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Paula M. Blas
Director

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

February 27, 2014
Retirement Fund Conference Room

Board of Trustees Present:
Joe T. San Agustin, Chairman, Board of Trustees
Wilfred P. Leon Guerrero, Chairman, Investment Committee
Gerard A. Cruz, Trustee
James R.F. Duenas, Trustee
Antolina S. Leon Guerrero, Trustee
David M. O'Brien, Trustee

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

Investment Consultant Present:
Maggie Ralbovsky, Wilshire Associates

Other Present:
Read Williamson, Fisher Investments
Alysia Wurst, Earnest Partners

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Fisher Investments

Read Williamson: It's my understanding that you guys basically have a couple of days of these meetings. I will try to answer as many of your questions as possible. I thought I would begin, I know you've seen this book from us. Wilfred Leon Guerrero: Let me share the responsibility here that we would like for you to assure us that the company does not have any regulatory issues. Read Williamson: No regulatory issues. Wilfred Leon Guerrero: We like to know if there are any major changes in the organization. Read Williamson: That is what I will start with. No, we did not have any major changes at all. Andrew Tuful was a member of the Investment Policy Committee when I was here last year we spoke about him leaving, and that was effective back in June. We knew of that in January of last year he has left the firm, but the other four members of the Investment Policy members remain. We haven't added anyone to take his place and at this point we don't have any intention of doing so. Senior Management of Fisher may decide to add somebody at some point, but at this point that has not been mentioned. This picture I was going to point out is a change, but it is not anything from an investment standpoint. What I was going to point out is that you are probably familiar with this picture at the very front. This picture from the beginning is a picture of Woodside. That picture has been in this book for a number of years. This bottom picture of San Mateo, California has also been around for quite some time. It was about last year or a little before last year that they added Camas. We have been up there for about five years now, but we finally built up that building. The new and interesting picture is the new Fisher Investments Europe Office that we now have in London that is a new physical office that we have at this point and that we have changed, although it has not affected the portfolio and management of course. Just for a quick firm update we have over $53 billion under management at this point. Just the Institutional Group itself is just over $24 billion of that. So it's 40-45% of the businesses in the Institutional Group. The strategy that we are working for you is just over $2.8 billion at this point. At the end of the year, we had 29 Research Analysts and we had seven Traders and that is an increase from last year. I think it was two Traders and a hand full of Research Analysts from this time last year. So we improved in those areas, but a little bit as well. In just generally what we saw as far as in interest and searches last year, Emerging Markets was still by far the farthest search that we saw. We saw over 42 that was about $5.5 billion and the second largest was Global Foreign return which was about 16 so you could see the difference there that's 42 to 16 and that was only about $800 Million. So, Emerging Market was far away the biggest interest that we saw last year coming from investors.

Read Williamson: Just to bring up the performance from last year – first of all this goes through January of this year so we included that little correction, not even a full correction about the down turn we saw in January. We lagged a little bit it was down about 4.5% whereas the market was down 4%. But, since that correction or down turn ended, we've seen - I have the numbers in here, but I believe we were actually positive in beating the benchmark through last week. So, we saw that turn around quite a bit. That wasn't anything we were particularly concerned about. For the fourth quarter of last year, we're basically flat on our net basis. We outperformed by 20 basis points gross and for the full year we outperformed by 1.2% gross or 50 basis points net. I know you guys have a fiscal year that is from October or fourth quarter through third quarter and over that time period we outperformed gross by 110 basis points, 1.1% or after fees which will be 60 basis points. So annualized we have outperformed about 1% a year on gross basis since you guys hired us. The next page is just kind of a composite – just there for informational purposes primarily, we still have a pretty long track record in this strategy. Before I go into some of the attribution we'll talk about what we actually saw happening last year. Fourth quarter is in here – I'm just going to touch on it at high level.

Read Williamson: I'm going to spend more energy speaking about the full year. Because what we had last year was basically our mac reviews were big contributors of the portfolio. We got the mac reviews quite right. Our stock picking was pretty much in line. It really didn't contribute a whole lot, it really didn't detract a whole lot. It was pretty much in line. It contributed just slightly for the year. But, our mac reviews – if you remember, we were positioned – we hadn't changed our positioning much. We believe that we were moving into the back half or we were in the back half of the bull market. So we had shifted quite a bit the year before into very large mega cap type, very large company names, more growthy in nature from a stock perspective. And what we were focusing on is primarily on quality of earnings, by that I mean consistent diversified earnings streams. We also looked for your biggest and strongest companies out there and basically that hasn't really changed that much we thought that was what you seen in the back half of the bull market. Unfortunately, from one stand point Small Cap outperformed first three quarters of the year and these larger companies started performing on the fourth quarter. On one hand that didn't help us out a whole lot from stock selection standpoint since we were bigger and smaller companies outperformed. On the other hand, it also means that you will probably see the bull market lasting longer than we initially thought. It will probably continue for quite some time until we do see that rotation. So we're very consistent in our beliefs. You probably will not see us changing too much in the portfolio.

Read Williamson: I will speak more specifically about little bit of repositioning we've done. But just to give you an example of kind of the top down thing, you can look at the fourth quarter attribution where our country selection and sector selection were both very positive, with one exception, Telecom. I'll explain that one when we talk about the whole year because that was consistent throughout the year. But our biggest overweight in our portfolio is Germany that contributed quite a bit - about 66 basis points. Our biggest under weight were Japan and Australia both of those contributed as well. So, between those three names our biggest overweight and too small to biggest under weight that contributed about a forth and quarter to the overall portfolio. Sector selection, again for the most part we were very accurate. Our overweight and underweight helped us over neutral. The one detractor there was Telecom Services and that was basically 32 basis points. Our second biggest detractor was actually having 2% in cash and that detracted about 15 basis points in a row. The reason this was only a slight positive is because that took off almost a half percent right there those two areas and then again stock selection - primarily we were hurt of course there were names that were very specific company issues. But the fact that a lot of the smaller companies outperformed and we were selecting larger companies that didn't detract. In this case, the set of net negative – it's very slight, it was only about 15 basis points or so. So overall we outperformed by 20 basis points for the quarter. The three names that really detracted and it was almost 60 basis points for an information technology company called ASML - they're out of the Netherlands. There was LVMH, they're Louis Vuitton basically they reported that 50% of their earnings come from the sale of those handbags and that was slowing pretty significantly and then a technology company called Technip - they were French. They're also another energy company they detracted as well those were all very specific company issues. That's where the majority of the distraction of the portfolio came from, from a selection standpoint. So I'll take a step back and kind of review the attribution for the entire year which is very similar to this, but what it amounted to basically was that our top down decision truly drove the portfolio for the year. So our country selection was net positive. Again, you look at some of our overweight's, primarily Germany our biggest overweight, contributed the most. Australia, which is nothing against Australia, but they're heavily weighted toward materials and that is one of our biggest underweights. So just by default, were underweight Australia and that actually helped us out. Maggie Ralbovsky: Read, I do not understand why South Korea and Taiwan will be considered detraction because the index does not have those countries. Read Williamson: They're detractors. Maggie Ralbovsky: They're detractors because you added them. Read Williamson: Yes. Maggie Ralbovsky: And they underperformed the index, okay. Read Williamson: Correct. Maggie Ralbovsky: Okay, I see. Read Williamson: Correct, I'm sorry. Maggie Ralbovsky: Because it is negative positive. Mr. Williamson: Right. The ones that are moving to the left are the detractors. So, Japan for instance, that's something we spoke about quite a bit this time last year because I remember there was a question is it going to one twenty on the yen. So I kind of remember all this, but for the year Japan had that mighty big burst and we feel that settlement driven at the beginning of the year, but in the fourth quarter our underweight actually helped us out being underweight Japan underperformed and we expect that to continue. To be more specific, South Korea for instance, we believe that we like Samsung and that is one reason that we have South Korea in the portfolio. It's a very small weight in, but they had very hectic growth in the second quarter it was only about 2.2% year over year. We saw that increase they reported in the fourth quarter, but in the third quarter it was up to 3.3% year over year so we felt like it was moving in the right direction. But, being in Taiwan and South Korea that is more of a stock-picking residual. So, because of our technology overweight, we like Samsung and that puts us in South Korea.

