

BOARD OF TRUSTEES
Regular Meeting
Friday, June 8, 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 12:15 p.m. Friday, June 8, 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
Antolina S. Leon Guerrero, 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:

Mark Heath, Metropolitan West Capital Management
Don Clark, Administrative Services Corporation (ASC)
Giri Bogavelli & Deirdre Guice, Oppenheimer Capital

Chairman San Agustin introduced Mrs. Antolina Sanchez Leon Guerrero as the newly appointed Trustee. Chairman San Agustin stated that Mrs. Leon Guerrero was appointed by Governor Felix Camacho on June 5, 2007. Mrs. Leon Guerrero's appointment was effective June 5, 2007 and is subject to the advice and consent of the Legislature. Chairman San Agustin stated that Mrs. Leon Guerrero's appointment letter states that she was appointed in an acting capacity pursuant to the provisions of 4 GCA §2103.9. "As a member of the Government of Guam Retirement Fund Board of Trustees in an acting capacity, you may serve in an official capacity as a member of the Board." Director Paula Blas stated that Mrs. Leon Guerrero met the qualifications of an appointed Trustee. The Board of Trustees welcomed Trustee Leon Guerrero.

Chairman San Agustin reported that representatives from Oppenheimer Capital, Mr. Giri Bogavelli and Ms. Deirdre Guice, are present at today's meeting to make a presentation to the Board of Trustees. Chairman San Agustin stated that he would like to move Agenda Item X to the beginning of today's meeting. The Board had no objection of placing Item X on the next item of discussion.

II. OPEN DISCUSSION / GENERAL PUBLIC INPUT

A. Oppenheimer Capital – Courtesy Visit

Chairman San Agustin stated that Mr. Giri Bogavelli, Managing Director, and Ms. Deirdre Guice, Senior Vice President, from Oppenheimer Capital are present at today's meeting. Mr. Bogavelli stated that he has provided, at this meeting, a copy of their performance report. The report includes: 1) Overview, 2) Portfolio Review, 3) Investment Outlook, and 4) Portfolio Valuation. Mr. Bogavelli thanked the Board for their approval of the non-dividend law.

Ms. Guice stated that she is the main contact for Client Services. Her back-up contact is Jennifer Buchanan, Vice President.

Mr. Bogavelli asked what is the Board's biggest worry. Chairman San Agustin stated stocks in U.S. Foreign. Ms. Guice asked whether there is any information the Board would like to see. Vice-Chairman Wilfred Leon Guerrero stated that he would like to see a complete listing of holdings. Ms. Guice stated that the listing is always provided. Secretary James Taylor stated that his biggest worry is funding at the actuarial rate. Vice-Chairman Leon Guerrero stated that the list of market place changes in November. Mr. Bogavelli stated that the stable growth did a lot better. Mr. Bogavelli stated that he will keep the Board appraised. Treasurer Gerard Cruz asked whether the Retirement Fund will see marginal differences. Mr. Bogavelli replied, "Yes."

Mr. Bogavelli stated that their investment objectives are to manage a portion of the Retirement Fund's domestic equity assets consistent with broadly diversified U.S. Value Equity Peer group. Mr. Bogavelli stated that their guidelines are based upon an investment horizon greater than five years. Mr. Bogavelli stated that interim fluctuations should be viewed with appropriate perspective. Mr. Bogavelli stated that investment performance outperformed Russell 1000 Value Index and Standards and Poor's 500 Index. Chairman San Agustin asked whether the new changes are reflected on the report. Mr. Bogavelli replied, "Not yet." Mr. Bogavelli stated that the unit of risk will be better. It will hurt the first quarter. There was a down draft in February which hurt performance. This will add to the financials and homebuilders.

Ms. Guice stated that Cash Market Value, as of December 31, 2006, was 1.7%, and 3.3% as of May 31, 2007. Vice-Chairman Leon Guerrero stated that the due diligence is scheduled for November 2007.

