

BOARD OF TRUSTEES

Regular Meeting

Friday, May 4, 2007, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

DEFINED BENEFITS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan was called to order at 12:25 p.m. Friday, May 4, 2007, in the Retirement Fund Conference Room. Chairman Joe T. San Agustin officiated.

Board of Trustees Present:

Joe T. San Agustin, Chairman
Wilfred P. Leon Guerrero, Vice-Chairman
Gerard A. Cruz, Treasurer
James J. Taylor, Secretary
George A. Santos, Trustee

Board of Trustees Absent:

Katherine T.E. Taitano, Trustee

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Mike Perez, Great West Retirement Services
Jackie Blas, Recording Secretary

Public Present:

Michelle Diego, Administrative Services Corporation (ASC)

Chairman San Agustin mentioned that there is still a vacant position on the Board of Trustees.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. March 9, 2007 and April 13, 2007 Regular Meetings (Pending)

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to defer approval of the Minutes of March 9, 2007 and April 13, 2007 Regular Meetings. Without objection, the motion passed.

III. CORRESPONDENCE

A. April 16, 2007 Letter from Governor Felix Camacho Regarding Memorandum of Understanding

Chairman San Agustin stated that the letter from Governor Camacho regarding the Memorandum of Understanding will be discussed under New Business. Vice-Chairman Wilfred Leon Guerrero inquired about the term "Gentlepersons." Chairman San Agustin stated that the Governor does not want to address his letter specifically to anyone. Director Paula Blas stated that it is a non-gender terminology.

B. April 16, 2007 Letter from Peter Sullivan, RCM, Regarding Request to Participate at the June 29, 2007 Investment Committee Meeting

Secretary James Taylor requested to defer the April 16, 2007 letter from Mr. Peter Sullivan to the Investment Committee Report. Chairman San Agustin inquired about the "Guam Custom Index." Treasurer Gerard Cruz stated that the managers developed an index modified for the Government of Guam Retirement Fund based on the non-dividend payment restrictions required by Guam Law. Secretary Taylor stated that it is the existing index. Treasurer Cruz stated that the Guam Custom Index is not used to measure their success or failure. Chairman San Agustin asked what index guideline was used. Treasurer Cruz mentioned that Mercer uses the Russell Growth 1000 Growth Index to measure their success.

C. April 20, 2007 Email from Daniel Roland, Consulting Group, Regarding INVESCO Stable Value Fund

Chairman San Agustin stated that the April 20, 2007 email from Daniel Roland will be made a part of the Investment Committee Report on the Defined Contribution portion of the meeting.

D. April 25, 2007 Email from Winton Young, First Hawaiian Bank, Regarding Information on Securities of the Retirement Fund

Chairman San Agustin stated that he had asked Winton Young to explore the category of stocks held to maturity or available for sale and also to categorize the bonding by rating and by location. Chairman San Agustin stated that Mr. Young responded that there is no way for the custodian to know what the managers will do and since it is their "management process." Chairman San Agustin stated he thought it would show how they manage their stocks. Secretary Taylor stated that the quarterly review includes the turnover information and the investment strategies that the managers are expected to be following. Vice-Chairman Leon Guerrero asked Chairman San Agustin what information he is looking for. Chairman San Agustin stated that he would like to know how the portfolio inventory is categorized.

Vice-Chairman Leon Guerrero stated that, in terms of stocks, the managers usually have a buy and sell policy. It is the Retirement Fund's responsibility to make sure that they are abiding by that policy. Secretary Taylor asked Chairman San Agustin whether he has a strategy or thoughts about how to increase the flow of income to the Retirement Fund. Chairman San Agustin stated that the Retirement Fund had the law amended to provide more flexibility to increase the flow. Controller Diana Bernardo stated that she will provide the information (stocks held by the managers at the beginning of the month and stocks held at the end of the month) at the next Investment Committee Meeting. Chairman San Agustin asked to indicate which are held to maturity and which are available for sale. Chairman San Agustin pointed out that the reports from the current investment managers are made six to eight weeks after the fact. Secretary Taylor stated that it would be useful to explore this with Mercer. Vice-Chairman Leon Guerrero stressed the need for an in-house Investment Manager. Secretary Taylor stated that the Retirement Fund should return to the hiring process for such a manager.

E. Attorney General Memorandum (Opinion) – BBMR 07-0130 Regarding Fiscal Year 2007 Statutory Rate of Government's Retirement Contribution

Chairman San Agustin stated that the Attorney General's Memorandum will be discussed under New Business.

