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Defined Benefit Plan
Quarter Ended September 30, 2014
Quarterly Performance Meetings and
Annual Investment Manager Reviews
 November 19, 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 M. O'Brien, Trustee
 Anthony C. Blaz, Trustee

Staff Present:

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

Other Present:

Doris Flores-Brooks, Office of Public Accountability
 Maggie Ralbovsky, Wilshire Associates
 David Stewart, Numeric Investors
 Jay Rajamony, Numeric Investors
 Kristine Gaspar, Eaton Vance

Economic and Capital Market Environment &
DB Plan Performance
Eaton Vance
Numeric

Pages 2-20
Pages 20-27
Pages 27-38

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Economic and Capital Market Environment & DB Plan Performance

Wilfred Leon Guerrero: We're going to go ahead and get started. You lead the way. Maggie Ralbovsky: Okay, great good morning. Doris Flores-Brooks: Good morning. Stock market keeps on going up and up and up. Maggie Ralbovsky: We're going to start with addressing that issue. So in the past 5 years the U.S. market has been up 15 close to 16% annualized every year. So that's after the 2008 crash. Now the question is where are we in the cycle? Are we close to the end? There are people who believe there's an impending crash that's coming so in order to assess that we put together this heat map on page 1. This heat map is compiled based on the different factors that usually rotate during different cycles in the economy. So this is the economic cycle, when it turns red it tends to be the late cycle indication when it does when it becomes when it's green it's actually in the early cycle kind of an indication that the other colors are somewhere in between and you can see that they don't have to read one by one. Some indicators do show that there are some late cycle indicators and these are mainly the indicators that are connected to easy money policy. For example the M&A activity keep picking up just about every week you hear big merger.

Wilfred Leon Guerrero: Are you on page 1 or page 3? Maggie Ralbovsky: I'm on page 3. Wilfred Leon Guerrero: Go ahead, I'm sorry. Maggie Ralbovsky: Okay and also for the first 3 red ones they are also very much connected to the easy money cycle because you can see that the lack of differentiation credit rate pricing when there's so much money chasing so few risky assets people basically doesn't care what the pricing is they just buy it. There's no differentiation, there's broad based growth, there's extended equity valuation by some measures however, the fundamentals of the economy at the bottom you can see that the credit availability and the credit expansion is still very refrained. So there's an imbalance in between the development of these different indicators and our assessment is that no we are not close to the ending cycle, we just passed the middle part of the cycle. Gerard Cruz: Where is the credit? Doris Flores-Brooks: So we have a while that we're going to satisfy the longer expansion. Like a longer recession. Maggie Ralbovsky: This is going to be a very much longer cycle in terms of business cycles and there's many, many factors that contributes to that. The main thing is that U.S. does not operate in isolation. So if U.S. is in isolation like a closed economy there is nothing else that influenced it we'll probably have rushed towards the end of the cycle. However, if you look at what's happening in Europe, what's happening in Japan, what's happening in emerging markets, there's simply too much slack in the entire world and the world economy is so connected, we are basically right now importing a lot of deflation.

Deflation is being imported to the U.S. When U.S. dollar gets so strong, when the oil price gets so low, now oil price is one other major, major contributor. The U.S. development of fracking to get more oil out of the ground, really has challenged the old world equilibrium where the Middle East countries are supporting oil to the world and they control the price that is no longer the case. The U.S. is now the biggest oil output in the world. They didn't sell this and the other thing is we do not export. So the law still prohibits us from exporting. So like other countries can not buy from the U.S. but the U.S. has been self sustainable with oil and that really has made a lot of things happen. Doris Flores-Brooks: What happened on Guam? Why is our gas so high? Maggie Ralbovsky: That's refinery issue. Wilfred Leon Guerrero: Go figure that one now. I'm telling her go figure that one now. Maggie Ralbovsky: So the oil price dropped 30%. Wilfred Leon Guerrero: You know

Maggie the last depression was caused by housing right, whatever it was, what is it that is concerning people now at this time?

Maggie Ralbovsky: What is concerning people or is it concerning. Wilfred Leon Guerrero: The investors. Maggie Ralbovsky: Oh, the investors. What's concerning? Wilfred Leon Guerrero: Do you know of any area. Maggie Ralbovsky: Well the people get nervous about the reversal of the easy money policy right so if you think about how much money has been printed in the past 5 years, the Fed balance sheet is four trillion dollars and Fed just stopped buying new mortgages but they are still re-investing old mortgages. Which is to say that the Fed balance sheet is still going to be four trillion dollars. Now before the crisis hit the Fed balance sheet was below it was like something like 800 billion. So think about how much more the Fed has been participating in the market and people were thinking what happens when the Fed starts to reverse that. That's how you know just put into perspective the entire U.S. equity market is a 12 trillion dollar market and the Fed has a balance sheet of 4 trillion. So if all that money comes out of the system, what's going to happen to all these asset classes? So that's the thing people are getting very nervous about is the evaluation, the liquidity is how the Fed is going to reverse the cycle. And another thing people are very, very nervous about is the fact that Europe is in such a tipping point. It could go back to recession it could also start, the best scenario in Europe is it could get muddled through. The worst case is that they go back to recession and if Europe goes back to recession and if that impacts us, the Fed is basically out of means. The Fed has no more ways to pump in money into the system they're already up to the limit. So that's another thing people are very, very nervous about is that the Fed doesn't have any ammunition if something hits the market.

Doris Flores-Brooks: So what is your prognosis if lets say it's likely that there might be recession, so what's going to happen? Maggie Ralbovsky: You mean in Europe? Doris Flores-Brooks: Yes, tell us. Maggie Ralbovsky: Well you know... Doris Flores-Brooks: What does your crystal ball say? Maggie Ralbovsky: Our assessment is that is not a poor scenario, we don't think that's going to happen. We actually think Europe is going to muddle through. Doris Flores-Brooks: Muddle through? Maggie Ralbovsky: Yes we think Europe is going to muddle through. We think the U.S. cycle is right past the middle and has not reached the end and we think the equity is going to have another good year next year. So this year did I say upper single digit, right? It's about that right now. I think next year is probably going to be better than this year. 2016 might be... Doris Flores-Brooks: What is the average rate of return for 9/30? Paula Blas: It's in here, she's going to go through it. Maggie Ralbovsky: Now I also want to point out this other chart on page 3. That is the wage growth versus job opening chart and you can see that the red line is the average wage in the private sector. That average wage has gone back to ten years ago level. It basically is the same level at 2004. So for the past 10 years the average wage did not grow. Now that doesn't mean that life's standard has not improved because oil price has gone down so much in the past 10 years. Energy price going down also influenced food prices also going down because a lot of transportation, production of food and other industrial goods all related to energy prices. So really the U.S. oil boom in the energy price deflation has been a great contributor to life to lifestyle improvement while the wage has not really improved. And that is another reason the Fed actually has a lot of leeway, a lot of room right now to wait on raising interest rate because there is no inflation pressure. Not only are we

importing deflation from Europe, from Japan from elsewhere, we also do not have wage inflation pressure in this country not yet.

Maggie Ralbovsky: So overall our assessment is that we just passed the mid point and we still have a very long cycle to go. So inflation, speaking of inflation, now. David O'Brien: So you're going to talk later about risk that could change that scenario? No? Maggie Ralbovsky: Well yes, there's always risk so... David O'Brien: Well what do you see on the horizon because I mean there's a lot on the horizon I mean there's always a lot on the horizon. Maggie Ralbovsky: Well there's the political risk. We know that Russian ruzgal has dropped 60% in value. Russia really has been trying to start another cold war the damage Russia could do is to Europe because European countries rely on Russia to get their energy, get their oil and if Russia causes trouble it's really going to make Europe even harder to pull itself out. The biggest risk to our outlook is European Unions recession. So it could go back to recession, right now the forecasted growth is 0.8% the next year. Now recession official definition.. Doris Flores-Brooks: Zero? Maggie Ralbovsky: 0.8% for the entire Europe. David O'Brien: Are you guys worried about deflation in Europe?

Maggie Ralbovsky: Deflation is happening. Its happening and we're actually importing deflation to the U.S. so that is another. David O'Brien: So that takes pressure off the inflation. Maggie Ralbovsky: Yeah inflation in the next page you can see that's why inflation sensitive pricing has been dropping. The break even inflation for the next 10 years has dropped to 1.9%. David O'Brien: What is break even inflation? Maggie Ralbovsky: Break even inflation is the market forecast that's the difference between tips and nominal treasury. So that is what priced into the market. For the next 10 years its 1.9% inflation, that has dropped from 2 points... The next 10 years and pretty much if you look at the current... David O'Brien: Dropped from 2 what? Maggie Ralbovsky: From some point 2.5 so last year was 2.5 the year ago. David O'Brien: So that means the yield curve is flattened. Maggie Ralbovsky: Yes, yes. Professor that's another important. David O'Brien: I know, I know I'll wait I'm just looking for risk. Joe San Agustin: So are you telling us to start thinking of putting money away right now? Maggie Ralbovsky: I think we need to diversify. Joe San Agustin: That's what I mean. David O'Brien: I know you'll get to the yield curve. So my question is the inflation easing in the European inflation coming in the year easing inflationary pressure in Europe and causing big problems in Europe, what about the one I expected you to say first is the drop off in the Chinese growth. I mean they change their targets easy, right? They lower their target.

Maggie Ralbovsky: Well you see I know that the Chinese growth I actually think has a much lesser impact than European. Joe San Agustin: Not going as fast as they should. Maggie Ralbovsky: Because the Chinese growth rate is so man made as you said they could change their target. The Chinese growth rate is calculated by input not output. So they basically can fudge the number on to suit China, I think the worst case for China is not the so called hard landing, what the worst case for China is actually keep the artificially high growth rate and eventually they do not make adjustment from investment driven economy to consumption driven economy and they're going to basically crash. Not hard landing but crash, you know what I mean. So I think the best case for China is to have a low rate of growth. David O'Brien: Okay. Maggie Ralbovsky: Have a low rate of growth and just change the structure of the economy. They're trying to change it, they are trying to basically encourage people to spend the money instead of saving the money because when

you save the money you only encourage infrastructure spending that build up all these ghost towns that eventually will cause a huge bubble which is just going to crash. So the best case for China is actually just has a low rate of growth.

David O'Brien: So because you coupled that with the problems in Japan right, so you have problems on both sides. I mean you got Europe going through its problems as you said. And you got Asia at these are the two big players in Asia which together you know that's playing out in order, right? Maggie Ralbovsky: Okay, so Japan is actually doing well. David O'Brien: It is? Maggie Ralbovsky: It is doing well. Japan has this. David O'Brien: I thought they changed their mind. Maggie Ralbovsky: Well so what happened was that at the beginning of the year they started this new tax that people were thinking it's going to be really bad. And that tax implementation is going to be pushed back and now the biggest trade in the world right now is to short Japanese Yen long Nikkei and that's the most crowded trade for all the hedge fund. Gerard Cruz: Short the yen? Maggie Ralbovsky: Short the yen and long Nikkei so you neutralize the impact of the currency we know its Japanese yen is going to keep depreciating but the. Doris Flores-Brooks: That means that boat is bad for us. Tourism wise. Maggie Ralbovsky: But the Nikkei index is the best performing index in its local currency. So if you neutralize the yens impact you get a very good return and that is the most popular trade off for all hedge funds. So once that trade unwinds I don't know what's going to happen. Just like before Lehman went under short Lehman was the biggest trade.

David O'Brien: Sorry say that one last time. Maggie Ralbovsky: Short Lehman was the most popular trade. So today the most popular trade.. David O'Brien: Not short enough. Gerard Cruz: They were so low anyway they were like a dollar. Shorting at a dollar. Maggie Ralbovsky: They shorted before that and then after that people started short rim even though the blackberry was one of the most popular trade. So today is long Nikkei short yen. So the main story is that there is no inflation pressure. The only inflation pressure in the U.S. is for things you can not import like housing. Housing inflation is the only inflation that contributes positively then you have deflation in goods, you have deflation in energy, in food, you know certain foods. There are certain food segments actually have inflation because of some bugs killed all the coffee. Coffee inflation was something like 60% of coffee price. Doris Flores-Brooks: How much? Maggie Ralbovsky: 60%. Doris Flores-Brooks: Thank God I don't drink it. Gerard Cruz: I do, a lot of it. Paula Blas: There was coffee, nuts to extremely jack up. Maggie Ralbovsky: Yeah every culture is such that bugs want to eat that and humans don't. Okay, so that is the macro environment for the balance we think there's a balance risk versus you know anti-risk right now and we think next year the equity market is going to be another good year.

Gerard Cruz: There you go Mr. Chairman, move to adjourn. Wilfred Leon Guerrero: What's that? I'm sorry I didn't hear what you said. Gerard Cruz: Equities are going to be really good next year. Maggie Ralbovsky: But I think 2016 is going to be trouble. And that I think we should take advantage of. Wilfred Leon Guerrero: When are we going to be in trouble? 2016? Maggie Ralbovsky: Yes. David O'Brien: So we ought to cramp up our transition. Maggie Ralbovsky: We have to get to our number 2. Paula Blas: We're almost there. David O'Brien: We're not even out of number 1 yet. Paula Blas: Oh you mean the entire...One through five. That's what Dave is talking about. David O'Brien: Glacially or slowly.

Maggie Ralbovsky: Okay, let's talk about yield curve. I think last time we talked about the yield curve last time we talked a little bit of yield curve. If you recall we talked about robots. Robots are taking the place of humans, page 7. So last time we talked about you know robots replacing humans that is the secular pressure on wage inflation because you raise wage too much especially lower wage sectors the manufacturers simply or the entrepreneurs simply having incentive to replace humans with machines. And that flattening of the curve actually has happened and probably will keep that way. You can see on the middle page the middle the chart on this page, it's a little small but if you look at the green line. Green line was a year ago, that's how the treasury yield curve looked a year ago the green line. Now the yield curve is basically a summary of all the different interest for the different maturity and you can see a year ago for example in 15 year sector it's over 3%. Now if you look at today, the blue line is today. It got a lot flatter. The shorter term ones actually went up. The shorter rate went up, the longer rate went down. In the jargon of fixed income this is called the bull flattening. The reason it's called the bull flattening is because the bond generally had positive returns when this pattern happens. Now we think the next...

