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Quarter Ended December 31, 2013 Performance Meetings & Annual Investment Manager Reviews

February 26, 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
Antolina S. Leon Guerrero, Trustee
James Duenas R.F. Duenas, Trustee
David M. O'Brien, Trustee

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

Other Present:
Doris Flores-Brooks, Office of Public Accountability
Maggie Ralbovsky, Wilshire
Akira Fuse, Capital International
Takashi Takamura, Capital International
Ted Simpson, Dimensional

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Economic & Capital Market Environment & DB Plan Performance

Wilfred Leon Guerrero: Okay, let's start. I don't know it's raining outside so whoever doesn't come is probably coming later. Maggie. Maggie Ralbovsky: Yes, Chairman. Wilfred Leon Guerrero: Tell us that we're going to make at least 20%. Maggie Ralbovsky: That was last year's story. Gerard Cruz: Oh so we're better this year, so we have to raise the bar. Maggie Ralbovsky: Okay, before I dive into this economic overview, I have 2 new updates. The first one I don't know if they included in your book, okay so we're launching an app for the smart phones which will have your performance information loaded so in case you want to pull it up at the cocktail party, download the Wilshire app. Gerard Cruz: Thanks, Maggie. David O'Brien: So this obviously works on Ipads as well right? Maggie Ralbovsky: Yes, I was told yes and it's going to be launched by March 31st. There is a Beta version right now, so they just want to test it.

Maggie Ralbovsky: Okay, so number 1, you can check your funds performance, okay monthly performance on this app. Number 2. David O'Brien: That's the last? Maggie Ralbovsky: That's the last one the green one, the second from the bottom. I apologize for the small print but the second from the bottom says manager research. So we publish a weekly manager research. Wilfred Leon Guerrero: Maggie, you have enough money making as a consultant? David O'Brien: They're charging us more when she left off with how much this is. Maggie Ralbovsky: Free apps like all these apps. So the manager research. Wilfred Leon Guerrero: So when is it going to get heard? Maggie Ralbovsky: When is it going to get heard? By March 31st. David O'Brien: You know it's not that the apps free, it's the other cost before the free app. Maggie Ralbovsky: It's the phone. You have to have Iphone. David O'Brien: I meant the Wilshire cost. Doris Flores-Brooks: Is it proprietary? Maggie Ralbovsky: Anybody can download this app but if you are not a client you cannot see anything, you can see there's nothing. Doris Flores-Brooks: So can I see it? David O'Brien: No, do an audit. Gerard Cruz: Once a year around September through February. Doris Flores-Brooks: I mean is it restricted? That's my comment. Maggie Ralbovsky: Yeah, you can download the app. Doris Flores-Brooks: Why would I want to download the app if can't get the application. Maggie Ralbovsky: You cannot see it if you are not a client. Doris Flores-Brooks: Well technically I am and the government of Guam, right?
Paula Blas: Not the Retirement Fund. Maggie Ralbovsky: And the manager research alert is something that we currently send to Paula and Diana as well I believe on weekly basis. Those manager research alerts, so if anything happened to a manager, we actually send out weekly notes and those will be loaded here too as well and also investment research. So periodically we publish papers on our positions on any asset class on any views, and those will be loaded here too. And you see on number 1 items that's asset liability monitor, that may not be very relevant to this fund but some clients actually do the security ratio monitoring on monthly basis so they would know their funded ratio, the security ratio as time goes on.

Wilfred Leon Guerrero: The kind of stuff you are going to be getting like the one we're getting right now, is that the information? Maggie Ralbovsky: You mean the security ratio? Doris Flores-Brooks: This information. Wilfred Leon Guerrero: The information that's going to come out. We get Wilshire alert or something like that in our email. Maggie Ralbovsky: Email alert is a manual user, yes so you will get that on the app. And also the

emails you get and research. David O'Brien: Well it's pretty good. Maggie Ralbovsky: Well some people can live without it, some people can care less about it. Gerard Cruz: We're one of those. David O'Brien: And how are the performance update. Maggie Ralbovsky: Monthly. Okay the performance update. So, Number 2, everybody is invited to our conference, our conference is May 5th to 6th, in Pasadena everybody is invited. Gerard Cruz: May 5th? Maggie Ralbovsky: May 4th to 6th in Pasadena. David O'Brien: That's in the frozen period. Gerard Cruz: You can go but you can't come back. Maggie Ralbovsky: Why? Paula Blas: They're waiting until after the elections. Maggie Ralbovsky: Oh lame duck, Oh everybody is, I see. Sorry, didn't coordinate that. Gerard Cruz: We're appointees.
Paula Blas: Yeah. The appointee's terms are up, also. Doris Flores-Brooks: But is the rest of the entire board and staff? Oh, okay but I thought that the candidates were already closed.

Paula Blas: March 20. Doris Flores-Brooks: Oh, March 20, I see. So when is the voting? Paula Blas: June 14th. Wilfred Leon Guerrero: How come the thing came like that? I thought this term was supposed to be staggered. Paula Blas: It originally was supposed to be staggered but we had an opposition at the time that the law was being introduced so back in 2002 when it was passed, that's the way it was passed. Gerard Cruz: So May 6th, I mean May 4th to 6th. Maybe. David O'Brien: Where's it going to be? Pasadena where? Maggie Ralbovsky: The hotels name is Langon Huntington, it's the oldest hotel. I sent an email. It is in the email to people who are on the email list. Gerard Cruz: Did you see that one in New York? Maggie Ralbovsky: Okay, so let's talk about tapering. You probably heard me talking about QE's and you're tired of it, now it's the end of it. The Feds started tapering beginning January of this month this year and they also continue to tapering for February. And here is a chart to show you what the impact to risky assets from the QE's. And you can see it is very clear QE's boost risky asset returns very strongly and every time the Feds stops the QE in the past few years, the market will falter so it was interesting to see that this past January the stocks sold off about 5% but it since has recovered quite a bit. In February it really is the consensus market that the economy now is strong enough to sustain in the withdrawing of QE, hopefully this time it is different we're not going to see another effort from the Fed to continue the QE.

Gerard Cruz: I think it was more than that though right, wasn't it the stability of the market more a result of the announcement that 6½% unemployment in the US. Maggie Ralbovsky: So, on the next page I did mention that. Yes, so Janet Yellen also came along and she made it very clear to the market that she is in no hurry to raise interest rates. The withdrawing of QE is a done deal. Basically they've stop buying the mortgage back securities and probably by the end of this year, that program will have been ceased to exist in that kind of pace, but she's in no hurry to raise the interest rate because she views the economy as vulnerable to the down side and she has abandoned sort of the previous guidance of 6.5% unemployment threshold. And the market however is very cautious and here is a chart for the market is pricing into the bond yield curve as to how soon interest rate will start going up. The solid line is the most recent data, and you can see that for the most recent data the market is now expecting the first rate hike to be beginning 2015, so as soon as taper finishes the market expects the Feds start to raise interest rates. Well you know that Janet Yellen has been telling people that's not going to happen, she didn't say exactly that but she's trying to guide the market not to be so nervous, but the market seems to be still thinking that's to be the case so which is to say that you know bonds are probably going to have a pretty tough time in the near term but not immediately yet because it's pricing to a very, very aggressive tightening.

Now, in the past 10 years there are 3 asset classes that had super cycle of upwards now we observe an inflexion point for these 3 asset classes. Here are 3 charts to show you that information that on the left hand side is the comparison of S&P500 earnings yield versus 10 year treasury real yield. Now earnings yield is loosely defined as a view of buy share stock and if you assume that as a bond and all the earnings that can be attributed to that share of stock, divided by the stock price would be the yield of if you view a stock as a bond. So if you compare the earnings yield with a 10 year treasury real yield historically there's a very close relationship and you can see that relationship has drifted out wider, wider and wider right now it is at a very wide spot. This is an indication for many people to say that bonds are very expensive. The stocks may be cheap, maybe combination on both of those are happening bottom line, stocks are probably in a better position than bonds, if you look at this chart in terms of valuation.

Now the 2nd chart in the middle is with regard to commodities. Commodities have just come out of super cycle of about 15 year rally. And at the beginning of this 15 year rally, the global GDP that's dedicated to commodity production was yield 2% and as we stand at end of last year it was over 8%. So the global GDP had dedicated to commodity production has quadrupled in the past 15 years because the rallying the price made it more profitable for producers to increase production and put into more input. And the cycle works in a way that when that happens, you're basically increasing the demand to points increasing the supply to a point demand cannot absorb. So, it has come to the end of the super cycle, we do expect industrial commodities to be weak in terms of pricing. Now production is mainly regarding to the industrial commodities, not every culture because every culture has a lot of impact elements of weather or other things, disease of a crop. Those are out of control of a producer obviously but mainly industrial metals. Not so much gold, gold is a different animal it has a property of hedging by itself. But generally speaking commodities seem to have come to the top of a super cycle.

David O'Brien: So is lithium and oil in there? Maggie Ralbovsky: Yes, oil is in there too. Especially oil I think oil if you look at. Gerard Cruz: Oil as an industrial commodity? Having reached a peak? David O'Brien: No, it's as being part of is what I meant. And supply going up. Maggie Ralbovsky: Supply is going up especially if you look at U.S. going to be energy sufficient by 2028, I think that was the forecast. And U.S. is going to start exporting hopefully energy, so yeah. Doris Flores-Brooks: Really? Maggie Ralbovsky: Yes, U.S. is fracting methodology and also the new method of getting the natural gas out of the ground has really made energy cost much cheaper in the U.S. than emerging markets. It's actually electricity is half the price in the U.S. as opposed to the other emerging markets as a whole. Wilfred Leon Guerrero: Can you tell this guy? Doris Flores-Brooks: Not on Guam, it's very high. James Duenas: We're all looking into. Gerard Cruz: That's because we're not, we don't have any alternative energy source reproduced at GPA yet. It's okay James. He's in the computer department, he's not in production. David O'Brien: He's in the crude oil production.

Maggie Ralbovsky: The 3rd asset class is emerging market. Here is a chart of the emerging market foreign exchange curve as well as the swap curve. This chart is basically trying to say that funds are moving out of the emerging markets. Local funds have this huge rotation out of the emerging markets. Gerard Cruz: Why is that? Maggie Ralbovsky: Because the developed markets started to taper so the Feds tapering basically is drawing assets back to the U.S. because the curve is enticing into a more attractive return for any fixed assets. So, comparatively speaking emerging markets is less attractive, so if the Feds is staying like in the past 5 years is staying on zero interest rate course and just print money, you know money you have a put option basically can borrow here and return at zero percent, so you can actually go out and buy whatever you lever it up by emerging market debt, you have a put option here. This put option is now becoming uncertain, the leveraging cost becomes much higher much more risky so people start to de-risk. Basically you delever, your whatever position you put on, those carry positions you put on which has being a macro level a huge withdrawn assets out of emerging markets. Now, because emerging markets countries are smaller so those funds in the emerging markets has a percent of the total available funds had been pretty large therefore the impact of certain emerging market countries were very, very dramatic. Countries that have open markets like Turkey, like India had been very traumatic.

Gerard Cruz: So this is just as a result of the tapering right? This is just a monetary phenomenon. Maggie Ralbovsky: This is a monetary phenomenon that's been translated to a real economy event because. Gerard Cruz: So what's the scenario? Maggie Ralbovsky: The scenario is this, during the past few years, the main industries in the emerging market a lot of which are commodity producing industries. You think of Brazil, the largest industry there is mining and then you will have the major players in those industries should be cost like government companies and they have these flush of cheap money and what they did is to input in their whatever they're producing badges and they actually levered up based on that. They expanded production, they borrowed for the expansion based on the cheap money they have, now when this money is being taken out of production, they still owed the debt that they issued based on this and which made their funding cost rise which made their currency drop in value which also their production hasn't caught up to be profitable yet, so they're caught in the middle of these two things to translate to higher interest rate in those countries because their government is trying to hold on to whatever assets they still have there. In order to make their assets more attractive they're trying to raise interest rates, but when you raise interest rates you also raise borrowing rate for your underlined industries which is translating into a very tight monetary policy in those countries.

Gerard Cruz: Right and I understand that, so my question then is what's happening in the emerging markets is that a cyclical issue or is it secular? Maggie Ralbovsky: I think it's almost a secular issue. Gerard Cruz: So is it time for us to maybe rethink ours. Maggie Ralbovsky: I think emerging market allocation as a standalone allocation may be reviewed. Here's another reason why, there are 2 major indices out there that tracks emerging market. One is the FTSE index, one is the MSCI index. The FTSE already have taken Korea and Taiwan out of emerging market and put into developed market. Gerard Cruz: Right oh yeah that's another issue right. David O'Brien: Well you know that's right that's probably this afternoon from Capital group or hear this by forcation of the emerging markets so if you look at active assets, what they're saying is just like what Maggie has just said which is you know depends on where you put South Korea, depends on where you put Taiwan, depends on where you put China, but you know there's always the losers right in Brazil, Russia question mark. Gerard Cruz: What I'm hearing though is you know the change in monetary policy is having substantial effect beyond just the normal economic cycle in the emerging market. So it's more than just supply and demand.

Maggie Ralbovsky: I believe that, I believe it's actually changing from the fundamental fabrics of the progress and so the super cycles. That's why we call this a reflection point of the super cycle, it's not just a cyclical part. So if you think about the MSCI is doing that evaluation, they didn't dare to do it because there's so much assets tracking MSCI EAFE and MSCI emerging market. So if you take Korea and Taiwan out of emerging market and put in EAFE you're generating this artificial trade all the emerging market managers selling Korea and Taiwan and EAFE managers buying them it'll be like a huge so much money tracking. So they're trying to figure out a way to do it and maybe doing steps so they're discussing a few managers as to how to do it, but clearly based on their definition Korea and Taiwan no longer emerging, they're already emerged. And they recently put Greece back into the emerging market, they took Greece out of the developed market and put them in to the emerging market. So this kind of artificial clarification seems to be unnecessary because there are managers out there that manage the entire international market as a whole, so you can actually make that trade off, you can make that decision on the active basis you do not have to decide on 5% emerging market dedicated emerging market. So I do think at some point it makes sense to merge these 2 allocations into one. Gerard Cruz: There are managers who do cross, right, I think you guys have one. Maggie Ralbovsky: Yes, AQUI Ex U.S. Manager. David O'Brien: Have what? Gerard Cruz: Have a manager that manages international but as emerging inclusive of developed international. David O'Brien: Yes we do, Renaissance and they've done really well actually. Gerard Cruz: They have. Maggie Ralbovsky: Yeah actually one of your managers, Fisher also had some emerging market. Gerard Cruz: Yeah, Fisher. Maggie Ralbovsky: Yes, so we do have a dedicated. David O'Brien: It's Capital group, they're the ones that have jumped in with both feet.

Maggie Ralbovsky: So those are the 3 asset classes we may observe the trending impact. Okay, so where we are in the U.S. cycle. David O'Brien: So can I ask just one more question before you review that page, so when you say attractive equity valuation compared to risk free you mean U.S. equities, all equities? Maggie Ralbovsky: Here we are only talking about S&P500 but if you look at EAFE it's actually even cheaper than S&P right now, but you know there's a reason why it's cheap. Generally equities compared to bonds are cheap but this chart specifically says S&P. Wilfred Leon Guerrero: Before you leave the international market can you tell us anything about what's happening in Japan. Maggie Ralbovsky: Oh Japan, so last year was like a short lived euphorbia, Japan in the beginning of last year they started to copy what the Fed policy was by basically rejecting a lot of liquidity into the market place hopefully to spur some real economic activity. And that was not sufficient in terms of how long the length of period of the stimulus was not sufficient because of the structure issues in Japan was very rigid. So in Japan the economy is not very flexible you can't just fire somebody and restructure your business, it takes a long time to actually settle down from firing somebody.