Mr. Bogavelli reported on the performance drivers. Mr. Bogavelli stated that the financials hurt by weak housing market, subprime-loan concerns; consumer discretionary stocks also lag:

- Countrywide Financial and MBIA and slip on subprime lending fears
- RenaissanceRe hurt by unfavorable legislation in Florida
- Drop in new home sales hurts Centex, DR Horton and Lennar

Mr. Bogavelli stated that industrials, telecommunication and materials sectors outperform:

- Temple-Inland announces it will separate into three publicly traded companies, sell its timberland assets
- AT&T thesis plays out as company adds record subscribers, grows wireless revenues and improves margins, swapped into Verizon
- Energy sector overweight relative to benchmark helps performance

Mr. Bogavelli reported on the Top Ten Holdings, Top 5 and Bottom 5. The top ten holdings include: 1) Conoco Phillips, 2) Chevron, 3) Verizon Communications, 4) Bank of New York, 5) Dominion Resources, 6) JPMorgan Chase, 7) Hartford Financial Services, 8) Aetna, 9) United Health Group, and 10) Carnival. The top 5 on the performance contribution includes: 1) Aetna, 2) Verizon Communications, 3) Chevron, 4) Parker Hannifin, and 5) Abbott Laboratories. The bottom 5 includes: 1) Countrywide Financial, 2) MBIA, 3) Centex, 4) Sepracor and 5) Motorola. Mr. Bogavelli stated that it is a very positive portfolio.

Mr. Bogavelli reported on the Sector Ending Weight. Treasurer Cruz asked where will the 25% go. Mr. Bogavelli stated that it would go to global companies, British petroleum.

Mr. Bogavelli reported on the Purchases and Sales. The purchases include: 1) American Express, 2) Boeing, 3) Hess, 4) H&R Block and 5) Verizon Communications. The sales include: 1) Abbott Laboratories, 2) AT&T, 3) Honeywell International, 4) Pfizer and 5) Union Pacific. Mr. Bogavelli stated that there were descent profits.

III. REVIEW AND APPROVAL OF BOARD MINUTES

A. March 9, 2007, March 16, 2007 (Continuation of March 9, 2007), April 13, 2007, and April 17, 2007 (Continuation of April 13, 2007) Regular Meetings

Secretary Taylor stated that he has reviewed the minutes of March 9, 2007, March 16, 2007, April 13, 2007 and April 17, 2007 Regular Meetings. Chairman San Agustin mentioned that Trustee Antolina Leon Guerrero could be an alternate for Secretary Taylor in reviewing the meeting minutes.

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of March 9, 2007, March 16, 2007 (Continuation of March 9, 2007), April 13, 2007, and April 17, 2007 (Continuation of April 13, 2007) Regular Meetings were approved, subject to corrections. Motion passed.

B. May 4, 2007 Regular Meeting (Pending)

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to defer approval of the Minutes of May 4, 2007 Regular Meeting. Without objection, the motion passed.

IV. CORRESPONDENCE

A. June 5, 2007 Letter from Senator Ben Pangelinan Regarding Status of Payments for COLA

Chairman San Agustin stated that the Retirement Fund received a letter from Senator Pangelinan requesting for a clarification on the interpretation of the eligibility of survivors of retirees entitled to the COLA payment. Chairman San Agustin stated that Director Blas is preparing a response to Senator Pangelinan's letter.

V. INFORMATIONAL ITEMS

A. June 5, 2007 Saipan Tribune Article – “Legal Action versus Government Eyed Over New Pension Law”

Chairman San Agustin stated that the article reported that “Another lawsuit may be lodged by the NMI Retirement Fund Board of Trustees against the center government following the recent enactment of a law prohibiting the agency from implementing a proportionate pension scheme.” Chairman San Agustin stated that the Commonwealth of the Northern Marianas (CNMI) is proposing an amendment to the constitution.

B. Citigroup Article – “Economic and Market Analysis”

Chairman San Agustin stated that the Citigroup article regarding “Economic and Market Analysis” is provided, at this meeting, for the Board's information.

VI. 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 Governor Felix Camacho was granted a continuance.

2. ***Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-98)*** – Director Blas stated that on April 23, 2007, Richard Benson was appointed as Justice *Pro Tempore* to hear the Writ of Prohibition filed by the taxpayers preventing Judge Arthur Barcinas from taking further action in the COLA case. Director Blas stated that on May 30, 2007, Judge Benson was removed and was replaced by Judge John Manglona and Judge Miguel Dumapan from the Commonwealth of the Northern Marianas (CNMI) to serve as Justices *Pro Tempore* in the cases regarding the Writ of Prohibition filed by the taxpayers. Secretary Taylor asked what was the rationale of Judge Benson being replaced. Director Blas stated that she is not sure why. Director Blas stated that hearing dates will be scheduled.