David O'Brien: So all those people that said... Maggie Ralbovsky: Stay on short they all got... David O'Brien: They all got burned and everybody that moderated their duration also got burned, right. Maggie Ralbovsky: Yeah that's right. David O'Brien: Hence Garcia Hamilton was my pick. Gerard Cruz: But part of the reason that they did that was because everybody moved in that direction anyway so they over bought the market. Maggie Ralbovsky: Then this however also has not taken into consideration that the Fed has not raised interest rate, they will in 2015 on the current projectory and when that happens it's going to be contributing to the shorter end and the longer end I think is very well anchored. So the next move is going to be longer and no move shorter and going up, it's going to get even flatter. And that's going to be called in the bond jargon is called a bear flattening because it's going to have negative returns in the bond sector and it's a flattening of the curve. So the bull flattening trade is over it's going to be bear flattening going forward and that's why a lot of the bond managers actually moving out from the shorter end going long.

David O'Brien: Oh okay, yeah because that plays longer term duration. Maggie Ralbovsky: That's right. You want to hide in the longer duration now even interest rate is going up its very counter intuitive. Another reason the long end curve is well anchored besides the wage inflation is Europe. Here you look at I have a red arrow on the inflection point here on this chart. In this chart the green line is foreign government bonds mainly Europe and Japan. Gerard Cruz: The green line. Maggie Ralbovsky: The green line. The blue line is U.S. treasury. And you can see that in U.S. treasury long time ago was above, you have a higher yield and that made sense at the time because if you recall U.S. the dollar was weakening, weakening, weakening so if somebody has hold weakening dollar they are going to require higher interest rate. And you can see the U.S. got really, really aggressive intervening the recession and pushed the rate really down and now at a point that the U.S. dollar is trying to trade up because the underlined economy is quite strong. However, U.S. dollar also got stronger because the U.S. now is actually stronger in terms of all underlined conditions. So, U.S. dollar is having a harder time trading up above the green line. It is now at the point of crossing and you simply have too much arbitrage forces out there. So, arbitrage

means that somebody can borrow from Germany and buy the U.S. dollar and they would do that and if Germany today is 0.8% for ten year German bond.

Gerard Cruz: 0.8%? Maggie Ralbovsky: 0.8%. So you can borrow that and come to buy U.S. dollar. Doris Flores-Brooks: Not even 1%. Maggie Ralbovsky: That's right. You even neutralize all the transaction cost and all that. You could still get a stronger dollar as well. So that is the trade out there to suppress the longer term interest rate. So until such time the world gets better, long term rate has really no where to go. So you get really, really flat. Gerard Cruz: So long term rate is going to be where it is, that's what you're saying? Maggie Ralbovsky: Long term rate is going to be quite anchored, yes. So this chart also has the statistics for the market. You can see that the U.S. equity had very strong several years. U.S. bonds on the right hand side also very strong than the international equity... Gerard Cruz: How's Garcia Hamilton's duration? David O'Brien: Duration are good. Their duration is longer. Longer than Index. Maggie Ralbovsky: Yeah so this year's return. Paula Blas: For them? Maggie Ralbovsky: So the rate of return... David O'Brien: No they just gave me something at the conference and I looked at their duration and their duration is... Gerard Cruz: 5, 6. David O'Brien: I don't remember. It's substantially longer. Gerard Cruz: Oh substantially longer. Maggie Ralbovsky: Yeah because the index is like 6. So the past 3 years I think if we desegregate fixed income sector return 90% was from interest rate. Only 10% coming from credit. So, whomever wants to play the credit side. David O'Brien: What does that mean 90% from interest rate meaning the returns on the yield? Maggie Ralbovsky: The returns are because the yield is going down. If somebody wanted because... David O'Brien: Oh you mean corporate versus government... Maggie Ralbovsky: Corporate did not contribute to returns. It's the government rate. David O'Brien: Still the corporate is squeezed, right? The spreads are low. Maggie Ralbovsky: Well after the correction we had a pretty big correction. David O'Brien: No I mean now. Maggie Ralbovsky: Now it's actually better, much better. Gerard Cruz: But it's been flattening though. Maggie Ralbovsky: I actually have a chart for that.

David O'Brien: Before you do this page the prognosticators got it way wrong this last call. What I mean the forecasters the people who said shorten duration, stay out of long term avoid it like the plague, those guys. Maggie Ralbovsky: Yeah those guys got it wrong, so wrong. David O'Brien: So why now? I mean, what is it that's convincing them? Maggie Ralbovsky: What's convincing them? David O'Brien: Because that's a pretty big change, right. A big change saying stay out of long term no matter what you do to get back in long and dump the short no matter what you do. Maggie Ralbovsky: So what changed right now is it's so imminent the short end is in the top right because the Fed. And you get... David O'Brien: And that's not in this clause, it's not anticipated. Maggie Ralbovsky: No because you see one year is zero. You get 0% return, two year get 0% return you're waiting to get this hit. Instead of going to 10 years you get a little compensation at least.

Gerard Cruz: But if the macro elements don't improve though, and we continue forward with the way Europe and Asia and U.S. remaining strong as it is, what would compel the Fed to move the rates if they have no other levers to pull? Maggie Ralbovsky: I think the Fed is at a point they need to reload their ammunition, they need that. Gerard Cruz: But isn't there a bigger risk of sending the economy into recession? Maggie Ralbovsky: That's right. So that's why they're so hesitant, they're probably going to move really really... David O'Brien: Yeah, but the other economic side has been okay you know employments back a

little, wage is still low, housing you just saw the stats on the housing today, that was positive confidence wise. Consumer spending and discretionary coming back. Gerard Cruz: How about just regular personal spending? Maggie Ralbovsky: Personal spending is here on this page. David O'Brien: Consumption spending is on page... Maggie Ralbovsky: Page 5. David O'Brien: That is another graph on consumption spending. If you turn to page 3 again, you can see it's going up. It's hard to tell because the graph is so tight, it's also trending up. So you got discretionary up, you've got government flat where it should be. You got overall consumer up. You've got, what's happening with investment? And you've got potential for tax rate going down with the Republicans. So, what's not to like about that economically? So therefore I'm with Gerry you know why... Maggie Ralbovsky: Why raise rates? David O'Brien: Or maybe I'm with you. Sorry. Meaning they can raise the rates.

Gerard Cruz: Without having it or having it... David O'Brien: And sorry and the other thing is the banks are sitting on a ton of cash. Gerard Cruz: Yeah, Banks are sitting on a lot of cash. David O'Brien: So there are tools. They're just not in the Feds control. Gerard Cruz: We are so liquid, we need loans. There's so much money out there. The tax refund has killed the consumer loan market. Doris Flores-Brooks: Because everybody has cash already. Gerard Cruz: Which is a good thing, really. We're not necessarily complaining. Joe San Agustin: You have to play the game because you're not government structure. Gerard Cruz: We are, we're capped. Doris Flores-Brooks: You gave me a pre-loan application. Gerard Cruz: I know we're waiting for you to come in, that's why I'm here. Doris Flores-Brooks: Yeah but the rate is still too high, 5%. Gerard Cruz: That's a high rate for 5 years. Unsecured. That's just on a signature. Doris Flores-Brooks: But I don't need it. Gerard Cruz: That's why we gave you such a good rate. Doris Flores-Brooks: I have a home equity loan your rate is too high 6% that's why I don't use it. Wilfred Leon Guerrero: How come you're giving her unsecured loan? Doris Flores-Brooks: Because I'm a good borrower I pay it all the time. Gerard Cruz: And if you listen to Maggie she'll earn you 20% on equities so take the 5 and the 20. Doris Flores-Brooks: I don't even know how to spell the word. Maggie Ralbovsky: I didn't say 20. Gerard Cruz: I know you said really good. Last year you said 20. Maggie Ralbovsky: Last year I said this year is going to be high single digit. Which is probably going to be true. I think next year it's going to be double digit. Gerard Cruz: There you go double digit. Doris Flores-Brooks: Already it's doubled its 10 %. Paula Blas: For 2014, it was 10. Maggie Ralbovsky: I said 10. Paula Blas: No, for us fiscal year it was 10. Gerard Cruz: Corporate spreads are? David O'Brien: Eleven. Gerard Cruz: Okay, flat. Maggie Ralbovsky: The spreads is actually on back to page 7 is the spread, actually you can see there's a little tick there was a sell off on credit they actually made pricing a lot better. David O'Brien: But that's the high yield. Maggie Ralbovsky: Yeah. Oh you were talking about... David O'Brien: Gerry was talking about the corporate spreads, page 11. High yield is on that same page. Gerard Cruz: Below is the historical average. Maggie Ralbovsky: Yes. So this is evaluation. Before I go to the evaluation I do want to take a look at the quality segment that's page 10. Page 10 this is basically what people call the junk rally. The junk rally actually there was one segment. The average you can see the junkier the company is the more return it cost. The junkier doesn't mean it's a bad company just means it has a lot of debt. So the more debt the more levered you are the better off you are which is actually very consistent with the fact there is so much liquidity out there they basically why not borrow. The door is why not borrow the money is cheap.

David O'Brien: I love all these names you come up with Maggie. Junk rally and the ball flattening and the bear flattening and this so important event. Maggie Ralbovsky: So the valuation later on you are going to see that the 3rd quarter was a negative quarter for risky asset classes for mainly credit sector. Gerard Cruz: Calendar 3rd quarter, right? Maggie Ralbovsky: Yeah calendar 3rd quarter was a negative and that had made the valuation better. So when there was a sell off you basically reload for future returns and that's what these valuation charts are saying. You can see the top chart is comparing investment grade corporates with its history, now it has gotten a little better. It's at 28 percentile which is still expensive but better. Now, high yield also in the same place. Now if you look at the next page, equity valuation across the different segment most notably was Small Cap. You see the top chart Small Cap and Large Cap, Small Cap underperformed Large Cap by 8% this year. So that sell off really has made the valuation change relationship. Right now Small Cap is cheap, Large Cap got expensive, but Large Cap was cheap for quite a while. You see this chart actually was very telling on the chart that Large Cap by itself Small Cap was expensive you would have done well. So right now you should probably load up on Small Cap.

Gerard Cruz: Why is that? Why is Small Cap underperformed such? Maggie Ralbovsky: So, if you look at history, during bull market kick off times Small Cap rally, rally, rally and towards the end of the cycle Large Cap started to become better performing and towards the end becomes a very narrow Large Cap driven market. If you think of year 1999, the market has double digit returns but 90% of stocks had negative return. The double digit return was all driven by the Mega Cap, top 10% Mega Cap this is close of the world in that year. It's very consistent in market cycle that towards the end of the cycle Mega Cap rallied, in the beginning of the cycle Small Cap rallied. So I think at the beginning of the year people were basically thinking it was towards the end and there was a rotation out of Small Cap. And this month, October actually had a Small Cap rally. So I think the trend is people started reassess the situation maybe it's not the end yet, so there's a lot of that kind of thing going on. Small Cap also tends to correlate with interest rate cycle. In the beginning of the year thinking interest rate is going to go up, you think about the beginning of the year rate actually traded up to over 3% U.S. treasury and that has also made a Small Cap correlate battle more. We have a particular Small Cap manager, Intech. Gerard Cruz: They're Small Cap? Maggie Ralbovsky: Oh no, they're Large Cap manager but they correlate with Small Cap very much. If you look at history because they trade volatility and volatility steer them towards more Small Cap buyers and we tend to correlate with Small Cap and that's why they did so terrible this quarter because of Small Cap sell off.

Maggie Ralbovsky: If you look at the total market seems to be a black quarter but it's a very, very volatile quarter with some the have and have nots. Gerard Cruz: So Small Cap we're going to see in our performance that they didn't do well, Large Caps did. The last year it was domestic it was Large Cap that did well as well, right? Small cap didn't do as well last year. Maggie Ralbovsky: Last year was half, half. Half year was Small Cap, half year was Large Cap. But the year before was huge Small Cap rally. Gerard Cruz: Okay. Maggie Ralbovsky: Now the MLP, professor I'm glad you're here. Gerard Cruz: MLP? Maggie Ralbovsky: The MLP is now the most expensive asset class by our measure. So if you look at. Doris Flores-Brooks: What is MLP? Maggie Ralbovsky: Master Limited Partnership. So these are... Wilfred Leon Guerrero: Say it again. Maggie Ralbovsky: Master Limited

Partnership. Paula Blas: You learned that. Wilfred Leon Guerrero: I know I just learned it the other day. Doris Flores-Brooks: What is it? David O'Brien: Master Limited Partnership they are oil pipeline partnerships. Maggie Ralbovsky: Pipeline, shipping, exploitation, natural gas... Gerard Cruz: We were considering it. David O'Brien: You're not? Gerard Cruz: We were. You're not.

Maggie Ralbovsky: So we have also valuation comparison across the different classes. David O'Brien: Tell me where you think REITs and MLPs are going, back to the previous page. Maggie Ralbovsky: Where do I think its going? Well by valuation, so this is valuation compared to U.S. equity. David O'Brien: So that means the yields have been falling for both except the REITs which kind of getting kicked back. Maggie Ralbovsky: No this is relative right, so this means REITs has a sell off and now it's more attractive compared to U.S. equity. Now, more attractive than before. So this is relative valuation right so given the last dollar should I invest in REITs or U.S. equity? I would do U.S. equity. David O'Brien: So now people have gone to U.S. equity same with MLP. Maggie Ralbovsky: So now this is just 2 asset class. Now, we do a multi asset class comparison, that's on page 15. Actually page 15 is a better summary. Page 15 the way to read this chart, you start with left hand side column, then you go across. For example if you pick MLP. If you look at MLP, MLP is compared to inflation so based on the current inflation, what is the valuation for MLP's compared to current inflation pricing? It is 16 percentile that means it's more expensive than 84% of time in history. And if you look across MLP compared to cash its okay with the low cash rate it's actually okay investment compared to treasury it's a better investment than treasury. It's probably an equal investment as core bonds. It is a better investment than high yield.