IV. INFORMATIONAL ITEMS

A. Morning Star Article – “Memo to SEC: 12b-1 Fees Must Go”

Chairman San Agustin stated that the Morning Star article is for informational purposes. Chairman San Agustin asked how much money the Retirement Fund will be getting from the 12b-1 Fees. Rosalia Bordallo, General Accounting Supervisor, stated that the Retirement Fund received a check in the amount of \$130,000 for the first quarter.

B. April 23, 2007 Pacific Daily News (PDN) Article – “COLA Payout Would Harm Our Kids, Grandkids”

Chairman San Agustin stated that the April 23, 2007 PDN article is for information purposes. Chairman San Agustin mentioned that the Retirement Fund's Legal Counsel said to stand by the Judgment. The Attorney General also said to stand by the Judgment.

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. *William Don Parkinson vs. Government of Guam, Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS)* - Director Blas stated that the Governor's Office is preparing their response which is due on May 15, 2007.

2. *Candelaria Rios et al. vs. Joseph Ada et al. (Special Proceeding Case No. SP206-98)* - Director Blas stated that on April 19, 2007, Justices Philip Carbullido and Robert Torres had recused themselves from hearing the Writ of Prohibition filed by taxpayers. Both Justices have cited close relationships to members of the COLA class. Director Blas stated that on April 23, 2007 Judge Richard Benson was appointed as Justice *Pro Tempore* to hear the Writ of Prohibition preventing Judge Arthur Barcinas from taking further action in the COLA case. Chairman San Agustin stated that Judge Barcinas has not decided on whether he has a conflict.

3. ***Joseph A. Guthrie vs. Government of Guam Retirement Fund (GGRF) (Superior Court Case No. CV-0183-07)*** - Director Blas stated that a hearing is scheduled for 10:00 a.m. this morning with Judge Michael Bordallo. Director Blas stated that the Retirement Fund's Legal Counsel had requested a continuance. Judge Bordallo granted the Motion for Continuance for Legal Counsel to file their motions by May 18, 2007. Director Blas stated that this matter will be discussed under New Business.
4. ***Complaint for Declaratory Judgment (Superior Court Case No. CV-0495-07)*** - Director Blas stated that this is in relation to the Guthrie case and the interpretation of the budget law provision on the contribution rate. This case is either before Judge Elizabeth Barrett-Anderson or Judge Anita Sukola. Vice-Chairman Leon Guerrero asked to explain the Declaratory Judgment. Director Blas stated that the Retirement Fund's Legal Counsel filed a complaint for Declaratory Judgment regarding the interpretation of Public Law 28-150:V:3. Director Blas stated that this matter will be discussed under New Business.
5. ***Fiscal Year 2007 Statutory Rate of Government's Retirement Contribution*** - Director Blas stated that this matter will be discussed under New Business.
6. ***Government of Guam Retirement Fund Board Resolution No. 2007-001*** - Director Blas stated that the Board has not taken action on Resolution No. 2007-001. Director Blas stated that Resolution No. 2007-002 will take care of Resolution No. 2007-001. Director Blas stated that she will remove this item from the agenda once Resolution No. 2007-002 is passed.
7. ***Government of Guam Retirement Fund Board Resolution No. 2007-002*** - Director Blas stated that this will be discussed under New Business.
8. ***Organic Act/ Trust Agreement*** - Director Blas stated that Secretary Taylor is still reviewing the revisions to the Trust Agreement. Director Blas stated that Secretary Taylor will be making his comments and recommendations to the Board.
9. ***Request for Proposal (RFP): Custodial Bank Services*** - Director Blas stated that discussions will take place on May 29, 2007 through June 1, 2007. Chairman San Agustin stated that there were five offerors.
10. ***Request for Proposal (RFP): Real Estate Investment Trusts (REITS)*** - Director Blas stated that she will follow up with Mercer on their preliminary analysis and review.
11. ***Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity*** - Director Blas stated that she will follow up with Mercer on their preliminary analysis and review.
12. ***Request for Proposal (RFP): Transition Management Services*** - Director Blas stated that she will follow up with Mercer on their preliminary analysis and review.
13. ***Request for Proposal (RFP): Study Related to Alternative Options for Investing in Real Estate in Guam*** - Director Blas stated that this will be reported in the Investment Committee Report.