Read Williamson: In simile with sector selection, our biggest three overweight's are in order – Information Technology, Discretionary, and Health Care. All three of those overweight's contributed similarly we're underweight materials – utilities and energy. That selection itself actually contributed most to this portfolio this year giving to the right sectors. Our financials, we were underweight that hurt us we've slowly been increasing over the course of the year particularly in the back half. We're expecting to see the yield curve steepened and that should help banks. So that's one reason we are actually not as underweight as we were at the beginning of the year. It's a slow adjustment we've been making. Telecom Services is the notable detractor here. And, I'll give you the high level reason why we were a little bit bearish on Telecom. First of all, we believe that we could continue to see the bull market run and just from a similar prospective Telecom tends to be more defensive in nature and they usually don't do as well in the back half of the market. You also have highly politicized regulatory issues that can create uncertainty with Telecom and most investors don't like that especially when they're searching out quality as we expect them to do and you can see their earnings and everything are well but, there's also a lot of uncertainty around them and primarily it's a highly saturated developed market area. If you look at Europe, Asia, developed Asia, and the U.S. the market saturation is 100 or even higher than 100% in some cases. So, we don't like it for these reasons. Now what that kind of blinded us to in the same time was the MNA activity that took place last year and a lot of speculation. So, Japan Telecom was up 80%, really driven by one company which is a strange name for a Telecom but it's called Soft Bank and they were up 120% last year. Another big one was the U.K.

there was a speculation which actually just finally took place about a week ago that Verizon was going to do a deal with them and take back their share in Verizon Telecom I forgot their subsidiary, but Verizon was going to buy it back. That happened last week. It caused a big special dividend, big boom for Voda Fone, but also in Germany, even in Greece and the Netherlands we were up between 30 to 60% in all these areas and we were basically at fourth quarter we were naked in this area. It's about 5.5% weighting to the benchmark on an annualized basis. If you look at the whole year, our weighting was about 2% to 2.15%. So, we were significantly underweight and this area really did well. Stayed well while we were underweight the mergers in that acquisition blinded us to some positives that was going on and that hurt us quite a bit. So that was the big detractor really from the portfolio for the year overall.

Wilfred Leon Guerrero: Read, what is the size of the portfolio as of December 31st, 2013? Read Williamson: Right here. Wilfred Leon Guerrero: That's January. Read Williamson: Oh, you know what, that is through January. You know what, I am not sure if I know that I updated it through January but I don't have it. No, you're right, that would be through January 31st that was added performance. I do not have that number with me. I will have to send that to you because I only updated it through January. Wilfred Leon Guerrero: Okay, I am having trouble following these numbers and I think the problem is I don't know where we're getting these figures. Okay, go ahead, I'm sorry. Read Williamson: No, it's alright. Can I see if maybe I can explain. Wilfred Leon Guerrero: It's not just the portfolio. I'm trying to follow Wilshire and yours to see whether the figures are the same, that's what I'm doing. But, I can't do it, what they have is December 31st. Read Williamson: Right, no I understand. So, we lost 4.7% in January so with Wilshire, Wilshire's number should show. Wilfred Leon Guerrero: Well they don't have it. They don't have January figures.

Diana Bernardo: Dr. LG, basically the 69,711 number for January it is close to our number of 69,714 for January although Wilshire does not show it. So it is close. Wilfred Leon Guerrero: So you're not getting yours from Wilshire, right? You're just. Diana Bernardo: No, we're getting it from Northern and they are as well. Paula Blas: They get it from Northern, also. Read Williamson: I apologize for this and the reason I had this number is just because it is the end of February and so I was kind of thinking I give you through that portion. Wilfred Leon Guerrero: No, and I appreciate that. Read Williamson: I'll make a note to myself that next year we'll have both numbers in there. The most recent as well as the year end. Wilfred Leon Guerrero: Your thinking is right. I'm much more interested in what it is now as opposed to what it was in December. Read Williamson: Right, these are the numbers that you want to review and I understand that and I'll just have to make note that I should show both numbers for instance. Wilfred Leon Guerrero: You're starting off in the negative way. You see this in the hole with the Emerging Market. You're starting off the quarter negatively. Read Williamson: Through last week, we were actually positive again. So, in January there was concern about primarily there was a Turkish kind of issue. It has some fear throughout the market and we saw probably 5 or 6% move in the market to the down side in a matter of about a week and a half or so. And, basically we moved right past that and the markets had moved up significantly. So, as of about last week we were roughly flat, but we were up the market a little bit. It's been pretty volatile two months we saw basically a bounce. That actually kind of leads me to where I was going to go. I was going to speak about the positioning of the portfolio a little bit more about some of our overweight's and underweight's. But, our outlook for the year, just like last year, we believe that we are going to see an up year meaning better than 20% move higher in the market, broad base. That is based on the fact that, first of all the fund...

Maggie Ralbovsky: Might be calling the recess 20% year. Read Williamson: Well, we said that last year and no one seemed to believe us either. And that is one of the reasons is there's so many skeptics. Wilfred Leon Guerrero: The Feds reducing their... Read Williamson: We see that as an incredible positive. Wilfred Leon Guerrero: Really? Read Williamson: Yes, and we're a little bit – it's not always good to be contrarian, but we are a little bit contrarian in this regard. We have actually been looking forward to reducing or tapering and ending quantitative easing as quickly as possible because what that had the effect of doing is flattening the yield curves. So, banks would basically start lending more if they had more incentive by a steeper yield curves and we actually believe that would be one of the big drivers this year. You'll start to see the yield curve resume and banks pick up their lending. Wilfred Leon Guerrero: Very interesting. Read Williamson: And that is one of the big - basically we wanted them to end this for over a year now. We believe that the first quantitative easing was necessary because basically everything was frozen. There was no glossy of money. Wilfred Leon Guerrero: I thought for sure that the reason why you were starting off negative is because of this tapering of... Read Williamson: Well not really. Because what happened when quantitative easing was announced, when in, may be in December or early part of December, a little bit sooner than we actually thought, because your Yale and Patten made the transition, we didn't think it would be one of Bernanke's last moves. But, when you actually saw that announcement, the market took off and I think everyone was anticipating it. There had been a couple of scares about interest rates moving higher and so you saw the financials and some other areas that our interest rate since initially got some vibrations even last April or so when you first started thinking about the taper. But, we're actually big fans of seeing quantitative easing end and we think that it had the effect of basically flattening the yield curve overall and deincentivising the banks lend. Most of their excess reserve have been sitting on a Fed balance sheet collecting 25 basis points and, if they don't have the incentive to lend, then they can sit there and take that risk free money and not do the business of banking itself. So, that's actually one of the big drivers we see in the market this year. David O'Brien: You're talking domestically or internationally or both. Read Williamson: Internationally, if you look at like the U.K. ... David O'Brien: You're not talking domestically. Read Williamson: No, I am not speaking ... well it's rooted domestically, but U.K. is a good example because they ended their quantitative easing at the November of 2012 and you immediately saw a reacceleration. They've seen their market do extremely well last year and they've also had a falling on employment. U.K. did very well last year and we think it's because they ended their program in November of 2012.

David O'Brien: Because what I had thought or what I had heard was young is obviously U.S. quantitative easing so I'm sure it has some affect into Europe. But, I had heard that one of the potential drivers particularly in Europe was going to be in ECB diving more into the stimulus. Read Williamson: The European Parliamentary Elections are coming up in May and another thing that we like about this year and this is speaking domestically but I'll extend it outward is that we like the political grid lock more than most. David O'Brien: It works, less legislation. Read Williamson: That's exactly right, it's less legislation. You're not going to get a whole lot of ... even Star Vince Oxley and things like that were passed not to the great benefit of the business environment. And so, you have that here the biggest news that scare people a few years ago like debt ceiling and all that has already been resolved. We just kind of expect not much to happen in the U.S. at all. We've got the same type of election that's going to happen with the European Parliament in I believe it's May. There are 266 members from 28 countries, dozens of parties. The bottom 12% are kind of labeled Euro skeptics and there's increasing skepticism about the Euro itself and we think that coming up in this election, you'll actually see that number pick up. And so you should have less uniformity and more grid lock coming out of Europe as well. The only place that political grid lock is probably a bad thing in our mind is in Japan where you can't get the structural reforms needed to get things done. This is one of the main reasons abenomics we didn't believe you could deflate your way out of the problem. They did see an increase in export but not in volumes. So, they made more money on it, but their volume did not pick up a whole lot and then of course they've got significant energy problems and there's where most of their CPIs are coming from. So, that's just... David O'Brien: But political grid lock in Europe is not going to give you a 20% return. There's obviously more behind it... Read Williamson: Oh, absolutely. We're not basing it all on that. David O'Brien: You're right, I assume you're not, but the other thing is the ECB who are political, but not subject to grid lock. You know I thought they were very stimulus oriented and you guys seem to be taking the other tack. Stimulus is bad, but ECB is pro stimulus, that's what I guess. Read Williamson: I understand and ECB is pro stimulus right now and it'll probably not continue for long they are recovering on their own. You've already seen what Ireland has come out of their... David O'Brien: Ireland has done well. Read Williamson: Yes, in the fourth quarter France performed very badly. We saw the contraction in the third quarter, but leading economic indicators were positive on a trend for France also in Germany also in Spain for that matter. So, you're seeing improvement coming out Europe without any additional stimulus. You'll probably maintain - it could decrease going forward. That's a very small portion of our forecast overall. What we really think is that right now what you're seeing is that revenues will continue to improve we believe that. You'll see profit margins improve, or not profit margins, they should maintain, be healthy. But, revenue and earnings should continue to improve even if it is at a slower pace. What we see from a sentiment prospective out there and we do this every year. This is one of Ken Fisher's early kind of initiatives was what we do is we sentiment a bell curve. We look at all the basically the forecasted returns for the year and we do a bell curve and just like last year what we see is that most investors are going to come up money managers out there, institutional investors believe that you'll see kind of a mid single digit returns for the year. To us that implies that you're either going to have a much better year than that or a much worse year than that. And, well we are not ruling out that it could be a - basically we would say it's either going to be up a whole lot or it's not going to be a good year at all and we think that all the other data supporting that actually leads us to the saga that it's going to surprise to the upside just like it did last year.