Gerard Cruz: It's better than high yield? Maggie Ralbovsky: Yes, it is a worse investment than REITs and it is a really bad investment compared to stocks. So that's how you read the chart. Gerard Cruz: Okay. So it's better in the case... Doris Flores-Brooks: It's better than cash, better than treasuries but not better than stocks, that's how I read it? Maggie Ralbovsky: Yes. David O'Brien: So this means the way you read it is it's in the 25th percentile of how it's typically correlated to REITs is that. Maggie Ralbovsky: No it's valuation so this is at 25th percentile more expensive. David O'Brien: So if you take MLP valuation it's a far chart compared to REITs, it's in the top end of the valuation compared to REITs, got it. Maggie Ralbovsky: REITs is cheaper than MLP so that's how you read this chart. Now you see the green ones are mainly stocks so compared to all the opportunist out there looks like stocks are actually cheaper right now than a lot of things except for emerging market actually looks more expensive than U.S. So that's how you read that chart. Even though emerging market had such sell off still less attractive because of the fundamental outlook. Gerard Cruz: Wow all these new charts. David O'Brien: So where does this tell you related to asset allocation?

Maggie Ralbovsky: It really is a more shorter term signal so if you need to fund something and if it is at the bottom you probably should wait a little. Gerard Cruz: So this is a short term snapshot. Maggie Ralbovsky: Yeah this is a short term snapshot. David O'Brien: So, tactically if we were doing tactical act allocation, what would this chart tell you to do? Maggie Ralbovsky: Tell you to borrow cash and buy stocks, lever up. So this is exactly what we're going to talk about risk parity. And that's what the parity managers look at this and this means a lot to a parity manager because their short term kind of signals. David

O'Brien: That's interesting. Maggie Ralbovsky: For us for long term strategic allocator, you can't reuse it. David O'Brien: No, no, no understood and your plan is never to have us in tactical allocation? Maggie Ralbovsky: No, no, no that's not my plan. My plans are to have you hire a risk parity manager and then liquid off manager so you can take advantage of these short term trades because those managers are doing... David O'Brien: And again why do we have to go so slow? Towards your plan. If your plan is good my logic being is, if your plan is good and we're going towards it, why isn't it good now rather than waiting 3 or 4 years from now?

Maggie Ralbovsky: Oh no, no, we're not waiting for 3 or 4 years, we'll have to issue RFP, there's also you know a process we have to go through. David O'Brien: We could issue one RFP. We could make you CIO. Maggie Ralbovsky: Make me CIO? Gerard Cruz: Yeah and not pay you. David O'Brien: And not pay you anymore. Gerard Cruz: I like that. I like that idea. David O'Brien: And then you could make the decisions and then we could move. Maggie Ralbovsky: Keep talking yeah. David O'Brien: That's against our law? Is that what you're saying? Maggie Ralbovsky: Yes. It's against your law. Gerard Cruz: What is? To not pay you? You said. No. David O'Brien: Put out an RFP. Paula Blas: He's saying put out an RFP and pretty much. David O'Brien: Give her co-CIO. Gerard Cruz: Discretion. Investment discretion. Paula Blas: Yes. Gerard Cruz: Co-Fiduciary. You're already a fiduciary now so... Maggie Ralbovsky: Yeah but you're talking about OCIO, right? Yeah the OCIO is I don't think is the current. David O'Brien: Really? You sure? Even if we did an RFP for an OCIO? Gerard Cruz: We have to establish an agreement that we can never completely advocate our responsibility. David O'Brien: I'm not saying that I'm just saying...

Gerard Cruz: But we can delegate certain functions to her. We would retain ultimate responsibility for those for her actions. Like investment choices. Doris Flores-Brooks: But why do we want to do that? David O'Brien: Because it takes us just to do step 1 in our asset allocations, Doris, has taken since I've first come on board, so that's a year and a half. Maggie Ralbovsky: No, more than that. Paula Blas: No it wasn't because of a RFP process. It was we had to be able to get laws changed to be able to do it. There were a lot of mandates. Wilfred Leon Guerrero: Yeah we were talking about it before you came on board. David O'Brien: So that's step 1, there's 5 steps Doris. And so if the analysis is correct you know we are earning less return now at slightly higher risk so our sharp ratio is down compared to where Wilshire would like to take us. If it's going to take us 3 years, 4 years, 5 years to get there, we're sacrificing returns in an up market and we're taking on more risk than we need to so therefore as fiduciaries... Doris Flores-Brooks: So what's the proposal? David O'Brien: The proposal is to speed it up. Doris Flores-Brooks: But what's the control?

David O'Brien: The control is the Board. The Board doesn't advocate its responsibilities. Gerard Cruz: We create the parameter we agree to a strategic allocation. David O'Brien: What the Board is admitting in this is that we have professionals versus semi or not professionals that we are and therefore you know why should we be slowing down the professionals and why should we be taking a suboptimal position for the government of Guam retirees. Doris Flores-Brooks: In principal I can see that, the question is how the parameter, what's the parameter? In principal I see that is told that you can make... David O'Brien: There's plenty of people that have done that, so the parameters are already applying the best practice somehow. Doris Flores-Brooks: Okay that needs to be spelled

out. But do you have the authority to do that now? That is the question. Gerard Cruz: Yeah that would be the question. Doris Flores-Brooks: It's a new Legislature it's something that we have to have... Wilfred Leon Guerrero: You go explain that to them. Doris Flores-Brooks: I mean when people say, just the initial reaction people must say you're going to get somebody for the responsibilities. Gerard Cruz: I don't think so, I don't think they'll let us. Doris Flores-Brooks: That's what I'm trying to say, here's the fiduciary it's the Board and then the Board wants to give that responsibility to somebody else. David O'Brien: Not give it, share it. Doris Flores-Brooks: Then you're abdicating part of your responsibility. David O'Brien: No, because the full responsibility is... Doris Flores-Brooks: I'm just playing devil's advocate, okay. I understand it now to make it faster but convincing the Legislature is going to be harder and delay people out there just reaction that you want to have her make..

Doris Flores-Brooks: They are going to say hey the Board, they are going to use the word abdicate. David O'Brien: An efficient market and we're not efficient. Doris Flores-Brooks: I'm just playing devil's advocate to see where do you want to go and we're trying to do that. You just brought it up. Right, Mr. Chair? (Maggie & Paula having their own conversation)

David O'Brien: See you don't have to give up due diligence, the OCIO can do all the diligence you are doing. Maggie Ralbovsky: Right, basically the Board makes policy decisions and execution... Paula Blas: Outsource Chief Investment Officer. Wilfred Leon Guerrero: How long has it been containing this relatively recently, right? David O'Brien: Sorry, Mr. Chair. OCIO has been a few years now. Maggie Ralbovsky: No, Wilshire has had OCIO for 10 years now. Our first OCIO client was 10 years ago. David O'Brien: Has the trend been increasing? Maggie Ralbovsky: It has been because people realize the fact that you get much faster execution you know like.... Doris Flores-Brooks: So the question is like who are some of your clients? Like are they governments are they retirement funds? Maggie Ralbovsky: Mostly are corporate retirement fund. Government however has come on. So, right now, San Diego County is the biggest poster child for that. Colorado public pension is another one. Doris Flores-Brooks: I think that's where you don't want to be the pioneer. David O'Brien: We're not the pioneer. Doris Flores-Brooks: This is the first time you raised it so...

Maggie Ralbovsky: Shall we move on, that's a totally different... David O'Brien: You know that the only reason I bring it up here is because 1, more and more companies are moving toward this for the reasons that we just talked about. Number 2, we are in again in increasingly volatile markets and OCIO's are much better in terms of making decision and making technical allocations than a Board that meets once a month or once a quarter. Doris Flores-Brooks: Remember we had the same discussion with Terry, I said could there be a pool of money where people would give it to investment management right that we raise that discussion you know rather than me should I go into equity, should I go into here you know what's my asset allocation, I can. David O'Brien: The theory is the same the more you move towards the professional, the higher your returns are likely to be... Joe San Agustin: You hope. David O'Brien: Well there's studies, there's national studies that show that professional returns are 3% higher than individual decisions. Maggie Ralbovsky: That's the DC plan. David O'Brien: The same theory applies. Joe San Agustin: You're going to abdicate your fiduciary responsibility. David O'Brien: No you can not. I'm not saying that Mr. Chair. I think we have to keep that and we have to keep due diligence. We

can't give up due diligence, we can't give up expense control, those are the things we have to hold on to.

Maggie Ralbovsky: Well there's a mixed story out there I have to share most recently the San Diego County, they pay their OCIO more than 10 million dollars a year. David O'Brien: We're not planning on doing that. In case you wonder. Gerard Cruz: Move on. We can't pay the OCIO 10 million when our CIO is only being paid 48 thousand. David O'Brien: It's kind of hard to understand without your explanation. So what are the summary take aways? Maggie Ralbovsky: The summary take aways is that this quarter we were down 2%. David O'Brien: No, looking forward. Maggie Ralbovsky: Looking forward, I'm looking forward to diversify. David O'Brien: 2015 being good. Looking forward in the 2015 calendar year. Maggie Ralbovsky: Yes, I put my money on 2015 being a double digit equity year. David O'Brien: Double digit equity year. Paula Blas: Got it? David O'Brien: Put that down somewhere. Paula Blas: It's on tape. Doris Flores-Brooks: But Mr. Chair, to support his consideration the return is 10% this year in an up market, when last year it was 14.7% so that sort of supports a faster being more nimble.

Wilfred Leon Guerrero: You know the asset allocation we got right now, it's geared to a down market isn't it? Maggie Ralbovsky: Right now no, it's geared towards an up market, we have a lot of.. Wilfred Leon Guerrero: Oh really. Maggie Ralbovsky: Yes remember my bucket list and your 94% allocated in up market, 94%. You have that much of a participation in up market. So you don't have down market protection. David O'Brien: So we have one year to get our act together Mr. Vice Chair. Joe San Agustin: We can leap but then at the same time can stumble. Paula Blas: Wait lets finish this. Maggie Ralbovsky: Let's finish this okay. Doris Flores-Brooks: What page? Maggie Ralbovsky: So page 17 is this quarter so we underperformed just slightly. The benchmark was actually down 1.95% and you can see we were about 89 percentile from all the universe. We do take relatively higher risk in the universe in terms of the definition risk being concentrated in equity risk. The fiscal year had a good return we had 10% return for the fiscal year. Page 18, I change the format a little bit instead of saying manager is good or average I put the ranking decile and the decile ranking... Wilfred Leon Guerrero: What the heck is that? Maggie Ralbovsky: Page 18, so the decile ranking third means top 30th. So the legend at the bottom. So rule of thumb... Joe San Agustin: It's like giving them a grade. Maggie Ralbovsky: Yeah, it's like a grade. Paula Blas: Like third... Doris Flores-Brooks: A is good, F is bad. Maggie Ralbovsky: That's right. So most of your managers are above fifth percentile I would say that's very good one. Now, Intech was a down grade. Intech was once upon a time was on the top of our list. David O'Brien: But this is your list, this is not performance. Maggie Ralbovsky: No this is the qualitative list. This is the qualitative list assessment so it actually does not have performance in it. We believe performance assessment and qualitative assessment needs to be separate. I know you love Garcia Hamilton and we could agree to disagree.

Doris Flores-Brooks: We only have one, two and everybody is three, four. Okay. Wilfred Leon Guerrero: Why did you want to change it? Maggie Ralbovsky: I just put the raw numbers here. David O'Brien: This is good, this is pretty clear, I think we'll get used to it. As long as she keeps the thing on the bottom there. Wilfred Leon Guerrero: I'm used to ABC and now you want to change it. Paula Blas: No, no, no she never gave us ABC... But in the past they were asking what's good? What's average? Where does that fall? So, what

she did was just spell it out. David O'Brien: So my question is... Doris Flores-Brooks: So C is average, B is good, A is superior. Maggie Ralbovsky: Right. So anything above 5 we would not recommend a change for the qualitative fact. Anything falls below 5 we will really have a red flag. David O'Brien: But the real question is where are the ones and the two's, we have one, two, Earnest? Maggie Ralbovsky: The ones are very hard to get if you think about it we actually really grade this as a bell shape. So there's more people in the middle than the top ones there are first ranked managers out there just not one of these. David O'Brien: And we can't get them?

Maggie Ralbovsky: Oh no, we can get them. I think one of the managers you picked was one. David O'Brien: Yeah the guy in the REITs or not the REITs the high yield. Maggie Ralbovsky: Yeah I think Aegon is the first ranking manager. Paula Blas: For your high yield. Maggie Ralbovsky: Yeah. David O'Brien: So why don't we replace these guys with the ones and the twos? Joe San Agustin: Of course eventually you're going to hire them but not necessarily the returns are going to correspond the same. Maggie Ralbovsky: Actually BlackRock is the one you have to put BlackRock there. Joe San Agustin: It doesn't mean a higher return. Maggie Ralbovsky: No, not every manager can forever be one. Things change. Joe San Agustin: What are you sacrificing? I'm A, but a lower return. You got to have.... Maggie Ralbovsky: Let's remember how this manager made it. These managers responded to our RFP they are willing to work with Guam. Joe San Agustin: This is our core but then they may be good qualitative level A but they're lousy in their return. David O'Brien: That so isn't the case, right? Maggie Ralbovsky: It does happen. Joe San Agustin: It does happen. Maggie Ralbovsky: It does happen. If you rank them 1 they could have a particular kind of style that doesn't work. Yeah, so bottom line...