Now then beginning of this year they also started the new sales tax and that sort of neutralized whatever good effect they created last year with the stimulus packages. So it really is at a point where it's a tug of war, it's the many people believe Japan stimulus is simply not enough. So probably this year is not going to be like last year. Wilfred Leon Guerrero: You don't expect the economy of Japan to improve. David O'Brien: Nor the currency. Gerard Cruz: Nor the currency? Gerard Cruz: Where are we now? David O'Brien: One hundred plus for a long time. Maggie Ralbovsky: Maybe they should look into how to get a Chinese there. Doris Flores-Brooks: They have been. Wilfred Leon Guerrero: They've been diversifying but the largest is still Japan. Doris Flores-Brooks: Japan still makes 70%. Gerard Cruz: Yeah. Maggie Ralbovsky: So the question is where we are in the U.S. cycle, we had a 33% last year in U.S. equity, are we done with that? Here's a very, very nerdy page but all you have to look at is that on the top table on the most right hand side is the assessment based on these different indicators, different economic indicators where we are in the U.S. cycle. We're talking on page 6.

On the top table. So there's many different managers as to where we are in the cycle and they all pulling to sort of mid-cycle on average mid-cycle. We're like you know 6th inning, 7th inning. There's only one indicator that says recession. You see one of them says recessions and that is the Output Gap. Output Gap is the total unitive the capacity of the economy that can produce gadgets the total being produced divided by the total that can be produced, so if you have a slack then you have an Output Gap. So right now we do have an Output Gap that is almost like recession level which if you put in the midst of things it's actually good because when you have an Output Gap you are less likely to experience inflation because the companies simply do not have enticing power, there is always somebody else who is willing to produce for cheaper therefore they cannot raise rates. Therefore, it gives the Fed more room to keep the policy more relaxed. So all these combined together you can probably see a pretty good year this year, I don't think we are going to have a 20% year but you know I wouldn't be surprised to have a 10% increase.

Gerard Cruz: Domestic equity we're talking solely right? Maggie Ralbovsky: Yes. Gerard Cruz: A 10%, what did she say? Maggie Ralbovsky: Yeah you heard it. Gerard Cruz: 15? Wilfred Leon Guerrero: You're taking away here, you keep saying that because of the middle of the cycle here then we should go to Vegas. Gerard Cruz: That's the take away. Maggie Ralbovsky: We should what? Gerard Cruz: You could've said we're in a recession, the take away we're still going to Vegas. Doris Flores-Brooks: I'm sorry Maggie I'm still a little bit it's been a long time since I did economics, when you say early-cycle, mid-cycle, late-cycle. Maggie Ralbovsky: That's the GDP cycle, so we know the economy goes through cycle's right, it basically expansion, then it reaches the top, then the Feds start to tighten induces the contraction then you. Doris Flores-Brooks: When they say early cycle is it from recession to early to mid to late and then around. Maggie Ralbovsky: Yes. Doris Flores-Brooks: Okay. Maggie Ralbovsky: So, it's a "Swirl-o-gram". In a "Swirl-o-gram" chart we it all depends we're in the middle of the cycle. So, last year if you think back in January the right to super bowl team, one super bowl the January was the up year. Historically speaking those 2 indicators point to past in the year and this year we have the actual down January but we have the right team in the super bowl. So the indication not in clearly one direction it could go.

Antolina Leon Guerrero: She doesn't watch ESPN. She's mixing these metaphors. Gerard Cruz: So that's how we do it. That's how they do it back in headquarters. Antolina Leon Guerrero: They turn on ESPN and they say which metaphor can we use. Gerard Cruz: Alright. Good job Maggie. Maggie Ralbovsky: Okay, so we did update our capital markets assumption on page 8. Now this capital market assumption we update, we have one big update once a year and every quarter we change that if things are very you know clear that needs to be changed. So even the very strong performance of equity market we downgraded equity by 50 basis points and given the fact that interest rate went up, we actually upgraded bond a little bit now these are like 5 to 10 year forecast not for this year alone so you know you have to think about that in context. Antolina Leon Guerrero: I'm sorry did you say you downgraded equity? Maggie Ralbovsky: Yeah we downgraded equity in the near term because even though. David O'Brien: About 30%. Antolina Leon Guerrero: Oh I see. Maggie Ralbovsky: Because even though economy is maybe the best cycle, equity market may already have priced into a lot of that because the basic price is probably 3 years of return. Gerard Cruz: You downgraded all equities. Maggie Ralbovsky: We downgraded all equities, yes.

Doris Flores-Brooks: All domestic U.S. Maggie Ralbovsky: Also, International. David O'Brien: Also international, global stocks. Gerard Cruz: Upgraded all bonds. David O'Brien: So you upgraded tips, that was interesting. Maggie Ralbovsky: We upgrade tips because real yield has gone up. Gerard Cruz: Okay, so this is forward looking right, this is not considering. Maggie Ralbovsky: Yes, not considering this year. Gerard Cruz: What you have on your balance sheet now. Maggie Ralbovsky: That's right. James Duenas: What does ACA mean Maggie? Maggie Ralbovsky: Asset Class Assumption. Paula Blas: At the top. Antolina Leon Guerrero: It's right in big bold letters. David O'Brien: You have to be obvious for this. Antolina Leon Guerrero: These are our financial wizards. I just want to say these are the financial wizards at the table. Gerard Cruz: There's no one person asset class. Antolina Leon Guerrero: Those are in letters, we were using alpha. Gerard Cruz: We'd expect you to pick that up. Antolina Leon Guerrero: There you go.

Wilfred Leon Guerrero: Can you explain this page 8? Maggie Ralbovsky: Yes. Wilfred Leon Guerrero: This is your projection, right? Maggie Ralbovsky: These are projection for the intermediate term between 5 to 10 years. Wilfred Leon Guerrero: Okay. Maggie Ralbovsky: So it does not forecast the trajectory as how we reach there. We could start very high then gradually down road, sharp down and gradually up, we just say eventually going to end up compare...Okay, so... David O'Brien: So the only one that I was trying to compare little things, is the real estate security, so you got all the bonds going up but you got real estate securities kind of flat going down a little bit, how come? Maggie Ralbovsky: So real estate securities last year was a big under performer, it was like equity was up 33% I think REITs was up 4% or something so it did not catch up on the evaluation side as equity because the cap rate was going up. Cap rate is sort of the discount rate. So if you combine these 2 factors we downgrade a little bit because it is equity but not as much as equity downgrade because it didn't catch up as much. There's intrinsic relationship between them.

Maggie Ralbovsky: Okay, so here's the funding update on the ratio update. Doris Flores-Brooks: Before you do that Maggie I'm a little bit confused you said that on page 5 the Inflexion point and you have the bond negative here okay, yet here you're upgrading.

Maggie Ralbovsky: Yes because. Doris Flores-Brooks: That's the part I didn't understand. Maggie Ralbovsky: Yes so as I said earlier this is eventually what's going to happen in the next 10 years and we don't forecast it does not say anything about trajectory, so in the near term we're going to go down and then eventually go back up and eventually going to reach this point. Wilfred Leon Guerrero: On this page 8, 2013 and you're projected like 2014 might be pretty much the same as 2013 that. Maggie Ralbovsky: You mean the risk? Wilfred Leon Guerrero: I'm kind of not sure what the procedure on this thing is. Maggie Ralbovsky: This is an update so when we do asset allocations studies, we run our recommendation this is the... so the take away is that. Wilfred Leon Guerrero: We can expect 2014 to be the same as 2013? Maggie Ralbovsky: No, this is just last year's projection for the 10 years, now the 10 years minus 1 it has moved rolling 10 years move forward another year. So it's last year we said equity is going to return 7.75% in the next 10 years, it already returned 33% so going forward another 10 years we downgraded it because of that. So, page 9 is the most recent data on the state funded status. So this is the security ratio as we call it here. So then you can see really. David O'Brien: We're number 2, well we shared number 2. Maggie Ralbovsky: Where do you see number 1? David O'Brien: Illinois. Connecticut. Doris Flores-Brooks: Yeah, Illinois. Where's Connecticut? David O'Brien: It's on the east coast. Doris Flores-Brooks: Which number? David O'Brien: 50. Gerard Cruz: 50%. Doris Flores-Brooks: Oh, they're 50 okay so we're. David O'Brien: Tie for 2. Gerard Cruz: Where are we? 40 something right? 49. David O'Brien: You what usually we can count on Mississippi. Antolina Leon Guerrero: We're over 50, oh so we beat Connecticut. We beat Connecticut. Doris Flores-Brooks: No, they're 50. We're over 50 now? David O'Brien: Oh we are? Woohoo. We're number 3. Gerard Cruz: We're making progress. Progress is progress.

Doris Flores-Brooks: Nobody wants to be over a hundred because they'll start giving it away. David O'Brien: That's right. They find ways to get under a hundred real quickly. Joe San Agustin: Barely 50. Antolina Leon Guerrero: Believe me we were all, is that West Virginia? Doris Flores-Brooks: Who's the 95? Antolina Leon Guerrero: South Carolina? Doris Flores-Brooks: No, can't be. South is next to Georgia is that North Carolina? Antolina Leon Guerrero: Florida, South, North. David O'Brien: Which one? 95? Doris Flores-Brooks: Yeah. David O'Brien: That's North Carolina. Doris Flores-Brooks: Is that North Carolina? Oh I didn't think okay. Georgia's 82? Wow. David O'Brien: 105 that's Maryland. Antolina Leon Guerrero: 105, wow. Maryland. David O'Brien: New York is 93. Why didn't you guys all take geography? Antolina Leon Guerrero: Why don't you ask when. When we all took geography is more the question. Believe me we're like wow, next time could you put the two alpha next to the number because it's like okay, it's embarrassing. Doris Flores-Brooks: Who's at 105? David O'Brien: Maryland? Doris Flores-Brooks: Really? Wow. Antolina Leon Guerrero: Ask the board from the east coast, can you just go down the coast for us because honestly I'm like so lost. You ask me she says who and I think that's Pennsylvania, so then this must be Pennsylvania. David O'Brien: Pennsylvania is 65. Antolina Leon Guerrero: 65, okay. I'm writing it in there. Gerard Cruz: Are you, so am I, we might be tested. Antolina Leon Guerrero: There might be a test. Gerard Cruz: Alright. Maggie Ralbovsky: Okay. Antolina Leon Guerrero: Thanks Maggie for showing us how little we know of our country.

Maggie Ralbovsky: Page 10. Rosalia Bordallo: What are their benefits? Is their benefits as rich as ours, if it's not as rich you know they don't have to pay as much. Paula Blas:

Ours I think were more comparable to Alaska at the time. Antolina Leon Guerrero: I can't imagine that the benefits are. Doris Flores-Brooks: As far as benefits? Paula Blas: Yeah and all we did over time was just kept lingering. Antolina Leon Guerrero: Except that we copied people, I'm pretty sure we copied these people. Maggie Ralbovsky: Okay. So equity market, so we had a 10% quarter. Antolina Leon Guerrero: Nice quarter. Maggie Ralbovsky: 10% quarter that's on top of another 10% quarter 2nd quarter, the 3rd quarter was also 10. Gerard Cruz: I'm sorry where are we? Oh we're 4th quarter, no 4th quarter 2013, 4th. Maggie Ralbovsky: 4th quarter, December quarter December 31 quarter. Gerard Cruz: 4th calendar quarter. Maggie Ralbovsky: Yes first. Gerard Cruz: So December 31st. Maggie Ralbovsky: Yes, first fiscal quarter was a 10% quarter for the U.S. equity and year to date you can see it was 33%. If you go down the biggest gainer was 45% for small growth. Gerard Cruz: U.S. small growth. Maggie Ralbovsky: REITs however was only up 1.9%. David O'Brien: Yeah I thought they were up higher too. Maggie Ralbovsky: Only up 1.9%. David O'Brien: You know what the problem was the current quarter that killed them. Gerard Cruz: Oh yeah. Yeah. Who manages small cap U.S.? Numeric?

Maggie Ralbovsky: Numeric and Eaton Vance. Eaton Vance is still underperformed. So let's take a look at international equity, page 12. There was a double digit return year however, the only return was about half way, U.S. has returned and if you look at emerging market, 3rd line down was down 2.3%. Gerard Cruz: For the year, wow. Maggie Ralbovsky: And if that under performance continue actually for this particular quarter we are in and if you look across however for the past 10 years emerging market still out performed international equity as well as U.S. equity. So, U.S. equity and international equity ended up at the same place. As we said earlier you know we don't talk about trajectory it's actually for the past 10 years, U.S. equity was up 8% a year and international equity was also up 10% a year, exactly the same although the path was very different. And emerging market actually outperformed all both of those categories developed markets as well as U.S. in the past 10 years by over 3 percentage points, so that probably will not repeat for the next period. We take a look at the fundamentals.

Maggie Ralbovsky: So, let's take a look at fixed income market, we already talked a little about the bond yield curb went up, page 13, you can see that bonds were down across the board except for high yield. High yield was up 7.4% for the year and if you look across for the past 10 years, high yield out performed equity, it was up 8.6% annualized.
David O'Brien: So when we're in high yield we're basically always riding a kind of an equities curve. Maggie Ralbovsky: Not necessarily, it's a hybrid, so if you think about where they sit right, they sit in the middle of equity and bonds so their performance is also somewhere in the middle however the reason it out performed equity is because when equity dropped it dropped really deep and then it takes a long very large recovery to recover and because high yield doesn't drop as deep, it takes less effort to come back and eventually works out to be compounding effect to be very positive. So it is a risk return very efficient if this return category and then you can see last year also long term duration really suffered, long term treasury was down close to 13%.

Take a look at international fixed income. So emerging market debt was a pretty was a big loser and yen versus dollar we probably all know here that was also a big correction for the yen. Emerging market debt continued to suffer this year probably this trend will continue emerging market debt in the middle you can see there's local currency government debt. Okay, high yield bonds take a look at the spread. The spread is no longer very attractive, it was at one point very attractive. So the spread is no longer very attractive, however spread is only one valuation component another valuation component is default rate. So if you think about why you get paid more for high yield because some of them were default. And if you get 4% more and 2% default, your spread is 2% higher is positive 2% plus whatever you can recover from the 2% at default. So on average historically when high yield company default the recovery rate is about 40% so let me just do this math again. So if there's a 4% spread, if there's a 2% default and you recover 40% of the 2% so you recover 80 basis points, your actual return is actually 28% above the risk free rate. Spread is over risk free rate. So right now the spread is about 4%, but the default rate is below 1% historical average is somewhere between 2 and 3% so right now the default rate is way lower than historical average. Therefore makes even though the tighter spread still very, very attractive because of default rate.