David O'Brien: This is Euro Center, right. But even within Europe its country specific right because you're underweighted in number, like France. Read Williamson: We're overweight France. It hurt us. Look at countries on Page 16. See we've basically withdrawn France just 20 basis points overweight. David O'Brien: Still a Euro Century if you will in terms of these returns right. Black is overweight. Read Williamson: Black is overweight. So, it just depends. In this case, most of our positioning right now the countries are almost a residual of our sector positioning and thoughts that we want to be bigger and growthier. We like technology, we like healthcare and we like discretionary. So I mean a lot of this is a residual of that kind of thing. David O'Brien: So it's not so much country as it is... Read Williamson:

Precisely, you know and sometimes countries drive our bigger regions. A few years ago and we are still overweight U.S. If you look at ACWI base portfolio, we're overweight the U.S., we're currently underweight emerging markets as we were overweight a few years ago. We're still optimistic about specific emerging markets but as a whole... David O'Brien: The ones that are not emerging any more like Korea. Read Williamson: Right, and again our biggest underweight is Japan, but we still like most of Asia.

Wilfred Leon Guerrero: Okay, what does that mean Japan -10.6%? Read Williamson: If you look on the far right side, you'll see the 20.9%. That's the benchmark, the MSCI EAFE. Wilfred Leon Guerrero: Okay. David O'Brien: Here's where we are right next. Read Williamson: You're weighting, we only have 10% in the portfolio. So, it's about a 10% underweight against the picture. It's a relative... Wilfred Leon Guerrero: You put quite a bit of money though in Japan. Read Williamson: Well, it's such a big economy, you can't ignore it. That will be a tremendous benchmark risk. I mean if that makes sense. You know if we were wrong, we know... Wilfred Leon Guerrero: I'm listening to you and you're saying Japan is... forget about Japan. Read Williamson: Well, you can't forget about the entire country because it is such a big component of the benchmark and if we were wrong, and we can be wrong, there's no doubt. If something happens very positive in Japan and it's a surprise and we have no exposure there and its 20% of the benchmark, we're going to look... David O'Brien: Poor. Read Williamson: Yes, and so you know it's a significant underweight but we definitely have to have exposure to Japan, it's one of the largest economies. Wilfred Leon Guerrero: Yah, I understand, 10%. David O'Brien: We already got plenty of exposure to Japan generally. Wilfred Leon Guerrero: That's what I mean. David O'Brien: We don't need them to have even more. Wilfred Leon Guerrero: That's what I mean. I think he's putting too much money in Japan. Read Williamson: Well ... Maggie Ralbovsky: It's a 21% country in the index so you can't use only half there. Read Williamson: And last year, you know it started off very well and having underweight hurt us and it would have hurt us even more. But, in the fourth quarter, it actually performed very poorly and so having less exposure actually contributed to it. Wilfred Leon Guerrero: Those numbers from Japan have been decreasing. Read Williamson: Right and we don't really expect it to turn around, but again you know there's a lot of specific names involved in Japan that we might like so we won't have just from a stock selection stand point. There are maybe one or two companies that we want to own despite what's going on from a national standpoint.

David O'Brien: Can you go on your sectors if you're driven as much by sectors as you were saying, which is the next page, right. Read Williamson: Right. David O'Brien: When you say IT, what side? Are you looking at the software or are you looking at ciscoes? You're looking at ... Read Williamson: Our biggest overweight is in semiconductors and the industries are right below that and so what I can tell you about that is ... What is really the themes are around investment technology is first of all we like the big stable earnings growthy companies, these sectors full of them and they're a lot of them there that we want to invest in. We're expecting to see spending on information technology increase globally 5% next year. And, what we primarily like in this space - that's going to be driven a lot by enterprise spending, but also what we like in there particularly is mobile and cloud computing and so these are areas of growth that we find that we like and this is basically is what's driving our over weights technology. Consumer discretionary similar in nature and that we expect to see this steepening yield curve particularly in the U.S., but like you saw in the U.K. as well. That should drive it quite a bit, but also emerging markets discretionary has been increasing and so this is an area as well that we like and it's also a big diversified names. And then finally, healthcare – when I say healthcare, what we're really talking about here is pharmaceuticals. This is the area that we like the most and I think it's our third base – it's the biggest industry we have with 14% exposure there. David O'Brien: Is this kind of a global view for you guys. Not just international. Read Williamson: No, it's global, but it applies equally. You know most companies like Bayer was one of the best performers in the fourth quarter – they're German. You know these companies are big internationally. The reason we like these guys not only that they're big and high quality, but for instance, between 2010 and 2013, we saw about $65 Billion in patents expire and between 2014 and 2020 that number should fall to about $41 Billion so you can see decrease in patent expirations. Of course that's widely recognized by everyone and you will also see what the companies are doing to remedy that, they're increasing their pipeline production and research. They've been doing a lot of MNA activities. They have been making up some of the differences through licensing agreements. So, the industry is kind of prepared for that. We see that along with the fact that these are big solid companies that people recognize and like to invest in as a good reason to be investing in pharmaceuticals plus you're seeing increasing as emerging markets grow the availability to pharmaceuticals continues to grow and grow and grow. So these are all combined against all these three big overweight's.

Read Williamson: Conversely, our financials as I mentioned is... David O'Brien: That's the one that surprised me because you were a little bit below just a minute ago. Read Williamson: No, we're mobilish. We've been underweight financials much more substantially for the last several years. So we have been increasing our exposure. In fact the only buy we had in the fourth quarter was Lloyds of London and that is based on the U.K. recovery. So we've been gradually reducing our underweight I mean we're getting close to mutual we're 4% underweight, but it's 21% of the portfolio. And so we've been improving yield curve, but you still have to face a lot of capping of... European banks are still having to raise reserves basically, but the U.S. is already taking care of that – they need capital requirements is what I mean. The U.S. is already taking care of that, but in Europe they're still increasing their reserves to make up the Basle agreement and what not. They still have a big target on their banks just from a litigation stand point and other regulatory issues. They're not the most attractive area to be in, but we think that they will be improving in some underweight now, but have been increasing that. In Telecom I gave you the reasons that we're negative, but also we were wrong because there was a lot of the MNA and things that we overlooked last year. That's probably not going to persist and whether or not we're going to change that - I don't know in advance. I usually find out after the fact.

Maggie Ralbovsky: So what is going to happen to Japan? Like they tried, they made their best foot... Read Williamson: Well you know Abe still has some pretty solid backing right now. On a real basis or say an absolute basis, his support is very strong at this point. We have seen that whining slightly so it's on a downward trend even though on an absolute basis we're still high at this point. We think there's just too much political turn over there. You have aging demographics, you have low wages. Maggie Ralbovsky: Yeah, so this is your chart right. So on this trend there's a default on their debt. Read Williamson: They have very high deficits on debt. They're our biggest underweight. Like you said we are not big on Japan but there maybe a name or two that we like for specific companies because those companies are probably more global or less affected by the economy of Japan. Wilfred Leon Guerrero: Well, you know the island is connected very closely with Japan so we like to see them have a good economy, but... Read Williamson: Did you all get the white paper I sent last year? I only have I think one email address. I might have sent it to you as well. The white paper roughly a month or so after I visited. When I came here last year I did not really know anything about Guam and I found out – I stayed at the Hilton and it was almost all Japanese tourists and that's where I'm staying at the Hyatt right now and I flew back through Tokyo and so I was on a plane and everybody was going home and so I do understand why you're interested in Japan at this point. We're not bullish, we're definitely not bullish on Japan. Wilfred Leon Guerrero: I think you are, 10%. David O'Brien: Fair enough. Maggie Ralbovsky: This chart is so worrisome because he basically increased their holding by... page 30. Read Williamson: I specifically included a lot of this in Japan. Maggie Ralbovsky: So this says that he has no other, he cannot repeat this, he can not repeat this ... and given their debts outstanding you know that at some point they'll default on their debt. Read Williamson: We firmly believe that there needs to be some significant structural reform and we just don't believe he can get it done. There's just too many competing fractions there to get things done. Wilfred Leon Guerrero: I think last year we talked about the aging population that it's not that productive. Read Williamson: The aging demographic is one of the big concerns. You also have very low wages for instance and so your best and brightest may decide to leave. It's a problem these are real issues. David O'Brien: You're bearish on Japan, but bullish on the rest of Asia so you don't see any Japanese drag on South Korea or... Read Williamson: No, again South Korea is an emerging market so it's not part of the benchmark that - what do we have. I mean our... David O'Brien: What's there? Read Williamson: It may be just Samsung - may be our only exposure. David O'Brien: Just Samsung. Read Williamson: You know and again we like mobile and cloud computing so that's more of a technology decision. David O'Brien: That's okay, that's good enough. I don't need you to go into too much detail. I think you explained it. Read Williamson: Okay. South Korea so... Maggie Ralbovsky: So, like in Japan you hold Toyota, Nissan, Mitsubishi, these are like global companies. Read Williamson: That's how we're positioned. We're looking through the big global companies that are just solid. And, what happens in the back after the bull market is a lot of the retail investors. Another reason that we expect good things this year - you still haven't seen these bond funds - the retail investors that did a little bit last year but you haven't seen a significant flow of bond funds back in the equities. You know the retailers investors will be the last people to move back in. And typically they are not going to go straight to your emerging markets companies when they are still feeling a sting from five years ago. We even missed most of the bull market. They're going to go to these big solid companies that the names that they recognize and names that pay a good dividend and this is kind of what we feel where the back half of the market gets. So again, we said we'll be up more than 20% last year that was our forecast and everybody said the same thing... David O'Brien: Very brave. We can't even get a number out of Maggie so... Maggie Ralbovsky: I did say 10. Read Williamson: Well we don't have the number. We call it a whole lot and most of the investors out there that have stated forecast will say it comes in around mid single digits.

Wilfred Leon Guerrero: It's one of those things that if you're right we'll do well with the portfolio from you, but what that means is the economy of this island is not going to be that good. Read Williamson: Well, can't help much there. No, I... David O'Brien: 20% Europe. Same in the U.S. you see Europe outperforming... Read Williamson: Global is what I'm speaking. David O'Brien: I'm sorry, global. Do you see global outperforming ex U.S. or U.S. is in the same bag. Read Williamson: If you look at the ACWI portfolio not an EAFE portfolio we're probably still overweight U.S. David O'Brien: Still overweight, you said that earlier. Read Williamson: But that being said – when I said up a lot, we're talking about a global move. Emerging markets were certainly the detractor last year. You haven't seen a disbursion between developed markets and emerging markets that large since the Asian cotangent in 98. But even during the Asian cotangent if you'll remember the world markets were up by 22–23%. So, it was a volatile period for emerging markets, but it didn't diminish the returns of the globe. So, that doesn't have us very concerned either. I mean obviously, you know what we might be concerned about and that are things here - generally what you hear about on TV are stuff that have been hashed out over and over and everybody out there is thinking about it, so the likelihood of something surprising someone and causing a big shock to the market is usually pretty low. What we should say might be a probably unexpected issue that could cost problems might be a trade war between the U.S. and China if that kind of heated up for one reason or another. Something else that I read about and I don't know too much of the detail but our investment policy committee were saying if for some reason you saw a lot of government start to sell off their oil reserves because the prices were falling. If that happened in a quick fashion, it might cause some sort of disruption and I really don't have any details on that but that's something they mentioned. Although very unlikely in our opinion if you saw something like that, that could cause a disruption. Wilfred Leon Guerrero: Read, we're running out of time here. Read Williamson: Yes sir, I'm really done. Wilfred Leon Guerrero: I don't have anymore question, I don't know if anyone else... Maggie Ralbovsky: I'm good, thank you, very informative. Read Williamson: I appreciate you all inviting me in today and thank you for your time, I'm sorry I didn't have that year end number for you. Would you like me to email that in. Diana Bernardo: Sure you can go ahead and we'll just go over the numbers. Read Williamson: I understand that, I will email that. Anyone else like to see anything and I can send anything else you might want to see.

Earnest Partners

Wilfred Leon Guerrero: First of all were there any of the regulatory agencies that have issues with you? Alysia Wurst: Yes. Wilfred Leon Guerrero: And were there major changes in the organization? Alysia Wurst: Yeah, we can start there. Okay, so we'll start with just the firm overview and then I'll get to the regulatory when we get to our guidelines because that's how we're managing. Wilfred Leon Guerrero: Okay just as long as you follow the fiduciary responsibilities, we ask the questions. Alysia Wurst: Yeah absolutely and is there anything that we should be aware of changes that you are considering? Wilfred Leon Guerrero: Yeah, but Maggie is not letting us know until everybody leaves. Gerard Cruz: She lets us know 30 days before we actually... Wilfred Leon Guerrero: We're still on training wheels, no she's not allowing us to get on training wheels yet. Maggie Ralbovsky: Yeah right. Alysia Wurst: Okay let me know when you can. Wilfred Leon Guerrero: But I think it's safe to say it's probably going to be more an expansion in terms of opportunities the investment law that we have right now is very respected. Alysia Wurst: And it seemed very risk adverse and there were some issues with the bond investments that were expanded. Okay. So our firm by contrast is quite stable. We're very much the same firm with the same philosophy and the same management as we were a year ago.

Alysia Wurst: We continue to be an independent investment manager and that is in contrast to many of our peers who are owned by parent institutions like banks or insurance companies and we believe that independence and maintaining that structure is the right format or the best format for an investment manager because it aligns our interest exactly with our clients. We don't do well unless you do well. And that means that you know we control our own resources regardless of market volatility and it enables us to hire talent that has no ownership mentality so that the team which is another major component of the firm also remains stable and intact. We had no major changes to the investment team, no changes to the partners or directors though we did have one departure and one addition to the team. We have a new addition on financials, Pavel Sirkola who joined the team this year and he has a really impressive background. He had previously managed a credit research, interest rate modeling and liability modeling and he brings that perspective and portfolio management to our financials coverage. Previously he actually was born and raised in Russia and he was a winner of the Russian Regional Olympiads in math, chemistry and physics. Gerard Cruz: Wow. Alysia Wurst: Yeah, very impressive. Gerard Cruz: Was it Pablo? Alysia Wurst: Pavel its P A V E L. Gerard Cruz: Oh Pavel got you. Wilfred Leon Guerrero: Sounds like a chess player. Alysia Wurst: Yeah he should be. And he went on to do a PHD in engineering, MBA at UCLA and he also holds a CPA. Gerard Cruz: Yeah, yeah... Wilfred Leon Guerrero: I don't like this... Alysia Wurst: Also Anderson. Gerard Cruz: Lot of great schools. Alysia Wurst: Yeah great schools really impressive individual, great add for the team. So that is just one example of us continually looking for the very best talent that we can add to the firm. We continue to have an orientation of seeking people with an industry background because we think that that differentiates and enhances our ability to make investment decisions and we would very much for cultural fit people who are focused on really doing well for our clients who care deeply and bring that orientation to the investment decision we're making on an ongoing basis.

Alysia Wurst: The firm has continued to grow steadily both in assets as well as in clients in the strategy that you're invested in. We had additional interest and additional clients join the strategy in the past year and no departures. And the investment process remains the same. We have a 3 step investment process where we have a proprietary screen which we call our RPR through pattern recognition. We manage risk through a measure called down side deviation and the core of our process is our fundamental research. The screen narrows the universe to a manageable number of names usually 150 as a starting point. The risk model enables us to mitigate the risk of substantially underperforming the benchmark which we define as more than 400 basis points. Both the benchmark while not constraining our ability to capture upside and the fundamental analysis is where we spent 95% of our time. So with that I'll move on to the other issue with the update on the guidelines. So that is actually covered in part on page 2 under the guidelines tab. We continue to invest substantial resources in monitoring client guidelines and ensuring that we're in continual compliance with the guidelines that includes the most recent amendments that you sent over so we did verify that we have more than a billion dollars in assets under management which was one of the key items that was sent over. We actually have 23 billion so margin of safety there and we also are in good standing with the FCC and the item that was sent over actually was FCC and FINRA and just to differentiate because we are an independent money manager we're not a broker dealer registered with FINRA, so we're in good standing with the FCC. We don't have the conflicts of interest that would arise by being a broker dealer and we're not registered with FINRA.

Wilfred Leon Guerrero: We asked that? Alysia Wurst: FINRA yeah that was in... Paula Blas: That was in the original law but that has been amended so now all of this is FCC. Alysia Wurst: Okay, so we're in good standing with the FCC. Wilfred Leon Guerrero: We understand that FINRA is not a Government agency. Alysia Wurst: We meet both of those and if you like we can include those on the page on an ongoing basis for us to formally check that box but we are in compliance with the other guidelines. Maggie Ralbovsky: So there is also going to be like an amendment after that and... Alysia Wurst: Okay. Paula Blas: What we did was remove the good standing and the FINRA and all it is, is actually registered as an investment advisor with the FCC. Maggie Ralbovsky: And one billion dollars. Alysia Wurst: Yeah. We are registered, we've been registered since 1999 and we are comfortably over the one billion. Paula Blas: And once that is signed then you will all get the new law. Alysia Wurst: Okay and we can add it and make the language exactly what will meet your needs. For all of the rest of the guidelines except for the first one, we are in full compliance. We haven't checked the first one because in our estimation we haven't been together full market cycle but we would certainly hope to check that one when we've been together sufficient amount of time.

Wilfred Leon Guerrero: We should be asking our people about this because this is coming from us, right? Alysia Wurst: Yes. Wilfred Leon Guerrero: What do you mean in this emerging markets securities are less than? Alysia Wurst: So it's constraining since this portfolio's measured against the EAFE benchmark which is an international benchmark of developed markets countries the mandate has flexibility to invest in emerging markets as a small component of the overall total portfolio that we are managing for you and we do utilize a small amount of it I think it's about 6%. Wilfred Leon Guerrero: But the rest are international? Alysia Wurst: They are all international and it's just a question of which country the company is domiciled in. So for example, Korea technically is counted as an emerging market even though it's a very developed economy, if the company is headquarted in Korea it is counted as an emerging market. And so the guidelines that we have has the flexibility to invest up to 15% in international companies that qualify as emerging markets. Wilfred Leon Guerrero: This is not your requirement, this is ours. Alysia Wurst: Yeah so this is just saying that if the requirements that you've given to us, we're in compliance with. So we've taken the requirements that we understand from you and we've made sure that over this period we're in full compliance. Any other questions on the guidelines or suggestions for changes? Okay.

Wilfred Leon Guerrero: The first time I've seen this kind of stuff. I appreciate it. Alysia Wurst: Okay, good. Thank you. It actually takes a lot of monitoring for us to make sure that we are continually doing it. So, I'm glad appreciate it but we spent a lot of resources to do it. Thank you. So under the market review tab, I won't bore you with too many market highlights, but I'll just sort of recap since that will frame how we saw the markets for the year. Global equity markets finished 2013 in positive territory. The U.S. markets despite automatic spending cuts and tax increases rolling in at the beginning of the year actually rose to record levels over the course of the year, and that was really driven by the Feds stimulus and improving fundamentals in the economy. So the GDP growth accelerated through the year. Total year GDP growth was 1.9% and unemployment came down from 7.9% down to 7% and that has continued to benefit the equity markets. In Asia I think through one of the highlights was the Japanese stimulus drove really heated returns within the Japan market and in Europe what we saw was after several years of declining growth in the middle of 2013, they really had their turning point and they stabilized and they moved into modest but positive GDP territory.

Emerging markets were a major headline because they diverged so substantially from the rest of the markets on the equity side for the year. What we saw was that in our interpretation the Feds stimulus was sort of a both a blessing and a curse for the emerging markets in that as the Feds sought to keep interest rates low in the U.S., that drove investors to seek additional returns abroad, pushed them into the emerging market looking for returns. As interest rates started to rise, some of those investors withdrew they reversed course in the emerging markets what had done was it made the cost of capital cheaper and it had strengthened the currency with the inflow and it had the reverse effect as the money came out that combined with headline risk about decelerating growth in the emerging markets caused a substantial divergence almost record level divergence in that emerging market had 2500 basis point difference from the rest of the global markets and so the emerging market index was down 2% for the year whereas the broad international index the MSCI ACWI–ex U.S. was up 16%. One of the biggest differences on record but in our estimation when there's heightened volatility that signaling over reaction and can provide opportunities on evaluation basis, so right now the emerging markets are trading substantially below their own historical multiples as well as at a 25% discount to the multiples of the other international markets.

Gerard Cruz: Just two questions, you mentioned, I thought I heard you say something about or I thought I heard the words blessings and a curse in emerging markets? I heard the curse part. Alysia Wurst: Well the blessing was the first part. So, as the Fed was constraining interest rates that drove investors into the emerging markets first, so that was the blessing. Gerard Cruz: Okay. Alysia Wurst: And then the curse came after. Gerard Cruz: So you're thinking that there may be an overreaction in the outflows? Alysia Wurst: Yes, I think that's a fair summary. I think we see a number of opportunities that signal that the growth rates of the companies that we're finding within some of these emerging markets and we're nowhere near our limit but we are finding some opportunities in the emerging market. Gerard Cruz: At the company level. Alysia Wurst: At the company level that have growth rates that substantially exceed their developed market peers but are trading at valuations that are in line to lower. Gerard Cruz: Okay. Alysia Wurst: Yeah it's pretty remarkable. So moving on to the snapshot of your portfolio and how it performed in the... David O'Brien: You're going to go over outlook again? Alysia Wurst: Yeah. Oh well I don't know I mean we can if I don't cover it we can talk through it. So under the portfolio review tab we have the performance of your portfolio in that backdrop. So the ending portfolio value that's as of December 31st, the portfolio grew to just over 70 million and that's up from the ending value last year which was 60 million and there's an estimated 1.3 million in annual income. Wilfred Leon Guerrero: This is... okay, I guess this is from your own books, right, the figures that you're giving us and for some reason I started looking at these figures and they are not always coming out the same. Maggie Ralbovsky: So I just got a response from it's not just your portfolio all the portfolio have a small difference in terms of ending value and they are saying you put together a conservation sheet for Diana but it mainly it's basically the dividends. This one looks like ours is lower than yours. 5,000 dollars lower than yours so we get our numbers from Northern Trust and then I guess some 5,000 dollars difference between our report and yours. So we're going to send you a reconciliation I mean to them because we got your report too and we get Northern Trust report. We use Northern Trust report to packet performance and we're going to send Diana a reconciliation as to what the differences are and why.

Wilfred Leon Guerrero: Okay. Alysia Wurst: If we need to follow up with our reconciliation team lets coordinate that as well and I can have him head up our reconciliation team confirm the processings that are used to calculate this. Wilfred Leon Guerrero: I don't know where the problem is... Alysia Wurst: Yeah, it's strange because they reconciled with the banks. Wilfred Leon Guerrero: 5,000 there, 10,000 there. Alysia Wurst: Right, it's more than lunch. Maggie Ralbovsky: Because if its dividends theirs should be lower than ours and ours is lower than them so this is out laired usually the difference ours is lower than one manager reported or no ours is higher than manager reported because the dividend has been swept out and the manager wasn't reporting it. James Duenas: Could the dividend had been put back in. Paula Blas: It's only 5,000, though. David O'Brien: Yeah 5,000 sounds more like a translation number you know decimal points, for further alter decimal point around it, you know when the difference is that small... Maggie Ralbovsky: We'll look into it. David O'Brien: I've been through this before. Alysia Wurst: Right, I can just check how many decimal points were going out to and that might just be it. Because the dividends are substantially higher than 5,000 they're 1.3 million in the year because all of that is attributed to the dividends from this box in this portfolio.

Alysia Wurst: On the bottom right hand side you see that the portfolio remains fully invested, which is our goal and over 99% of the portfolio in equities where we want it to be. And there's just a small amount of cash which is very transitional as we get in and out of names. And then on page 7 we have the performance figures that you requested. I think the one that really jumps out is the portfolio returns for the fiscal year were very strong with absolute return of 23% and relative to 23% almost everything else kind of pales in comparison. But I think next of note is in January all of the markets gave back some of those gains. The EAFE was down 4%, the Retirement Fund trailed that by about 50 basis points and that impacted the end points since the day of since inception annualized number which is the 7.8% since inception annualized performance.

David O'Brien: Can you just tell me equities, when you say equities I noticed that what are you doing on equities? Oh, no cash. Alysia Wurst: Yeah so it's just showing the stripped out version. So our goal is to minimize cash because really if performance is good, cash is a drag on performance. And so it did have some impact when market is that strong it has a more noticeable impact I think. David O'Brien: These are the equities in our portfolio? Alysia Wurst: Yes those are your equities. And two other things just to update, as of this week the positive news is that total portfolio value or equities which every way you'd like to look at it were up over 5½% in February. February to date and you know made up 30 basis points in outperformance so that's positive for February. It's just one data point is just bringing you up to date is certainly nothing to anchor on, just sharing the latest. David O'Brien: What was EAFE that same year to date? Alysia Wurst: They were at 5.26 oh that was the February to date so they were at 5.26%. So our investment process as I mentioned remains consistent we won't always be able to bring 23% returns but we believe that by sticking to the same process that's generated good historical returns puts us in a good position to generate the kind of returns we want. Maggie Ralbovsky: Now this is gross right, gross of fees. Alysia Wurst: I believe so. Maggie Ralbovsky: So our measure is netted fees. So from the netted fees perspective there is an underperformance since inception, I just want to point out that. Alysia Wurst: So that did reverse in a year and we think that's because of the week January where we trailed where the EAFE was down 4%, we were down 4½% and it's a point sensitive number and it did swing it by I think 20, 25 bits. Maggie Ralbovsky: I'm actually looking at a number without January this end of year number. So from your perspective you don't think there's anything that went wrong? Everything because if you look at the numbers actually near term was actually more in the most recent 3 quarters it's actually... Alysia Wurst: Yes, so I would say that in terms of the relative performance a lot of the negative relative performance is really attributed to the allocated in the emerging markets because the emerging markets were a negative 2% and the EAFE's were up 24% so even that small amount in emerging markets even though we had even our some of our emerging market names weren't you know actually good performers like maybe 6%, 12% versus you know emerging markets down 2% it still didn't keep up with the 24% and so that generated that small amount of underperformance so that's where we got to the 23% versus the 24% fiscal figure. And so yeah it is a portion of under performance in the year and it isn't the full upside capture which we would want and we typically had more than 100% upside capture as well as less than 100% downside capture and we still retained that on since inception basis when we look at our own ruling upside downside capture but we did give back some of that in that year where we didn't capture the full amount...