David O'Brien: So the point is don't pay attention to page 18. Maggie Ralbovsky: No that's not. The point is look at page 18, you have no red flag, that's the point. Okay, so our asset classes the major ones had some underperformance although not big. I want to move to page 24. David O'Brien: So wait a minute. So you're happy with the 5% drop in International equity? Maggie Ralbovsky: I'm not happy but the index was 5.8% drop. So it had a huge sell off in International market this quarter. Page 24 is our current allocation compared to the target and the target is changing with the new funding manager. And we also decided before we selected new managers that we rebalancing because right now the allocation is out of bounds out of ranges. We did say that when we do the funding of the new managers we will rebalance the entire fund to target as well. And given the fact it is a multi asset class move for this time we also decided last time to have a transition manager do the whole thing including rebalancing. I also want to remind the Board we also decided to make a piece of International equity to be indexed so that in the future we have better liquidity manager and provide an anchor to that portfolio. So I do have a rebalancing sheet this is a repeat from last quarter. Page 33 and there is some change to the high yield manager's mandate. It's not 43 for each one of them because some have lower minimum and manager's names have also been identified. So it's 50-50 and one manager to be 29. Yeah 29 is Aegon. Was it Aegon? Yeah so the other two managers... David O'Brien: So you're saying take our liquidity out of U.S. equity is that part of... Maggie Ralbovsky: Rebalancing out of U.S. equity. Doris Flores-Brooks: You have this last thing I think you were going to do it, you haven't done it yet? Paula Blas: No we're in the process of doing it, contracting it right now. It didn't get us 2 years to get here. We're only working on 5

months right now. Doris Flores-Brooks: What's the point David? David O'Brien: That's it 5 months going on 7, 8. Paula Blas: No, we should have contracts in place by next month.

Maggie Ralbovsky: So is BlackRock going to be doing this multi asset rebalancing? Paula Blas: We have two transition managers so we have to get the fee, what the fee would be. Maggie Ralbovsky: Okay, so for this assignment I do think BlackRock is more a multi asset class manager, I do think for Northern Trust to be on the bench because they are custodian as well would be good if it's a more limited like more confined transition. So I do think that for this assignment BlackRock is the better fit. Joe San Agustin: Versus Northern Trust. Maggie Ralbovsky: Yeah. David O'Brien: But we could go either way right because you qualify for both... Maggie Ralbovsky: Yeah they are both on the bench. So if we have a small transition... Paula Blas: And their fees are low. Joe San Agustin: You can't use your custodian bank same thing as your bench. Maggie Ralbovsky: Yes you can. Joe San Agustin: I don't want to mix that up. Maggie Ralbovsky: No, no, no actually that's advantage as well if you have small transition same as a class small transition we should be doing good. Joe San Agustin: You want custodian bank to watch your money. Maggie Ralbovsky: They're acting as fiduciary just like anybody else. Actually, Mr. Chair, most people just use their custodian for small transitions. Small transitions for larger like this one is more complicated multi asset class transition, I do believe, I do think BlackRock has more advantage in that.

Wilfred Leon Guerrero: I was under the impression we were going to fund the high yield bond from existing bond money... Joe San Agustin: I think Northern Trust is coming tomorrow and they're going to talk about that. Maggie Ralbovsky: Talk about what? Joe San Agustin: Northern Trust coming up tomorrow. Maggie Ralbovsky: They are going to talk about the custody business not the transition business. It's a different group. So there is the transition management is managed out of the investment management not out of the bank side. Joe San Agustin: It doesn't matter it's either 7th floor or 3rd floor in Chicago. Maggie Ralbovsky: Yeah, but the person who's going to count is your custodian. They participated in the RFP process it was deemed to be... Joe San Agustin: They did? Maggie Ralbovsky: Yeah they did. Doris Flores-Brooks: Sir you're going to get retirement out of REITs? David O'Brien: No we're including global, that's the change. Doris Flores-Brooks: Oh I see. David O'Brien: See if you go down the global REITs you'll see. Paula Blas: Those are short termed. Doris Flores-Brooks: But it's a small percentage. Paula Blas: Well they're not doing this transition, the one that she's talking about right now. BlackRock is going to do it. Joe San Agustin: I just want to make sure that there is no conflict of interest. Paula Blas: I don't think there will be. Maggie Ralbovsky: There is no lets say we fire one of our manager... Joe San Agustin: There is a small pension, there is a lead tendency for that.... Maggie Ralbovsky: I don't see how does the custodian being a custodian conflict with transition managers. Joe San Agustin: I've seen that happen, believe me. Maggie Ralbovsky: If it's a broker then I see it. Joe San Agustin: I've seen the same company 2nd floor, 3rd floor... Maggie Ralbovsky: Brokerage firms do have that conflict they bid with their own trade.

Joe San Agustin: I'm just very negative on those kind of stuff. I've never seen somebody doing dual work asset class. Maggie Ralbovsky: For this one definitely. For the complicated multi asset class. But if we fire one of the managers and switch with another similar manager you know it's not worthwhile to have another manager. Joe San Agustin:

When you try to find somebody you always have somebody who is waiting to take over. You don't change until you have somebody. Maggie Ralbovsky: Yeah but you have transition of portfolio we're talking about one day assignment. Joe San Agustin: You try to build in, my problem is the attorney is the custodian.

Maggie Ralbovsky: Okay, so shall we move on to talk about the equity. Paula Blas: Your high yield is going to be funded from equities? I thought we were taking it from bonds. Maggie Ralbovsky: Well right now equity is 8% over weight. So theoretically was from bonds but right now equity is overweight by 8%, 8.7%. David O'Brien: In emerging markets went down and so did the bonds, right? So you got to move money back to get your rebalance. So you just have to take the whole play together. Most of it is coming out of U.S. REITs being redistributed to global REITs and to high yields. Maggie Ralbovsky: And rebalancing out of U.S. equities. Paula Blas: So 8% from total U.S. to your high yield. David O'Brien: No, no, go U.S. REITs to global REITs first, that's the easiest to understand. So you're taking 10% U.S. REITs reducing your exposure to REITs by 5% and putting it in global, the remainder in global. The rest you're going to put in high yield. But high yield also gets more because look at high the over.. Paula Blas: No that's what I'm saying, the equities are over by 8.7. David O'Brien: So you're going to rebalance back to bonds, rebalance back to emerging markets international and then... Paula Blas: Global REITs is 10? Maggie Ralbovsky: Global REITs is 5. So what happens is this, once the transition manager contract is done, the transition manager will be given a rebalancing sheet and they are going to put together a time line, they are going to say starting from the target transition date working back at certain time you need to notify the managers, give BlackRock the final list, certified list of pay. BlackRock needs to know what the legacy portfolio holdings, what's the actual portfolio holdings, they're going to merge all of these holdings into one big giant target trading list and legacy trading list and their model is going to match up what can be matched up and that cannot be matched up their model is going to optimize what's the best trading route. Should they be crossed, should they be going into the index? So they're going to work out a timeline with us. Then once timeline is signed off, they are going to go ahead and work with the certified list to do the trading one day, hopefully. David O'Brien: One day wow. Paula Blas: Yeah one to two.

Maggie Ralbovsky: Yeah, so usually they set up this model first that has a mapping of what needs to be traded and then when the day comes to trade obviously the market fluctuates, there's different ways to trade that makes it cheaper. So the model actually will try to asses where the liquidity is for that day. Gerard Cruz: Transition manager? Maggie Ralbovsky: Yeah. Gerard Cruz: How much did we pay that last exercise? Paula Blas: Sixty some thousand. Maggie Ralbovsky: Yeah we actually paid very little that last time. Diana Bernardo: Maggie, you know I have a question, when we get the transition for MetWest and Winslow when we did that we used BlackRock for transition manager, and I know you kept saying one day, the whole process really did not take one day. Maggie Ralbovsky: The trade is one day but then they settled they had to settle. Paula Blas: It takes about 7-10 by the time you actually get... Diana Bernardo: I think it was 2 weeks before those assets got to the new managers, it took awhile it's not really just a one day turnaround from one manager to another. David O'Brien: They're probably using value from the day of the trade. Maggie Ralbovsky: So the trading is one day. David O'Brien: So we don't care what the paper that's paperwork catching up with itself.

Maggie Ralbovsky: That's the settlement. So for this one its settlement may be even be longer because you have international securities because the global REITs you have to like do foreign exchange trades and all that. Diana Bernardo: So it does take time its not just that one day before it hits. Paula Blas: You mean before everything clears and settles? Diana Bernardo: Right. Paula Blas: Yeah, it will take longer. Diana Bernardo: Before the new manager actually gets anything in their account. Maggie Ralbovsky: That's right. Gerard Cruz: Unless they're getting cash. The cash is immediate. Diana Bernardo: Even that sometimes it takes long. Maggie Ralbovsky: When I say one day I mean the model gets optimized and do the trading in one day match up things and then. Diana Bernardo: The paperwork takes long. Maggie Ralbovsky: That's right. So that's why once you signed the contract they're going to start working on the timeline and then they're going to also ask for the certified list of securities from legacy and from the targets. Gerard Cruz: They will ask? Maggie Ralbovsky: Well we have to give them permission so Northern Trust can release it. Paula Blas: Yeah, that's what we did the last time. Gerard Cruz: We're going with BlackRock? Maggie Ralbovsky: I suggest for this one because it is multi asset class transition. BlackRock is the most experienced in that and they also have a lot of index fund for fixed income. That can actually have a lot of cheaper trading process. So this will be updated once all the contracts are done we are going to redo this rebalancing sheet to base at the time the most recent. Gerard Cruz: Step 2 is risk parity? What's step 2? Maggie Ralbovsky: Yes, risk parity and then liquid out. Gerard Cruz: And what's step 3? Maggie Ralbovsky: You know this is a moving thing because when I first started mapping it out there were opportunities in the market place. The European distress debt and private lending and those have gone away. Right now there's so much money chasing the private lending now I don't really want to do it right now. So we will assess after that. It's mainly in the middle market lending. Gerard Cruz: Middle market lending?

Maggie Ralbovsky: Yeah like messening kind of lending. Gerard Cruz: Can we do that? Maggie Ralbovsky: Yeah we can. Gerard Cruz: Do you know a big lender who is looking at lending. Maggie Ralbovsky: You want to lend from you. Gerard Cruz: I need to borrow, I have a borrower that's beyond me and I'm looking for a lender. Actually you think Bank of Guam would be interested? Joe San Agustin: What do you have? Gerard Cruz: 40 million commercial real estate. On Guam. Paula Blas: Why don't you split it? Maggie Ralbovsky: You just indicate self bank loan. Gerard Cruz: I would but... Joe San Agustin: Is it housing? Gerard Cruz: Not housing, it's commercial real estate office building. David O'Brien: Wow 40 million, not bad. Gerard Cruz: Yeah about 30, including parking lot. Paula Blas: That's not bad. Maggie Ralbovsky: Did you talk to Cornerstone? Gerard Cruz: No. Maggie Ralbovsky: Cornerstone has a private lending side. Gerard Cruz: I cannot, how? 40, 30 million that's too much concentration. If you do the warehouse. Paula Blas: Oh open up this file and this is it. Yeah you can't split it within your own. That's too much in one. Joe San Agustin: Why not? Paula Blas: It's beyond our limit. Gerard Cruz: 40 million that's like two times capitals. Joe San Agustin: We're talking about the Fund. Gerard Cruz: Oh the fund. Yeah if you want no way I'd have to step up. That be such a conflict. It's okay my 50 dollar stipend is way more important than that. Maybe, Cornerstone then. I do have to find a lender. Maggie Ralbovsky: Cornerstone has a large commercial private lending enterprise.

David O'Brien: Just a question, are we going to go through these minutes to be summarized? Or is this literal. Gerard Cruz: No we need to go summarize. Due diligence

we need to start summarize. David O'Brien: Could we decide this now. Joe San Agustin: Why? David O'Brien: Because these meetings Mr. Chair come out word by word by correct word followed by correct word. Joe San Agustin: We could edit it, but why summarize it. Gerard Cruz: Just so that it's grammatically correct. Joe San Agustin: Who's going to summarize it? That's the whole point whoever summarizes it can do the editing. Gerard Cruz: During transcription they could at least make it grammatically..

David O'Brien: I think the best thing A) Maggie can look at it and edit it down that's one, Board has the final approval anyway, that's number 2. But I would think that a transcriber just listening to the banter back and forth should be able to distinguish between information being presented and banter... Doris Flores-Brooks: Do you actually transcribe those? David O'Brien: Yes, literally word for good word for bad word. Doris Brooks: Who do you hire for that? Paula Blas: The secretaries within this. Maggie Ralbovsky: I think the computers now can have voice recognition, right? Paula Blas: Can't do that when there's 5 people talking at the same time or 6 people talking. Maggie Ralbovsky: Stupid computer. David O'Brien: But that's not my point, my point isn't the transcribing, my point is what the Board finally approves? Doris Flores-Brooks: And then who reviews the minutes to make sure it's accurate? Paula Blas: It gets reviewed by 2 more people but still it's just verbatim that... Gerard Cruz: Totally verbatim.

Doris Flores-Brooks: Because I'll tell you I just read a deposition for a hearing tomorrow and... Paula Blas: And depositions are verbatim. Doris Flores-Brooks: Yeah, you know that's what I kept on reading. I won't tell you who was on the deposition but every other page was you know, you know, you know. David O'Brien: But the other side of this coin is we use a lot of terms of art here and they don't always pick up the terms of art they go with their closest understanding of what that word is so as Gerry says it leads to incorrect words, incorrect grammar. Doris Flores-Brooks: Well that's what I said someone has to review it. Gerard Cruz: Secretary. Doris Flores-Brooks: But the secretary who's not here cannot review it has to be someone like Diane. Diana Bernardo: I read it, but sometimes it stops because there are too many people talking.

David O'Brien: What I heard, I asked this question at some of the sessions and they said typically if the investment manager was there the investment manager takes first crack at the review and then it comes back to the Board committee that's responsible for the second review and then it gets approved in the normal process. All I'm advocating is this away from the literal transcription of these... Doris Flores-Brooks: Do a general to a summary. Gerard Cruz: Do a summary so that it's coherent. Doris Flores-Brooks: If you are actually transcribing this based on just kind of like what this and this was 148 pages that I read and I said Oh my gosh and then at the end. Then who is reading that to then summarize. Gerard Cruz: Jackie does it? Paula Blas: Jackie does some and the other two secretaries. Doris Flores-Brooks: Yeah but they're not in the position to make the call. Gerard Cruz: Not to edit. Diana Bernardo: I do read through it. Paula Blas: They just do the transcribing and then Diane goes through it. Joe San Agustin: Somebody here can do it, like Diane will go over it. Gerard Cruz: Yeah, we can do it. David O'Brien: Because there's a lot of side bars that's the other thing happening. Paula Blas: No, I agree there. That's where the sidebars... Joe San Agustin: Sometimes the sidebars can be more effective too because that's the gist of the conversation. Wilfred Leon Guerrero: Are we done? Gerard Cruz: Yes sir. Good job Maggie.