Okay, real assets we already pounded commodities, look at commodities was down 10% close to 10%, tips were down 8.6% that's a treasuries security. David O'Brien: See when I read this I was astounded by the oil and gas. Maggie Ralbovsky: MLP's the part of the reason was because people all of a sudden discovered that. David O'Brien: Including me. Maggie Ralbovsky: There was a lot of influence, historically there was only like 5 companies issue MLP's, Kingdom Morgan Partners was the biggest one, they built pipe lines then people... you do it yourself in your taxable? David O'Brien: No. Yeah it's in my taxable. Maggie Ralbovsky: If you're taxable it is a hassle to file taxes, you have to file at 50 different states at taxes. David O'Brien: I'm not going to do that, I ask somebody. Maggie Ralbovsky: You don't ever do that? David O'Brien: No you told me that earlier and then I asked then they said no you don't have to do that. But usually because they are so far below the threshold for the state tax filer because you know you get the depreciation and all that kind of a thing. Maggie Ralbovsky: We give you K1 from each state. I know that because yes I used to have a client who does that. You get a K1 from each state you do business in. Antolina Leon Guerrero: It's on tape Dave you got to do it. Transcribe, Dave's got to do it. Maggie believes Dave's got to do it.

Maggie Ralbovsky: Okay, let's move on, diversification page 17. Here's a chart we keep going on just show us the benefits of diversification, there is no single asset class debt. Questions? Okay we're going to move on to our performance, it was a green quarter. Everything is green every asset class of composite out performed. Total fund outperformed 1.17%. Gerard Cruz: Where does that place us? Maggie Ralbovsky: 18th percentile I put it here actually in the summary the last bullet point, 18th percentile. David O'Brien: Now's the time to renegotiate. Antolina Leon Guerrero: I was just going to say this is the time to go before the Legislature. Maggie Ralbovsky: 5.9%. David O'Brien: 18 top 20% top. Wilfred Leon Guerrero: Maggie, the 18th percentile is that good or bad. Gerard Cruz: It's good. Maggie Ralbovsky: You beat 82%. Most of our managers are well ranked, page 20. Doris Flores-Brooks: Just to make sure that I understand that's for the quarter December 31st. First quarter of the new fiscal year, correct? Okay. That is the 4th quarter of the calendar. Maggie Ralbovsky: Yes, most of the managers are very well ranked actually everybody is above average and many which are good and we have 3 managers on focus list. Actually 4 managers, this is a very good score card for the managers. Doris Flores-Brooks: What is the focus list mean again? Maggie Ralbovsky: Focus list is our best ranked managers. Each asset class there's only 15 of them. If you want to put one more on focus list then you have to take one off. It's a very limited fainêant list. Doris Flores-Brooks: Oh. Gerard Cruz: Oh wow. Antolina Leon Guerrero: Yeah but it's a faineant list, it's not like everybody can be. David O'Brien: That's right.

Wilfred Leon Guerrero: What is the difference between good and above average? Maggie Ralbovsky: Good is better than above average. David O'Brien: Oh good is better than above average? Doris Flores-Brooks: Good is better than? Really? Maggie Ralbovsky: Good is better than. David O'Brien: So it goes focus, good, above average. Wilfred Leon Guerrero: A, B, C... Antolina Leon Guerrero: Look at this they just want their own system. David O'Brien: Remember this list when she talks about Garcia Hamilton. Maggie Ralbovsky: Garcia Hamilton, I know they're the most outperforming manager, I know what you mean but this is not the performance. Okay, let me explain, I just thought about a very interesting comment because if you look at Earnest Partners is on our focus list, they have underperformed. Garcia Hamilton is our least ranked manager on the list, it's actually an average rank but they outperformed the most. So why is that because we make this assessment on qualitative indicators only? This is not a performance so when you assess manager you want a qualitative assessment and quantitative assessment and hopefully both agree to each other. And if they don't agree to each other then you make a choice because actually the qualitative assessment historically has indicated more future performance you know because we are hiring manager hopefully for the future. Antolina Leon Guerrero: For the long haul. Maggie Ralbovsky: Yeah so the reason Garcia Hamilton is ranked average is because it is the smaller organization it has a very strong style focus. I know you're... Antolina Leon Guerrero: He's flipping through those pages trying to find... David O'Brien: Because I want to show you guys, go to page 59. Antolina Leon Guerrero: We know great performance, we're with you. David O'Brien: You know you talk long term, this goes this is inception, right? And this is the bond market which is been like... Maggie Ralbovsky: Bond market which has been... David O'Brien: This is a compared value added to the benchmark. Maggie Ralbovsky: Yes, so this manager has done a few things right. Antolina Leon Guerrero: Few things very well. Gerard Cruz: They do. They're small shop. Wilshire is, I noticed that you guys are kind of tilted towards the large shops. Maggie Ralbovsky: Well this is very small shop, we do like boutique managers. Gerard Cruz: Which boutique do you like?

Maggie Ralbovsky: Hochkiswiley for example. Gerard Cruz: How much? What's your assets under management? Maggie Ralbovsky: Probably 15 billion. Gerard Cruz: 15? One, five? And these guys are like 9, right? Maggie Ralbovsky: These guys less than 9. These guys like. Gerard Cruz: That's what I mean you guys I mean it's a safe bet for Wilshire to go, you know look at the bigger shops.

Maggie Ralbovsky: The reason is if you think about 4 billion dollar shop in bonds, how much revenue shop is getting? Think about it. Gerard Cruz: Probably not much, but how much of return are they generating? Maggie Ralbovsky: Well no let me follow my logic okay. So if you have 4 billion dollars under management, you have 20 basis points fee and you're basic getting 8 million dollars revenue right? Let's say you pay your rent, you pay your systems, you pay your whatever. Gerard Cruz: They're not just a fixed income shop though. Maggie Ralbovsky: They are just fixed income shop. Gerard Cruz: No they are not, they do equities. Maggie Ralbovsky: They used to do equity, they do not do equity anymore. They do not. They used to be an equity shop. They used to have a 10 billion dollar equity. Gerard Cruz: Yes I know. Maggie Ralbovsky: Then they all evaporated because they met this really bad trading in the year 2000. Antolina Leon Guerrero: Google it. Gerard Cruz: Not in 2000. Okay go ahead. Maggie Ralbovsky: They basically collapsed and this person Garcia this guy he rebought this firm. David O'Brien: Davis left, Garcia bought it. Maggie Ralbovsky: That's right so he would rebought it and reformed it as a fixed income shop and that's where they are now today. So let's say you have 8 million dollars in revenue and you pay your people you pay everything out and you left with you know like maybe 3 million dollars to pay your people, right, then how many people can you pay right? So that's the thing, and also how much concentration you have in equity in your client base. Gerard Cruz: Portfolio. Maggie Ralbovsky: You have a lot of concentration in their client base. Gerard Cruz: Yes they do. Maggie Ralbovsky: So if they lose a couple then you're going to have a very severe issue to pay your people. David O'Brien: So that makes you average. Maggie Ralbovsky: That is why we rank them high. Antolina Leon Guerrero: That's why you don't get to the focus list. David O'Brien: That's right.

Maggie Ralbovsky: We wanted to make sure the company is sustainable, the business is sustainable and there we have seen so many of these. There used to be a company called Provident investment counsel who basically evaporated because they lost a couple of concentrated large clients. Its business model that has risk that's why we assess it that way. Did we answer your question? Antolina Leon Guerrero: Is average the lowest rating? Maggie Ralbovsky: Below average is the lowest. Antolina Leon Guerrero: At least they're not below average. Maggie Ralbovsky: We do have below average managers. David O'Brien: But, they're not on our list. Maggie Ralbovsky: Not on our list. Antolina Leon Guerrero: None of ours. Gerard Cruz: But your biggest crisis amongst our fixed income roster is the largest? Maggie Ralbovsky: Yeah, Templeton is actually my biggest issue is Templeton because when fixed income manager gets this large for a core mandate they started to have to trade whatever they have to buy whatever traunch shop there because they can't roll their investments right you have maturity, you have interest coming in, you have to roll it you have to buy something to invest it and what do you buy? You can't go buy little you know 100 million dollar traunches you can't even though you like that a lot it doesn't do anything to you. So you have to eventually get into the space of PIMCO we get into basically derivatives, that's the only way PIMCO can roll their assets if you have trillion dollars to roll. Then in Franklin Templeton's case we do not allow them to use derivatives, so they are really cornered into a place where they basically buy every issue that's in the market. So their closet index in the set up Templeton has a very large global credit team. It's a very ranked well ranked managers see we ranked them well. Gerard Cruz: So maybe we should turn them into a global fixed income manager. Maggie Ralbovsky: But not for the core mandate. So, whatever that is a different question than answering so I'm answering the question why I have an issue with Templeton is among the 3 the one still on watch.

Maggie Ralbovsky: So return versus benchmark for total fund next page is for the longer term every period we have beat the benchmark and every period we have ranked really well. And you can see page 23 for the long term its 21st percentile. David O'Brien: Fantastic. Maggie Ralbovsky: And this is all public fund in the tax universe, TUCS is trust universe comparison services in case you don't know. Antolina Leon Guerrero: Right up here. Maggie Ralbovsky: Okay, page 24. Page 24 is an update this actually become much more attractive looking. Gerard Cruz: This has become much more attractive? Maggie Ralbovsky: Has become much more attractive looking because risk has paid off in the past year and last year when we look at this the red dot is here in the middle, so it took more risk but got the same return than the average fund. Antolina Leon Guerrero: But I thought he wanted us over there? David O'Brien: Yeah but that's her game plan remember her game plan is to move us back. Antolina Leon Guerrero: Shift us to the North West, okay but where we are is paying off is what you're saying. David O'Brien: The moment. Antolina Leon Guerrero: The moment. Maggie Ralbovsky: Right now we have higher risk but got higher return but last year this number wasn't there. Gerard Cruz: We're moving north east? Antolina Leon Guerrero: I see. Oh so we're trying to take lower risk to get the return. David O'Brien: That's why the chairman last year still asking, we're going to do this in phases, remember that question? Maggie Ralbovsky: Yeah we're going to do this in phases. Paula Blas: She has... David O'Brien: An answer to that? Paula Blas: Yes. Maggie Ralbovsky: Yes I have an answer to that. David O'Brien: That was your question.

Gerard Cruz: So it was a good quarter. Doris Flores-Brooks: So this is north east not North West? Maggie Ralbovsky: We want to be in the North West, we are currently north east. David O'Brien: We want the standard deviation to go down, we want the risk to go down. Rosalia Bordallo: The further you go out on this line the more risk you are taking. David O'Brien: Yes, that's right. Maggie Ralbovsky: So another reason we beat the benchmark so much last quarter was because our U.S. equity was over the benchmark weighted, page 26. And fixed income was under weighting, we did discuss this matter last time we did say that even with impending changes which was in the direction of reducing fixed income that we wouldn't leave this above the target a little bit so that was a conscious decision and given the fact the equity out performed fixed income so much it made the discrepancy even more dramatic so maybe this is at the point where we should weight in a little bit whether it be 5% or 8.3% right now. Gerard Cruz: This is as of December, are we still there? David O'Brien: Especially we're going more back. Rosalia Bordallo: Excuse me the mortgage is been low.

Maggie Ralbovsky: Okay so in numbers terms actually this is a good number to look at, page 28. In numbers terms that 4% return can say close to 90 million dollar gains this quarter alone to the total fund. Investment gains which is the 3rd column to the right. You see investment gains for this quarter was close to 90 million. Antolina Leon Guerrero: Your chart is going to be looking great Mr. Chair. Maggie Ralbovsky: Hopefully this gets everybody re-elected. David O'Brien: Yeah you take out an ad and you put you know... Maggie Ralbovsky: Take out an ad, yeah. Antolina Leon Guerrero: Doing the right thing. Maggie Ralbovsky: A team. Call it the A team, let's re-elect them. Okay. David O'Brien: So what do you think of the decision to go with the index.
Maggie Ralbovsky: I am going to 35. Gerard Cruz: What index? David O'Brien: Blackrock, Russell1000. Maggie Ralbovsky: Okay, so let's take a look at page 35, here's a summary, we have one manager on watch and this manager continues to underperform. Gerard Cruz: We have a couple of managers on watch, no? Maggie Ralbovsky: For Eaton Vance this quarter they underperformed again. David O'Brien: They haven't had a good quarter. Maggie Ralbovsky: No they have not they have probably one good quarter. Antolina Leon Guerrero: Is it their strat or is it just. Maggie Ralbovsky: Let's look on page 38, page 38 is historical because we only had them since 2010. We've only been with

them for the past 3 years so I want to provide a historical. Page 38 is a rolling 3 year universe comparison so the last point is what we have experienced for the last 3 years because we just had them for 3 years and the manager was ranked close to 90th percentile for the past 3 years and you can see that deterioration basically started as soon as we hired them. Joe San Agustin: What did you do? Maggie Ralbovsky: It was mainly because of the style of the manager, she focuses on really profitable companies and she does not participate in certain sectors of the market that are over levered in her opinion. And guess what when the Fed was printing money where the money goes in small cap goes to the over levered sectors because that's your biggest bang for the buck. So there are certain disparities of sector returns quality definitely underperformed and this manager basically focuses on that particular thing she's doing, so. Antolina Leon Guerrero: Is that just for this period of time? Something that will come in favor...

Maggie Ralbovsky: Well, so the question is whether this time is different everything has changed forever well that's obviously everybody's guess however if history is any guide, this kind of thing happened before, this chart is not long enough but if we go back to 2002 and 2003, this exact same thing happened. Basically people called the junk rally period. So 2002, 2003 was after the previous crash the Fed printed a lot of money and small cap was on fire was the junk rally. Well she wasn't at Eaton Vance she was at a different shop at that time that's why it wasn't long enough, she did under perform during those periods and then catch back, rebounded when market started to focus on fundamentals. Now whether it's going to be this year or not it's anybody's guess and whether we are going to have enough patience for her to come back or not is also anybody's guess. Gerard Cruz: But this shop on its own is very and risky but when you put it in numeric which is their compliment which is their quant shop, a very different style same mandate they kind of compliment each other. Maggie Ralbovsky: I do agree to that. Numeric is a quant shop and Eaton Vance is a fundamental shop and quant shop has its cycles too. Quant will not work when the market trend all of a sudden turns which is quant by definition is a little bit backward looking it looks at the trend it sort of captures market trend in the model. Model does not change has like a gradual change so if the factor works it sort of capture becomes stronger factor and all of a sudden it doesn't work anymore it becomes a strongest point it doesn't work it breaks and it has a correction, quant will underperform during those scenarios. 2007 was a classic example people were saying quants were dead. Quant's were dead that was the headline in one of the things. So then it came back so really these 2 styles are very complimentary to each other so I do want to keep them on watch. It really is not our priority right now to fix this particular small point I think we have bigger things to do, yeah. Antolina Leon Guerrero: The whole picture.

Maggie Ralbovsky: Okay, so international equity. This is the part international equity page 43 see that we have a focus manager actually underperformed they have actually underperformed quite a bit. If we take a look at page 48, Earnest is our manager that under performed since inception. This manager is also somewhat similar in style to our Eaton Vance manager which is a fundamental driven stock picker that focuses on certain type quality sectors and this manager also has a very concentrated portfolio which means that if they trade on conviction and if the conviction is on the other side of what the market rally is, then you're really wrong. So, that's why they have such a thing as high tracking era. This is a high tracking era manager that hasn't been working. So I do want to plead patience with this kind of manager, we know the cycle is really heavy weight for them. David O'Brien: So what is the definition of tracking era again? Maggie Ralbovsky: Tracking error basically measures how volatile you're out performance is so it's sort of a standard deviation of out performance. David O'Brien: Got it. Maggie Ralbovsky: So if you have a very volatile out performance that means your portfolio is very different from the benchmark. David O'Brien: High tracking. Maggie Ralbovsky: Yeah high tracking era, the index fund has no tracking so index fund is very tight tracking. Joe San Agustin: If you have such a volatility will you be suspect? Maggie Ralbovsky: Will we be suspect? Joe San Agustin: Suspect on the trading model. Maggie Ralbovsky: Oh. David O'Brien: Is that one of the things you use to judge managers? Maggie Ralbovsky: Oh no, I think if a low tracking era manager all of a sudden displays...

