

**BOARD OF TRUSTEES**  
**Regular Meeting**  
Friday, February 8, 2008, 12:00 p.m.  
Retirement Fund Conference Room

**MINUTES**

<b>DEFINED BENEFITS</b>
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**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 12:24 p.m. Friday, February 8, 2008, 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  
Katherine T.E. Taitano, Trustee

**Board of Trustees Absent:**

Antolina S. Leon Guerrero, Trustee

**Staff Present:**

Paula Blas, Director  
Diana Bernardo, Controller  
Rosalia Bordallo, General Accounting Supervisor  
Jackie Blas, Recording Secretary

**Public Present:**

John Davis, KUAM

## **II. REVIEW AND APPROVAL OF BOARD MINUTES**

### **A. January 11, 2008 Regular Meeting and January 14, 2008 Reconvened Meeting**

**On motion of Trustee George Santos, seconded by Trustee Katherine Taitano, and without objection, the Minutes of January 11, 2008 Regular Meeting and January 14, 2008 Reconvened Meeting were approved, subject to corrections. Motion passed.**

## **III. CORRESPONDENCE**

### **A. August 1, 2007 Letter from Bernstein Litowitz Berger & Grossman (BLB&G) Regarding Portfolio Monitoring Quarterly Report**

Chairman San Agustin stated that a copy is provided, at this meeting, of BLB&G's quarterly report (second quarter 2007) on their portfolio monitoring process on behalf of the Retirement Fund. Chairman San Agustin stated that the report indicated that the Retirement Fund had an estimated loss of \$1.5 Million in MBIA stock during the class period. BLB&G filed a class action lawsuit against MBIA on behalf of an investor on January 11, 2008. Chairman San Agustin stated that the investment manager was Oppenheimer Capital. Chairman San Agustin stated that Controller Diana Bernardo provided, at this meeting, a list of the stocks involved.

### **B. January 2, 2008 Email to Ray Gibson Regarding COLA Status**

Chairman San Agustin stated that he sent an email to Ray Gibson regarding the COLA issue. Treasurer Gerard Cruz asked whether the Chairman is referring to Ed Davis. Chairman San Agustin stated that he is referring to the producer of K-57. Treasurer Cruz stated that the producer of K-57 is Ed Davis.

Chairman San Agustin stated that he attended a meeting, along with Director Paula Blas, in Mangilao with retirees regarding the COLA issue on the Certificate of Claim. Chairman San Agustin stated that the issue with COLA is the Certificate of Claim and the Guam Telephone Authority (GTA) Promissory Note. Chairman San Agustin stated that the GTA Promissory Note bears a 7% interest on a ten (10) year period. Five years have accrued with a present value of about \$13.5 Million. Chairman San Agustin stated that the Promissory Note may be sold at a discounted price of \$8-9 Million. This is assigned to the COLA Class. Chairman San Agustin mentioned that at least half of the COLA Class have passed away. Vice-Chairman Wilfred Leon Guerrero stated that the Attorney General (AG) and the Director of the Department of Revenue and Taxation (Revenue & Taxation) are indicating that the certificates can not be used to offset any income tax liabilities. Chairman San Agustin stated that there is a law that rebates can not be issued. It can not be used to offset income taxes. The question was raised about why businesses could be privileged but not individual tax payers. Chairman San Agustin stated that it may be used to offset Gross Receipt Taxes (GRT). Vice-Chairman Leon Guerrero stated that the banks are saying that they do not know where to take the certificates. Chairman San Agustin stated that there are a lot of predators waiting for the certificates.

Treasurer Cruz asked whether there is a problem with beneficiaries. Director Blas stated that it is on the ones without a designated beneficiary which would go to their estate. Secretary James Taylor inquired about the Chairman's statement that "if the Government acts properly, the above can all be accomplished – the COLA Class gets satisfied, the Government fulfills its obligations in full, at a lesser cost." Chairman San Agustin stated that if they move with haste they would take advantage of the low interest rate.

**C. January 17, 2008 Letter from Thomson Horstmann & Bryant, Inc. Regarding January 16, 2008 Interview**

Chairman San Agustin stated that he received a letter from Mr. Glenn Burrell of Thomson Horstmann & Bryant, Inc. extending their gratitude to the Board for the opportunity to make their presentation. Director Blas stated that this is for informational purposes.