Maggie Ralbovsky: Mr. Chair I just have one more update on the organization issues with Intech. We actually think it's a positive one I mentioned earlier that Intech actually was down graded recently because of the turnover they had to get rid of some of their past celebrated PHD's so most recently they actually changed their compensation structure to give people more profit sharing opportunities. So it's 12% equivalent to like 12% of equity. So here's a summary if you want to take a look at it and we do view that as positive. Joe San Agustin: That's Eaton Vance. Maggie Ralbovsky: Yeah, Eaton Vance. No not Eaton Vance I'm sorry I'm talking about Intech.

David O'Brien: You're not going to go over manager performance today? Maggie Ralbovsky: As a big summary as a summary we have some underperforming managers. I do have a chart there to show their progression. One thing I actually was happy about is Eaton Vance performance actually have been improving but Eaton Vance is a manager on watch and page 38 you can see Eaton Vance actually performance has been improving. Page 38. David O'Brien: Okay, I'm looking at it. Maggie Ralbovsky: And if you remember what I commented on earlier about junk rally. So whomever focused on the higher quality security actually didn't benefit from the junk rally. So, Dr. LG, you mentioned. Wilfred Leon Guerrero: I want to know about the Korean currency. The Japanese currency is weakening, what about the Korean? Maggie Ralbovsky: The Korean currency can be in sympathy with Japanese Yen. The reason is that Korea is the major competitor with Japan on exporting stuff. And these Japanese yen keep getting weaker will be in sympathy to get weaker because otherwise Korea will have a really hard time competing with Japan. So, there's sympathy factors out there and that may also influence Chinese wen. Wilfred Leon Guerrero: What's happening with the numbers here in the tourist industry is that the Japanese numbers are going down but the Korean numbers are going up.

Maggie Ralbovsky: I also saw a direct flight to Shanghai now. Doris Flores-Brooks: Yeah just started. Maggie Ralbovsky: Is that seasonal? Doris Flores-Brooks: Well right now it's a new test it's twice a week. They're testing it because like we had direct flights like to Fiji and all those and after a year they pulled. This is a new entrée we are trying to see. Maggie Ralbovsky: Is Hong Kong one also in testing? Doris Flores-Brooks: No that's been around for a long time. Hong Kong has been around for a long time. Hong Kong, Taipei. Maggie Ralbovsky: Next time I'm going to fly through Hong Kong and maybe next time I'll fly through Shanghai. My parents live close to Shanghai. I haven't seen them for years. I'm such a bad daughter. Yeah I know I'm such a bad daughter. Doris Flores-Brooks: After here just go direct. Maggie Ralbovsky: Too many things. Gerard Cruz: Too many islands with dive spots. Maggie Ralbovsky: I know too many islands to visit. Shanghai is not an island. Gerard Cruz: No good diving.

Paula Blas: So who do we have to worry about here? Maggie Ralbovsky: Well as I mentioned earlier I think Eaton Vance performance has improved a little bit but I am still putting them on watch for now. Then our international managers have underperformed, they have a lot of correlation in terms of their alpha and I think adding an index fund to international can anchor that portfolio a little better because their active manager seems to have a lot of correlation. If you look at page 46, when they underperform at the same time under perform. David O'Brien: Except for Earnest. Paula Blas: Yeah, Earnest has been doing well. Maggie Ralbovsky: Oh yeah look at their... Gerard Cruz: Eaton Vance is Nancy?

Maggie Ralbovsky: Yeah. Gerard Cruz: She's come up a little bit? Maggie Ralbovsky: Yeah, a little bit. Gerard Cruz: Who is coming in to see us for her....

Eaton Vance

Wilfred Leon Guerrero: Okay let me see. Where's your hand out? Kristine Gaspar: Are you doing a lot of updates today? Maggie Ralbovsky: We are done with updates. So now it's your turn. Kristine Gaspar: And then other managers? Maggie Ralbovsky: One more today. Wilfred Leon Guerrero: Are you going to have somebody? Kristine Gaspar: Yes I'm going to dial in Nancy Tooke who is the lead portfolio manager lead the small cap team. She's been in the business 40 years and she hates to be left out of meetings but she couldn't make it to be here in person. Paula Blas: Is that the number? Kristine Gaspar: Yes this is the number. But it's not on speaker? Hello. Nancy Tooke: Hello Kristie. Kristine Gaspar: Oh hafa adai Nancy, how are you? Nancy Tooke: Hafa adai to you. Kristine Gaspar: Thanks for joining us I'm in the conference room with the Board and Maggie from Wilshire and the staff and we're just about to get started, is everybody here? Wilfred Leon Guerrero: We've already. You go ahead and start.

Kristine Gaspar: Okay great well I'm Kristine most of you look familiar. From my fourth year here so happy to be back to provide an update on the Small Cap core equity portfolio that Nancy and her team manage for you. Nancy is on the phone. She's been in the business over 40 years and been with Eaton Vance 18 years now Nancy I guess right? Nancy Tooke: Nine. Kristine Gaspar: Nine sorry. Nine and happy to have her join us for the portfolio review portion of the update but I thought for an agenda I'd give you an update on the firm and the team and then we'll turn it over to Nancy to talk about performance and attributions kind of give you an overview of the market environment what we've seen, you've probably heard some of that with Maggie and her update. And then talk about the portfolio positioning and the outlook going forward importantly. And we have about 45 minutes, 30-45 minutes? Okay, great. We'll keep an eye on that.

Kristine Gaspar: Page 3 of our presentation that brought us the Eaton Vance update. 293 billion in assets under management. It was at about 260 last year when I was here. Nancy and her team managed about a billion in assets and that's remained steady. The institutional business has grown at Eaton Vance. Got some strength to it, it's up from 96 billion from last year to 118 billion so the company is going strong. We've seen a lot of growth in our income side of the house in our floating rate income business, bank loans, senior secure bank loans. We've seen a go from 36 billion up to 42 billion. We've seen a lot of interest from institutional investors in that area that are looking to hedge against rising interest rates and looking for some total return on their fixed or income investments.

Kristine Gaspar: One of the things if you turn to page 4, one of the important additions to our equity platform is we're excited to report the hiring of Eddie Perkin who's in the top left in the blue box there, as our equity platform CIO. He replaced Duncan Richardson who retired last October after 26 years with the company. Eddie joined us in April after a bit of a guardian leave we did hire him at the beginning of the year. He joined us in April, he was with Golden Sacs Asset management for 12 years prior to that and the last 6 he's been running and playing a player coach role within Golden Sacs as a Chief Investment Officer so

it was a good fit for us, we were looking for somebody to not only lead the equity platform but also to take the player coach role in a different strategy in our large cap value equity strategy. So he came in at the end of April, evaluated the equity platform and made some changes to the Large Cap research equity teams. What he did we were a centralized research group Large Cap equity analyst covered multiple products. Nancy's analyst always covered her and more focused on her team only so there's not really a change there. And what he did was put the rest of the analyst into a value team and a growth team so to the extent it affects Nancy and her team. It's kind of the motto that he put the rest toward Nancy and her team. The only difference there is that now Nancy's analyst report directly up to Nancy so we think that's a good thing. Gives them more accountability, makes them feel really directly involved and have a stake in the portfolio that they're picking stocks for. So is that fair to say Nancy? Nancy Tooke: Yes definitely.

Kristine Gaspar: Great. Page 5 is Nancy's team of analyst. Nancy as the lead PM and then 4 analysts, we do have one open analyst position. Danielle Williams who is the financials analyst she departed at the beginning of October about an offer she couldn't refuse from a shop down the street in Boston went to Wellington so made the personal decision that it was time for her to go. I think fortunately other folks including Nancy being in the business so long have covered financials as well as others on the team and they can go into the strategy when Danielle was out on maternity leave and when they covered the financial stocks during that time. But importantly Nancy has already started the search to replace Danielle, has already seen some good candidates and I think the target try to have somebody hired in before year end. Nancy do you have any update? Any good candidates you're seeing?

Nancy Tooke: Seeing another for a second round tomorrow, seeing somebody else who looks very good on paper on Friday. So we're on it and we're very focused on getting that position filled. Kristine Gaspar: Are there any questions on that team changes or the additions that Eaton Vance level? Wilfred Leon Guerrero: Nancy, you're accepting more responsibility, right? That's the bottom line on these changes. Nancy Tooke: Well yes and no. The analyst always reported half to me and half to a research director. And the research director's role was eliminated when Eddie reorganized the department and so now the analyst just report to me and so it's a cleaner process and they don't feel conflicted in reporting to a research director and then a portfolio manager. So you know... Wilfred Leon Guerrero: I guess my question Nancy is that is this going to distract you? Nancy Tooke: No, I work so closely with this analyst on a daily basis they really interact with me you know constantly as we're going through appropriate ideas for the portfolio.

Kristine Gaspar: And I think it administratively she still had to provide reviews for her analyst and those type of things behind the scene. That part hasn't changed it's just all relying on her reviews. I think if you want to turn to page 11 Nancy do you want to start with the portfolio? Nancy Tooke: I actually want to start with page 9. Wilfred Leon Guerrero: Before you get to that lets just for the record, do you have any problems with any of the regulatory agencies? Kristine Gaspar: No we can confirm there are no outstanding issues. Nancy Tooke: No. Wilfred Leon Guerrero: We covered organizational changes and regulatory agencies so I think on record we want to show that we did talk to you about those. Kristine Gaspar: Yes and I did want to ask if there's any new members that would want a refresher on kind of her philosophy and how she thinks about the Small Cap space

as she talks about or does everybody feel pretty comfortable? Wilfred Leon Guerrero: Tony is new here and Dave. Kristine Gaspar: Dave, would you like a little refresher? David O'Brien: On what? Kristine Gaspar: On the philosophy. David O'Brien: No. Kristine Gaspar: Alright Nancy, page 9 it is.

Nancy Tooke: Alright terrific can you hear me? Kristine Gaspar: Yes. Nancy Tooke: Great thank you for this opportunity to present to you again. On page 9, I just wanted to give you kind of a broad market overview because 2014 has proven to be a very challenging year in the Small Cap equity markets in general and you can see on the first chart on the left hand side of the page. In the 3rd quarter the Russell 2000 which is the Small Cap benchmark was down 7.4% on the quarter and that compares with the Russell 1000 which is the Large Cap members of the Russell index. We're up .7% so there was a very big difference in the performance of the 3rd quarter between big outperforming small by a large measure and March 31 to September 30, that's 6 months period at a time, small underperformed large by 12% that's 12 hundred basis points that's huge and very, very unusual. There hasn't been that big underperformance gap in years and it was very broad based. So if you turn to the next page you'll see the 3rd quarter performance by sector on the left hand side and every single sector of the Russell 2000 was down during the 3rd quarter that too is very unusual. If you flip back to page 9, you'll see over the last 12 months that also the Russell 2000 small vastly underperformed the Russell 1000 large which was up 19%. And if you look at the 12 month sector performance on page 10, you'll see that's on the right hand side that over the last 12 months in Small Caps it's been a very defensive market place where utilities, financials, consumers staples, have led health care and it's a favored the inter sensitive sectors and the yield oriented sectors like utilities and REITs in the financials area. Energy and consumer discretionary were both down. It's unusual that those two sectors would be down together. Usually if energy is up it suggest high gasoline prices and so consumer discretionary stocks tend to trade down and vice versa. So the good news from this very challenging environment particularly in the 3rd quarter is that the Russell 2000 is no longer over valued at the beginning of 2014 there was a lot of discussion and conversation about the fact that the Russell 2000 was selling at a 3 point differential to Large Cap that it was 3 on a scale of price earnings ratios it was 3 points higher than the Russell 1000 Large Cap.

Nancy Tooke: As of September 30th the Russell 2000 was back down to 16.9 times forward earnings and that compares with 16½ times average forward earnings over the last 10 years. And the Russell 1000 as of September 30th was at 16 times. The normal difference is 50 basis points so if the Russell 1000 is at 16 times it would be normal to see the Russell 2000 at 16½ times. So it's trading now very much in line. So taking this now down to your portfolio on page 11, you'll see it in the 3rd quarter the Guam account was down 6.89% compared to the Russell down 7.36%. And for the year to date its down 3.79% compared with 4.4% for the Russell. Our mind track is to outperform in down markets and participate in up markets. So we're never going to be the hottest game in town in a rip roaring up market but what we desperately try to do is out perform when the market is turned down and that's because of our evaluation discipline and I'm pleased that in the 3rd quarter of 2014 we were able to be down less. I know we were down but and you know I never liked to be down but we do want to be down less than the Russell 2000.

Nancy Tooke: If you flip to page 12, here's our performance attribution for the 3rd quarter, and you'll see that in the 3rd quarter we have positive stock selection in technology, consumer discretionary, materials and industrials. That's that column which is second to the left, it says selection of that and we have poor selection in energy and financials in the quarter. One of the things that we did in the quarter was we reduced our weight in energy at the beginning of the 3rd quarter. One of our holdings Kodiak Oil and Gas was acquired by a company called Whitting in early July and we redeployed those proceeds into consumer discretionary because we thought that oil prices were high and that they were probably going to come down somewhat, we certainly didn't anticipate them to come down as much as they come down but it did enable us to pair it back our energy exposure for the 3rd quarter and now into the 4th quarter.

If you look on page 13, you'll see the 5 top contributors to the 3rd quarter and the 5 detractors to the 3rd quarter. The real leadership in the 3rd quarter was Biotechs and REITs. We don't own any Biotechs. In small cap planned Biotechs we consider to be quite risky because they tend to be one product company and so the outcome tends to be very binary. You either get FDA approval and your drug goes on and you have a very successful stock or you're drug is not approved and those companies burn through their cash and often go bankrupt. And so we prefer to invest in Biotech through their suppliers, companies that supply them with the research and development tools and measurement analysis that they might use in drug development. We've also been under weight REITs over the last 4 years. They tend to sell at a premium to their NAD and we like to buy them when they're at discount and they haven't been at discount over the last 4 years. It really has to do with the fact that REITs are yield vehicles and those investment styles that want an emphasis yield have bid up REITs to valuations that on a fundamental basis aren't that attractive.

In the 3rd quarter we were also hurt by two Biotechs that were in the Russell 2000 and which we didn't own. Intermune was up 402% year to date. It added 19 basis points to the Russell 2000 in the 3rd quarter. And another Puma biotech added 25 basis points to the Russell 2000. So, 44 basis points in the Russell 2000 for the quarter had to do with just these 2 small Biotech companies. This is one of the reasons we didn't beat the Russell 2000 by more in the down market. It was just a very unusual but that's the way this year has been in a Small Cap.

On page 14, this is our year to date performance. You'll see here that where as energy was our worst sector in Q3, it was actually our best sector year to date and we had good stock selection in energy materials, financials and technology. And again we were hurt by Biotech and underweight in REITS and over weight in industrials. On page 15, our top relative contributors, our top 5 relative detractors in the relative contributors Kodiak which was the take out was at 41%. Avis Budget Group which is the Avis rental car company was up 58%. Methode Electronics which does a lot of electronics in U.S. autos was up 14%. Lazard was up 14% and WEX was up 11%. Our detractors include Analogic down 27%, Generac down 28%, Interface down 26%, DSW down 34% and Global cash access down 33%. Intermune the Biotech that we talked about in the 3rd quarter added 34 basis points to the Russell 2000 index on a year to date basis. That it's kind of a dogged us all year. On page 17....

David O'Brien: Nancy, can I ask you a question? Kristine Gaspar: Nancy, hold up. David O'Brien: You know the way energy is going I see you have a lot of debts in some of the small energy companies like Goodrich for example which was a big 3rd quarter detractor for you. Can you talk about energy and I mean energy is a small caps business I would assume, you know in many of these parts, how you see that going forward because I mean energy's got to be one of the issues where it's going to go in the next year. Nancy Tooke: Absolutely if you'll flip to page 17, this is one of the ways we look at the portfolio and it's a sector distribution and our names and our positions compared with the Russell 2000 weighting in that sector and you'll see that energy as of September 30th was 6.3% of the portfolio, just slightly over weighted to the 5.5% in the Russell 2000. We're now actually at 4% of the total portfolio in energy and we own 3 energy stocks, Goodrich, PDC and Seventy Seven. Goodrich and PDC are 2 exploration and production companies and they are active in oil shells, the Goodrich petroleum has an acreage in a shell play called the Pescolusem Marine trend, it's down in the Louisiana area. And it also has a gas field in the Haynes field area of Texas and Louisiana. And PDC is a shell play with a lot of acreage in a play called the Latinburg which is in Colorado and also in the Utica which is in Ohio. These plays are relatively new but they seem to have a lot of oil and the wells that are being drilled are very productive and so these companies have been penalized by the oil price collapse that's really occurred since July. And at this point these stocks are trading like they're going out of business which they're not and so I think the energy at this point is beginning to look very attractive because the valuations are so low.

For example Goodrich we believe the net asset value adjusted its Tuscaloosa Marine shell assets where it has tremendous acreage in this new play is worth 30 dollars a share and the stock is trading in about 9 dollars a share and that does not include their Haynes field acreage. PDC is exactly the same way it's trading at an enormous discount to what we calculate to be its net asset value. So you know they may continue to trade and be sloppy as you go towards the end of the year because of tax laws selling but we think that they're definitely more a buy than a sell at these levels. David O'Brien: Thanks. Nancy Tooke: Does that help? David O'Brien: It does. You know my worry always in Small Caps is how long can a Small Cap given it's capitalization survive in a downturn like the energy downturn, that was kind of where I was coming from. I just wondered about the fix that you had because ENP companies as you know are here today gone tomorrow sometimes and... Nancy Tooke: Yes exactly. And one of the things that happened earlier this week is that Howard Burton made a bid for Baker Hughes and I think that you're going to begin to see some consolidation in this energy area. You know we've been taken out of Kodiak by Whiting. There are a lot of larger oil companies that have not been participants in the Shell plays and a lot of them have been under tremendous pressure overseas in the various field that they exploit overseas because you know foreign governments don't necessarily look upon them as being you know good buyers in their particular geographic areas and so a lot of them are beginning to look more towards assets in the North American continent and so I think that there could be a lot of consolidation particularly if energy prices stay low. I think though that it's unlikely that energy prices are going to stay low for very long just because of the geopolitical problems around the mid east and you know the fact that you know there really aren't huge surpluses in oil in North America or you know the rest of the world. There's been a lot of futures activity in energy and a lot of the other commodities and those unwinds have been very painful when they take the commodity down probably further on the down side than it should've been taken.

David O'Brien: Thank you. Nancy Tooke: You bet. So on page 17, this is the way the portfolio looks by sector. In the consumer discretionary area we've actually been adding to this area and it's now getting relatively close to a full weight compared with the Russell 2000. In consumer staples we've added a food name recently a company called Pinnacle foods. So, Consumer Staples is in the 4½% area. Energy is down to 4% and in the financials it looks like we're under weighted but there are 3 names in the technology area that actually are more financials than they are technology. Cardtronics, Euronet Worldwide, WEX and if you add those to the financials you'll get to about the financial weighting of 24% and it'll take down the technology more towards the 18%. Our industrial weighting is also come down some it's about 16½% at the present time. And health care is climbing up towards the Russell 2000 weight of about 13½%. Looking on page 18, as has been the case all along our top 10 holdings were about 30½% of the portfolio and that's pretty normal. And then on page 19, these are financial characteristics of the portfolio. And you can see that the portfolio is cheap, as of September 30th was trading at 13.9 times forward earnings. For projected 3 year growth of 17%, that compares with the Russell 2000 index. It's 15 times forward earnings for 15 approximately 15% 3 year growth.

Nancy Tooke: We're in very high quality issues and that pretty much shows through on the return on equity line or return on equity of our portfolio holdings is 15.3% compared with the Russell at 2.2%. And we're on the liquid side our average market capitalization is 2½ billion the Russell average market capitalization is 1.7 billion. And as of September 30th we had 49 holdings. We think that our portfolio is all of very high quality, very under appreciated names. The mark that has not rewarded high quality companies over the past few years the zero interest environment has created a tailwind if you will to small companies that have very shaky balance sheets and it's because at the very low interest rate a lot of companies that probably should be at debts door can still borrow. We think over the next year or so as the FED rightfully gradually begins to tighten, you're going to begin to see the higher quality balance sheets come back into vogue again and we're very well positioned for that. We like companies that generate a lot of free cash flow and can fund their own growth and can give solid returns to their shareholders through dividends and share buy backs and can make acquisitions and think that although that's been ignored over the past few years that we're going to see a good come back in that. Quality is just cheap and so our portfolio is high quality and cheap. Small Cap... David O'Brien: So how do you see that playing out in this stage of the bull market particularly you know as you go into 2015 and this bull market gets even longer in life?

Nancy Tooke: I think that 2015 is perhaps going to weed the men from the boys in terms of earnings. So companies that are high quality gaining market share have top line growth, have disciplined you know cost, disciplined are the ones that are going to be able to show above average earnings growth. Small Caps are kind of favored in that environment because they tend to be more focused on domestic markets and so they have less foreign exchange exposure and they have less foreign market exposure. The foreign markets have been slowing down and you can say that Europe is in a pretty full blown recession at this point and so smaller companies that derive most of their earnings domestically are likely to be favored in the 2015 earnings environment. So, I think that's where you may begin to see differences, big differences that will cost the mentally driven companies and the stronger companies to begin to be differentiated in the market place again. David O'Brien: So you

would say 2015 given your current holdings and strategy that you should outperform? Nancy Tooke: Yes. David O'Brien: Because in a late cycle bull market right that's a tough place to be for you guys. Wilfred Leon Guerrero: What would that number be? David O'Brien: We're writing that down too. Nancy Tooke: Well you tell me what GDP is going to grow up. Kristine Gaspar: What are you concerned about Nancy? What's the other half of that? Nancy Tooke: Well you know the takes are that the market has been trading on broad based macros and there's just a lot of concerns about various hot spots on the globe. The mid east you know the Ukraine, Russia you know various things going on in China. Ebola, the European economies and their recession and their banks and you know those kinds of issues can take a hold of the market and they certainly have been causing a lot of market volatility particularly in 2014. The market trades of these big macro headlines and so you know it's kind of ignored the fundamentals of good strong companies and hopefully we're going to get beyond some of this volatility and we're going to go back to people paying attention to fundamentals when we see which companies can grow their earnings and which can't and particularly in a period as the Fed gradually begins to tighten. That should weed some of the men from the boys.

Wilfred Leon Guerrero: Nancy where are you at? Kristine Gaspar: She's in Boston where it's a little colder and darker. Nancy Tooke: Boston, Massachusetts. Wilfred Leon Guerrero: It's already what time there? Kristine Gaspar: 10:30. Nancy Tooke: It's about 11:15 at night and it's in the single digits right now. Wilfred Leon Guerrero: Okay, you can go to bed now. Nancy Tooke: Well I'm envious of your warmth and thank you very much for your time tonight. Wilfred Leon Guerrero: Yeah, thank you. Kristine Gaspar: Thanks Nancy. Nancy Tooke: Good night. Kristine Gaspar: Good night. Are there any other questions for me? David O'Brien: You know you guys have like compared to other active from the Small Caps I mean if you look at the percentile Small Caps is low this year. Kristine Gaspar: Not too bad. Would you define them as high quality? I guess we need to know... David O'Brien: I'm just looking at the manager. Kristine Gaspar: E vestment? David O'Brien: First for 1 year you were 87 percentile, 2 year at 73 and 3 year at 80. Those are tough places to be. I mean... Kristine Gaspar: I think I would just point to the strategy it's a concentrated portfolio, its higher quality it is going to be in favor not a favor so I think to the extent that it could be down there, Nancy's strategy could also flip pretty quickly on the upside as well. I think she can make up for out perform by significant amount at any given quarter as easily as she's under performed. I can look into it more. I think it's been hard.

Kristine Gaspar: And then I think we also have you know when Nancy mentioned, we have some upside and downside capture. This is for the 10 year period but you know 99.1% of upside and downside 87.6% so that kind of speaks to what she was mentioning. It's been a bull market, we're not going to keep up in that typically so that's what we've seen with this extended bull market you're going to see us look worse and worse. If you get a pull back like you've seen we're going to out perform you would expect us to we don't want to say there has to be a negative market but that would change the way this looks. David O'Brien: That was my question. Kristine Gaspar: Okay great well my information is on the front if there's any questions you have that you think of after this or just want to chat more about the portfolio for folks that are not familiar with us I am only a phone call away. Happy to chat at 11:30 at night, I'm a night owl. Actually, I'm in San Francisco, so I'm a little closer

to you guys on a regular basis. Wilfred Leon Guerrero: How cold is it in San Francisco now?

Numeric

Wilfred Leon Guerrero: Any of the regulatory agencies have issues with you and if there's organizational change which I think you do so... David Stewart: Yes, so we'll certainly address that. I'll address that right up front. My name again is Dave Stewart, I head up our client portfolio management area at Numeric. Jay Rajamony has been with the firm since 2004 and has been leading our Small Cap U.S. book of business since the end of 2011. Happy to be here in person this year Jay joined us via telephone, if you remember you may recall from last year. The first thing that you'll notice right off the back is a change in branding. The transaction that we had talked about when we visited last August was completed in September of this year. TA Associates which was our private equity partner for 10 years, needed liquidity to satisfy their obligations to share holders and we selected the Man Group as our partner.

Page 4 if you will shows you a breakdown of the different investment businesses under the Man Group umbrella and we're quite pleased with the arrangement for a couple of reasons. Primarily the partners of Numeric like Jay and I, there are 18 of us total out of the 80 employees. We were able to retain our ownership stake in Numeric Investors LLC through this transaction. It was also important that the governance of the investment group decision making structure and personnel remained intact and that is in fact the case. Any model enhancements, changes to strategies any of that on a go forward basis is decided upon by the same investment committee members that existed prior to the deal. We also think we fit a unique place within the offerings of the Man Group. I'm not sure how familiar you may be with this London based organization but on page 4, the left hand side, AHL is their existing quantitative business but they manage a CTA. They manage strictly futures and other derivative based products in a trend following or momentum type manner and they've been in existence for the better part of three decades. GLG is their discretionary business. So these are fundamental analyst and portfolio managers that are buying and selling portfolios of individual stocks and bonds and then FRM is their fund of funds platform. Although we appear on the right hand side on page 4, we actually think we fit nicely between the AHL and GLG organizations in how we manage money because we are quantitative like AHL but we are buying individual stocks in our long-only and long short portfolios. Part of the benefits in working with the Man organization as a global investment business it has become more and more complicated and more and more expensive to manage this business particularly from a regulatory standpoint. There are a lot of new regulations to satisfy throughout Europe and Asia and other parts of the globe and working with a global organization like Man that has resources on the ground will help us navigate those waters much better going forward.

Page 6 gives you a snapshot specifically of Numeric and how we ended the 3rd quarter. You'll see we are just over 15 billion dollars in client assets and the assets are broken out as you can see in the 4 charts or tables that you see on page 6. The Small Cap core strategy in which the Government of Guam Retirement Fund is invested is in the upper left hand quadrant. You represent a large portion of that Small Cap core allocation just about

25% of that overall bucket if you will. Most of the growth that we've seen at the firm over the course of the trailing 12 months has actually been on the right hand side of page 6. Mainly our global strategies both Large Cap and Small Cap you'll see a new global Small Cap mandate that we started managing just this summer which has a portion of the Small Cap Core portfolio that Jay manages. And then the emerging markets area has been another fast growing segment of our assets under management. The investment organization has seen only slight change since we met last year and the change has been in adding new team members in order to help support the overall growth of the business. So we do have the dual CIO structure as you see at the top of page 7, and then portfolio management teams are broken out by region. Joe Schirripa heads our U.S. and global area. Jay is part of Joe's team and leads the Small Cap effort where Joe spends majority of his time in Large Caps. We do have a dedicated non U.S. and regional team led by Ori Ben-Akiva and then we do have a hedge fund effort as well. We have added in each of the U.S. and Global and International regional teams another portfolio manager to each of those teams. Again, to help support Jay and Joe on the U.S. and global side and to help support Ori in the International and Regional side.