Joe San Agustin: Well you have too much fluctuation like that, then you know something is wrong. Maggie Ralbovsky: But this is the managers style, we know this manager has been like this, right. So if a very tight tracking era manager started demonstrating high tracking era like that then we would ask the question why but this manager is such a style. Joe San Agustin: Oh, that is their style. Maggie Ralbovsky: Yes, that is their style they're concentrated manager, yes. Joe San Agustin: Very active. Maggie Ralbovsky: Yup and Fisher on the other hand, Fisher is also complimentary with Earnest. Earnest is complimentary with Fisher because Fisher is a top down manager so it does a lot of macro positioning in terms of country weighting, sector weighting, it does that and Earnest is a bottom up manager so they compliment each other. These two managers are complimentary in the sector. Now these are only two international managers and in the developed market space we do have an EM manager which we talked earlier about EM as an asset class whether it should be merged with the EAFE managers. I do think eventually that's something we should do it is in one of my steps. It is not the first step but it is in I think step 4 or something. Gerard Cruz: Step 4 or 5? Maggie Ralbovsky: Yes step 4 or 5, one of those, it's a tweek. Gerard Cruz: Would that require an RFP? Maggie Ralbovsky: That would. Paula Blas: Which one Gerry? Gerard Cruz: Getting one of our developed managers to do emerging markets, no right? Or would it? Paula Blas: Not unless they are already doing emerging markets. David O'Brien: I mean you said we need an RFP to do that. James Duenas: Who else do you have? What managers do you have to do EM with? Maggie Ralbovsky: A lot of managers. Majority of the managers do both and they do AQUI and now there's more and more managers even do global they include U.S. even to the mix because the theory is if you going to buy GM if you don't understand Toyota it may just judge that in isolation.

Okay, so bottom line this lineup still good in my view we have some future initial in the making. Wilfred Leon Guerrero: Why are they losing clients, the Guardian? Maggie Ralbovsky: Who? Wilfred Leon Guerrero: The capital. Maggie Ralbovsky: Oh the Capital. Maggie Ralbovsky: They have lost a lot of clients. Wilfred Leon Guerrero: Yeah, why? Gerard Cruz: Large, too big. Maggie Ralbovsky: Yeah they thought of very big at one point. And if you think emerging market manager being that big. Doris Flores-Brooks: Who is this again? Gerard Cruz: Capital Guardian. Maggie Ralbovsky: That sort of constrained them as to what securities it can hold so a lot of the clients decided that wasn't the right approach anymore. Their style have drifted but since a lot of the fire them in self corrected now they are not as big anymore. Paula Blas: Well that was the principle we had was the size. David O'Brien: What about DFA? You didn't say anything about DFA.

Maggie Ralbovsky: So we have one manager on watch and we talked earlier a little bit why and this is another symptom as to when a manager got big in core space there was something called TBA's that became an issue this quarter. So are we ready to talk about TBA's. Ok what is a TBA? TBA is to be announced. David O'Brien: It's kind of cool if you read through it you can see why. Maggie Ralbovsky: So it is a type of agency mortgage pass-through trade so if you are in the agency mortgage space you basically buying mortgage pools right, they basically put my house, my mortgage with Gerry's mortgage together and they sort of traunch it. Pass-through are providing a diversified way for somebody to hold mortgage, so they don't just hold one persons mortgage but you will know the average credit score of the underlined borrowers you will know the average you know loan to value ratio. So those are traunches and to buy such traunches you could wait until the traunch comes along, so it's as issued basis. Or you could buy a TBA, and TBA basically tells you I'm going to issue a traunch in 3 months and it is going to be one of 3 things, they give you like 3 different sort of profile sort of, you sort of know what you're buying. And you don't really know until 3 months later and when 3 months later comes along the dealer could deliver to you the cheapest of the 3 that I give you like sort of the 3 or you could say I don't want it anymore just roll it forward. You could sell it at market price and move forward. Gerard Cruz: Oh you can? Maggie Ralbovsky: Yes you can. So it's sort of like the futures if you think of the treasury futures it's like this. Treasury futures is to say hey I'm going to buy a treasury bill in 3 months and here's the price and when time comes along.

Wilfred Leon Guerrero: Maggie, you lost me. Start all over. Maggie Ralbovsky: Start it all over. Doris Flores-Brooks: The bottom line is it's derivative or not and this is riskier. Maggie Ralbovsky: I'm not sure it's riskier. Doris Flores-Brooks: Risky. Wilfred Leon Guerrero: This TBA issue came about because of what? Maggie Ralbovsky: This TBA came about because as it turns out Franklin has been buying TBA's and the TBA's in the current guidelines was not defined either way. It wasn't saying TBA's is derivative or not derivative but our statute says no derivatives are allowed right so it reason came about because the TBA trading now is being regulated under the derivative trading. Gerard Cruz: But when you buy TBA is it do you put money down or is it just a commitment? Maggie Ralbovsky: You put money. Gerard Cruz: Like a deposit? Maggie Ralbovsky: Like a deposit, like collateral. Gerard Cruz: Is it like a subscription for an IPO before it comes out? Joe San Agustin: It's like a modeling market. Maggie Ralbovsky: No, no it is not it is not IPO, it is. Gerard Cruz: So is it a tradable transaction? Can you trade a TBA? Maggie Ralbovsky: You can trade a TBA yes, you can settle a trade with TBA just like a futures however there is no industry definition.

Wilfred Leon Guerrero: You're saying our policy prohibits us from buying derivatives and this company has been buying derivatives. Maggie Ralbovsky: Well they're buying TBA's but they do not use TBA's as derivatives so that's because nobody who has a definition of the TBA's. Antolina Leon Guerrero: The industry doesn't even have. It's not just them. Maggie Ralbovsky: It's like a big coin currency. So it's a development has out grown the regulation the case for that. Paula Blas: So are you saying now it's being regulated? Doris Flores-Brooks: But it's regulated under the derivative market. Maggie Ralbovsky: So now what happened was that in the past you buy TBA you do not have to open a dealer account with the derivative traders. Now you do so they sort of regulated this added derivatives then we got a letter saying we want to open such account then this issue came about and we said okay is this allowed or not. We did ask the other two managers of their view, the other two managers says we do not buy TBA's because we interpret it as a derivative. Wilfred Leon Guerrero: Does Joann know about this? Legal. Maggie Ralbovsky: Joanne talked to me about it and I told her there is no industry definition as to whether it's a derivative but in my view it looks just like the treasury futures. It really is just like; because the managers' making a case this is agency MBS which has no credit risk. It is a Fannie Mae, Freddie Mac, Jimmy May one of those agency mortgage back securities right so it is really a very high quality security therefore it should not be viewed as a speculative it should not be viewed as a derivative.

David O'Brien: Yeah, because there's direct assets associated with the security. Maggie Ralbovsky: They view this as a deferred settlement. So if you use that logic you could also make a case for treasury futures. Because treasury futures has no credit. Wilfred Leon Guerrero: So what's Joanne's opinion there? Maggie Ralbovsky: Joanne says if the Board believes that it is important for this manager to forward TBA's an opinion may be formulated to exclude this as a derivative. So it is on the table for the Board to decide and I did tell the manager they did not have to sell all their TBA's but for the time being don't buy any new TBA's, I don't want to automatic sell everything. They did commit to as time goes on the old TBA's will get delivered they will now buy a new TBA's. But in the meantime they are probably going to try to lobby this because as I said earlier this is a very large manager, they need it. Gerard Cruz: That's probably why the other managers aren't really compelled to do it, right? Maggie Ralbovsky: They're small they don't really care if they have to. Joe San Agustin: But what you could do is realistic rate of return for that. Gerard Cruz: Well you're just in the market earlier, that's all. Joe San Agustin: Buying short in the future. Maggie Ralbovsky: No they are not shorting. Joe San Agustin: They're buying advanced payment? Gerard Cruz: They're just buying a commitment. Maggie Ralbovsky: That's right it is just the delivered a few months later. Gerard Cruz: Right. Joe San Agustin: Buying futures short. Antolina Leon Guerrero: There's assets attached, it's not really speculative.

Maggie Ralbovsky: It is not speculation. Joe San Agustin: You do have a fixed market, right? Maggie Ralbovsky: You do, you can trade this everyday like a futures like a treasury futures. You know you don't have it you just have... Joe San Agustin: What would be the discount on that? Gerard Cruz: It's time to settlement depends right. Joe San Agustin: Because the spread. Gerard Cruz: But if you settle on... Maggie Ralbovsky: It is very liquid, it is actually the most liquid part of mortgage securities is TBA market because it's on paper just change you know a lot of liquidity in that so you know it's by some measure if some managers will not survive like PIMCO will never survive without TBA, you just can't survive. Wilfred Leon Guerrero: What's your opinion about that? Maggie Ralbovsky: Well, here's my opinion, I think that no derivatives restriction. Gerard Cruz: That changes anyway doesn't it? Maggie Ralbovsky: It did not change. Gerard Cruz: Oh it does not. So we're long only? David O'Brien: The question is what's the use of being in Franklin Templeton if you take away their TBA's, is that part of what you are saying Maggie?

Maggie Ralbovsky: So, okay let's talk about that. This is very practical because I don't think we want to go back and change the law right, so that is not on the table. So what is the damage without Franklin holding TBA? Since we want to reduce fixed income allocation anyway we have 3 managers so you know it becomes a matter of you have to cut somebody. I'm not saying this is right now the time I'm just saying is this urgent matter to issue an opinion about TBA's. Wilfred Leon Guerrero: And I hear our lawyer saying its okay if the Board says it's okay. Paula Blas: That's because there's no real definition for it. David O'Brien: But you solve 2 problems, 3 problems with getting rid of Franklin that was kind of going to be my point. Antolina Leon Guerrero: Getting rid of them? Maggie Ralbovsky: This is not going in the minutes, right? Antolina Leon Guerrero: Getting rid of them? I thought we were just going to give them a haircut. Maggie Ralbovsky: Franklin is on watch and fixed income is being restructured, that's where I stand. So for the time being... Gerard Cruz: Yeah but our decision to consider this a derivative or not shouldn't be because Franklin is the one to benefit or doesn't benefit because... Maggie Ralbovsky: So, you do want to have a view whether it's a derivative. Gerard Cruz: I think it's important because what if Franklin was on your focus list then where would we sit? This isn't about Franklin. Maggie Ralbovsky: Guidelines, do the guidelines. Well, okay so in that case can I hear from everybody what do you think? Wilfred Leon Guerrero: Maggie, tell us what to do. Maggie Ralbovsky: I already said that there is no definition and in my view it looks just like a treasury futures, if we allow TBA we should also allow treasury futures.

Gerard Cruz: How about we just break it down even further. What is the risk of allowing managers to engage in the purchase of TBA? Maggie Ralbovsky: That is a more fundamental question. Why do we not let people use derivatives? Because derivatives can give you an inherent leverage it can give you economic leverage that is not accounting leverage. Here's how because you could put down collateral to buy 5 cents on a dollar to buy a dollar exposure. Theoretically you could buy 20 exposures with one dollar. You could buy 20 dollars on exposure therefore derivatives is a way to lever without accounting leverage you don't have to borrow from somewhere, you sort of have this inherent characteristic leverage. And once you bought 20 dollars with 1 dollar, your movement can be dramatically larger than what you think of. Gerard Cruz: I think in order for the chairman to understand right and for me too. What would be the worst case scenario if Franklin in this case or any manager bought one of these instruments and... Maggie Ralbovsky: There is no. Gerard Cruz: So what happens? Maggie Ralbovsky: It doesn't happen. Gerard Cruz: So what is the risk then? Maggie Ralbovsky: Well the risk is they do this inherit leverage. They don't have to put a dollar to buy a dollar right.

Gerard Cruz: Okay, so if there is a risk then what is the downfall? James Duenas: You buy 20 dollars with 1 dollar and it takes then you have that... Maggie Ralbovsky: Then you lost 20 dollars even if you only put in one dollar. Gerard Cruz: What's the situation in which a treasury future or in this case an agency future would take. Maggie Ralbovsky: Is when somebody uses that as a leverage tool although the manager is not using it that way. So when I think about why derivatives are not allowed, I would think derivatives the most risky part of derivatives is a very easy way to lever is economic leverage that cannot be observed. But if somebody used entirely 100% cash to collateralize those derivatives, it's not more risky than cash security. It's actually more efficient to trade those it's actually cheaper to trade those. Gerard Cruz: So if we put a ring around that risk then and ensure that the manager are... Maggie Ralbovsky: The manager does not lever it. Then you should allow TBA and allow futures so my hurdle is you cannot issue an opinion to say hey you can buy TBA but you cannot buy futures. James Duenas: Isn't that something you were talking about before that you were planning on doing. Gerard Cruz: That being the case then we would need to go into the Legislature. Maggie Ralbovsky: Right so we need to change the statutes to allow derivatives but I don't know...

Gerard Cruz: To allow the use of derivatives but not as an investment mandate but as a means to either hedge against risk or to get into a market prior to an actual. Maggie Ralbovsky: To hedge against risk you open up another door, so we just talked about a fully collateralize that but that we haven't talked about hedged risk because you hedge risk you could set shorted. So when you shorted you basically are creating leverage, it is an economic leverage in a way so then I think derivatives should be allowed but with guide rails around it. But that is probably our next legislative. David O'Brien: You're really asking the Legislature to stand on their head right asking to approve derivatives. Gerard Cruz: Wow, I mean we're a proven investor already though. David O'Brien: But that perception could change. Maggie Ralbovsky: They took that particular phrase out. Gerard Cruz: So we're prudent person? What are we? Paula Blas: I think that's what it says it ended up being pretty much the same definition though. Gerard Cruz: Okay so we're close. David O'Brien: The issue I thought behind derivatives was just the one that Maggie is doing if returns it gives you economic leverage but at the same time it escalates your risk proportion. And that's why I think it's difficult to ask the Legislature to approve derivatives. My 2nd point where I disagree with you Gerry is that if you can't take TBA's what is Franklin like without TBA's, I think is still a valid question.

Gerard Cruz: No I agree, I don't dispute that I'm saying that Franklin without derivatives it was looking at whether or not we go into TBA's and decide whether to do it or not should be notwithstanding Franklin I mean because if it is a good thing then it is a good thing. Now Franklin the fact that they are compelled to use derivatives makes that a separate issue, for me, anyway. I think I'm not married to Franklin by any stretch I mean I think they're a different company if they are not able to use this, and it begs the question whether they stay on our list and I don't think they do. Wilfred Leon Guerrero: How much money are we talking about? David O'Brien: 125 million with Franklin. Maggie Ralbovsky: About 40% of that universe is mortgage back securities and about half of that by some measure TBA's. Not so half the trading volume with TBA's. Gerard Cruz: I don't know if they necessarily stuck it in its just Franklin is a large manager no different than Capital. So, in order to be able to make a difference in... Joe San Agustin: Don't they have investments guidelines from us? Gerard Cruz: They do, but their compliance defines TBA's as not being a derivative. Joe San Agustin: They go ahead and interpret themselves. Gerard Cruz: Right.