**D. January 23, 2008 Letter from Alan Haeuser Regarding Repayment of Contributions**

Chairman San Agustin stated that he received a letter from Alan Haeuser regarding repayment of his withdrawal of contributions. Chairman San Agustin stated that Mr. Haeuser was terminated in 1991 and after years of litigation he was reinstated in 1997. Chairman San Agustin stated that Mr. Haeuser is requesting for a waiver of the interest accrued for the past ten years. Vice-Chairman Leon Guerrero stated that Mr. Haeuser has pointed out that the Retirement Fund is charging him interest. Vice-Chairman Leon Guerrero stated that Mr. Haeuser could have reinvested his money. Secretary Taylor asked whether Mr. Haeuser has the right to repay his contributions. Director Blas replied, "Yes." Director Blas stated that Mr. Haeuser's court case took too long. Treasurer Cruz asked whether there is any authority to do that. Director Blas stated that either way the government has to pay the interest or he would have to pay it. Chairman San Agustin stated that the Retirement Fund was not a party to Mr. Haeuser's termination or lawsuit. Chairman San Agustin referred this matter to the Members and Benefits Committee.

**IV. INFORMATIONAL ITEMS**

**A. Terrapinn Asset Allocation Summit, February 25-28, 2008, Sydney, Australia: How are super fund CIO's reacting to market volatility?**

Chairman San Agustin informed the Board that an Asset Allocation Summit is scheduled for February 25-28, 2008 in Sydney, Australia. Chairman San Agustin stated there are discounts that are applicable to group bookings: 10% discount for registering 3 delegates, 20% discount for registering 6 delegates, and 25% discount for registering 8 delegates. Chairman San Agustin is recommending that members of the Board or Retirement Fund staff attend the Asset Allocation Summit.

**V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY**

**1. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)* –**

Director Blas stated that Chairman San Agustin had reported earlier on the status of the COLA issue.

Director Blas stated that Public Law 29-04 mandated the assignment of the Guam Telephone Authority (GTA) promissory note of \$10 Million to the COLA class. The assignment was signed by the Attorney General (AG) and forwarded to TeleGuam for their approval. Director Blas stated that once TeleGuam and the Governor sign the assignment, the note would be officially assigned to COLA class.

Director Blas stated that she is not sure whether this is an instrument that the Retirement Fund may be interested in purchasing. Vice-Chairman Leon Guerrero asked whether there would be another cash disbursement before the COLA certificate are issued. Director Blas replied, "Yes." Director Blas stated that the \$10 Million GTA Promissory Note must be disbursed before the COLA certificates are issued. Director Blas stated that the members of the COLA class at the meeting did want the certificates to be issued. Director Blas stated that the Budget Act for 2008 did authorize the Governor to float the second bond. Treasurer Cruz asked whether the Retirement Fund would get a credit enhancement on the bond issue. Chairman San Agustin replied, "Yes." Chairman San Agustin asked whether the Retirement Fund own Municipal Bonds. Controller Bernardo, replied, "Yes, though it's the investment managers who purchased such instruments."

2. ***Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA) (Case No. SP0231-02)*** – Director Blas stated that Judge Michael Bordallo has been assigned to this case. A hearing date to hear the new motion filed by Attorney John Unpingco is scheduled for March 7, 2008.
3. ***Organic Act / Trust Agreement*** – Director Blas stated that this is pending Secretary James Taylor's comments and recommendation on the revision by Legal Counsel.
4. ***Request for Proposal (RFP): Custodial Bank Services*** – Director Blas stated that the administrative process is ongoing. The Retirement Fund is in the process of effectuating a contract with The Northern Trust Company (Northern Trust). Chairman San Agustin stated that the Board approved the selection of Northern Trust in December 2007, subject to meeting the requirements to conduct business on Guam. The Retirement Fund's Legal Counsel has agreed with Northern Trust's off-island Legal Counsel that Northern Trust does not need to meet the requirement. Chairman San Agustin stated that the contract would be circulated for the Board's signature. Director Blas stated that she has sent out letters to all the firms who submitted proposals.
5. ***Request for Proposal (RFP): Real Estate Investment Trusts (REITS)*** – Director Blas stated that the RFP for REITS would be reported out when the Board reconvenes its regular meeting on February 22, 2008.
6. ***Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity*** – Director Blas stated that the RFP for U.S. Domestic Small Capitalization Core Equity would be reported out when the Board reconvenes its regular meeting on February 22, 2008.
7. ***Request for Proposal (RFP): Legal Services*** – Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: Katherine T.E. Taitano, James J. Taylor, and George A. Santos. Director Blas stated that Trustee Taitano will schedule a meeting sometime in February 2008.
8. ***Request for Proposal (RFP): U.S. Domestic Core Fixed Income*** – Director Blas stated that the RFP for U.S. Domestic Core Fixed Income would be reported out when the Board reconvenes its regular meeting on February 22, 2008.

9. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity** – Director Blas stated that the RFP for U.S. Domestic Large Capitalization Growth Equity would be reported out when the Board reconvenes its regular meeting on February 22, 2008.

10. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity** – Director Blas stated that the administrative process is ongoing. Director Blas stated that she is in the process of completing the contract with Robeco Boston Partners.

11. **Request for Proposal (RFP): Proxy Voting Services** – Director Blas stated that the RFP for Proxy Voting Services closed on January 28, 2008. A Selection Panel for this RFP would be assigned. Vice-Chairman Leon Guerrero volunteered to sit in the panel. Vice-Chairman Leon Guerrero then selected Chairman San Agustin and Director Blas to be a part of the Selection Panel.

12. **Public Law 28-38** – Director Blas stated that the monthly interest payments for the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) are due on February 10, 2008. Director Blas stated that the Retirement Fund continues to process applications for retirement for GMHA and GPSS eligible employees.

**Exchange Traded Funds (ETF)** – Secretary Taylor inquired about the status of the legislation to allow the purchase of ETF funds. Chairman San Agustin stated that Mercer Consulting, Inc. (Mercer) was asked to provide an analysis. Director Blas stated that Mercer has provided their analysis. The ETF would be reported out in the Investment Committee Report.

### **Financial Report**

1. **Contributions** – Director Blas stated that as of February 5, 2008, all agencies are current with their Fiscal Year 2008 employee and employer contributions.

2. **Financial Statements / Fiscal Year 2007 Audit** – Director Blas stated that the books for the month ending January 2008 will be closed on February 12, 2008. Director Blas stated that the Audit Committee will meet next week to discuss the full audit report. The Audit Committee consists of Treasurer Cruz, Vice-Chairman Leon Guerrero and Trustee Taitano. Director Blas stated that the draft financial reports for September 30, 2007 have been issued.

3. **Fiscal year 2008 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors were paid in January 2008.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2008 monthly allotments and payments are processed accordingly.

## **VI. LEGAL COUNSEL'S REPORT**

None

## **VII. TREASURER'S REPORT OF FINANCIAL STATUS**

Treasurer Cruz stated that the Treasurer's Report is provided, at this meeting. It covers the Retirement Fund's Statement of Plan Assets (unaudited) for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended December 31, 2007.

Treasurer Cruz stated that the audit would be finalized by next week and would be entertained when the Board reconvenes its regular meeting on February 22, 2008.

Treasurer Cruz stated that the Cash Flow Statement for the period May 2007 through April 2008 is provided, at this meeting, for the Board's information. Management has been operating within its approved authority. Treasurer Cruz reported that the cash balance as of January 31, 2008 is \$3.2 Million. Chairman San Agustin asked whether there is a need to liquidate. Treasurer Cruz stated that there was no liquidation last month. Chairman San Agustin asked whether enough cash has been made available to fund the new managers. Rosalia Bordallo, General Accounting Supervisor, stated that the money is coming from AXA Rosenberg Investment Management and Capital International, Inc. Chairman San Agustin asked Mrs. Bordallo whether the Retirement Fund had generated enough cash in the month from dividends, income and contributions against the total requirements for payout. Mrs. Bordallo stated that there was a small surplus which would be used to carry over to the current pay period. Chairman San Agustin asked when was the last time the Retirement Fund funded new money to the managers. Mrs. Bordallo replied, "Between 1992 and 1994." Secretary Taylor expressed his concern. Secretary Taylor stated that the Retirement Fund may end up in court because it was not investing the money set aside for the current employees. Secretary Taylor stated that his recommendation would be that a certain portion should be moved directly into new investments and if necessary, other items be liquidated when needed. Chairman San Agustin stated that it should be funded and then liquidated. Secretary Taylor stated that all the current monies coming in are being used for the existing retirees. Secretary Taylor stated that the Retirement Fund should draw money more often. Chairman San Agustin suggested looking at the shortage. Mrs. Bordallo stated that the existing employees' money should not be touched when the Retirement Fund decides to liquidate. Treasurer Cruz suggested for the Retirement Fund run a scenario. Secretary Taylor stated that the issue is the cash flow. Chairman San Agustin stated that a chart previously provided shows in 2007 a \$203 Million investment income as opposed to \$165 Million in benefit payments. The contributions average \$96 Million a year. Controller Bernardo stated that she would look into this matter. Controller Bernardo further stated that she would run the scenario.