14. **Request for Proposal (RFP): Medical Consultant Services** - Director Blas stated that this is pending approval from the Members and Benefits Committee.
15. **Request for Proposal (RFP): Legal Services** - Director Blas stated that the RFP closed on May 1, 2007. The Retirement Fund received six proposals. The Selection Committee consists of the following: Trustee Katherine Taitano, Secretary James Taylor, and Trustee George Santos.
16. **Request for Proposal (RFP): U.S. Domestic Core Fixed Income** - Director Blas stated that the RFP will be issued on May 14, 2007 and will close on June 25, 2007. Vice-Chairman Leon Guerrero noted that the Investment Committee is still going through the transition period.
17. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity** - Director Blas stated that the RFP will be issued on May 14, 2007 and will close on June 25, 2007. Vice-Chairman Leon Guerrero noted that the Investment Committee is still going through the transition period.
18. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity** - Director Blas stated that the RFP will be issued on May 14, 2007 and will close on June 25, 2007. Vice-Chairman Leon Guerrero noted that the Investment Committee is still going through the transition period.
19. **Public Law 28-38** - Director Blas stated that interest payment for the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) are due on May 10, 2007. Director Blas stated that the Retirement Fund continues to process applications for retirement for GMHA and GPSS eligible employees.
20. **Bernstein, Litowitz, Berger and Grossmann (BLB&G) Portfolio Monitoring Report: First Quarter 2007** - Director Blas stated that a copy of the report was submitted, at this meeting. Director Blas stated that Mr. Blair Nicholas, BLB&G Attorney, is scheduled to meet with the Board at the June 8, 2007 Board meeting to review the fourth quarter 2006 and first quarter 2007 reports.

Financial Report

1. **Contributions** - Director Blas stated that all agencies are current with their Fiscal Year 2007 employee and employer contributions except for the General Fund. The Retirement Fund is processing everyone except the line agencies. Treasurer Cruz asked how much does the General Fund owe. Director Blas stated \$275,000.00.
2. **Financial Statements** - Director Blas stated that the books for the month ending April 2007 will be closed on May 9, 2007.
3. **Fiscal Year 2007 Retirees' Supplemental Benefits** - Director Blas stated that the supplemental benefits for retirees and survivors for the month of April 2007 were paid.
4. **Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the full appropriation for Fiscal Year 2006. The allotments for Fiscal Year 2007 continue to be received monthly and are processed accordingly.

VI. LEGAL COUNSEL'S REPORT

Director Blas stated that a status report of pending cases was submitted, at this meeting, by the Retirement Fund's Legal Counsel. Chairman San Agustin inquired about the Carl Gutierrez case. Chairman San Agustin stated that the government share was paid and he is concerned about the status of the accounting of the funds from the government. Director Blas stated that the money stays with the Retirement Fund until the Retirement Fund is able to proceed with recovery for the overpayment on the enhancement. Chairman San Agustin stated that if Mr. Gutierrez matches that amount, then enhancement will be restored. Director Blas stated that recovery will take place once the Retirement Fund puts a closure to this.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Cruz provided, at this meeting, a copy of the Cash Flow Statement. Controller Bernardo stated that a drawdown was made in March 2007. There was no drawdown made in April. For May, a drawdown of \$4 Million is needed. Treasurer Cruz stated that the Retirement Fund has been drawing down about \$5 Million a month. Vice-Chairman Leon Guerrero asked why the drawdown is less in May. Treasurer Cruz stated that it is due to the timeliness of the contributions coming in from the departments. Controller Bernardo stated the contributions came in on time on April and there was no need to drawdown. Chairman San Agustin asked whether the Retirement Fund is getting the forfeitures. Mrs. Bordallo stated that the forfeitures are going to the Defined Contribution Plan.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the Treasurer's Report. Without objection the motion passed.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's April 2007 end of the month report.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 9 , including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of April 18 , 2007 and subsequent meetings thereafter. Secretary James Taylor abstained. Without objection, the motion passed.

Trustee Santos stated that he is recommending deferring the matter on Page 10 back to the Members and Benefits Committee. The Board agreed to Trustee Santos' recommendation to defer the matter back to the Members and Benefits Committee.

B. Investment Committee

Secretary Taylor reported that the Investment Committee meeting was held on May 2, 2007. The following items were discussed and approved by the Investment Committee for Board action:

1. Board Action

a. Termination of Invesco – Secretary Taylor requested to defer this matter to the Defined Contribution portion of the meeting.

2. Other Information

a. RCM - Secretary Taylor stated that the Investment Committee approved RCM's request to attend the June 29, 2007 Investment Committee Meeting. RCM will provide an update on the performance effects of the 25% relaxation of Section 8157 requirements.

b. Mercer's Quarterly Meetings – Secretary Taylor stated that the next quarterly due diligence meeting with Mercer is scheduled for July 11-12, 2007. The Board of Trustees are invited to attend.

C. Audit Committee

Treasurer Cruz stated that the Fiscal Year 2006 Audit has been completed.