3. ***Joseph A. Guthrie vs. Government of Guam Retirement Fund (Superior Court Case No. CV-0183-07)*** – Director Blas stated that on May 30, 2007, Mr. Guthrie filed a Stipulation for Dismissal of this case which was granted. Director Blas stated that Mr. Guthrie was processed for retirement effective May 30, 2007 and has relocated to the Philippines.
4. ***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.
5. ***Request for Proposal (RFP): Custodial Bank Services*** – Director Blas stated that this item will be tabled. Chairman San Agustin stated that the Selection Panel made evaluations and will be making tentative recommendations. Chairman San Agustin stated that the recommendations will be presented to the Board. Chairman San Agustin stated that this is very crucial and that he would like to make sure everything is in place before deliberating on the selection.
6. ***Request for Proposal (RFP): Real Estate Investment Trusts (REITS)*** – Director Blas stated that Mercer’s preliminary analysis should be submitted by next week. Vice-Chairman Leon Guerrero stated that it has been at least three months. Director Blas stated that she reminded Ashish Shrestha from Mercer of this matter.
7. ***Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity*** – Director Blas stated that Mercer’s preliminary analysis should be submitted by next week.
8. ***Request for Proposal (RFP): Transition Management Services*** – Director Blas stated that Mercer’s preliminary analysis should be submitted by next week.
9. ***Request for Proposal (RFP): Study Related to Alternative Options for Investing in Real Estate in Guam*** – Director Blas stated that evaluations are still on going.
10. ***Request for Proposal (RFP): Medical Consultant Services*** – Director Blas stated that this is still with the Members and Benefits (M&B) Committee. The delay is due to finding an AMA certified physician. Chairman San Agustin suggested having Trustee Leon Guerrero be a member of the M&B Committee. Treasurer Cruz agreed to have Trustee Leon Guerrero replace him. Trustee Santos stated that he will take the Board’s recommendation into consideration.
11. ***Request for Proposal (RFP): Legal Services*** – Director Blas stated that six (6) proposals were received. The Selection Panel (Trustee George Santos, Secretary James Taylor and Trustee Katherine Taitano) will convene sometime next week.
12. ***Request for Proposal (RFP): U.S. Domestic Core Fixed Income*** – Director Blas stated that there were seventy (70) requests for the RFP. The RFP will close on June 25, 2007. Vice-Chairman Leon Guerrero suggested keeping track of this as the law was implemented in November 2006. Director Blas stated that it is being done according to Mercer’s recommendation.
13. ***Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity*** – Director Blas stated that there were seventy-two (72) requests for the RFP. The RFP will close on June 25, 2007.

14. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity** – Director Blas stated that there were sixty-two (62) requests for the RFP. The RFP will close on June 25, 2007.

15. **Public Law 28-38** – Director Blas stated that monthly interest payments are still being made by the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA). The Retirement Fund continues to process applications for retirement for GPSS and GMHA eligible employees. Director Blas stated that all agencies are current.

16. **Bernstein, Litowitz, Berger and Grossmann (BLB&G): Portfolio Monitoring Reports** – Director Blas stated that Mr. Nicholas Blair from BLB&G was supposed to be present at today's meeting but apparently had a conflict. Director Blas stated that Mr. Blair is requesting to be present at the July Board meeting.

Financial Report

1. **Contributions** – Director Blas stated that all agencies are current with their Fiscal Year 2007 employee and employer contributions. Chairman San Agustin asked about the legal opinion on the survivors benefits. Director Blas stated that Legal Counsel withdrew the Declaratory Relief.

2. **Financial Statements** – Director Blas stated that the books for the month ending May 2007 will be closed on June 12, 2007.

3. **Fiscal Year 2007 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for the month of May 2007 were disbursed.

4. **Medicare Reimbursements** – Director Blas stated that the Fiscal Year 2007 allotments continue to be received from the General Fund.

VII. LEGAL COUNSEL'S REPORT

No report was made at this time

VIII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Cruz stated that an update of the Retirement Fund's Cash Flow Statement and the Drawdown Schedule are provided, at this meeting, for the Board's information. Treasurer Cruz stated that for June 2007, the Retirement Fund needs \$3.5 Million in principal drawdown and \$3 Million in September. Chairman San Agustin asked about the returns. Treasurer Cruz stated that the returns increased. Vice-Chairman Leon Guerrero asked why there were no drawdowns in April and May 2007. Treasurer Cruz stated that the payments from GPSS were received timely. Rosalia Bordallo, General Accounting Supervisor, stated that the payments are coming in early and on time.

Chairman San Agustin asked about the interest and penalties showing zero from June through September 2007. Chairman San Agustin asked about the interest and dividend drawdowns. Mrs. Bordallo stated that it is conservative. The numbers are of projections. Treasurer Cruz stated that the weighted average cost of the portfolio is .25%. Chairman San Agustin stated to avoid the market loss.

Treasurer Cruz stated that the financials are also included in this report. The total asset is \$1.6 Billion. The \$1.469 Billion includes the April 2007 receivables. Treasurer Cruz stated that the Early Retirement Incentive Program (ERIP) works to the Retirement Fund's advantage in the first two years.

Vice-Chairman Leon Guerrero asked about the \$13 Million due from brokers for unsettled trades. Treasurer Cruz stated that it takes up to three days to settle a trade. Mrs. Bordallo stated that the pending trades are a timing issue.

IX. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's May 2007 end of the month report and Special Committee meeting of June 4, 2007.

Chairman San Agustin stated that there are two cases of overpayment listed on Pages 8 through 12. Chairman San Agustin stated that one case had an overpayment of \$125.33 bi-monthly. Vice-Chairman Leon Guerrero asked whether there are more files still being reviewed. Director Blas replied, "Yes." There are about twenty retirees identified that were overpaid. Director Blas stated that it is about 85% completed. Vice-Chairman Leon Guerrero asked whether this is being done manually. Director Blas replied, "Yes."

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 12, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of May 16, 2007 and subsequent meetings thereafter. Without objection, the motion passed.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 3 through 11, including the attached Annuity Worksheets, based on the Committee's review and findings during their Special Committee meeting of June 4, 2007. Without objection, the motion passed.

Secretary James Taylor asked to be excused from the meeting at this time (2:35 p.m.)

B. Investment Committee

Vice-Chairman Leon Guerrero reported that the Investment Committee meeting was held on May 25, 2007.

Informational Items – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed and approved the Investment Committee Minutes for March 30, 2007 and April 27, 2007.

Vice-Chairman Leon Guerrero reported that Mercer's Quarterly Meetings is scheduled for July 11-12, 2007.

C. Audit Committee

No report was made at this time.

D. Governmental Liaison

No report was made at this time.

X. OLD BUSINESS

A. Request for Proposal GGRF-007-07: Global Custodian and Securities Lending Services

Director Blas stated that Item VIII A is being tabled.

XI. NEW BUSINESS

A. GGRF Board Resolution No. 2007-003 (Relative to the Adoption of Policy on Over or Under Payments of Annuities)

Director Blas stated that a clarification is needed on Section 4 (Recovery of Benefits) of the proposed policy on over or under payments of annuities. Chairman San Agustin stated that there are divided opinions. Trustee Santos stated that knowing there is an error, we don't have discretion. Trustee Santos stated that he wants to make a common policy. Vice-Chairman Leon Guerrero stated that he has no problem with the policy with respect to making corrective adjustments on the annuity prospectively. Mrs. Bordallo stated that the recovery should be from the date of written notification to the retiree. Treasurer Cruz stated that it is normal to correct an error, but the error was made by the Retirement Fund. Chairman San Agustin stated that the humanitarian way is to phase it out. Controller Diana Bernardo stated that the Board has discretion. Chairman San Agustin stated that the adjustment should be made gradually. Director Blas stated to allow 120 days notice. Vice-Chairman Leon Guerrero stated to make sure that there is an appeal process in the policy. Director Blas stated that it is in the policy. Chairman San Agustin stated to have it within the 120 days period. After the 120 days, the adjustment should be made in full. Chairman San Agustin stated that Management should have the discretion to make the gradual adjustment within 120 days or the full adjustment should be made, and there will be no recovery of benefits.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve Government of Guam Board Resolution No. 2007-003 Relative to the Adoption of Policy on Over or Under Payments of Annuities, as amended. Without objection, the motion passed.

B. Bernstein Litowitz Berger & Grossmann (BLB&G) LLP: Tellabs Amicus Brief on Behalf of Pension Funds

Chairman San Agustin stated that BLB&G will be filing an *Amici Curiae* brief and would like to know whether the Retirement Fund would like to be included on this filing. Chairman San Agustin stated that the lawsuit against Charter Communications, Inc. is regarding fraudulent schemes and committing deceptive acts.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee George Santos, moved to approve Bernstein Litowitz Berger & Grossmann's request for the Retirement Fund to participate in the their filing of an *Amici Curiae* Brief. Without objection, the motion passed.

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 2:45 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of June 8, 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