Maggie Ralbovsky: I know you're a bottom up manager you just stock selection and the emerging market underperformance definitely because we're measuring you against EAFE so definitely there's a drag. So from your point of view there is a stick to your stocks the stocks you selected you didn't think there was any like mistake made in selecting stock is that? Alysia Wurst: We have pretty high conviction in the stocks that we selected. I highlighted one for an example on page 9 if you want to... Maggie Ralbovsky: It's just that, I just want to understand if this is a market cycle issue or it is actually something you actually made a mistake in selecting one particular stock that gives you a huge drag, so sounds like that's not the case, it's just a cycle issue. Alysia Wurst: There are stocks that underperformed in the period and certainly didn't keep up with the 24% and that contributed to the underperformance but for the prospects and the valuation that we look at, so we're evaluating the stocks on a daily basis to look at do they have the requisite up tide relative to the other investment opportunities that we see out there. And you're on the stock page so Mindray is a good example its one of the healthcare stocks in the portfolio, it's one of the Chinese names and it decelerated from 20% growth earnings growth down in the 15% territory but if you look at it on an evaluation basis relative to the EAFE so we're looking at the investment relative to the benchmark. The forward priced earnings ratio on Mindray is 17 times forward priced earnings ratio of the average in the MSCI EAFE is 16½ times, so pretty much in line but if you think about the growth prospects on either revenue or earnings basis the average in the EAFE is below 10% and for Mindray those revenue and earnings growth that we expect out of it is 15 to 20%. So that's the type of thing we're seeing in the emerging market stocks in that it didn't keep up for the year and it contributed to the underperformance but we think that it is a temporary phenomenon that should correct over time.

David O'Brien: So you got 55 holdings, basically? Alysia Wurst: Yeah. Roughly. David O'Brien: How many of those are emerging market holding besides Mindray? Alysia Wurst: I think we have about if you aggregate all of the emerging market holdings I think it's about 6% of the portfolio because some of them are... David O'Brien: So 3 stocks. Alysia Wurst:

No, some of them are lower weights. So some of them are kind of 60 basis points percent rather 2% holding. So some of our like developed markets some I would say that our largest weights in the portfolio are the highest weighted stocks that have the biggest impact are pretty much developed market names. So one of the largest weights is Armed holdings which is a UK based IT name, that's a name. This also continues to do really well and drove returns and that's when it for risk management purposes we have to actually keep trimming because if it were left to its own devices it would cross a 5% threshold. So right now it's about 4½% in the portfolio. And we don't have any emerging market things that are anywhere close to that. So we have probably more emerging market names than the way it might signify because they are smaller but there are opportunities that we think provide alpha over time but yeah the larger weights are the developed markets. Maggie Ralbovsky: I'm looking at our attribution analysis looks like Germany was a big detractor. Alysia Wurst: I think that was a BASF and the materials if I'm not mistaken. Maggie Ralbovsky: And also you under weighted Germany and Germany... Alysia Wurst: We were also underweight Japan and Japan did very well. Wilfred Leon Guerrero: What page is that? Alysia Wurst: This is actually summarized it's not in that book but our names within Japan outperformed... Maggie Ralbovsky: We do have like a big book I did send so we do have a couple of them over there in case you want to see the attributions analysis they do have that in the books.

Wilfred Leon Guerrero: I do have a question in looking at this. Maggie Ralbovsky: The small book? Wilfred Leon Guerrero: How come on the fees for the international equity everybody is zero except for her. Maggie Ralbovsky: Because hers is a separate account and the others are funds so it's a fund the fees are being paid out of fund not being sent not invoiced out. So in order to make her fees to be netted fee performance, in order to make her performance be netted fees you have to deduct the fees from the performance and all the other funds already are netted fees. Yeah. Wilfred Leon Guerrero: I'm sorry Alysia, you're talking about Japan... Maggie Ralbovsky: Japan you are 13% index is 21% and you actually under performed as well in terms of returns so...No? I guess for this quarter. Alysia Wurst: For the stocks in Japan, our Japanese stocks for the year we're stronger than... Maggie Ralbovsky: I'm only looking in the quarter yeah? Alysia Wurst: Yeah I have index returns for the EAFE for the year, for Japan were 27½% and our Japanese stocks were 36%. Maggie Ralbovsky: So maybe next time we put some attribution slides in this book so it would be good. Alysia Wurst: Attribution slides in the book. Maggie Ralbovsky: Yeah. David O'Brien: Also, you know while I'm thinking about it could you also put a history of returns versus EAFE you know maybe back in '98? Alysia Wurst: We have that, I think it's in the... David O'Brien: You have it for up to back to inception only. Alysia Wurst: Oh. Okay. David O'Brien: So I was looking just historically. I mean what we see is the chart that Maggie was showing you earlier which is just the since inception. Alysia Wurst: So we have our international portfolio since inception but since this is customized to your guidelines we won't have actual returns prior to your inception. David O'Brien: That's okay you know it's just about the impression of you guys because the impression now you know since inception you've underperformed the benchmark and so if that's not the case which is the case you're making... And also just an interesting thing...

Alysia Wurst: For international portfolio without the Guam guidelines I have some of that for reference so since that portfolio is inception which has been 15 calendar years, the EP international portfolio has outperformed the benchmark in 13 of the calendar years. David

O'Brien: That's what I was after. Alysia Wurst: With a 5 year batting average of 100%. David O'Brien: Five year most recent 5. Maggie Ralbovsky: Rolling 5 year. David O'Brien: Oh rolling 5 year. Alysia Wurst: It's had top quota performance for returns in risk adjusted returns and the up market capture is currently 115% and down market capture of 93%. So those are some of the total international characteristics. Wilfred Leon Guerrero: Are you telling us that our investment law is prohibiting... Maggie Ralbovsky: No, no she was talking about rolling 5 year, we haven't had them for 5 years yet. David O'Brien: No what she did say I thought to, is you can attribute some of the underperformance to our constraints. Maggie Ralbovsky: I don't think what she said was that. She did not say that, she just said that the performance she's citing is the composite that does not have a guideline. She just disclosed that it's just a disclosure it's not your performance because it doesn't have the guidelines. Alysia Wurst: Because it doesn't have the guidelines it's just not it's not apples to apples and I'm just saying that's all the data I can offer prior to your inception. David O'Brien: I just thought you were saying something else. Wilfred Leon Guerrero: I felt the same way I'd thought it was. Alysia Wurst: No that's not what I intended. It's just... David O'Brien: I just wanted to see in your book because you know most of the managers show longer history of performance so we can just get a flavor for more than just inception. About 2011 right. Alysia Wurst: Yes. James Duenas: What page is Japan? Maggie Ralbovsky: You're talking about attribution, I'm looking at page 202. James Duenas: 202 in the big book. David O'Brien: That would be easy enough to put in even if it's not in portfolio. Maggie Ralbovsky: Its 203, the 203 the second one is Japan. So the market value that's they're holding 13% and we look at the index value is 21%, you see that. Then we calculate that differential country waiting actually contribute 28 basis points on the bottom over there because during that period I guess Japan under performed during this quarter underperformed the general total. So by underweighting they added 28 basis points. Then if you look at their performance for this quarter they were 7.44 and it was 9.58 and there is also that's local currency. Then there's a currency translation effect because Japanese yen got weaker and you can see that underperformance also contribute 55 basis points. See that positive see that. So that's how you read it. See that 55 that's because Japanese yen got weaker and they are under weighting Japan. And then given the stock selection size however they detracted 26 because they under performed by holding the stocks that underperformed Japan. So that's how you read this chart and we do that for every country in case you... David O'Brien: She didn't agree with you though, right? Maggie Ralbovsky: She said that was for the whole year and this is for the quarter. Yeah. Alysia Wurst: The ones that I was referring to since it's an annual update... Wilfred Leon Guerrero: You know Alysia when you explain that 1.9% it's very confusing. What you want to do is I'm looking at this thing and I want to know how much or what was the return, total return. Alysia Wurst: That's the next page. Wilfred Leon Guerrero: Okay. Aiyaiyai. Gerard Cruz: My sentiments exactly.

Wilfred Leon Guerrero: Can you guys in the industry have a standard so that you all... Alysia Wurst: These are the ones you asked for. Gerard Cruz: Or a flight manual that we could kind of... James Duenas: Or maybe we can create a standard and send it all out to all. Paula Blas: We do. This is what we send them. Alysia Wurst: This is the page 7 is the standard. Wilfred Leon Guerrero: Did that come from Paula? Alysia Wurst: What's that? Wilfred Leon Guerrero: The list comes from Paula? Alysia Wurst: Yes. Gerard Cruz: Oh, no wonder. Paula Blas: Every year Diane sends out the same thing to them. Gerard Cruz: Oh it's Diane's fault. That explains it. Wilfred Leon Guerrero: That explains it she likes to confuse us. Paula Blas: It's not confusing. Wilfred Leon Guerrero: But I have news for you it confused her too because she wasn't too sure. Paula Blas: Which page? Wilfred Leon Guerrero: Because she told me to ask you. Alysia Wurst: The page 7 is the standardized performance return. Wilfred Leon Guerrero: What page? Alysia Wurst: Page 7. This was just meant to try to make it. Wilfred Leon Guerrero: Okay. Alysia Wurst: So the key ones on here are this is the total portfolio, this is your portfolio and it looks up 23% for the fiscal year these are your numbers and then this is just showing the equities without the cash. Wilfred Leon Guerrero: And this is the equity and the equity itself is 22%? Alysia Wurst: A little bit higher because it didn't have the cash in it. Wilfred Leon Guerrero: Okay. Alysia Wurst: Sorry about that. Gerard Cruz: No problem. Wilfred Leon Guerrero: What do you think is causing you to start in the negative for the new fiscal year? Alysia Wurst: So I think that... oh you mean just isolating January? Wilfred Leon Guerrero: Yeah. Alysia Wurst: The benchmark was negative we were minus 50 to the benchmark we were plus 30 in February so it's pretty flattish to the benchmark year to date. Wilfred Leon Guerrero: Somebody told us something happened in Turkey. Alysia Wurst: Yeah, so I don't think Turkey is causing everything but the instability in the emerging markets Ukraine, Turkey that does have an impact on investor fears about there can be risk on risk off type behaviors where people get concerned and will sell off emerging markets in total because of political risk in one market or another. So that certainly could be a part of some investors psychology. If I look at the... Wilfred Leon Guerrero: Where's your listing of countries? Alysia Wurst: Listing of countries, it might be in the asset statement tab. If you look under the Asset statement tab second to the last tab that would show you the statement of equities by country.