D. Governmental Liaison

Director Blas stated that the Executive Branch's recommendation was taken out of Bill No. 74 to strike out "raise or actuarial rate of return" on the contribution provision and also went ahead and appropriated the \$460,000.00 which is the variance between the 22.65% and the 22.94% to the General Fund for the line agencies. Chairman San Agustin stated that a principle needs to be established that the Retirement Fund determines the actuarial rate, not the administration.

IX. OLD BUSINESS

A. Richard Saville vs. Government of Guam Retirement Fund (Case No. SP0146-06) – Update

Director Blas stated that an Executive Session was held at last month's Board meeting. Director Blas stated that the Retirement Fund's Legal Counsel presented the Board's decision to Mr. Richard Saville and his attorney, F. Randall Cunliffe. Director Blas stated that Mr. Saville and his attorney declined the offer. Treasurer Cruz asked whether the Judge has the authority to grant the disability benefit. Director Blas stated that Legal Counsel feels that they would defer back to the Board because it is the Board's decision. Secretary Taylor stated that it seems the offer made was to do what Mr. Saville requested and then he backed off on it. Chairman San Agustin stated that the question is whether the two physicians appointed by the Retirement Fund could be overruled by the outside physicians. Chairman San Agustin stated that Mr. Saville opted for age retirement which stopped the process of disability retirement. Chairman San Agustin stated that Mr. Saville can not apply for both. Director Blas stated that Mr. Saville was denied on appeal and because he was denied on appeal he opted for age retirement. Director Blas stated that prior to opting for age retirement, Mr. Saville had already filed the lawsuit for disability. Chairman San Agustin asked what nullifies the other. Chairman San Agustin asked what is the merit of the case before the court. Director Blas stated that it is whether or not the Board considered everything and whether the Board abused their discretion in denying his appeal. Chairman San Agustin asked whether the case is still pending. Director Blas replied, "Yes."

X. NEW BUSINESS

A. Draft Resolution No. 2007-002: Relative to the Computation of Contributions Under Public Law No. 28-150:V:3

Vice-Chairman Leon Guerrero stated that in his opinion the processing of survivors is violating the ex post facto concept. Vice-Chairman Leon Guerrero stated that when employees retire, they are not informed that the approval of benefits is only for them and that it is a different application for their survivors. Trustee Santos stated that existing Government of Guam law requires a separate application. There is a separate process for each transaction. Vice-Chairman Leon Guerrero stated that this seems to be a different matter. Chairman San Agustin stated that Judge Alberto Lamorena cited that particular law when he declined to process retirement, disability or survivor benefit applications related to employees which have not made employer contributions. This is pursuant to the Court Order. Trustee Santos stated that the benefits are not being denied, it is only being held back until such time that contributions are paid. Vice-Chairman Leon Guerrero stated that the retirees/survivors are also being denied health insurance. Chairman San Agustin stated that the benefits of the retirees are being diminished or impaired. Mrs. Bordallo stated that there are retirement benefits that are diminished and reduced. Chairman San Agustin stated that under the Defined Benefit Plan there is a contractual agreement between the employer and employee. Vice-Chairman Leon Guerrero stated that he would like to have a clear policy in place in the future.

Director Blas stated that Resolution 2007-002 (Relative to the Computation of Contributions Under Public Law No. 28-150:V:3) was drafted by the Retirement Fund's Legal Counsel based on the Attorney General's opinion regarding the interpretation of the statute. Chairman San Agustin asked what happens after the resolution is passed. Director Blas stated that the agencies will be invoiced the amount due which is the variance between the 22.65% and the 22.94%. The total amount due is roughly \$275,000.00.

Trustee George Santos, seconded by Secretary James Taylor, moved to approve Resolution No. 2007-002 (Relative to the Computation of Contributions Under Public Law No. 28-150:V:3). Without objection, the motion passed.

Chairman San Agustin stated that a transmittal letter to the Governor on Resolution No. 2007-002 should be prepared for Secretary Taylor's signature.

Vice-Chairman Leon Guerrero asked how the Board is going to take care of the issue he brought up. Chairman San Agustin stated that he would suggest having the Retirement Fund's Legal Counsel develop a legal opinion on this matter. Director Blas stated that she will ask the Retirement Fund's Legal Counsel to develop an opinion on survivor benefits.

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. RECESS

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to recess, and without objection, the Board of Trustees meeting for the Defined Benefits Plan recessed at 2:30 p.m. on May 4, 2007 and will reconvene on Tuesday, May 8, 2007, at 1:30 p.m. in the Retirement Fund Conference Room.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of May 4, 2007 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 13, 2007.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas