you can see a growing footprint around the globe, I think it's important to know the last time I would have shown you this map, we have added 2 new offices. We just announced a new client servicing office in Kuala Lumpur and we just announced our intention to establish an operational facility in Manila which supports our very large operational facility that we operate in Bangalore. But certainly for you in this region, in a pack we have seen tremendous growth not only in terms of the clients that we work with but in terms those professionals that work for our organization.

21 locations around the world, 15,000 staff we provide custody services at 105 markets and we have clients in 46 countries. So I think all very important statistics to show the global nature of our business and our ability to service institutional investors such as yourselves. If we look at specifically your relationship with Northern Trust, I've been

fortunate to be your relationship manager since the start of the relationship in 2008. I've supported primarily by my colleague Ramon Valenzuela who works on a lot of the more day to day activity with the staff here but together we are responsible for delivering the custody services and the reporting to the staff that they require in order to manage the Fund. And if you look at the row of boxes on the bottom portion of the page, you essentially see all of what we would consider core custody activity. So, activities that we perform for you and all of our clients on a daily basis. So all of these core custody functions I think are very vital to the Fund and a very important component of what we do for you each and every day whether you see it or not in your daily jobs.

If we look at the range of services that we provide clearly it's important to focus on the basics and if you look at the bottom of the pyramid essentially you'll see our asset processing, asset custody related activities that we provide but certainly we offer a number of other value added services to the Fund and so I don't want to diminish the importance of those other activity that we are providing for yourself which really run the gamut from all of our asset reporting, our valuation, the assistance that we provide to staff when preparing your annual financial statements and all of the new rules around the GASB reporting that you'll be following. We also provide the Fund as you know our performance measurement analytics reporting and then moving up under what we refer to the asset enhancement activities we provide you with cash management activities for investing any U.S. dollar cash that may be sitting in your various portfolios. We provide securities lending as you're aware. We do also provide foreign exchange services which are utilized by both of your investment managers that trade non U.S. dollar assets and then most recently we were very pleased that you had informed us of your intent provisionally to move forward with our transition management service which will be very much looking forward to that the expansion of that side of the relationship.

Joe San Agustin: Does that require amending the contract? Gerard Cruz: I think that would be a new one, right? Bob Ernst: It is a separate agreement that we would sign with yourselves. Joe San Agustin: It will not be under the agreement that we have now, it will be a separate agreement. Bob Ernst: It will be a separate agreement, yes. Joe San Agustin: Which would have a different role? From a custodial to an investment role. Bob Ernst: Yes. Very distinct activities so wherever we have such distinct roles that we're playing we very much want those to be governed by separate contracts and they very much are at your discretion. You elect to use these other value added services as you feel are important and if you want to discontinue one for any reason you're certainly able to do so. Joe San Agustin: Would that be coming from you or different people? Bob Ernst: It's essentially a different person. Joe San Agustin: You're probably the 5th floor version. Bob Ernst: The support person that you would have for our transition management activities is based in our Hong Kong office so he would be responsible for working with the staff whenever there was a transition event. The trading in the activity would be conducted through our offices in Chicago and London. If we look at some of the key metrics I think one thing that I would note over the years since 2009 since we've been tracking these statistics is there's a significant consistency in terms of the number of accounts and the number of the managers that you employ. The settlement rates are exceptionally high and your other activity related to income collections, trades, class actions all very consistent across the board.

One interesting fact that I was not aware of until I was preparing the report, this year for you is interestingly if you look at the number of trades year to date in 2014, 17,235 now that's across all of your investment managers but it's interesting to note that Numeric is actually 66% of that total number. Gerard Cruz: Numeric? Oh yeah, the Quant shop, Small Cap core. Bob Ernst: So that's the... Joe San Agustin: What was that? Paula Blas: Numeric, one of our managers. Gerard Cruz: No they're trades. They have a lot of trades. 66%. Bob Ernst: So that a real quick high level overview is our custodial activities I think before I continue on were there any other any questions specific to our role as the Funds custodian? Joe San Agustin: My concern here is that the only time we get this kind of information is when you come and visit us. The Board itself don't get this in between getting independent transaction from independent managers. Bob Ernst: We certainly have a considerable amount of reporting that we make available to our clients. All of this is available online to the staff here through our online system but if the Board could identify a set of reports that you would like to receive on a periodic basis, we'd certainly be happy to assist the staff in preparing that. Joe San Agustin: Well I don't work here full time, I get these on a Board meeting, and your transactions are on a daily activity. We should get at least some kind of summarization what happened in the last 3 quarters or last quarter and correspond to that relationship when investment manager coming in. Do we get investment manager every year or 6 months, just for your due diligence for different managers? How do we relate their activity with this to support because you're the backbone of their report as you said we didn't know the 66% of that transaction came from Numeric. We wouldn't know that if these Numeric people didn't volunteer that. Bob Ernst: They wouldn't know that. Joe San Agustin: Exactly, so you acted as a checkpoint for all these guys and you are really actually are screening their transactions. You know you just mentioned about exchange rates so when these people do foreign exchange it goes to you guys.

Bob Ernst: Essentially everything has to come through us absolutely. Joe San Agustin: Exactly. My concern that kind of independent analysis report in your side so we could coincide with what the others, we got maybe 10 different investment managers. Paula Blas: 15. David O'Brien: But, they do have some good reports. Joe San Agustin: I'm not saying they don't have, but we just don't get it. Wilfred Leon Guerrero: The point is we're not making maximum use of their service that's what the Chairman is getting at. Joe San Agustin: We only getting a snapshot of what you made a year it's not a monthly report when the Board gets that. Like every 6 months the investment managers come around. I want to know I just want to correlate if they're telling me the truth or who is supporting that basically in the contract. Bob Ernst: I think that we obviously have a lot of data a lot of reports that are available and really I think that we would be able to provide the staff as well as the Board whatever type of information you're looking for but we would need some guidance from you in terms of what it is you want to receive, the frequency that you want to receive it and the format that you want to receive it and we're certainly more than happy to prepare a monthly or quarterly report package for the Board, working with the staff here to make sure that that thing gets delivered to all of you. But you're absolutely right, we know everything that's going on within your portfolio as we aggregate the data, that's our responsibility. We do provide staff with monthly accounting reports in order for them to properly account for the activity that's occurring on a month to month basis but beyond that if there are other management related reports they're certainly available but I would need some guidance from yourselves or from the staff in terms of what it is you want to receive and the frequency that you would like to receive it.

Joe San Agustin: One item that strucks me all the time that I would like to get is the cash. The cash availability tied in stock or in transit before you execute your trade, they buy in and the structure that executes the trade and I want to know the timeframe that those cash sit idle in some place. Bob Ernst: Well no cash is sitting idle because any.. Joe San Agustin: Well I'm sure but the transaction within the investment managers in Hong Kong and then turn it to you guys somewhere it makes the trading date when you execute the contract or disburse the money or what the money that came from Bank of Guam and transfer to you, how long does that get to be invested to the next investment manager. Bob Ernst: Well it's going to be given to the investment managers probably on the same day that we receive it from yourselves, it's then invested in a money market fund. But then you're absolutely right its incumbent upon your investment managers to make an investment decision on how quickly they want to employ that cash into the market and what opportunity they may see it's up to them and that's obviously completely beyond our control. We can certainly give you reports to show you what you are residual cash balance is at any point in time to see how much on average your investment managers are holding in cash. But that's all information that yes we have that....

Joe San Agustin: And also be good because of that mismanagement on cash. I don't know at this point we don't know that. No one manager would volunteer that. But those data can only come from you from your side. Bob Ernst: Right. So again to the extent that you want to identify that sort of reporting we are more than happy to work with staff and get that delivered to you. Joe San Agustin: I'm sure you have that data and I will look back at your data and identify the manager who has that cash and then what happened, what's the disposition of that whether to buy stocks or not. All I'm asking is an audit trail for that kind of stuff. Bob Ernst: With the Boards permission I'd like to spend a few minutes talking about securities lending. Joe San Agustin: You go ahead, we probably have to do a lot of discussion later on that. Wilfred Leon Guerrero: It looks like we're averaging about $33 to $36,000 a year on this federal lending program. Bob Ernst: So if you move over specifically to page 14, you can see your net revenue over time for your participation in lending. Now, you got into our lending program at the very end 2010 so really we just had one month of earning but you can see throughout 2011 through year to date 2014, you've been ranging anywhere between $215 to $250,000 dollars per year. You can see that most of that's been driven by your global equity stock and then also some of U.S. equity income.