## **VIII. STANDING COMMITTEE REPORTS**

### **A. Members and Benefits Committee**

Trustee George Santos reported to the Board of Trustees on his Committee's January 2008 end of the month report.

Chairman San Agustin mentioned that a situation was brought to his attention where an employee of the government who is sick exhausted his sick leave and then resigned and withdrew his contributions to go off-island for medical treatment. This individual, with ten years of government service, was not advised to apply for disability retirement before his resigned. Chairman San Agustin asked what this individual could do in this case. Director Blas stated that the individual must be an active employee to be able to apply for disability retirement. Controller Bernardo stated that there is an issue on members withdrawing their contributions. The members are not being counseled appropriately. Mrs. Bordallo stated that there is no documentation showing in the members' folders that they have been counseled. The Retirement Fund has the responsibility to counsel its members.

Director Blas stated that the members do try to keep their money in the Retirement Fund for as long as they could. Mrs. Bordallo stated that the members should be counseled on what they are losing with they withdraw their contributions.

Vice-Chairman Leon Guerrero asked whether this issue is similar to the hardship withdrawal. Director Blas stated that there is no hardship withdrawal under the Defined Benefit (DB) Plan. The DB members are able to withdraw their contributions when they resign. Chairman San Agustin stated that there is a provision in the law where the DB Plan members could borrow against the DB Plan. Director Blas stated that this is not being encouraged. Director Blas stated that members can not withdraw their contributions after twenty-five (25) years of service.

Vice-Chairman Leon Guerrero stated that he agrees with Controller Bernardo and Mrs. Bordallo that a document should be placed in the members' folder showing evidence of counseling. Chairman San Agustin stated that the Board could suggest for Management to have the members acknowledge that they were counseled. Secretary Taylor stated that he is concerned about the members who have withdrawn their contributions and now have nothing. Director Blas stated that she would have the members acknowledge that they were counseled. Director Blas stated that she would instruct the Members Division to counsel the members before refunding and have them acknowledge that they have been counseled. Mrs. Bordallo stated that she would like for Management to direct the Members Division to be sure a standardized form is developed. Chairman San Agustin stated that Management could issue an administrative directive to the Members Division.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 16, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of January 16, 2008 and subsequent meetings thereafter. Without objection, the motion passed.**

## **B. Investment Committee**

Vice-Chairman Wilfred Leon Guerrero reported that the Investment Committee meeting was held on January 25, 2008. The Investment Committee reviewed and approved the Investment Committee Minutes of November 30, 2007.

**144A Securities** – Vice-Chairman Leon Guerrero reported that the Investment Committee discussed the possibility of amending the statutes to add a new section pertaining to “144A Securities.” Vice-Chairman Leon Guerrero stated that he will ask Management to request from Mercer and the Retirement Fund's Legal Counsel for their input pertaining to 144A Securities. Once the information is received, the Investment Committee will make a recommendation to the Board. Vice-Chairman Leon Guerrero stated that if the Board approves this, then it would be submitted to the Legislature to have the statute amended to add a new section pertaining to 144A Securities. Vice-Chairman Leon Guerrero also mentioned the amendment on the Exchange Traded Funds (ETF). Vice-Chairman Leon Guerrero stated that Chairman San Agustin and Director Blas would take the lead on submitting the proposed legislation to the Legislature. Chairman San Agustin reiterated the need for Mercer and Legal Counsel's opinion regarding this matter.

***Change in Approved Money Market Fund List for Custody Accounts*** – Vice-Chairman Leon Guerrero reported that the Investment Committee reviewed First Hawaiian Bank’s letter of December 27, 2007 notifying the Retirement Fund that the SEI Prime Obligation Fund (SEI) (used by the Retirement Fund as the Money Market sweep vehicle for its Investment Manager’s administrative account) is no longer on its approved list. Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the listing of approved funds and directed Management to obtain Investment Manager feedback. The Investment Committee will make a selection thereafter.