Wilfred Leon Guerrero: Maggie can you refresh again, okay the total amount that Franklin handles the 125. Maggie Ralbovsky: I'm talking about the core bond universe about 40% in mortgages. It's a very large sector so... Gerard Cruz: These include not just agencies this is just commercial mortgage back. Maggie Ralbovsky: No it's just agency mortgage. Wilfred Leon Guerrero: I'm trying to get a clue. David O'Brien: 50 million in leverage in MBS right and then half of that is in TBA's so that makes about 25 million by my figuring. Maggie Ralbovsky: That's right so that's why trading volume, so 50% is not like the entire universe 50% is TBA but 50% on traded with the first settlement. David O'Brien: And that makes our total space in fixed income to be what percent in TBA's? That was my question I was going to ask. Gerard Cruz: What space of fixed income so we're about 200, right? David O'Brien: We're 125, 122 and 70. So 250, 320, so we've got 25 over 320 we've got about... Gerard Cruz: 64 almost 70. David O'Brien: 347 is our fixed income. Gerard Cruz: So 25% of 3. David O'Brien: So 25 over 3 whatever that is. Gerard Cruz: Yeah it's not necessarily defined by Franklin and derivative but the other 2 firm don't need... James Duenas: Not necessarily defined by the industry. Gerard Cruz: Yeah the only reason why it started to look more like a derivative is because of the change in the role which requires... David O'Brien: The registration. Got to be a clue. James Duenas: But if it looks like a duck, smells like a duck, then probably is a duck.

Doris Flores-Brooks: This is a gray area. Maggie Ralbovsky: I told you I have no problem for the Fund advising me. My only hurdle is if you write a letter to say hey TBA's are okay my hurdle is why not futures? James Duenas: Because futures is defined, though. Gerard Cruz: It's explicit, the derivatives. Maggie Ralbovsky: But, you made all the cases why TBA's are safe. Gerard Cruz: This issue isn't safe the issue is not safe; the issue is whether it's statutorily allowed. Maggie Ralbovsky: Right, so my issue is if you define TBA as not a derivative, you cannot define treasury futures as a derivative, that's my thing. Gerard Cruz: Okay, so that answers my question. James Duenas: But isn't the treasury defined by industry. Maggie Ralbovsky: So therefore by association you should say TBA, it looks exactly the same. Paula Blas: So why are they under different rules, then? Maggie Ralbovsky: Because this was born after those were already born. Antolina Leon Guerrero: So it's a new. Maggie Ralbovsky: It's a big coin currency. Is it currency? Well some people say it is a currency, some people say it is not a currency. Big coin smells like a currency to me to pay for things. James Duenas: But, technically it is not a currency. Maggie Ralbovsky: Chinese guy is not a currency. Doris Flores-Brooks: Issued in space. James Duenas: It's more of a bartering tool than currency. Paula Blas: So what did you decide?

David O'Brien: You know it seems to me like we're bucking the trend because if they're moving TBA's into derivative you know registration, there's some indication there Maggie, number 2 has told us that she sees no real difference between you know the type of investment in the future versus the TBA. So the only question becomes if is that's the case, if that's where we're leaning do we then, I thought Maggie's question was pretty good, are we willing to go back to the legislature and clear this up once and for all, I mean. Doris Flores-Brooks: The question for me is do we have treasury futures? Maggie Ralbovsky: No. Doris Flores-Brooks: So why did you raise the issue of trade if we are not doing it why did you raise... David O'Brien: She is making the comparison between the futures contract and a TBA in terms of how they're handled. Doris Flores-Brooks: Oh, okay so they are similar. David O'Brien: They are not the same. James Duenas: Because future has defined as derivative and TBA is not. David O'Brien: Right. Antolina Leon Guerrero: Because it's new. Doris Flores-Brooks: For now. Eventually it's going to be defined. Antolina Leon Guerrero: And they are saying it's going to be registered. Wilfred Leon Guerrero: Maggie, they've been our manager since 1983, have they been doing this since 1983? Maggie Ralbovsky: No there was no TBA's then, so I think TBA started in 1997 somewhere around there. So in the 1990's, so as soon as TBA was born they started trading TBA's. Antolina Leon Guerrero: So it's an issue now because it is being defined. Maggie Ralbovsky: Because the security trading rules changed, now this is classified as a derivative. But it's not defined as a derivative, yet. Paula Blas: So it's just falling under the rules. James Duenas: So should we... David O'Brien: Can you imagine having this discussion with the Legislature? I cannot. That to me is why we are spending way too much time on this particular issue. You know Mr. Chair, just to be safe, because of the registration you know, we would have to go back and say to the legislature we're not sure the TBA's a derivative but we have to register as a derivative and so therefore but we think they're different so what we'd like to do is get your okay to trade TBA's.

Doris Flores-Brooks: And they're going to say what have you been smoking? Antolina Leon Guerrero: Medicinal marijuana. Paula Blas: It's not legal yet, Dave. David O'Brien: So we either bring Maggie back in and let her take the arrows. James Duenas: But she can say we've been doing it since '97. David O'Brien: That would be us taking the arrows. Antolina Leon Guerrero: But it's not without knowledge it's without it being classified I mean it just never been defined. Paula Blas: Exactly and this ruling is relatively new. They may have been participating in TBA's you know since '97. David O'Brien: That's why she's bringing it to our attention. Paula Blas: Exactly, but now that it's here. Antolina Leon Guerrero: We have to make, the Board has to... Paula Blas: Yeah, you have to make a decision. David O'Brien: I'm ready to vote. I don't get to vote do I, Mr. Chair? Joe San Agustin: Close your eyes, never exists. Antolina Leon Guerrero: I think the investment committee ought to consider this. David O'Brien: That's a good idea. That's one you cannot throw to us. Antolina Leon Guerrero: You can bring your recommendation to the Board afterwards. I look forward to hearing your thoughtful presentation. Full of Investment issues, stop dragging us into this. Wilfred Leon Guerrero: Okay. James Duenas: Okay, let's say we divided right between the TBA's and other... Maggie Ralbovsky: So, they told me their performance will suffer, look at page 55 though, their performance has never been really stellar look at Franklin. David O'Brien: Franklin's gotten by on a lot of reputation for years. Wilfred Leon Guerrero: Okay, Maggie let's go on. Maggie Ralbovsky: Okay, so the question about performance. Wilfred Leon Guerrero: We're going to discuss this in the Investment meeting. David O'Brien: The M&B committee supports that. Takes themselves out of the midst. Antolina Leon Guerrero: Wholeheartedly support that.

Maggie Ralbovsky: Okay, I'm on page 55, so since Franklin is on watch, I'd like to keep this chart. We can see that their performance, so every blue dot on this chart is a 3 year annualized return so this is the rolling 3 year return and this is a universe comparison of all the core bond managers and you can see that Franklin's performance is more often than not below the median. David O'Brien: Below the 75th almost all. Maggie Ralbovsky: Below the 75th, yeah most of the time below 75th and on the other hand David's favorite manager, on page 56, the blue dot are above 25th percentile around there and our other manager is income research more often than not above median so here's how the 3 managers are ranked. Now, Garcia Hamilton look at page 57, why they outperformed. Look at their quality. David O'Brien: And the quality, but they pulled it off that's my point and they do a lot of rotation and things like that. Maggie Ralbovsky: I agree, I totally agree. David O'Brien: To me the contrast is Franklin Templeton versus Garcia Hamilton. Franklin Templeton tons of assets under management they got to turn to the exotics to make their marks. Garcia Hamilton is cap. Maggie Ralbovsky: Yup very good description, very good contrast.

Antolina Leon Guerrero: You're getting gold stars all day, Dave. You're going to be on Maggie's focus list. David O'Brien: Are you kidding me it's the K1's just about killed me. Maggie Ralbovsky: Okay, so our REITs managers both underperforming. No, one is underperforming, page 64. Security Capital has underperformed since inception and Cornerstone actually has done a lot better. We are on the docks to restructure this portfolio. This is the data point I want to put on table but we are going to do something about it. David O'Brien: What move out of the sector or just change? Maggie Ralbovsky: We're going to do Global. David O'Brien: Global REITs, that's right. Maggie Ralbovsky: That concludes my prepared remarks. Antolina Leon Guerrero: Do you have any unprepared remarks? We're open. Thanks, Maggie. David O'Brien: So you're not recommending any manager discussions then? Maggie Ralbovsky: I am going to talk about the step 1 tomorrow which will implicate certain managers. Antolina Leon Guerrero: Oh that's the ones tomorrow after lunch. Maggie Ralbovsky: Step one is tomorrow after lunch. Wilfred Leon Guerrero: Paula where are we in terms of the letter. Paula Blas: What was that sir? Wilfred Leon Guerrero: You know the letter, the investment law where are we? Did the governor sign it? Paula Blas: Not yet it's at the Governor's office. Antolina Leon Guerrero: Tomorrow will be 10 days. Wilfred Leon Guerrero: A week now. Paula Blas: Yeah transmitted on the 17th together with their... Wilfred Leon Guerrero: Did they call you? Paula Blas: GEDA called me. Wilfred Leon Guerrero: Huh? Antolina Leon Guerrero: GEDA called you. Paula Blas: Yeah. It was actually passed in the January session. Remember the day of our board meeting when I said they are going to vote on it. But what had happened was that the clerk enclosed the wrong version of the bill for them to vote on. So, the wrong version was passed and when I saw it on the site that Monday, because they voted on the Saturday, they had to pull it back. So they took it back from the Governor's office, they passed the correct one February 17th and it's down there now. Joe San Agustin: They voted on the wrong bill. The clerk just forgot to give them the right bill. Wilfred Leon Guerrero: Because I think Maggie is prepared to move on with this new asset allocation. Paula Blas: But we can actually go ahead and discuss it and move forward.

Wilfred Leon Guerrero: We can't do it unless the law is changed. Antolina Leon Guerrero: But you can discuss it and make recommendation, subject to. Rosalia Bordallo: Is there anything in the bill that would cause him not to sign? Paula Blas: No and GEDA doesn't have an issue with it, you know, the budget office doesn't have an issue with it. Antolina Leon Guerrero: Economic advisor right there. Wilfred Leon Guerrero: So, she's been at this thing for 2 years and I think she wants to... Maggie Ralbovsky: Light at the end of the tunnel. Joe San Agustin: Assume it's been implemented, what are you going to do? Wilfred Leon Guerrero: Okay. That's it Maggie? Maggie Ralbovsky: Yeah.

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Wilfred Leon Guerrero: Okay, same routine to review your performance and I'd like to know if there are any of the regulatory agencies have issues with you, changes in personnel and ok I'll just stop that's it. You answer those questions, we'll fulfill our fiduciary obligations. So you're on. Takashi Takamura: Thank you. First of all we thank you very much for having us today and we a have long term relationship with us, Capital. We always appreciate this relationship and certainly this is very important for our organization. And before moving to the investment review let me touch up on the last few items of the agenda which is the legal litigation with the FCC that type of issues and actually we, Capital Group has no legal litigations or FCC issues last year, so no worries about these stuff. And for organizational changes we have no major organization changes in the Capital Group. We demand global organization we act as an global organizations for you with this important client which Japan team is responsible for this review, and the relationship of all and our colleagues in the Singapore office is taking care of servicing including sending out reports and corresponding inquiries from you. We've taken original approach, so we as your pacific regional team is responsible for this important client that's you. And for the organizations, we have some minor changes in the investment team. We have the multiple managers within the team but we have one change and we have several changes in the analyst team. All of these actually Akirasan my colleague is going to talk about later in the investment review. And back to the organization, actually the 83 years have passed since our organization started this business and we have no changes in our commitment and the mission which is to provide superior long term results for our clients, we have no changes. Then I will pass to my colleague here Akira Fuse about investment review for the period.

Akira Fuse: Thank you Takamurasan. Okay, as our agenda I'd like to confirm in page 2 we have 5 items today and I will kick off from tab 1, all for review since inception. We talked a lot last year but you know let's review the portfolio since inception that is a good thing I think. And page 2 yes, and also I will move into the tab 2 all for the review for the 12 months that will be main agenda today because you know we came here same time last year. And then briefly touch on tab 3, just 3 months reserve until end of December and then let's start up on the 1 months result up to January this year. And then if time allows I will be moving to the tab 5, strategy and outlook for 4 years and also market. That's one. Do you have any particular question or discussion point in your mind before hand? If not let's go into tab 1 page 4.

Let me briefly introduce page 4. On the top right hand side this is a portfolio valuation and at the end of September we managed you know 77.9 million U.S. dollars for your pension fund. It started from 36.5 but periodically this fund made a contribution or investment into this fund 2 times. I checked the cash infusion of this fund it was end of December 2008, the pension fund made 7.2 million dollar investment it was almost you know bottom of the market, it was very right decision. And then middle of June 2012, pension fund made a 15 million dollar investment into the fund. So, total asset investment is around 58 million dollar and then you have a more than 19 million dollar gain by using investment under this fund. So let's look at investment result on bottom right of the page 4, the portfolio result was 6.6% in the past 7 years or so and then benchmark return is 6.4 and this is after fee result so that's why net result is still exceeding the index 0.2 on yearly basis.

So let's go to page 6, this is the portfolio return year by year and as you noticed we started off from a pretty good year, 2006 and 8 you made a big return and then we entered into a financial crisis on Lehman Shark and then lost half of the asset but then 2009 and 10 you had a snap back of the market and return back to the original level. Between 2011 to 2012 was a slightly difficult year for emerging market investment because of the European debt crisis so the market made us some risk on, risk off, move so either was a slightly difficult year. But you know since the inception we had 7.3% of the portfolio down this was before fee and after fee basis you know we made a 6.6% to the benchmark at this moment. Let's look at country by country and what it says on page 7. As you can see the top contributor of the fund is China, Taiwan, Russia and Korea the stock section in that area made a good return for relative basis. On the other side if you look into the bottom of this chart, India, South Africa, United States and Canada was the difficult for place for us to make a contribution to the fund. Let's move on to page 8, this is the sector by sector attribution. In the past 7 years, the biggest contributor was information technology as you can see this is a high growing industry and industry return is 57% but you know a portfolio made more than 123% so that's a big contributor to the investment result. Secondly energy sector was a difficult sector as you saw index return was 4.3 while 7 year index return was more than 55% so under performer but you know we made a good stock section in this sector so that's why contribution was slightly big. Other than that industrials and materials sector also contributed to the investment result.

On the other side telecommunication, health care and the financials was some sort of difficult industry for us so that's why we made some changes in both portfolio team and also research team in the past. So I will touch that later. Let's move on to page 10 please. Let me confirm historical trend over return in emerging market equity investment. Going to Guam started the investment emerging market it is starting August 2006 so that is just a little side of May 2007 you can see. So you enjoy the pretty good return at the start off and then you experienced a difficult year in a financial crisis but it was recovered back to the original level and actually making a good return to the pension fund at this moment. One of the important point that I'd like to make is Capital has been managing emerging market equity since 1986 and then when you invested into 100 dollar into the index at beginning of this period '86 and then index made 20 times of bigger asset but if you made investment into the active fund at the same 100 dollar at the beginning you have more than 500 and 900 dollar that almost 3 times that index investment in 27 years. So this is important you know value of the active investment that is our message.

Okay, why don't we move on to page 12, please. This is the main agenda for today to review 12 months result up to September. As you can see on the bottom right hand side, 12 months ending September return, Portfolio made 3.5% and index made 1.4% so therefore we made 2.1% after fee basis, net of fee. Let's look at contributors on page 13. This is the country by country result and top contributor was Hong Kong. We made an investment into the hotel and casual operator in Macao and I will touch on that you know in detail later. Gerard Cruz: In Macao? Akira Fuse: Macao. That's categorized in Hong Kong because the stock is listed in Hong Kong market. But you know we categorize you know Macao investment is a part of the Chinese investment because you know they are enjoying a lot of traveler coming into Macao. Gerard Cruz: Oh from mainland China. Akira Fuse: The traveler number is really growing every year double digit. In case of first quarter last year the traveler number was you know glue by 20% compared to the previous year. In Macau. Gerard Cruz: Yeah a lot of gambling. Akira Fuse: I heard Hong Kong is now building some kind of a highway to Macau, so I think you can drive up to the Macau. So, lots of traveler is going to Macau, I think. Joe San Agustin: From the airport? Akira Fuse: I haven't heard. Gerard Cruz: From the airport, that's far. Joe San Agustin: Macau has changed a lot, it used to be only one hotel.

Akira Fuse: Second biggest contributor was Mexico. Mexico made 15% of the portfolio return to the portfolio so it was a good investment particularly our investment into the total operator contributor loss. The third investment contributor was Indonesia as you know Indonesia had a tough time as you know this country had current account deficit since the beginning of last year when U.S. federal reserve mentioned they are tapering the liquid supply and then current account deficit country had a really hard hit on currency so that's why investment in Indonesia itself was a strategy difficult minus 13% but you know we made a better return compared to the index holding so that's why contribution is posted. And the fourth investment is China, we have to talk about China a lot but Chinese investment was pretty good, we made 15.6% of the investment return by investing in China last year and then contribution was 0.4%. On the other hand if you look into the bottom 10 countries, investment in Canada, Poland, South Africa and Taiwan was a difficult for us but the contribution was bigger than the detraction so that's why we made around 3% of excess return on top of index to the pension fund. Let's move on to the sector by sector analysis on page 14 the top contributor was Consumer Discretionary Sector. Consumer Discretionary Sector made good return in absolute basis 24% and also active contribution was also pretty big 1.9%. Particularly our investment in Macao gaming company as I mentioned was really, really successful and this is the driven by the new building, building new hotels in Kotai area and also expansion of the Cajuno field in Macao but I think this is long term growth of the Chinese you know middle class consumers. So lots of people are going to the Macao to spend their money. So this is a structural force of the gross for Macao industry.

Consumer staple is also good investment. One of the companies called China Menu Daily who is supplying cheese and yogurt product into China was really contribute a lot. As you know Chinese culture has been gradually changing. You know they're partake consumption of cheese and yogurt daily product in China is only 35 kilograms per person in a year compared with Asian average is 67 kilograms. So if China moved to the Asian average they would consume double size of a dairy product going forward. If you imagine if China moving into the more western style food culture U.S. is spending 272 kilograms of dairy product in a year and Europe is part of bigger 287 kilograms. So there is a lot of room to grow for the Chinese dairy product companies. Maggie Ralbovsky: What happened to the Argentina holding that was maybe the 100% return? Akira Fuse: Yes, I checked this number and I am sorry to report this table but you know this number was wrong. There is some corporate actions and you know accounting method was wrong so that's why it was minus 100% but our investment in Argentina in this period was only minus 7.4. So I will check the detail and report back to this table later.

Maggie Ralbovsky: Why would Canada and the Netherland be considered emerging? Akira Fuse: Particularly Canada investment is our investment into one of the mining company who has a mine in Africa and Panama so that's why we categorize in that kind of developed market listed company who has exposure to emerging market is some sort of emerging market investment. Actual name is the Centerra Gold; this is a gold mine company who has a mine Africa. Gerard Cruz: Has a mine? So just one? Akira Fuse: Yeah they have several mines. Gerard Cruz: Or is it the majority of their business? Akira Fuse: Several mines in Africa. Gerard Cruz: So domiciled in Canada but predominately operating in Africa is that how it is? Akira Fuse: We are setting some rule, if the company gaining more than 50% of revenue or forfeit coming from emerging market; we categorize that kind of investment inside emerging market investment. Gerard Cruz: Okay. David O'Brien: 50% of the revenues or 50% of... Akira Fuse: It's a case by case. You know 50% of revenue also 50% of profit sometimes. And sometimes we have company who has asset more than 50% in emerging market. The most of the case the company has exceeded such kind of a stressful more than 50% most of the company are really operating already on emerging market countries.

Takashi Takamura: I think it's in our ruling it's either 50% of profits or 50% of revenue that's the fundamental rules and then we consider the profit as well. Gerard Cruz: I see. That's why the U.S. would be here also, then. Akira Fuse: That's right. Let me come back to page 14 again, I'd like to explain a little bit more. Gerard Cruz: 14? Akira Fuse: 14, yes sector by sector attribution up to September. Materials and industrials was slightly difficult area for investment particularly materials sector made a negative return as index but you know we made a positive return. We have been keeping really a cautious investment in this area because of you know slow in Chinese growth and demand for material is pretty low in the past year. So that's why we have been focusing on the stock variation carefully and then investment into the really important nitch companies in the growth of emerging market countries. Particularly for example we invested into the company called the Beijing Enterprises, this is the natural gas distributor in Beijing and China. And as you know Chinese people is suffered by the pollution, air pollution. That's why clean energy natural gas will be pretty important for Chinese people. Another investment example is Weichai Power this is a large heavy duty commercial vehicle manufacturer particularly this company is strongly making a diesel engine who is making a smaller emission comparing to gas running engine this will be very important for Chinese society as well. CSR Corp, this company is produced of railroad and trains this is necessary investment for Chinese people. That example and we have been very careful on the stock variation to hold in this area. Finally, I'd like to mention information technology was also a very good contributor for the investment result. One of the top contributor was a company called Yandex listed in Russia and this company is called Russian Google who has more than 70% of the market share over such share in Russian society so this is a highly growing company. On the other hand couple of sectors made a negative return. Financial, Telecommunication and Health Care did not contribute to the relative result but overall we made a pretty good return last year until September.

Wilfred Leon Guerrero: Can we go back to page 10. This is the listing of returns since 1986, the last 3 years the return has not been good in emerging markets, is there a pattern here that's developing or is it just, what's happening? Akira Fuse: You mean the excess return or relative return, I'm sorry, I'm lost. Wilfred Leon Guerrero: The last 2011, 2012, and 2013 it seems like the returns on investment on emerging market is diminishing. Is there a pattern emerging here or is this something that I'm just wondering what's going on in emerging market? Akira Fuse: Well, let's say emerging market countries economies still growing. So you know stock market had a negative return in this period because of the concern of the European debt issue and also concerning of the U.S. tapering so the liquidity supply will be shrinking going forward. So easy money supply supported the market such as you know 2009 and 2010 but now the market involvement has been gradually changing. Let's... Wilfred Leon Guerrero: Okay, the U.S. is going to start decreasing its supply of... Akira Fuse: Yeah liquidated supply. Wilfred Leon Guerrero: Does that mean that this is going to adversely affect investment in emerging markets? Akira Fuse: In some countries, yes. Particularly in countries called fragile file. Fragile file is India, Indonesia, Turkey, Brazil and South Africa. Those countries are relying on the energy import from outside because you know those country doesn't have a energy or oil well within the country so that is why they are relying on the import of the oil from other side of area. Joe San Agustin: What do you call this country? Akira Fuse: Fragile file. Wilfred Leon Guerrero: India? Akira Fuse: India, Indonesia, Turkey. Gerard Cruz: Created oil, no? Akira Fuse: Indonesia is creating oil within the country but they are domestic in demand is growing higher because their population is pretty high, more than 20 million people, no, no, no 200 million. Gerard Cruz: 200 million? Indonesia? Akira Fuse: I think their population is twice as much as Japan. So that's a really growing domestic demand. Cannot cope with the order supply within country so that's why they turned back to the oil importing country at this moment so that's why their current account is really vulnerable at this moment.

Let's show the one chart on page 36. This is the market trend to watch, page 36. This page shows a GDP economic growth of the developed countries in blue and developing countries in gray. As you can see the blue arrow is going upward because U.S., Japan economy has been gradually bottom up and bottom out and gradually growing. However in Japan we are seeing positive sign of a economic growth now but at the same time China, India, Brazil used to have a really high growing momentum in the economy growth but now slightly decelerated such as you know if you look into China, 3 to 4 years ago Chinese GDP growth was double digit but now it's expected to grow around 6 to 7%, so it's a gradually coming down from double digit to 7% level, so that's why the expectation of the equity market was slightly too high in couple of years ago and then it has been gradually coming down. So that's why as Mr. Guerrero mentioned you know past 3 years, emerging market return was diminished. Wilfred Leon Guerrero: So this model is showing that there's inverse relationship between the U.S. and Japan and Europe versus this other country. Akira Fuse: That's right. But I'd like to say from this chart still emerging market is growing higher pace. You know Chinese GDP is growing 7% compared to Japan is still reach up 1 or 1.5 this year and the U.S. is very U.S. but still economy growth is around 3% this year. So the level of the growth is a still high in emerging market countries such as in Brazil, India and China. So that's why we believe investment into the emerging market is still helping your pension fund investment I think.

One of the most important key chart is page 37. If you're looking in to the chart, this chart shows emerging market return compared with the U.S. equity return one year basis. So as you can see emerging market return is now under performed to the U.S. by 30% less one year. 30% and then if you look back you know what's happened you know when did we have this kind of phenomena, it was just coming back to the 1998 or 1997 period and as you remember 1997 was the Asian crisis and 1998 we had Russian crisis. So... Gerard Cruz: So this tells the difference in the U.S. versus the emerging markets returns? Akira Fuse: So return differential so emerging market was racked 30% compared to U.S. last year because you know U.S. return is around 22, 26 and emerging market is almost flat. Gerard Cruz: So you have and this is as of last year. Prior to any announcement of tapering on the QE side right, so now fast forward a year and that's on the table and you just talked about some of the negative impact it's going to have on some of the emerging market countries, the tapering on the monetary side. Then on the economic side perhaps some of the tightening of the money is going to have an economic impact on the consumption which also should affect emerging markets which also is a double edged sort of if you look at in that direction or in that light. And so explain then what would be a compelling reason not to broaden a mandate out of the emerging market solely and into an international manager who invests across the entire line on developed and emerging markets.

Akira Fuse: Well we don't disagree to expanding investment universe out of emerging market basically our investment is finding good companies who is enjoying a good growth. Gerard Cruz: And you've had good run I have to agree but I'm just wondering if we reached the end of that run and it's time to move beyond such a specific mandate and maybe.. Takashi Takamura: The emerging market equity sounds like specific mandates but there's a bunch of countries, a bunch of stocks we can pick and choose, so therefore emerging market equity itself is diverse with mandate. But as you mentioned the old country for example the broader mandate is also has by official or broader universe pick and choose. So therefore the general rule we'd like to have the more broader mandate. But it talks of the return expectations I think in the world war time probably the emerging market is slightly higher but it would be higher productivity depends on how we think about the risk which is the productivity. And in terms of the bottom I think it's sometimes emerging market is discounted, sometimes over priced that's the cycle and now it's for emerging market it's pretty much in the bottom side of the game. Gerard Cruz: And I'm just wondering in your opinion you think that this is actually a cyclical period because you have to admit that the last 4 or 5 years with money as cheap as it is, with those emerging markets being net importers of particularly oil and oil being traded in U.S. dollars, right makes it very cheap for them to buy and now we may be going in another direction. So do you think that we have gone beyond this very favorable period for emerging markets and maybe we shouldn't get ourselves used to seeing the kinds of returns that we have seen in the past and maybe I guess leave the question open, what is your take on that?

Akira Fuse: Well if you look into our portfolio strategy, we invested into the companies you know who is benefited by the structure growth of the economy and also some other cyclical factors. In the past as you mentioned emerging market economy has been growing by some artificial investment particularly if you look in to China, they spend a lot of fiscal money to build road and bridges, building without provide expectation of the usage and utilization. So that's why you know China have to shift their growth inching from social investment into consumption lead growth. And China, Indonesia, India have a lot of people who is reach up to the middle class and they will start spending their money into the luxury life like buying cars and buying smart phones and buying luxury food compared to the basic food. So I think still growth engine is stating the emerging market doesn't develop the countries like Japan, the U.S... U.S. is growing you know their population is growing every year but in the case of Japan, Korea and Asian some Asian countries has a really difficult time going forward. Gerard Cruz: In China for example as you mention and even India for that matter, how much of that GDP growth is concentrated within one or two large cities versus a greater majority? Akira Fuse: Well I don't have the exact number I mean growth of total GDP is driven by social public investment by more than 40% in China. 40% of GDP is driven by social investment that is artificial investment. Gerard Cruz: That's high, sure of course. Akira Fuse: If you look into the U.S. and Japan, the social investment is really tiny, 10% that sort of thing. Gerard Cruz:

And so can those countries continue on that path? Is that a sustainable model? Akira Fuse: You mean China? Gerard Cruz: Yeah. Akira Fuse: I don't think so. So that's why last year Chinese government released Third Plenum that is they're plan for growth going forward. Gerard Cruz: Right. Akira Fuse: And they clearly shifted their gear toward the consumption lead growth button because you know Chinese people have to have a better life and better quality of life and also they have to have a society who is supporting their pensions, and age life, health care that kind of things. Gerard Cruz: Of course, yeah. Akira Fuse: So that's why I think that will be a big shift of the growth engine going forward in emerging market. Joe San Agustin: Does that attribute decrease to cut out the competition to the United States. You know goods are now imported to the States. All countries are competing with other areas and United States trying to bring that back. China now shifted those consumer goods for their own local consumption.

Akira Fuse: We don't think so. China is still very unique area for investment because you know they have a lot of people. They have a production site as well as a market in China and also Chinese society is pretty well accustomed with the U.S. and the Japan so we have a lot of manufacturer who has a factory in China. Joe San Agustin: Used to be riding bicycle now they want to ride motorcycle and cars now. Takashi Takamura: I think the big thing or investment in the emerging market the country is of course the growing middle classes, it's not infrastructure or anything we really believe those growing middle class is a big and that's still valid in emerging market investments. Joe San Agustin: Your GDP growth is not as great as it used to be but it's still growing. Takashi Takamura: Yes still growing. Akira Fuse: Around 7%. Joe San Agustin: But still not like the United States, United States still growing but not as much as China. Takashi Takamura: Yes, 3% versus 6, 7%. Yeah. So, therefore still good in market. Akira Fuse: But if they shift might have some pain because you know they used to be spending fiscal money to invest into the social infrastructure, but now they have to move to the consumption lead growth, that needs social system. Maggie Ralbovsky: Do you think that can be successfully done? Because think about the governments revenue, governments tax receipts and mainly probably social investment companies, you're basically have to be willing to reduce the size of the government if you want to make such a transition. A lot of people have to be laid off it is a very big task. So in my mind it's a question mark whether they can make that switch. Akira Fuse: Yeah that's why I mentioned we have to have some pain to shift towards the ultimate goal. But I think one of the unstoppable trend is the peoples mindsets for the aspiration spending so people wants to have a better life in China, we cannot stop that. And national income per capitol in China is around 3,000 dollar a year, 3,000 dollar so that's a 300 dollar for months, that's a minimum income for keeping the basic life.

Joe San Agustin: What was it 10, 5 years ago? Akira Fuse: It was 10, it was 3,000. Yes it's a rapidly reach up to this 3,000 and we say if they reach this 3,000 dollar per capitol annual income, that they reached to the middle class consumer because they will start spending for luxury life such as you know tobacco, better food, car. Joe San Agustin: No more bicycle. Akira Fuse: Kusan city already moved up to the higher revenue area such as national income reached up to 10, 12 thousand as average and western side of city has a very low cordial life at this moment. But you know Chinese government have to treat equally the people otherwise they cannot keep control of the society. So they have to do some balancing act. Joe San Agustin: Keep them in the countries, they require too much in the city. Takashi Takamura: Another thing that's important to mention is that we don't do any top down macro driven decision making. We invest in the Chinese company but it's not based on the macro view of the China. Gerard Cruz: It's based on the company. Takashi Takamura: Exactly, stock by stock. Gerard Cruz: I understand. Takashi Takamura: So therefore those are the kind of things considered but for that matter we don't disagree to broaden the universe to start this. James Duenas: So how long do you expect to see the continued growth of between 6 and 7%? Akira Fuse: Well I think we are expecting that Chinese growth has been gradually decelerated to the 6 to 7% of level in the next 3 years I think and we're expecting that they can keep this kind of level going forward. James Duenas: Not just China but the whole. Akira Fuse: All emerging market. Takashi Takamura: Good thing about the emerging market, global emerging market equity overall even though the China is somewhat fragile or maybe decrease in its growth but there's another countries to move up so therefore overall our expectation high in single digit now is 8, 9, 10% is expectation for investing in the emerging market. Akira Fuse: If you look into the Africa, African countries are growing by 10% every year but you know there is no investment company at this moment so that's why Africa is out of universe or out of our portfolio at this moment. But some other company who is listed in London has a office or business or mine in Africa and gaining a better revenue over there so some of the out of the universe country will join in emerging market industry, emerging market index going forward and then push up the growth of the global growth I think. James Duenas: So like what you are doing with U.S. and Canada right now? Akira Fuse: That's right. Takashi Takamura: It's the beauty invest in emerging market country is universe itself is growing so therefore you can expect their course of investment as well. Akira Fuse: I know the sentiment towards the emerging market is pretty weak but this is the fact we are reaching to the Asian crisis and do you think it is a really the economic situation similar to the Asian crisis period?

Gerard Cruz: No, no I don't think it is either but I'm just kind of concerned if you look at the Asian crisis level we went down pretty steeply. This is more gradual which could suggest a different time, different components, that are driving that decline and so I guess that's my concern. Cause you're right I think the components of what happened in '98 are much different but I'm wondering if this is because it's such a slow gradual decline whether there is going to be any inflection point at and if so, when? Akira Fuse: We are, as Takamurasan mentioned we are bottom up investor and we are looking into the company's profitability and ROE, return of equity and if you look into the Asian crisis period as an average emerging market companies ROE was lower than developed countries like U.S. and Japan and Europe. But now their ROE is much higher than developed countries. Gerard Cruz: Well because of that crisis it put into place a lot of new measures for capital and capital requirements and reserves that will prevent that from happening. Which again begs a question are we seeing something that cyclical, are we seeing something that's beyond and bigger than just what's happening in the cycle? I mean I think it's more than just a business. Is it just a business cycle because we could look through it or is it something more? I don't know.

Akira Fuse: Our stance is still fundamental, it's a pretty sound and our investment target is making a better profit compared to the other investment. Gerard Cruz: Of course. Akira Fuse: So that's why active investment is the key. Gerard Cruz: I think active investment is the key to which is kind of the question that last year we talked about your size, right? And how big you guys were and whether you still had the ability. Takashi Takamura: Yeah we checked the number. Gerard Cruz: Yeah how are you guys in terms of that? Akira Fuse: Well we are now having 13.9 billion dollar under this investment strategy. Gerard Cruz: Versus but where were you last year? Akira Fuse: 18 no, it was 23 I think. Gerard Cruz: So your 13 or 23? Akira Fuse: 13.9 last year I mentioned 18, 18 billion dollar. Wilfred Leon Guerrero: We heard that you're losing a lot of clients, is that true? Akira Fuse: True we lost some clients. Wilfred Leon Guerrero: Why is that? Akira Fuse: Because of the result. Some of the institutional client is a little bit more short sided compared to you have long term investment. But some of the people are becoming more short term oriented and then some people lost the confidence on us. But last year as I mentioned we made pretty good return to the pension fund and also we made the necessary change of the research team and also both the management team. So that's why we are confident to make a positive return going forward.

Gerard Cruz: Your research team where did you make the changes? Akira Fuse: We change some of the research structure particularly in China and India we used to have one single guy covering a big area but it was too busy and too deep market so that's why we split some of the industry into the very experienced analyst. Gerard Cruz: I see, okay. Akira Fuse: Can I touch on just team change? Gerard Cruz: Sure. Joe San Agustin: Can we get an idea on the returns how much of that was remitted to us and how much was reinvested? Or do you reinvest return? Akira Fuse: I think all of the investment is re-invested into the same fund. Gerard Cruz: I don't think we took a draw from capital. I don't think we never asked for money back, right? Akira Fuse: No we have a history here and... David O'Brien: 15 million in 2000 June 12. Reallocation. Joe San Agustin: We never got any returns we didn't get it yet we just reinvested. Diana Bernardo: We did. No well I think the long term capital was reinvested but then in January I believe we got a million in dividends. We did. Rosalia Bordallo: They did give a dividend distribution. Akira Fuse: The final dividend paid at December ends 1 million dollar has it invested into the fund. Joe San Agustin: How will that 1 million dollar come to us? By stock exchange or just... Rosalia Bordallo: Long term capital gains. Dividends yes we have. Gerard Cruz: Yeah the dividends you... Joe San Agustin: I know what you're saying, you can't take money out of Retirement for sure you can put it in but you can't take it you usually take it stuff and trade when you send stuff to capture in Hong Kong bank, that's how you make money.

Akira Fuse: So historical basis dividend distribution was kept in cash and did not re-invest in the fund, the Capital gain was re-invested. Gerard Cruz: That's right, got you. Joe San Agustin: You can't take money out of retirement you can put it in but you can't take it out. Gerard Cruz: Maggie can. Maggie Ralbovsky: Under the table. Gerard Cruz: This is being recorded. I know just kidding. Akira Fuse: May I touch on the research team change, I'm sorry to interrupt you but page 42. We have been changing member research team particularly Latin American and 4 out of 8 people is a new reassigned into this team. Marina Surzhenko she came from actually Gazprom she is covering European oil industry at this moment. Bruno Rodrigues came from our sister company. Neil Tipton also came from our different function of our investment team. Kayvan, this is the new guy we hired for covering Middle East area. So, 4 people member out of 7 is the new member. In case of Asia we have 4 new additional resources into the team. Gerard Cruz: So in Latin America, I'm sorry to interrupt. I was just going to say so you went from 4 to 8 in

Latin America? Akira Fuse: Last year we reported 7 members. Yes and the total numbers on our list that didn't change. So in the case of Asia we reported 13 members last year and we kept the same number but 4 members are new. The 3rd guy Will Craig is the internet and technology analyst who is covering Asia together with U.S. internet and technology industry and he is very capable. Two guys coming from our DM research, Chad Iverson and Saurav Jain who has a research coverage in Asia and also UK is now joining this team. And we also hired new guy Voon Lee who is taking care of the technology area in Asia, Taiwan and Korea. Gerard Cruz: Didn't get his picture done, yet. Has not passed his probation period.

Akira Fuse: Basically message is we have been splitting the coverage particularly in large countries such as India and China with the experienced analyst and that's contributed to the investment result since last year. We also audited micro economist also one lady I think did not have a picture I'm sorry, newly joined also but you know we are still strengthening economic analyst particularly in China, this is Beijing office, all of our member is staying in Beijing office. Gerard Cruz: Oh I see. Oh, okay. Antolina Leon Guerrero: You should go out and interview. Gerard Cruz: I would love to, I think Maggie can show me around. Akira Fuse: I'm sorry previous page 41, this is the Portfolio management team and we made one change on the portfolio manager, we changed the portfolio manager and new guy joining this team Ricardo Torres who is a very experienced analyst and who made a good job in Latin American research is now officially assigned hopefully manager. And we used to have a lady called Lisa Thompson in this position but you know she moved out from this team is now focusing on the oil country world equity portfolio. So in case of equity emerging market is only 20% of the total pie so she has to spend more time for the DM side so that's why she decided to get out.

Gerard Cruz: How's the allocation in that fund changed within the last year? Akira Fuse: Allocation didn't change we basically had that equal weight of each of the 6 members except David Fisher who is the most experienced portfolio manager who has track record of 50 years, no 40 years. Gerard Cruz: He doesn't look any younger than 80. Akira Fuse: He is a mid 70. Takashi Takamura: I think he is close to 77, I think. Akira Fuse: So his allocation might have been slightly smaller. Maggie Ralbovsky: Was your question about AQUI Ex U.S. funds? His question was more about the country allocation AQUI Ex U.S. funds emerging market. Did you underweight emerging market, did you over weight emerging market? Akira Fuse: We manage investment in the stock by stock as you know and the important thing is the economic exporter. I prepared the one chart, let me touch on page 39. This is the country allocation and also economic exposure of the International All Counties equity that means in AQUI Ex U.S. As you can see on the grey chart this is the Ex U.S mandate, so that's why our allocation to Europe is a 55% but our economic exposure is pretty much skilled toward the emerging market. Economic exposure is a revenue exposure. If you look into the European company called Roche, this is a pharmaceutical companies listed in Switzerland but their revenue a third of revenue coming from North America and maybe 20% coming from Europe but a quarter revenue coming from emerging market and frontier countries. So we have been analyzing each of the company's revenue exposure and managing the risk of the portfolio. Our International All Countries have around 43% of the economic exposure into the emerging market which is much higher than the domiciled allocation. Gerard Cruz: Can you say that one more time? Akira Fuse: Okay, our portfolio has a... Gerard Cruz: The percentage part I didn't catch. Akira Fuse: 43% of the revenue exposure. Gerard Cruz: Oh right here. Got you. Takashi Takamura: 23% is the exposure for the domicile and 43 is economic exposure revenues. Gerard Cruz: Okay, okay. Akira Fuse: Is that clear to you? Gerard Cruz: Yes, thank you. Takashi Takamura: That's why I mentioned the All Country X is okay as comparable to the emerging market itself, so it depends on how we think about the risk.

Akira Fuse: Let's look at the other company called Fanuc, this is the factory automation machinery company based in Japan. But their revenue is actually more than 50% of revenue is coming from emerging market and frontier countries because they are growing in China. Chinese already is facing high wage cost at this moment and the manufacturer have to replace the people to the machine which happened in Japan maybe 30, 40 years ago and Fanuc experienced such kind of a change of the industry in the past and they have very conflictive product robotics and automation machinery. So that's why Fanuc is listed in Japan so including 11% but their revenue is actually coming from large revenue coming from emerging market and China. And also you can see the revenue exposure economic exposure of each of the industry on the right hand side. So most of the industry have a high exposure to emerging market particularly consumer staple sector has 59% of the economic exposure to emerging market and frontier countries because they are enjoying high growth of revenue in emerging market country at this moment. Gerard Cruz: Okay, that's very informative. Akira Fuse: Thank you very much. Gerard Cruz: Thank you. Wilfred Leon Guerrero: Okay, as of December 30, 2013, the return was 3%, right? Akira Fuse: Yes. Wilfred Leon Guerrero: How high is it going to get at the end of the year? Akira Fuse: Particularly 4th quarter was really good return because of China. This year I'm sorry, we believe you know we can keep this kind of a pace going forward because emerging market is very inexpensive and our investment target is really lower evaluation at this moment and we expect a lot from emerging market at this moment. In absolute term and also relative term as well. Wilfred Leon Guerrero: Okay, any other questions? Gerard Cruz: No. Thank you very much. Wilfred Leon Guerrero: Don't let that 3% fall, go up.

Dimensional Fund Advisors

Gerard Cruz: Now we're on. Ted Simpson: Now we're on ok. So that was I don't know if you want a repeat of what I said from the FCC perspective. Gerard Cruz: Sure. Ted Simpson: Okay, so from the FCC did visit us for the first time in about 10 plus years, no major issues. The issues that were raised were things along the lines of soft mixed used allocations and as I just mentioned that is something that Dimensional has decided to do and we're already on the track towards doing that but we decided to discontinue as of the end of 2013 in terms of setting aside any accounts for that use and then the frequency of the speed with which we delivered record production was one comment they made. The dozens of thousands of documents they wanted, then not around our best execution abilities but around the frequency documentation of that they also had some minor comments on that. Those are really the 3 areas as far as other litigation, legal issues nothing going on there. As far as organizational changes at the firm, no I mean the one thing I would note and I know I did say it before we continue to grow our presence in Asia, and Tapong who heads up our Singapore office is a good example that he had started I think even before I was last here to visit but he was a great addition to the firm and our

Tokyo office as well continues to, still small by our standards the firm is up to 750, 800 people now only less than a dozen in Tokyo, less than a dozen in Singapore but they're growing for sure. And then in terms of organization, so no changes at the senior executive level still a very consoled team with David Booth our co-founder and also Eduardo Repetto whose been our Co-CEO for 3, 4, or 5 years. Still the two of them kind of leading the firm and still a good transition, now whenever David decides to scale himself back Eduardo is there in a strong way to continue on that senior management, that's been great for the firm. And then on the international equity strategy the team that we run that manages the portfolio that we run for you really no changes to note. I think we had a couple of promotions this past year I noticed on the team up to the portfolio manager level but then at the portfolio manager level really I think maybe one or two additions and then I think one departure. But it is I think a big team level dozen folks who are overseeing the process driven approach that we manage for you. So as far as you fiduciary responsibilities to check those boxes those are kind of everything I have there. Other than that I guess what I wanted to start with is to say thank you again for the relationship that GGRF has with Dimensional we very, very much appreciate it.

Certainly the defined benefits side of things with the international small cap but also on the defined contribution side with the emerging markets strategy that we run for you. So with that I've brought along a big, big book that you could use as a door stop and certainly there's a lot of details in there to remind you of how we do things. There is for one thing I guess I could focus on and get into a little bit more detail on kind of an update to the philosophy, well I talked a little bit of that last time in terms of Dimensional using some research on profitability and bringing that into our strategies. We did start to implement that since the last time we met with you but frankly for this particular strategy the international small caps strategy that we run for you, it was less of a change to that portfolio because we were already taking advantage of something your minutes will certainly show and you may or may not remember about Dimensional where about two years ago, two and a half years ago we started to exclude extreme small growth companies from this portfolio, ones that we noticed had very high negative alpha and so this profitability research allowed us in that area really just to refine our definition of those securities that we exclude and so that is now done in a kind of a more precise manner but not something that is necessary when to change the characteristics of the portfolio or frankly not too much the expect return of the portfolio given we had already made that enhancement for the strategy a couple years ago. But that's at the high level but there's a little bit more details on that to get into if you'd like otherwise we can just turn to the performance take a look at that and if there's any questions back on that process I can certainly jump into that at slightly deeper level and there's simply pictures to show as well.

Gerard Cruz: Okay, sounds good. Ted Simpson: Then the last thing I'll mention up front but then hopefully just spend a couple of minutes at the end, I do know that interesting changes are being planned here at GGRF reading your notes. And that including I know that you've had I guess at least U.S. REIT exposure in the past but you're looking to go out to Global REIT exposure later in 2014 as well as expanding the fixed income areas in which you want to invest specifically on the Global REIT side of things and I discussed with Maggie just a couple weeks ago, and asked which would be appropriate obviously you are going to go through a open RFP process, etc. but I did include a couple of pages on the Global REIT strategy that Dimensional has been managing since 2008 so while of course we're very excited to participate in your open RFP process just that I would give you the opportunity to learn a little bit about us since I'm here with you today.

So with that lets turn over to the account review section, you can see in there my apologies when I had finished up this book back before taking a little vacation I only did it up through December and I didn't actual capture all the different periods that you'd ask for but if you all see there is an individual sheet hopefully in each and everyone of yours and that really covers the period that GGRF has asked for. And so if you look here in general I would say just like 2012, 2013 was another positive year from an absolute sense. A very positive year for international small cap equities, you can see depending on how you slice it, whether it's kind of the 1 year ending September 2013, frankly pretty similar to the calendar year 2013, over 27% for the Dimensional's portfolio we run for you there and you can see that is a couple hundred basis points, a little more than 200 basis points over the benchmark which is that first the most kind of relevant benchmark is that first line, first line the World Ex U.S. Small Cap net dividends benchmark price only is the one we just include because it goes back further but you can see a couple hundred basis points over the benchmark in performance for the year ended for the 12 months ended September of 2013 as well as the calendar year 2013.

Year to date through January, you can see here that got out to a bit of a rocky start that you're probably pretty familiar, pretty aware of. What you don't have on your page though is where things have gone in the year to date through February month to date is actually up 5% for the portfolio which is a couple dozen basis points over the benchmark. So the year to date through I think yesterday or whatever that is but based on the backward they had already it's up about 3%, 3½ % for the year so far, so that would continue for the next 10 months, then we'll have another great year we'll see as you guys probably would remember that Dimensional one of our approach is to investing to try to add value versus benchmark versus the asset class but not necessarily predicting where things are going to go and not forecasting. In terms of where did that couple hundred basis points of outperformance come from over the past year, this past if I'm looking here my best kind of attributions are for the calendar year 2013, quite a bit of it came from REITs and REITs what I mean by REITs is for Dimensional the exclusion of REITs. Again back in another part of the book a reminder of Dimensional's process which is in part to refine the asset class, refine the initial universe that we are considering investing in and those refinements being in part to remove securities we believe will be a drag in performance, in part to remove securities that we believe don't represent the asset class and so REITs fall primarily in that second bucket. We believe that having non U.S. REIT exposure is a great thing for portfolios as you guys are considering going into in right now but not necessarily in your equity strategy that we manage for you.

And so to the extent that you are going to add non U.S. REITs, you should be aware and confident that Dimensional is not going to be kind of double counting that for you. Wilfred Leon Guerrero: This my understanding correctly, you make most of the money from Global REITs? Ted Simpson: No the exclusion, we cut them out and so about half of the out performance this past year was for this strategy was taking REITs out. Wilfred Leon Guerrero: Okay, I just... Ted Simpson: Yeah, sorry about that, thank you for the clarification. Wilfred Leon Guerrero: I just misunderstood. Ted Simpson: Not quite that much but we also exclude investment companies of all types so there's a certain type of investment company called PFIC's. They are mainly in Canada a lot of mining company's things like that and so we had to take those out and that actually added about about 80 basis points for the year as well. And then one of the interesting things, these small growth exclusions that I alluded to added about 40 basis points this past year as well which is in the range of what we expected to do kind of on an average year. And again that's the exclusion we've been doing for a couple of years we're finding this profitability research that we just brought into all of our strategies. So and then I guess I would say you've heard me say before and I don't know if any of the other managers international equity managers are kind of Comingle managers but you may have heard me talk about a fair value adjustment and it turns out that in for the calendar year 2013 we outperformed by what a almost 190 basis points, it would have actually been 50 basis points more if we had not fair value adjusted that down by about 50 basis points. So that's something that just washes out, it's just a very time specific thing based on how we try to adjust the pricing of our portfolio to make sure that other investors in it don't gain it and negatively impact you as long term investors.

David O'Brien: So the exclusions already in the index that's what you're... Ted Simpson: Versus the index. Exclusions are in the index exactly they are, but that's what Dimensional starts with well we don't even start with the index, we start with the entire asset class on many case in specifically for this small cap it's important because we go down a fourth of 50 million dollars which is well below the index. But then once we take that initial universe then we go through and toss things out and we toss out typically a third maybe 40 and sometimes up to 50% of what's there. Some of the reasons we toss things out obviously are REITs investment companies that impacted things this year. Other things we toss out would exclude securities that are in play from a merger and acquisition stand point could be a small French company that's going to get bought by a large American company. We don't want to its either going to trade like cash until the deal closes or it's going to trade like the large American company, we will definitely not buy anymore of those we'll toss those out from the buyouts things like that, things that we think we don't buy out P.O.'s things like that. So and then it's hard to get a good kind of measurement on it but I do know and in certain our exposure in the United Kingdom actually helped the overexposure I should say in the UK this past year helped one of the reasons we were holding more in the UK is because we don't have a bias towards any particular country that was because of some positive momentum associated with some of those securities. So again that's another screen that we put on the portfolio that I described in the past at least in that particular area that caused us to have a some maybe better performing securities in the UK and ones that may even be a little bit above our size range but are continuing to do well and we hold them if they continue to do well.

David O'Brien: Do you current see hedges? Ted Simpson: This is not hedged. As a firm we...I'm sorry. Wilfred Leon Guerrero: There's a difference in the figure between yours and Maggie's. Diana Bernardo: It's the 3.2 million in dividends. Ted Simpson: In terms of the performance or in terms of the value? Diana Bernardo: The difference between your number and Maggie's 80 is the 3.2 million. Wilfred Leon Guerrero: There's about 7 million dollar difference. Ted Simpson: Oh, well I have different dates for you if... Antolina Leon Guerrero: Diane is going to explain it to him. Wilfred Leon Guerrero: I just... You took up... that was a withdrawal. Ted Simpson: I have a number as of yesterday it's 83.7. Wilfred Leon Guerrero: Maggie's number is 73. Maggie Ralbovsky:

This is February 21. Wilfred Leon Guerrero: Okay. Paula Blas: Are you good? Wilfred Leon Guerrero: I don't know why, can we just have the... Maggie Ralbovsky: Chairman this is February 21. This is December 31. Wilfred Leon Guerrero: No, look this thing says December 31st 2013. This thing says December 31st 2013. Paula Blas: And the numbers are... Diana Bernardo: It's the 3.2. Ted Simpson: Oh is it ex dividend? Diana Bernardo: No, your report says it's not a dividend. Ted Simpson: Yeah. Diana Bernardo: So the 8, Dr. LG, the 8846 this number here plus the 3.2 million in dividends gives you Maggie's number of 84108. Wilfred Leon Guerrero: This one? Diana Bernardo: Maggie, it's on your page 25. Maggie Ralbovsky: Yeah our numbers came from Northern Trust, so if you have that account... So does dividend get sweeped out? So did it get sweep out? Rosalia Bordallo: Gets swept out after the end of the month, so it should be included as of December 31st. Maggie Ralbovsky: Right. So does your number include dividends? Diana Bernardo: No. Rosalia Bordallo: No. Ted Simpson: No but... Maggie Ralbovsky: Our numbers does. There's the difference. Ted Simpson: Okay, but I'm happy to reconcile with you I'll find out if there's any concerns. Rosalia Bordallo: Right. As of December 31st it's there and there and then it comes out like around the 5th of January. Ted Simpson: Yeah it's just the timing and the end of the year. So, that I was just talking about performance I don't know if you have any more questions about...

David O'Brien: I was just curious on currency hedge. Ted Simpson: Oh currency yes, thank you for reminding me. So Dimensional's approach to currency hedging for our international equity portfolio including this one is to not hedge. Our approach has been for global fixed income investment is to hedge typically for our Comingles. We actually have on the well actually both the fixed income and the equity side of things introduced and what we call selectively hedged strategies, and if all you want to know about this strategy, the answer is we don't hedge but our approach to hedging is actually got a little more new in the last couple of years where we do have an approach to kind of a almost kind of taking advantage of the carry trade by depending on the relative interest rates and different countries to either hedge or not hedge back to U.S. dollars. So that was kind of an overview of where the performance kind of came from for the past year. Certainly hope for another year that was as nice as that one and then like I said there are details about you know kind of the process in general, the specifics around that kind of profitability implementation back in some of the earlier pages but if there's no questions about any of that I may just turn it over to the REIT tab here that I included and maybe just tell a little bit about kind of mention to you about Dimensional review about REIT investing. Great.

So you can see there's the global REIT tab there the second to last and Dimensional has been doing REITs investing since 1993. We did start with a non U.S. REITs strategy in 2007 while 1993 was one of the first REITs strategies out there. 2007 we didn't necessarily jump into it as quickly as some countries had REIT structures but frankly before that time frame when kind of U.K. and Germany came on line got more robust it was really kind of an Australian Canada only kind of universe out there so once as you remember from Dimensional's point of view, we're always looking for a broadly diversified approach to whatever asset class it is. We felt that once these other countries kind of came on line it was an appropriate time for us to jump in and do a non U.S. REIT investing and then in 2008 we launched a global REIT strategy which combines our U.S. and non U.S. strategies. Maggie I don't think I asked you about this before but when

GGRF was looking at a kind of global REIT investing is that to do a kind of a non U.S. dedicated alongside existing U.S. or to go for something that's global?

Maggie Ralbovsky: I believe the goal is to go global. Ted Simpson: Okay. Which is what I put in here? So the fact is that Dimensional does have the U.S. the non U.S. and then the global the details what I put in here is the global approach. And so one thing I would say about Dimensional's view on REIT investing you know we don't include REITs on our equity strategies because we believe that there really kind of not part of asset class and then when it comes to REIT investing we are also want to make sure that we if the goal of REIT investing is to potentially get extra return but also in our view most importantly probably to provide diversification, we also want to have a pure exposure to the REIT asset class. So one thing that you'll see that Dimensional does we do have exclusions to our REIT strategies on page 37 in this book I list a handful of these exclusions. Probably the biggest and most important one is going to be this no property companies sometimes known as REOCS and those are allowed into the index, into the benchmark I should say one of the more common narrate benchmark. Have you guys had any discussion yet around what benchmark you might be using for and do you know what you use for even kind of U.S. REIT exposure now, is it one that I guess I can look into it further myself if it's probably on your site. The point I'm trying to make there is that Dimensional does not include real estate operating companies and we also have other exclusions, you know things like prison REITs, mortgage REITs is probably one that most benchmarks are excluding as well.

We also make some other exclusions that we do on equities that you can see here on the 2nd column as well as we have a strong focus on trading and very patient trading which is something we can do based on the fact that we are delivering a broadly diversified approach that doesn't necessarily fall in love with owning more of any given particular security on any particular day. Except from that perspective we don't have to pay out to gain liquidity instead we actually are often a liquidity provider. So, but with that you can see some of the characteristics of our strategy on page 38. You can see a very broad number of holdings, 351 holdings thére and you can see the very high dividend ratio. The benchmark we use here is the S&P Global REIT index it also excludes REOCS so it actually has a fairly high dividend ratio as well some of the other benchmarks include the operating companies don't have as high a dividend ratio. But, I'm definitely bouncing around here, maybe one page I'll kind of focus on before I kind of wrapping up on this but if you flip back to page 36, this kind of sums up a lot of what Dimensional is looking to provide here. Better diversification, it does turn when I had someone put together these materials turns out that they included the details of our non U.S. REITs strategy was the global REITs strategy here on this page but better diversification the non U.S. REITs strategy has over 225 securities, the global has over 350 securities versus kind of a Morningstar global REITs peer group of a median of 120. What were costs where our non REITs strategy has a total expense ratio of 41 basis points, our global REITs strategy of 32 basis points versus an average here? Again, mutual funds been on average of nearly 1½% and then very low turnover which is part of our focus on keeping transaction cost down. So that's kind of the net you can see and also the performance back in the last page or second to last page to this tab. You know their performance is going to be pretty close in line with the S&P Global REIT index but it has you can see over periods like 5 years and has outperformed netted fees by 90 basis points and then over 1% since its inception. So, thank you for indulging me, let me tell you more about our approach to REITs and certainly as I mentioned looked forward very much to participating in your RFP for that when it comes out later this year. Wilfred Leon Guerrero: Okay. Ted Simpson: So I don't know if there's any questions on any of that or it was thankfully and knock on glass or wood here another good year for the strategy. David O'Brien: When the performance is good the questions are ...

Ted Simpson: Well exactly all I'll say is if I have to come back next year and the performance isn't quite as good, let's remember this moment. And I even brought, I wouldn't be a Dimensional person if I didn't bring on some white papers, some of these more easy to read some less, but you know some of our recent ones you may have I think I sent at least to Diane, to Paula, but and then also a couple that are kind of focused on real estate investing as well as fixed income investing. I don't think we're necessarily going to be at least the way you guys are, looks like the direction you are going in your fixed income investing we're going to have anything that's kind of fits the buckets you're looking for but we think we have a pretty interesting approach to fixed income investing in a couple white papers in here. David O'Brien: Those are on your website? Ted Simpson: They are on our website for sure. Some of them are actually on our password protected website. So I would be happy to make sure, I don't know if you are set up on that yet if I can grab your email address, I don't know if you have a card, I'll make sure you're set up for that. James Duenas: Question, with all of your year to date in 4th quarter numbers, how do they compare to the benchmark? Ted Simpson: So, oh you mean the year what's on the page or the new stuff I mentioned to you? James Duenas: What's on the page. Ted Simpson: So year to date well through January you can see we're 4 basis points under what we consider to be the most appropriate benchmark which is that line right below, 173. But for the year through September 243 basis points above the 4th quarter of 2013, 121 basis points above. So for the full year its 189 basis points above. You're welcome to have all of it and then you can see I wrote what's as of you know the market close I think yesterday, the stuff I wrote on the upper left hand corner. Wilfred Leon Guerrero: Ted, Thank you. Ted Simpson: Yeah well thank you again for the relationship, for another great year and certainly, I'm sorry... Rosalia Bordallo: Thank the market for a good year. Can't thank us for that. Ted Simpson: Well in terms of our relationship we certainly started with a lot less and we definitely appreciate it, this is a very big and important relationship for us. So I was excited of my chance to come back out here and hopefully maybe come back out here later in the year, if you want to talk to us about REITs. I'd love to come back here to check out Guam. David O'Brien: Where are you coming from? Ted Simpson: I'm coming in from Los Angeles. Maggie Ralbovsky: Same building. Ted Simpson: Yeah, same building I'm coming from the 5th floor, she comes from the 7th floor.

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