Wilfred Leon Guerrero: You're not invested in India, oh yeah you are. Alysia Wurst: Yeah I think we have ICICI in India. Wilfred Leon Guerrero: India and what are the other countries. India and... James Duenas: Columbia, right? Alysia Wurst: Yeah and you can see there's relatively small individual security positions at 60 something basis points. Wilfred Leon Guerrero: When they announced the decrease in the U.S. government decreasing its purchase of securities, like 10 billion. Alysia Wurst: Yeah tapering of the stimulus. Wilfred Leon Guerrero: Yeah, some countries are... David O'Brien: You're thinking about the fragile 5. Wilfred Leon Guerrero: Yeah what are they? Paula Blas: India, Indonesia, South Africa, Turkey... Wilfred Leon Guerrero: So India, Indonesia. David O'Brien: I never got the 5th one. Was it Brazil? Those 5, right. The only one they have is India. Gerard Cruz: They have Brazil. Wilfred Leon Guerrero: Brazil? They have Brazil? Okay. Alysia Wurst: So these are companies specific investments and essentially under banked markets with some leadership positions and positive asset trends so actually several of them have some of the same characteristics, Bradesco and ICICI even other wildly differently economies wildly different companies they actually have some of some similar trends of net interest only margins, expansion opportunities, stabilization of MPL's and you know the potential to substantially grow their serving of the local population with credit products. James Duenas: But they only have 6% into the emerging markets, what was the other cause? Alysia Wurst: That was its actually like on a blended basis because the 24% was so high for the other markets that emerging market at pretty much anything less than that blends into this. Pretty marginal under performance you know the 100 basis points 200 basis points it blends together pretty quickly it can even see just for size... James Duenas: I mean just for January. Alysia Wurst: Oh just for January, it's hard to isolate such a small time period and say with confidence this is what happened in that period.

James Duenas: What would you believe is of a major contributing factor to that? Alysia Wurst: I think that you didn't see as much long growth in the emerging markets as you would have like to see that would have helped some of those in that sort of group on Columbia, ICICI together you know the top line of loan growth would have helped all of them so that would be potentially one thing that you could interpret through that. If I look down at other sectors, there was some concern about if I look at the energy markets, there's some concern that the oxford drilling would slow it down or the pace of that would slow down that effects the services firms like Subsea 7 or Core labs but really if we look at our investment thesis and with the 2 year horizon which is really what we're looking at for taking the positions that we have, we think that the fundamentals of demand like particularly with if you think about Subsea 7 which has some exposure to projects in Brazil that are risky deep water projects. People are really looking at those and not factoring in the full amount of like umbilical's and machinery that you just when energy companies EMP's are doing deep water drilling it's so much more complex than previous drilling that's been have you have equipment that's going up and down from the sea floor to the surface a lot more and companies like Subsea 7 are catering to that. For the investment thesis what we think is that it's almost this multiplier effect of growth that will be demanded of the services of the companies that we have in the portfolio that will be appreciated over a much longer term horizon and sometimes it can react to very near term concerns like will the project be delayed a little bit, but that's really more of a marginal hit where we see sort of the multiplier effect for demands of products and services being the real driver of what we think should be appreciated and the valuation over time.

Maggie Ralbovsky: So is that ETF just to hold the position? Alysia Wurst: Yeah that had been I think that was again that was transitional cash that we sold out of to make sure that we were in fully active positions. David O'Brien: Do you hedge? Alysia Wurst: We don't hedge. Because we have a long term investment horizon and we actually don't want to be taking direct currency that's because we think that the cost of hedging outweigh the benefits, if you're truly investing in a long term horizon that should periodically wash out over time being above or below on a currency basis so then if you are hedging or if we were hedging then that would be a structural drag on performance so we seek to look at companies that are performing fundamentally well that have strategic advantages that should persist over the longer term and the currency follow it in.

David O'Brien: The 2 year horizon that you were talking about just a few minutes ago with James, what was that about? Alysia Wurst: So when we're going through our fundamental investment process, we think about on a company by company basis what does the company do, what's their business called other than money and what's the industry they're positioned within? We look at the financials, we model them up, we make our own forecast and we assess external events that are outside of the control of management, political risk would be one of them, you know anything that could disrupt that management doesn't have direct control of and we assess management directly. That analysis is done first on an individual basis and then it's brought to the team. The team comes together to debate the opportunities and risk and when we're formulating our investment opinions. What we're seeking to do is invest in stocks that in our estimation have a greater than 30% upside and that roughly it's not a hard line 2 year horizon but 18, 24, 36 month horizon which is what it's meant to reflect is a time period during which a company could see fundamental earnings acceleration, operating marketing expansion, something that would drive the value of the company to be higher but it's not yet appreciated by the street, so couple quarters of that unfolding, couple quarters of the street seeing it too and that brings you to your 2 year horizon. And we can't we don't... David O'Brien: But then these are long term keepers anyway so you look for that initial boost... Alysia Wurst: So we're looking at that horizon and really as time progresses it's a rolling horizon so every week we're meeting on the portfolio and we're discussing has our conviction in certain names increased or decreased? And we're not making changes but we're discussing any increases and decreases to conviction on a daily/weekly basis. And so then our 2 year horizon really that visibility rolls out into the future and so we're not setting price targets, we're not setting exit points we're really saying can we on a ongoing basis, do we see that requisite 30% over our visible 2 year horizon?

Gerard Cruz: Given that then, do you expect to see higher concentration in the emerging market companies? Alysia Wurst: Not structurally so we're not top down allocating by country and we're not structurally allocating... Gerard Cruz: Companies, not necessarily... Alysia Wurst: Yeah so it's entirely possible that we could you know I met with a couple of companies in Korea that I thought were definitely full analysis and will compete to be candidates in the portfolio. Now I can't forecast whether they will make it in versus there's another region company that I know is banging at the door of the portfolio trying to get in. So they will have their day at the table and it'll be up to the assessment of the investment team of maybe we buy a new developed market maybe one of those is compelling enough to make it in against that competitive set. Maybe none of them actually crossed the hurdle of the conviction we have in the current names in the portfolio. So it's entirely possible but I have no idea whether it will shape the structure. Gerard Cruz: So it's coincidental, the concentration of the country being in emerging market is... Alysia Wurst: It's an outgrowth of where we're finding conviction on a company by company basis exactly. Wilfred Leon Guerrero: Why did you include proxy? Alysia Wurst: It's just to share the policy on proxy, review proxy as an economic to have economic value because it's the investors expressing a view on how a company should be managing its resources and its people. This is just disclosing that we view it as something of economic value, we consider our votes and we're willing to also consider the preferences of our clients when voting if they are strong guideline and guidelines around it.

Maggie Ralbovsky: Because you outsource proxy voting to them. Wilfred Leon Guerrero: I'm sorry? Maggie Ralbovsky: You outsource proxy voting to them so she's telling you how they will vote. Paula Blas: No. Maggie Ralbovsky: No, you don't? Paula Blas: No we have a proxy service. Wilfred Leon Guerrero: That's very interesting. Maggie Ralbovsky: You don't out source to them? Wilfred Leon Guerrero: This was a major issue about 5 years ago, you know about proxy voting. I think it was like people are in control want to keep their control and it became difficult for the average share holder to get on that spot for growth and I know there was a movement within that pension plan people to try to get at that this the controlling factor are these directors they get together and decide who is going to be directors and you know the average share holder is just out of the loop. Maggie Ralbovsky: It's who cares about your vote right? Alysia Wurst: It's a lot to keep up with for an individual share holder and I think the influence is really sort of numeric of how many shares does an individual holder have. Wilfred Leon Guerrero: There was a movement by pension plan people to try to get at this thing because it's that's where it all... Alysia Wurst: But there are services that provide recommendations on if you set a certain category of like investment philosophy here they will do the review for you and say okay if you know for union accounts that have these priorities, these are the ways that we recommend voting the proxies, there are other ones that say if you're a sister account that have certain since stocks or orientations around management of companies, here's how we recommend voting the proxies. There are services that will take an orientation and incorporate that into how they vote.

Wilfred Leon Guerrero: Okay, its lunch time, still want to ask questions? David O'Brien: Yeah just one more just back to outlook for just a second. You know I was looking at your purchases interesting. You know I mean you got CNOOC in there and then you got Elbit Systems which are new names for you guys. So just your favorites looking forward or what's interesting you guys at the moment? Alysia Wurst: So the characteristics of companies that we're looking for so there's no... David O'Brien: I understand the process... Alysia Wurst: So there's no theme between the current additions I think Elbits levered to amend aircraft vehicles and drums and there's finished shift and military funding and support that has withdrawn from certain areas of military spending and increase in other areas and we feel like you know went back to the structural process of company operating with a competitive advantage in a growing industry, it fit some of those characteristics and then on evaluation basis and management basis. That's the type of things that will get the company into the portfolio. That's what we're looking for in any of them. That's what we're looking for in the companies I just visited. It would be companies that have in very different industries. Some kernel of a competitive of advantage that we think is either sustainable or increasing over time that will translate into earnings or cash flow growth or some kind of benefit to share holders that is unappreciated and that's the sort of the key to the investment in the context of valuation of in our estimation of the assumptions that the market is making around that time. We don't believe it's priced in, not factored in adequately.

David O'Brien: So when you purchase a CNOOC or Elbit how would how long will you figure till the valuation catches up with your expectations? Alysia Wurst: So our goal would be for it to be within that 2 year horizon so at inception we want our investment thesis at that time of inception is that it would play out within that 2 year horizon. If things it can go one or two ways. It can either go the way that we expect it to go in which case we may see a further horizon of even greater upset than we had visibility into previously and that is typically what turns into this sort of 4 year average holding period rather than a 2 year average holding period or for wrong our goals out of it quicker rather than later. And if we see something is broken, we'll exit. If we find a better opportunity whether it's from a different industry or location we'll replace it. But our goal is upon investment we're looking for something to payout fully within that 2 years. David O'Brien: And how long do you expect to be by yourself in that view? Until the street catches up with you. Alysia Wurst: No longer than 2 years is that expectation. Sometimes it can happen very quickly. Yeah. David O'Brien: So you'll turn over your whole portfolio in 4 years. Alysia Wurst: We have some holdings that have been in the portfolio much, much longer. We have others that have been much quicker. So the average holding period is just a blending of 2 very different ends of the spectrum. David O'Brien: Yeah and I realize you're bottom up. Alysia Wurst: It's really on that Monday morning review. You know what is our conviction and should we be making a position change. Wilfred Leon Guerrero: Okay, any other questions? Gerard Cruz: No. James Duenas: No. Alysia Wurst: Thank you very much Retirement. Gerard Cruz: Thank you. Paula Blas: Thank you. Wilfred Leon Guerrero: And when are you leaving? Alysia Wurst:

Tomorrow. Wilfred Leon Guerrero: You don't even know when you got here, right? You're really jetlagged. Alysia Wurst: It was actually a switch. Wilfred Leon Guerrero: Usually it's the other way around, East. Alysia Wurst: Yeah.

GGRF Rebalancing Step 1

Wilfred Leon Guerrero: Did you want to say something? David O'Brien: No, I'm happy to get started because I have something this afternoon. Wilfred Leon Guerrero: Okay, go ahead. Maggie Ralbovsky: Okay, so during the previous board meeting, the Board has tentatively I guess authorized the searches as soon as the law gets fixed and my understanding is that I could be imminent so I thought it might be good for us to review what are the 3 things that we are going to do so we know what to focus on when we get the RFP. David O'Brien: Could I ask you a favor first, just for my purposes because I haven't been doing this as long, can you just go over the 5 steps again? That's all. Maggie Ralbovsky: So I have step by steps and David asked me to talk... Diana Bernardo: Maggie, I have your document on the 5 steps. Maggie Ralbovsky: Oh you have it? Yes. Gerard Cruz: But I forget it too. Maggie Ralbovsky: So...I think we did the update. So, oh yeah she actually printed it out for everyone. Gerard Cruz: That's Diane, that's why she's Diane. Good job Diane. Maggie Ralbovsky: So, I do think because I think this whole process probably will take 2 years in my view at least 2 years to get accomplished, so things may change... Gerard Cruz: Or 5. Maggie Ralbovsky: Or 5 years. Gerard Cruz: It's a 5 year plan. Maggie Ralbovsky: Yes this is a 5 year plan and... David O'Brien: This is a 5 year plan? Maggie Ralbovsky: It probably would take 5 years to make it happen. Antolina Leon Guerrero: But they have to get brownie points for finishing in 2. Maggie Ralbovsky: So I guess my point is, we may adjust our course so every step we take we will have to get reaffirmed.

It is my view that we don't just do this and disregard what market condition is. Gerard Cruz: We don't disregard market, okay. Maggie Ralbovsky: No we don't, we should... Antolina Leon Guerrero: Before we do every step you're saying we should reaffirm. Maggie Ralbovsky: Yeah for every step we should reaffirm the market condition still makes sense. So, just a little summary the first step there's 2 goals to accomplish. Number 1 goal is to fund a new asset class called High yield bonds up to 8% and that's what the statute allows us to do. And in the meantime so this 8% will come from 5 percentage points from REITs and 3 percentage points from core bonds. So core bond allocation will be reduced after the first step and global REITs and the REITs also to be reduced to 5% and in the meantime also the 5% will be converted from a U.S. REITs only to global REITs.

The main thing with U.S. REITs is a very small sector. It has 100 securities up to select from and you really want to expand the universe. And also given the fact bonds are also going to enter pretty prolonged correction period. Interest rates start to go up it's probably going to be a secular thing for interest rate to eventually go back up, and so we wanted to prepare for that and start reducing our core bond allocation and diversifying to high yield bonds. Gerard Cruz: Global. Maggie Ralbovsky: Okay so that's number 1 step, number 2 step we'll fund a private investment portion and the 3 categories there are examples. I really don't think eventually we are going to end up those 3 categories. So the private partnership I put examples there. It really is when if you think about... Gerard Cruz: Is it private equity, I mean private partnership? Maggie Ralbovsky: Private partnerships. So these are investments that investing sectors that you cannot get exposure to in public sector. Joe San Agustin: But you still have to go through investment managers? Maggie Ralbovsky: Oh yeah. Of course these are managers... So these are in comingle funds but it's going to be set up as like... David O'Brien: Oh these are Comingle Investments... Maggie Ralbovsky: These are Comingle Investments. Gerard Cruz: They are not private equity? Maggie Ralbovsky: No not private equity but Comingle Investment in private invest so it's not public trade security, that's what I meant private partnership. No not private...

David O'Brien: So traded securities that have ongoing valuations they... Maggie Ralbovsky: These are not publicly traded securities, for example trying to think of like private placement loans... Gerard Cruz: So they don't have to go through the full disclosures that you would but if we wanted to liquidate there is a liquid market for it? Maggie Ralbovsky: Liquid market will be not as liquid. David O'Brien: Not as liquid as where you're coming from because. Maggie Ralbovsky: Not as liquid so I don't think the statute prohibits it and given the time horizon we're investing in I think 10% of private partnership wouldn't be... Gerard Cruz: 10% of 1.5 billion? David O'Brien: And how is valuation done on these things? Maggie Ralbovsky: These are usually being appraised and there will be an appraisal data. So this is step 2, we always can adjust our course as I said earlier. Okay, so... Gerard Cruz: So this is just a road map? Maggie Ralbovsky: Yeah it's a road map... Gerard Cruz: So we don't have to do that right away, I mean we can always adjust... Maggie Ralbovsky: I see a lot of hesitation with the private partnership. Gerard Cruz: Which is uneasiness because we haven't really... Maggie Ralbosky: That's right you haven't but it's a billion dollar fund. If you look at billion dollar public fund they all have private partnerships. Gerard Cruz: So does Maidoff right, for a while. Maggie Ralbovsky: Well Maidoff is a different matter. Gerard Cruz: My point is though is that we are unsure of it and so in order for us to have more conviction in it we need to be more aware of it.

Maggie Ralbovsky: Of course that's why I'm providing step by step in education. Gerard Cruz: And size is of no... Maggie Ralbovsky: No, agreed. Joe San Agustin: Would you consider still like participation? Maggie Ralbovsky: What do you mean participation? Gerard Cruz: Like syndication yes, it's private lending. Maggie Ralbovsky: Yeah like private lending is a great example. You may get locked up for 2 years... Joe San Agustin: Then they participate in an ongoing project and that's what you do. Maggie Ralbovsky: Right. Private lending is actually perfect example. Right now middle market lending right now... Joe San Agustin: But we're still going through an investment manager. Gerard Cruz: That's correct. Maggie Ralbovsky: So this is also like a... Joe San Agustin: Let's say you are participating in... Maggie Ralbovsky: So this is also the reason ...Gerard Cruz: The reason... Maggie Ralbovsky: The reason I say the 3 categories are listed right now under this category is an example, is because private partnerships is highly dependent on the market...

Respectfully submitted,

Angelina Castro/Marilyn Aguon
Recording Secretary

Affirmed:

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