All the PM teams are supported by this implementation team which reviews the simulations of our strategies on a daily basis and we've added to both the trading and strategic alpha research teams in the last year as well. The breakdown of the employee additions is listed on page 8 where you can see the new portfolio managers and other investment team members also being a quant firm our tech team is the second largest group of employees of the firm and we added 3 individuals to that group over the last 12 months. And then to your question about regulatory issues, it may have been long overdue, it may have been triggered by the transaction we're not exactly sure but the SCC did do an examination of us, they conducted it late in September and to the best of our knowledge it's a routine exam, we have not been provided any indication other than that up to this time but if they come back to us with additional questions we will certainly keep you and all of our clients aware of that.

Wilfred Leon Guerrero: You say routine exams, do they do this periodically? Dave Stewart: They do, they do and the fact that we had not had them visiting us. Wilfred Leon Guerrero: How often do they do this? Dave Stewart: It's hard to say I mean the last time they had done one for us was in 2004 and 10 years is probably a pretty long gap, I'm not sure. Maggie you're experienced. Maggie Ralbovsky: They show up in odd place, probably once in every 4-5 years. Dave Stewart: So, again my guess is Quant had been under a great deal of scrutiny by regulators over the course of the last 5 really since the 07-08 global financial crisis and perhaps with the transition or transaction with Numeric being in the news that was an opportunity for them to come and visit. So their examination was quite thorough, they asked for a lot of information. They seemed complimentary in how quickly we were able to turn that information around hopefully being Quants that's one thing that we're able to do pretty quickly. Wilfred Leon Guerrero: When are you going to hear? Dave Stewart: It's my understanding that they're allowed a 6 month period after their visit to follow up with additional questions and what not before they will issue a letter in response. So, again when we get that letter we'll certainly let you know. Okay.

Dave Stewart: With that said are there any other organizational topics that I can help satisfy or address with the committee?

Jay Rajamony: We look at how is the company making earnings? Is it through regular business practices or is it by playing with numbers on the balance sheet? How is the company generating cash? Is it by organic from operations or is it by issuing debt and equity which is not as desirable. Again, how are they spending that cash? Is it in friendly manner or is it by buying corporate jets and by acquitting other companies? So these are the kind of things we are looking for in the quality earnings model. The second group is the trend following. So here we have Estrend which is earnings estimate trend following. A price and a style which are both based on returns. Now all of these have the trend following part in common so one huge weakness of these types of models is that whenever the market goes through an inflation, when the market suddenly changes it's mind, these models will all stumble because they are all thinking the market is going to completely go the same way but something has changed, right. But the beauty of having 3 or 4 different kinds of ways of looking at momentum is that they are not all perfectly collated, so when one of them is failing the other one is also likely not failing at the same time. And this year itself both in April and October we saw that in action. So price momentum and style momentum both are based only on returns yet they perform very differently in these two months. And over the course of time we find that the coalition between price and style momentum is only one point of style so it makes the whole process more robust to have these different ways of looking at momentum.

And finally this Informed Investor is something that by the premises we acknowledge that two kinds of players, the people who shop stocks the market place and those who play the active market. Both of them are taking on an enormous risks and because they are taking on such giant risk, maybe they do have superior information and to what is impossible we want information to be applied to a long-only portfolio that is the idea behind the main foundation model. So this framework has been in place since the time you hired us and from time to time of course we make improvements in this framework as we find new ideas or as new data source becomes available. So just as a reminder in early 2013 one of the things we did is that for 3 sub-industries for retail, REITs and biotech which together make up about 18-20% of the Small Cap Core portfolio. For these 3 sub-industries we've developed industries specific models that has value and information flow except in these 3 cases we found slightly better ways of understanding what is value and what is information flow. Even through new data sources are slightly different models. So that is that. That is our process in a nutshell. And the intrusion behind combining value and information flows is that value is gently produced by over the action in the market place. So when the market over reacts the good news, that is the time for you to sell because the price has gone up and when the market over reacts the bad news is the time for you to buy. So that is values and typically over the action type of thing.

Information flow is primarily an under the action. So if you think of momentum of the price slowly getting to where it's supposed to get to that is because the market under the acts, eventually that reaction becomes full. So, valuation and information flow are very complimentary ways of how a market can misguide us the information. They are over reacts under reacts and therefore we used to combine them so that we can get a full understanding of how we can explore all of that. Now, if you go to page 11, there's a whole bunch of bar charts on page 11 and first of all, what this does is it lays out all the models that they use, value models on left side, information flow models on the right side. So gives

you a feel for one of the greatest types of models that we use. And what we do here is for each model one model at a time, how has the model done during the course of this year? That is what these bar charts show. So the 3 bars for every model is how the performance of that model during the 3 quarters of this year and at a glance you can tell that all the value models have had a reasonably good year. They are all positive in every single quarter. Fair value maybe struggled a little bit in the 3rd quarter but overall value has done well.

Information flow has been very mixed. If you look at the written information flow if you look at the right most two sets of bars, Short Interest and Options, they have actually overall done well. So these informed investors, Short market players and options investors they seem to have had some information for all of this year so that has been fruitful to use them. Between the trend falling models, Estrend, Price Momentum, Style Momentum it has not been a good story. Through repeated reflections it had during the course of the year, these models have not been able to keep up. But if you noticed between Price and Style momentum and how they've done in the 2nd and 3rd quarter the performance has been the exact opposite. So the 2nd quarter the Price Momentum was suffering, Style Momentum was adding value. 3rd quarter the other way around Style Momentum has suffered, Price Momentum was able to add value. So this is the kind of model when I was talking about earlier even though we are talking about momentum itself, having multiple viewpoints helps us have a robust stream of returns from this part of the process.

So overall, the model headline for this year its value has done its work, information flow not as much. But the sub-headline here is that it's very interesting that this year volatility has been heavily punished in the market place and for value to have done well in such a year is interesting because from the global financial crisis, value and volatility would vary couple. Every time the market was risk on or the market loved risk, value was rewarded and every time the market punished risk, value was punished and this year is completely come uncoupled. So this year the market is punishing risk yet value has done well. I think that is a very interesting reason as to why that is so and if you have time towards the end we can get to that. There's some slides in the back that sort of walk you through that. That also I think is a commentary on how the market has stopped focusing on macro panic and as being on focusing on fundamentals but we will see how that goes. The other story that is not quite relevant to your portfolio yet the market place that sort of background for this is the Large Cap and the Small Cap return difference during the course of the year and how Large Cap has served as a sort of place of diffuse while volatility has been punished.

Let's go to page 13 please. Page 13 onward is a review of the portfolio itself. So we're done talking about the process of the models now we're going to look at the portfolio itself. 13 is a snapshot of how the portfolio looked like at the end of the 3rd quarter. The shaded box is just a reminder that this portfolio is run by sector and industry constraints that are pretty tight around the benchmark and those constraints are there for primarily one reason that we are not experts at picking sectors or industries we are good at bottom up stock selection and these constraints keep us true to that philosophy of bottom up stock picking. The bar chart at the bottom left simply highlights the blue bar is the weight of the portfolio in each sector, the gray bar is the weight of the benchmark in each sector, these bars are neck and neck we don't take sector bets. The table is much more interesting. What that shows you first for the portfolio and then for the benchmark is a bunch of valuation metrics, price earnings, price book, price of sells and so on.

So, right away you can see that the portfolio has a value tilt compared to the benchmark which is no surprise at all because value is a big part of our process. What is a little interesting is that if you look at ROE, which is one way at looking in growth, you can see that we are able to deliver value to you without an anti growth bias so typically speaking anybody who delivers value will also carry the baggage of anti growth. We don't have that baggage for two reasons, one our value is fair value and not deep value, secondly, information flow is such a big part of our process. So because of that we're able to come up with this side of the portfolio. And the other number on this page that I would like to highlight is the active share which is 88.8% so what we are saying there is the overall between the portfolio and the benchmark is only what about 12% so even though we are running the portfolio with sector constraints and industry constraints we are able to have a very active portfolio within those sectors and within those industries. And no matter when you look at this snapshot of this portfolio its going to look very similar. The catalyst are pretty stable over time.

Page 14 is the other part of the performance page and this shows the performance of the portfolio from the time you've enlisted with us. So first of all we want to thank you for your business from 2010 onwards. The first two columns on... Gerard Cruz: I'm sorry this is an actively managed portfolio this is not a mutual fund, right? Jay Rajamony: It is a separate manage account, yes. David Stewart: Correct. Gerard Cruz: I see the Net-of-Fees portion. David Stewart: The regulatory environment really for the last couple of years has required us any time we list Gross-of-Fees to list the Net-of-Fee as well. Gerard Cruz: Okay, no problem. Jay Rajamony: So as you noted the first two columns are Gross and Net-of Fee performance of the portfolio itself. The middle column is our benchmark Russell 2000 Small Cap benchmark and the last two columns are Gross and Net-of-Fee returns in excess of the benchmark. So really speaking the last column is the best way to judge us. That is how much value we've added over the benchmark for you Net-of-Fee and if you glance up and down that column you be very pleased that even through all the turmoil's that have come and gone in the global market place in terms of European crisis and so on via an interest rate fee you name it. Through all of that we've been able to produce positive returns for you and we're very pleased with that.

Jay Rajamony: Since inception annualized through the end of September is 5.26% Net-of-Fee. So, since then of course October and November have not been so pleasant. Early part of October, saw some shadows in the portfolio so if you rather look from the beginning of the year through today, that you should probably dock about 70 basis points from the 255. Gerard Cruz: Seven zero? Jay Rajamony: Yeah. So from the beginning of the year through today really we are probably up only about 180 basis points I would say. David Stewart: Yeah, October you can see was a challenging month. November so far has been slightly up in the 20 basis point range. Jay Rajamony: Exactly. So the early part of October we saw a dramatic anti-valve stance in the market place and momentum and informed investor signals those were the two that really dropped the ball then and from then we've been climbing back but we've not got it all back. So that is the story of performance from the time of inception, there you have it.

Page 15 is a quick summary of what we've seen in 2014 so far. So first of all you've seen the bottom-up stock selection in this frame work the value with the catalyst has worked

well for us. Industry specific models which were added early 2013 they've done their job this year it's been positive for all of those three industries biotech, retail and REITs and as you will see the second on the next page, the process has added value both through risk on and risk off periods in general. Now the 3rd bullet finance is a typo. Its added excess returns it should be 7 out of 10 sectors, not 8. Gerard Cruz: 7? David Stewart: Yeah you'll see that on page 17 actually. Gerard Cruz: Okay. Jay Rajamony: We didn't work through that yet. And as always as you would expect from a process like ours, the performance this year or in any one of the previous years has not been dominated by a few names it has really come from a large number of names producing 10, 20, 30 basis points here and there.

Page 16 is pretty interesting and what it does is it looks at all the value that we added but then it tries to break it up into groups and see when is it that we added value and the idea behind looking at performance from these lenses is to give you a feel for the process itself. So I can talk about what sort of models we use and so on but you should have a feel for what kind of environments have been favorable for us and what have not been. So let's begin with the risk on risk off bar chart on page 16. So what it means by risk on and risk off on 16 is independent of the market can be defined risk on and risk off environments. And for the sake of this exercise we've used leverage, size and yield as metrics of risk on and risk off. And the primary idea is that any investment manager your expectation will be that during risk on environments, during the times that the market is in the mood for rewarding opportunity hunting then that manager should add value and when the market is risk off you want the manager to sort of tread water, it should not be 2 steps forward and 2 steps back, it should be 2 steps forward and then tread water in bad times. So we wanted to sort of put ourselves through that perspective and you can see that on the first bar chart on page 16, that a risk on environment from 2010 October from the time you've been with us, you've added about 50-60 basis points of risk on time periods. And at risk off time periods it's been maybe more like 30-40 basis points. So we are pleased of course that both bars are positive, but more than anything else what you want to highlight is that we have been adding value at risk on and we're not dropping the ball in risk off, we're holding on in risk off.

Jay Rajamony: Now a similar way of looking at it is to say well forget about risk on risk off just tell us market up, market down. So how do you do on up market versus down market? And if you were to look at it from that perspective, now I'm talking about the right hand side chart on page 16. If you simply divide every month we've had into an up month or a down month and look at how much value we've added, these bars are a lot closer to each other. Clearly we've added a little more value in up market months than in down market months but by in large these bars are close enough to be within status of gaining significance. So we are very happy with that fact as well that these returns have been added not somehow magically but somewhat in the right environments and independent of the market. Page 17, once again we're zooming in only on 2014 on page 17. Just for this year for the first 9 months of this year, we saw earlier that we added value and what this page tells you is in which sectors we've been able to add value for you so because the portfolio and the benchmark are very close to each other by sector, there's no sector allocation effect, the only effect to look at is top selection within sectors and here is where we meant to say 7 out of 10 sectors have made positive contributions. So there's a lot of interesting stories that we can get to on page 18, where you can see by and large information technologies tech has

been the sector where we struggled a little bit this year in terms of models and a lot of that has come from the momentum model doing poorly within the tech sector.

Gerard Cruz: You guys don't do sector bets you said? Jay Rajamony: We don't do sector bets so this is top selection going bad within technology. David Stewart: So just to point out you'll see the portfolio weight and the benchmark weight those middle 2 columns, they're pretty tight. We're not trying to tie one over the other or anything like that. Jay Rajamony: Page 18, now actually has a bunch of names so what are the stocks, what are the stories behind these numbers? So I want to highlight that look it is not that we invest based on the story but once the stock is in the portfolio and once it is either working for us or not working for us we do follow these stories primarily for the reason that we want to understand what exactly is happening in the portfolio and it is by following these stories that we eventually get ideas for new models so we do want to know what's happening within our portfolio.

On the left side of page 18 are the top 10 contributors this year so far. A couple of names that are just seeing Rex American Resources and Green Plains, they are both Ethanol names. So earlier this year Ethanol had a huge run of course it will stumble later on but part of that was driven by transportation problems early on that is people could not get Ethanol the way they needed to get to quickly enough that really boosted the price these names benefited from that. Pilgrims pride they make chicken, they benefited from comp prices falling and also they were trying to take over a company named Hillshire but they lost the core bet and the market really appreciated the fact that they didn't waste their money by taking over some other companies so they benefited from that. Quest was... Gerard Cruz: What's the name of the other company? Pilgrims Pride? Jay Rajamaony: Pilgrims Pride. Greenbrier is another interesting one. Greenbrier is benefiting from the Shell oil boom so all over Mid West they are producing a lot of oil from the ground but they don't have enough pipe lines to carry to the refineries on the coast so they started using rail cars but as we all know from headlines a lot of these rail cars ended up in flames. So now there's new regulations that these rail cars that are used to transport oil have to be approved to superior specifications.

Greenbrier makes railroad cars so they are benefiting a lot because everybody that needs to transfer oil needs to buy railroad cars and here they are making those cars. VDSI that's Vasco Data Security what they do is they are an intimate security firm. Every other day there's a headline in the newspaper about how some retailer or another has compromised their data, some hacker has broken into so these guys are benefiting from that. More hacker usage the more these security firms make money. On the negative side again maybe I should not go through all these things in the interest of time but one name is very interesting, Money gram, they are sort of like a Western Union kind of enterprise but they have mostly set up within Wal-Mart. And Wal-Mart decided to enter into the same business but at half the price so clearly not good for Money gram basically. But there's a lot of interesting stories, we can sit here and talk about all these things all day but never mind.

Jay Rajamony: Let's go to page 19. This is part of a summary of the portfolio performance and the main points here are from the '09 doldrums the market has had a huge economic recovery and what not so the benchmark itself was up about 14% annualized from that time and on top of that we've been able to add 5.3% per year to you through our stocks

selection process and of course, due to compounding if you add value in an up market environment it just makes that much more money for you. Now, one of the primary reasons why we've been so successful since October 2010 is because our relatively small size and compares to other managers who may be managing Small Cap and also we're very efficient in terms of harvesting the ideas that we're going after. Our process is far more robust today than it was back in '08 or back in 2002 or anything of that sort. And we are very pleased with how well our models have done through the various macros that has come and gone. So we saw in 2010 and '11 a lot of European crisis and that impact even U.S. Small Cap. And then along came a whole CD's of waves of fears about interest rates, are they going to go up or not, how much are they going to go up and so on.

So through all these ups and downs we've systematically been adding value and that's been very pleasing to us. And really I haven't put any chart in the book for this, if you were to analyze our returns through any kind of regression analysis and so on you can see that we don't have any style bets. We are not making this money by taking a value versus growth bet, we are not making this money by taking a market bet or small or large bet or anything of that. It is purely bottom up stock selection and I just want to highlight that because often that becomes a primary source of concern when evaluating managers. And in terms of outlook we just expect that the normal sort of alpha pattern will continue and what we had last year for example that's spectacular 9th person we had last year is probably not a guide for what we can do now. David Stewart: Sorry to disappoint the other guy. Jay Rajamony: I'll stop here and I'll pause for questions and there's a section in the back of the book that talks about market environment in general that may be less interesting than the portfolio overview, we can go over it if you like.

Maggie Ralbovsky: I have a question on the trading part, you know this whole year there was lots of discussion on the dark hole being regulated, the flash flow also had a lot of public attention as to whether the market was rigged and there's now the FCC may get in to regulating the trading part. Does that impact your trading practice because you trade a lot right? Jay Rajamony: We do. Maggie Ralbovsky: The turnover is very high therefore you care about trading execution so is there any thinking about whether there is an impact to your business? Jay Rajamony: That is a good point I mean we are always keeping our sort of finger on the pulse of what is happening. It is not a primary source of our returns it is sort of something that we want to make sure that trading is not a huge friction on this process. So to that extent one thing I want to say is that off the recent developments everybody talks about high frequency trading and so on. In our experience that has actually solved and reduced our transaction cost we have some numbers to back that up so we believe that has helped us. David Stewart: By providing liquidity to the market.

Jay Rajamony: Exactly, it just makes the whole process more liquid. And the way we normally approach trading is that as a firm for any given name we don't want to demand more than 50% of the days walling and none of the trades that we enter we don't have a criteria that we have to finish that trade by the end of the day. So, if the price goes away from us or if the volume dries up, we simply don't complete that trade that day and we let the process reevaluate whether we should do that the next day or not. So I think these sort of safeguards and we'll sort of guide us in the right way but trading in market is always going to change no matter what there's always going to be the next day on the horizon and these will have to navigate through it. And one of the things we've been doing in the U.S.

and in Japanese process for the last couple of years is that we have been participating in the pre market open cross and that is usually been beneficial. So about 15 to 20% on Small Cap trades get crossed, even before the market opens and the crossing happens at the average price for the day the volume made an average price for the day. So even before the market opens you are able to do this without too much of an impact cost and at half the commission that it normally pays. So these sort of innovations as we can do we'll continue to do and as environment change we will also have to sort of change. We don't have an immediate answer for you on what other matters that might come up.

Wilfred Leon Guerrero: What's your outlook just for normal target, how's the pattern? Give me a number. Jay Rajamony: If I'm put on the spot for the number I would say we're 4%. Wilfred Leon Guerrero: 4%? Jay Rajamony: Above the benchmark. Gerard Cruz: 4% above the bench. David Stewart: The bench is again similar to Jay's description of us not timing sectors or industries, we don't time markets either. Our objective is really to pick within industry within sector which of those stocks are going to outperform the bench within that particular area. Maggie Ralbovsky: You said you figured out why the value Asian and quality broke, the relationship broke. Jay Rajamony: Yes, so let's go to page 22 please. So page 22 is not at all visually pleasing but just to make it... David Stewart: You got that right, here's where the real quant comes out right here. Jay Rajamony: First, let's focus only on the blue line, ignore everything else just look at the blue line goes all the way back to 1973 and what it shows you is a correlation between value and risk. And gently speaking they're negatively correlated so typically speaking you can sort of think of it as at the time the market is fearful the market always runs to value because value seems like the safe haven, lets buy this value now and be safe. So that is why this blue line is simply negative so the correlation is negative in "normal periods" when risk and value sits on opposite sides of the fence. But then from time to time we see the blue line actually pick its head up above zero. And most pronouncedly in the post GFC time period from 2008, 2009 time periods has been very positive and the argument that we're making is that the times when value and volatility become coupled is supposed the risk is actually a panic. Let's say the market is actually automating not just between normal kinds of risk on risk off but if you panic like when it happened with the global type crisis or European crisis when it's risky they think look the whole world is going to end and the next day they say look all the problems are solved, everything is fine lets go to the other extreme. When the market swings and weakens to the extremes then value no longer looks like a safe haven because then when the market is going down people are not thinking of these cheap stocks as an opportunity they think of cheap stocks as these stocks are on their way to bankruptcy. So, in those times of panic risk off, value is not a safety place to receive to the value is actually a risk. So that coupling happens only when there is extreme panic in the market place and what the red line shows you is the recession time periods. So now if you try to guide the path of the blue line with the help of the red line you can see that every time the recession that is when the red line is one it's a recession, when it's zero it is not. You can see that it's roughly around recession time periods than that value of volatility becomes coupled. Now recession is not the only macro risk after what happened in Europe did not cause the U.S. recession but it was still a macro risk and so on. David Stewart: Is that the 2011 you are seeing there, roughly the European credit crisis. Jay Rajamony: Right. Exactly right. So the argument is that from 2008 on was a market continue to be in this sort of panic euphoria bipolar mode and that is why value and volatility were very coupled. So every time risk was on people say value stocks are risky lets not buy them, they're going to go

bankrupt. But now from late 2013 onwards I think that has come undone. Now what's going to happen in the future is not very clear nobody knows of course but from late 2013 through today what has happened is that the market has probably decided all these huge macro fears are behind us and this year especially, from March onwards the market punished flaky stocks, once again when it became anti risk it actually rewarded value because this is not a panic its an essential kind of crisis it was simply macro these flaky stocks are not worth anything, lets dump them like the biotechs and so on and lets buy some good stocks instead. This is what I would like to refer as a normal time only because that has been the most prevalent from 1973.

Maggie Ralbovsky: So knowing this, what does that do for the process? Jay Rajamony: Nothing. It's not that we're going to change our model because of this but I think having these sort of discussions allows us to understand better and eventually might lead to a better designer with value model down the line at some point but this is just a sort of more of an understanding of what's been going on. David O'Brien: So looking forward to 2015 and you see that the decoupling still being there. Jay Rajamony: It's hard to say. The reason why it's hard to say is that the decoupling is not something that comes from itself, it is a reaction to what's happening outside. So tomorrow if the market suddenly said you created a bad idea you know it's going to explode then suddenly we could go back to the coupling time period. So you just never know or if you more like becomes a major scare. But all that we can say is looking for scare is going to happen then your value strategy is going to become very, very risky.

David O'Brien: So in 2015 for Small Caps in general you see as given where we are in the bull market. Jay Rajamony: Good point. David Stewart: Essentially look at page 24 again I think the left hand side reveals for you some relative or how to gage the valuation of Small Caps versus Large Caps over time and you can see that there is there's been in 2014 a downward movement pretty severe downward movement in the Russell 2000 stocks. There's a much wider spread coming into the year, that gap has closed significantly as Large Caps have outperformed Small Caps by such a wide margin. Jay Rajamony: Absolutely, in fact this year has been the worst year for Small Cap versus Large Cap and from the benchmark perspective since 1998. So it's been a harder this year in terms of Small Caps coming in but you can see why because Small Caps have had such a good run, again I'm talking about the past of benchmarks. So from a valuation perspective it's anybody's guess as to what might happen clearly the winds are not in favor of Small Caps versus Large Caps. There's no doubt about it from a benchmark perspective but we like to take the stock selection perspective because after our job is to add value over the benchmark and not quite decide which way the benchmark is going to go from that perspective one thing that has come about. First of all this year we managed to add value, that is point one. Point two, the back drop against which is we've added value is where Small Cap valuations have compressed. From February Small Caps have been punished and what has come about from that punishment is that the number of good stocks has increased. So if you take a simple metric like how many stocks have trading below price earnings of 10, clearly cheap stocks. There were I think about 400 maybe 440 out of the 2000 only 440 were trading below price earnings of 10 in early part of this year. Today it's more like 520 so that number has gone up because the market has come down. So what I'm trying to say is the basket of stocks that look attractive to us the opportunity set for bargain hunting has become bigger during the course of the year and fortunately that has


become bigger not at the cost of our performance, we've actually added value to you at a time period when this has become bigger. So the only common way we are saying that sitting where we are today I would say that the prognosis for stock selection going forward is better than what it was at the beginning of this year. Now what's going to happen to the benchmark we don't quite know, but whatever happens to the benchmark our ability to add value...

David O'Brien: Buying opportunities for you... Jay Rajamony: Are better today than it was about a year ago. That's exactly right. Wilfred Leon Guerrero: Okay. David Stewart: Probably gets us to our time limit. We thank you for your loyalty. We hope that loyalty has been rewarded from our performance stand point and we'll look to continue doing that going forward. David O'Brien: You know before you leave, I just have one more question, I found your presentation very good, thanks. You mentioned you have a new risk model you had since 2009, could you go into that and particularly how it's affected your performance in the down markets or risk on. Jay Rajamony: Sure, I'll give a very high overview about the risk model. So the risk model is an in house risk model unlike Bada or Nafit we don't buy risk model from anybody. And the primary reason for that is we have an idea called value that we're trying to get in the portfolio right but a 3rd party risk model such as Bada, we'll have their own favor value that they regard is risky. So if we put our alpha model against their risk model it's sort of like pressing on the gas and the brake at the same time because we are trying to get one into the portfolio, they are trying to get part of it out of the portfolio. So in building our risk model what we did first is we made the risk model away from our alpha and we made sure it doesn't fight our alpha, that's part one. And the second aspect of our risk model that we should highlight is that it's a status single risk model so unlike many other risk models I'll start out by saying that size is a risk, momentum is a risk and so on we don't say what is a risk. We simply feed the risk model with a return stream of every stock in the universe and using principle confidence it finds out what are the main confidence of risk after accounting for our alpha signals. So for example today if you look at the risk model you will see that the main risk it finds is something like energy stocks and the reason why I am saying something like energy stocks is that it is not a pre-specified we cannot quite put our fingers and say exactly this is what it is. It is a set of skilled model after all but we can kind sort of understand what it's trying to do and it makes kind of sense in today's market. So the purpose of the risk model is to make sure that we are able to get all our valued information flow of signals into the portfolio without inadvertently taking on macro bets like oil that's the whole idea of the risk model.

David O'Brien: So if you find a stock that you wanted to purchase or buy and your risk model says wait a minute, then you stop there, that's a negative signal for you from a buying perspective. Jay Rajamony: Typically speaking what will happen is if you were to compare a low risk model versus a with risk model scenario, if the low risk model maybe we would have a 100 basis point in the stock, wait, in the with risk model scenario maybe we would have a 50 basis points within that stock. So that is the kind of adjustment we are making sort of trimming on the edges so that the old positioning of portfolio is adjusted. It is never going to be day and night the overlap is not that dramatically different. David O'Brien: And so, you lay a lot of your market down performance, a lot of your risk on performance to the adoption of this. Jay Rajamony: Very good point I would agree with that, in fact the chart that Dave... David Stewart: Sorry I don't have copies but I ripped this out from another presentation. Highlighting this table on the bottom right hand side which

I'll leave behind, what the risk model has allowed us to do, this is applied to our U.S. Small Cap market neutral strategy not the long lonely one but market neutral and what we've done is we've been able to capture over 99½% of the alpha going back to 2009, but we've reduced the volatility by 18%. So I'll leave that behind and again I apologize, feel free to make copies. David O'Brien: Because Small Cap space that's not a minor issue. Jay Rajamony: Correct. Because many of these stocks do come with a huge stock specific risk itself not to mention all the kind of broad market risk that they have in here it's a good point. Wilfred Leon Guerrero: Okay. David Stewart: Thank you all very much. Enjoy the rest of the year, hopefully you are having a successful year as well. Wilfred Leon Guerrero: We all depend on you.

Respectfully submitted,


Angelina Castro / Marilyn Aguon
Recording Secretary

Affirmed:


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