Bob Ernst: If we go back just looking to page 10, you can see the relationship over time we started in December of 2010 I think it's important to know year to date gross revenue just shy of a million dollars or $909,000 that's net revenue to yourselves during this period of $636,000 on average about $230,000 per annum. If you look at the service team as I mention Brad Blackwell in our Hong Kong office is responsible for servicing the securities lending relationship he's supported by Kaitlyn Choo also in our Hong Kong office and they both report up Sunil Daswani who is based out of our London office and serves as the head of our client relationships team for all capital market activity. If you flip over to page 12, you get a highlight overview of the Northern Trust program. Our Lendable base of 370 clients participating from 27 countries, we have just over 900 billion in lendable securities

and on average we have about just over 100 billion of loans outstanding in at any one point in time. We operate in 52 markets, 24 hour trading, we have 53 approve borrowers. If you look at the box highlighted in green you can see the top 10 borrowers by the name so you can see the types of organizations that are borrowing securities from our program. If I look specifically at your program, Citigroup, Credit Suisse and Deutsche Bank are the top 3 borrowers borrowing your securities and of those top 3 names they represented 46% of the total loans outstanding. So those of the 3 counterparties that you have most exposure to from a securities lending perspective.
Bob Ernst: You can see on the next page you're available lendable assets as remain relatively constant over the last 5 years as has your average amount on loans. So we're typically averaging about 16 million dollars in assets that are on loan for the Fund at any particular point in time.

Wilfred Leon Guerrero: About 16 million. Bob Ernst: And then as we talked about the revenue over time you can see in the 200 thousands on a per annum basis. Wilfred Leon Guerrero: You raised your fees? Bob Ernst: Oh because we've been able to obtain higher fees from the borrowers so we've been able to charge more to the borrowers in order to borrow your securities. So you've had what I'll refer to as special holdings that are been particularly hot in the lending market and for those special assets maybe it's a company going through a merger and acquisition or it's something else that makes that particular holding hot to the brokerage community we can loan those securities at a higher fee therefore getting more revenue for you and more revenue for ourselves. Wilfred Leon Guerrero: What's the percentage on the increase? Bob Ernst: It all depends on the special on the situation but I can't give you the details of that. Wilfred Leon Guerrero: I understand this program these guys buy these, you said lend them but basically what they want is they want the voting. Bob Ernst: That is one reason why they may borrow they generally borrow for other reasons. They generally are not borrowing specifically for voting rights. Wilfred Leon Guerrero: I'm sold on the idea that these guys borrow your stocks so they can control that voting when they vote the board of directors, Newman, Morgan and Citigroup. Bob Ernst: No not so much. Maggie Ralbovsky: No these are brokers. Bob Ernst: This is who is borrowing it these aren't the stocks that are being lent, these are the brokers the prime brokers who are borrowing the securities. They're on the other side of the transaction from you as the lending. Wilfred Leon Guerrero: But people borrow. Maggie Ralbovsky: They borrow through the broker it's not the broker that borrowed they're brokers.

Bob Ernst: They're underlined clients need lets say you have Apple stock their underlined client Credit Suisse underlined client may need Apple's stock for some reason or another. Because of that they're going to come to....Wilfred Leon Guerrero: So what I've learned it's like you want to control the Bank of Guam what you do is you borrow the stocks and then you go in with your votes, you control the... Bob Ernst: The voting rights do come along with borrowing the stocks but I think that statistically it's been shown that most borrowers are not borrowing specifically to control voting rights. Wilfred Leon Guerrero: Oh is that right? Bob Ernst: Right. Wilfred Leon Guerrero: Okay. Bob Ernst: They're borrowing for other reasons they need it in their inventory for some reason so they will come to a lending agent in order to borrow for other reasons. David O'Brien: So what are the top 3 reasons statistically? Bob Ernst: Well I think that the first reason would be that they're borrowing because they have a trade on the other side that for some reason they're short, they don't have it in their inventory, they need to settle that trade with another client and it's cheaper for them to borrow it as opposed to paying the penalties to the buyer on the other side, that's one reason. I think the primary reason you also have hedge funds borrowing because they may want to be shorting the position, that's another reason or not so much true now but you frequent over time have seen borrowers borrowing U.S. treasuries because they wanted the U.S. treasury on their balance sheet, they didn't want cash they wanted the treasury so they would borrow it to position it on their balance sheet.

So the other thing that we talked about periodically is the possibility of you evaluating your collateral arrangements and I think that's something we would very much like to try to pursue with yourselves. Currently as you know you're in a non-cash collateral arrangement but I think that we have positioned to the Board and proposed to the Board that you consider a more traditional cash collateral arrangement where by the cash collateral would be invested in a money market fund, 2a-7 type fund very conservative guidelines but it would create a significant increase in the net earnings and I think would be something that hopefully the Board will consider in the short term. Joe San Agustin: Is that the same proposal several years ago? Bob Ernst: Essentially our original proposal to the Board was based on a cash collateral arrangement but because of the financial crisis in 2008, you delayed going into lending which was fine, we respected that decision and then once the decision was made to go into lending it was decided to go incrementally at a very conservative step in taking only non-cash collateral arrangement.

And unfortunately that brings me to the last point that I need to cover and that is unfortunately over time the fees that we've been charging to the Fund essentially have not covered the expenses that we have in servicing your assets. So ultimately we need to look at a different fee arrangement and what I've tried to position here are 3 different options for you to consider I think each would have their own merits but ultimately I would need the Board to decide what direction you would like to go in this regard.

Bob Ernst: The first column is your current fee arrangements and then as you'll see I've laid out 3 different options. The first option, Option 1 allows us to keep our custody fees exactly as they are today but what it would require you to do, it would require you to move into a cash collateral option, our NILAP fund which is a 2a-7 money market fund and then it will also require us to reduce your fee split from 70/30 which you currently have to 65/35. If we take those steps we would be able to keep the amount that you're paying to Northern Trust out of your pocket the same amount, the same $70,000 per annum. Joe San Agustin: Probably reduce our revenue. Bob Ernst: It would dramatically increase your securities lending revenue so currently you're... Joe San Agustin: Now it's 60/40. Paula Blas: No, it's 70/30. Joe San Agustin: Okay. Bob Ernst: So your current securities lending revenue is approximately $240,000 per annum. If we move you to a cash collateral arrangement we estimate that you're net revenue on a 65/35 basis would be $500,000 per annum. So you double your securities lending revenue and you keep your custody fees exactly where they are today.

Bob Ernst: The second option is similar you move to a cash collateral arrangement, we keep the fee split at 70/30 but under that scenario we would need to increase the flat custody fee of $50,000 per annum to $100,000 per annum and we propose doing that in stages. So in the first year we would increase it to $75,000 and in years two and beyond we would look to increase it to $100,000. I think that option 2 again you have to be comfortable with a cash collateral arrangement but if you were doing so obviously I wanted to keep your revenue from securities lending higher, we can accommodate that but we would need to pick up a little bit more revenue on the custody side. The third option which is probably not terribly attractive, but unfortunately the reality is that we can keep the lending arrangement exactly as they are today, well change the split from 65/35 but if we keep this arrangement in place, you can see that we would need to dramatically increase our custody fee. I think it's long been recognized the custodian banks like Northern Trust typically use securities lending revenue, generally a higher margin product to offset a lower margin custody business. And I think this is just the reality of where we are today unfortunately but ultimately these are the options that I need to present to the Board and that's for you to consider which direction you would like to go. Wilfred Leon Guerrero: I guess its net revenue the $240,000. Bob Ernst: This is net, when we say net revenue that's your revenue that we that you earned yourself from securities lending.

So, currently your net revenue $240,000 per annum under a cash collateral option. Wilfred Leon Guerrero: Okay on the split fee what is your take on that? Bob Ernst: 70/30 so you get 70% of the revenue, we get 30%. Wilfred Leon Guerrero: Okay our net is 240 what is yours? David O'Brien: 3/7th. Bob Ernst: I have it here bear with me. Wilfred Leon Guerrero: 173. Bob Ernst: So under option 1, where your net revenue is $499,000 our revenue our 35% of that is going to be about $268,000 I think. Gerard Cruz: Oh 35% right. Wilfred Leon Guerrero: Currently our revenue is 240 and yours is 103 plus 50 and the 70 that makes it 173. Bob Ernst: Right. Wilfred Leon Guerrero: And we still don't carry any liability for this right? Bob Ernst: Well we do have some certain indemnities as we offered you in our securities lending agreement so yes we do offer some indemnities that again we never position securities lending to be a no risk activity it is an investment activity and the Board needs to recognize that. Now, your current non-cash collateral option removes a very significant risk in running the securities lending program and that was the reinvestment of the cash collateral. But what we're proposing to you is investing your cash collateral in a 2a-7 money market fund which has very conservative investment guidelines essentially the same guidelines as you have for any money registered FCC money market fund. So they're very conservative guidelines, very liquid and I think it is the gold standard conservative option for running in for reinvesting cash collateral with securities lending program.

Gerard Cruz: If we had moved to a cash collateral program in the beginning, would you still be coming back to us with a fee change? Bob Ernst: Potentially, I think that obviously when we're proposing when we first proposed our fee arrangement back in 2006, 2007 we did it based on certain assumptions. Now that we know what your investment profile looks like, now we know how your managers trade, we know that Numeric is a high volume trader, essentially our cost to service your assets are based on your transactions and based on withholdings. Gerard Cruz: I'm sorry I understand, I don't mean to interrupt but I am in a rush, but anyone bidding at that time would have had the same learning curve so to speak. Bob Ernst: Absolutely. Gerard Cruz: So why wouldn't we just bid the whole thing out again? Bob Ernst: That's certainly an option to you, we believe that our fees are still well below current market rates but that certainly is an option that the Board has available to yourselves. Gerard Cruz: Okay.

Joe San Agustin: That's only for securities. Gerard Cruz: Well for custody. Joe San Agustin: That's what I'm saying. Gerard Cruz: They're both... Bob Ernst: It has to go hand in hand because if you want to keep your custody fees low, you have to participate in securities lending. Joe San Agustin: I'm saying some way or another the custodian to protect priority. Bob Ernst: No, for 30 years securities lending has always been a vital important activity for custodians. Gerard Cruz: Okay, understood we just need to know all options.

Wilfred Leon Guerrero: When do you want us to decide? Joe San Agustin: His proposal is different from what's in the program that's to be presented and this was the non cash. Bob Ernst: Well it's closely length. Joe San Agustin: Yeah but this is cash and non cash. It's either this is an extension of this portfolio. Bob Ernst: Currently you're running on what you have in your hand there. Currently you're operating in that first column, we're suggesting that you move all the way over to the far right and operate under cash. Joe San Agustin: All non-cash, except the last column. Bob Ernst: Right, because there's different variations of non-cash you're in the most conservative. Joe San Agustin: In this case you're offering 3 options of cash and non cash. Gerard Cruz: But you want us to move to cash. Oh no that is the option.

Bob Ernst: I think it's important to recognize that if you want to keep your custody fees low, then you really need to move to a cash collateral. Gerard Cruz: I understand. Joe San Agustin: This is an extension of this part because this deal with non cash this does not. Bob Ernst: Right, this deals with other activities we provide that's only securities lending. Joe San Agustin: This is an amendment or an extension. Bob Ernst: Right. Mr. Chairman: You have to do an extension not just two separate items.

Bob Ernst: The last thing that I'll mention in light of your recent decision on transition management you know we very much value a broad relationship so to that extent that we be willing to give you a custody fee rebate of 10% of any commissioned dollars generated as a result of the transition manager at this time. Gerard Cruz: Oh okay. I know it's hard it's always hard asking for a raise it's just these things we have to go through. Bob Ernst: So the timing ideally we like a decision by the end of the year, I think I recognize that may be unrealistic, our deadline would be to have a decision and know which direction the Board is going to go certainly by the end of the first quarter of next year. Wilfred Leon Guerrero: I'm still a little bit fussy about what's your liability on this? Gerard Cruz: Now we have an indemnity agreement a limited indemnity agreement. David O'Brien: Now their liability is over liability. Gerard Cruz: But if we move then we accept the investment risk. I think the biggest investment was the reinvestment risk, right? Bob Ernst: Historically yes and that was certainly the history in 2008.

Joe San Agustin: That was the environment. Bob Ernst: But that was all reinvestment risk that was going on in 2008. So sorry to be so rushed those were really the comments that I have other than to thank you, we very much value the relationship. I personally have enjoyed working with all of you over the years, we certainly hope we can continue working with you in the future we hope that you find one of these 3 solutions that we put forward a viable option for the Board because we certainly very much would like to continue to work with you as we said we value your business, we value the relationship. Wilfred Leon Guerrero: Thank you. Gerard Cruz: Thank you. Bob Ernst: Thank you all.

Respectfully submitted,	**Affirmed:**
Angelina Castro/Marilyn Aguon **Recording Secretary**	**WILFRED P. LEON GUERRERO, Ed.D.** **Investment Committee Chairman**