Controller Bernardo stated that there are certain investments that they are willing to recommend to their clients. The SEI is not one that they would recommend. Chairman San Agustin asked whether the Board ever sanctioned that list. Controller Bernardo stated that it’s been a while. Treasurer Cruz stated that the SEI has not been touched. Secretary Taylor mentioned the Sweep Account. Treasurer Cruz stated that the Sweep Account is separate. Director Blas stated that the money market sweep vehicle is for the operating accounts. Chairman San Agustin recommended that a Request for Proposal (RFP) be issued for banking relationship. Director Blas stated that the Retirement Fund is asking for a separate money market sweep account for custody. Mrs. Bordallo made an objection. The use of First Hawaiian Bank is not contingent on our off-island custodial services. Mrs. Bordallo stated that the Retirement Fund just ordered checks from First Hawaiian Bank and also using First Hawaiian Bank is a convenience to the Retirement Fund. Director Blas reiterated that there are two separate services. Chairman San Agustin acknowledged that there are two separate services.

Vice-Chairman Leon Guerrero asked about the custody sweep. Director Blas asked whether Vice-Chairman Leon Guerrero’s concern is due to the switch over. Treasurer Cruz asked how soon would the switch over take place. Director Blas stated that Northern Trust would like to have thirty (30) days minimum to audit all transactions - so we are looking at six to eight weeks. Chairman San Agustin suggested tabling this item.

***Request for Proposals (RFPs) Pending*** – Vice-Chairman Leon Guerrero reported that the Investment Committee discussed the status of the following RFPs: 1) Custodial Bank Services; 2) Real Estate Investment Trusts (REITs); 3) U.S. Domestic Small Cap Core Equity; 4) U.S. Domestic Core Fixed Income; 5) U.S. Domestic Large Cap Growth Equity; 6) U.S. Domestic Large Cap Value Equity; and 7) Proxy Voting. Vice-Chairman Leon Guerrero mentioned that Director Blas had earlier reported on the status of the RFPs.

***Mercer Investment Consulting, Inc.’s (Mercer’s) Quarterly Meetings and Annual Manager Reviews*** - Vice-Chairman Leon Guerrero reported that the Investment Committee has scheduled the December 31, 2007 Quarterly Performance Meeting with Mercer and the Annual Review of the following Investment Managers for March 12 and 13, 2008: 1) Capital International, Inc.; 2) Dimensional Fund Advisors, Inc.; 3) AXA Rosenberg Investment Management LLC; and 4) Fisher Investments.

Director Blas stated that she is recommending moving the Board meeting date from the second Friday to the last Friday of each month which would become effective in March 2008. The Quarterly Performance Meeting with Mercer and the Annual Review scheduled for March 12 and 13, 2008 would need to be moved to coincide with the March 28, 2008 Board meeting date. Director Blas stated that she would check with Mercer on whether they would be available at the end of March. Director Blas stated that she would also like to ask the Investment Committee and the Members and Benefits Committee to move up their meeting dates.



**Trustee George Santos, seconded by Trustee Katherine Taitano, moved to approve the recommendation that the Board of Trustees Regular Meeting date be moved to the last Friday of each month which would become effective in March 2008. Without objection, the motion passed.**

**C. Audit Committee**

Director Blas reported that the Audit Committee will meet sometime next week.

**D. Governmental Liaison**

Director Blas stated that the status of pending legislation was reported earlier.

*Trustee Katherine Taitano asked to be excused from the meeting at this time (1:45 p.m.).*

**IX. OLD BUSINESS**

**A. Retirement Fund Statistical Information**

Director Blas stated that after discussing this matter with the administrators, Director Blas stated that they felt that they could provide the information that the Chairman needs. Director Blas stated that she would need direction on the information needed and the frequency of the information needed. Vice-Chairman Leon Guerrero stated that the information provided is always upon a request from the Chairman. The information should be provided to the Board on a regular basis. Director Blas stated that reports are provided quarterly from the managers and the data of membership is provided monthly. Vice-Chairman Leon Guerrero stated that the information is usually readily available, but it seems that the Chairman needs to request for it. Chairman San Agustin asked what is the problem with having a statistical unit established. Chairman San Agustin stated that the Retirement Fund has not had an annual report for the past four years. Chairman San Agustin stated that the Board needs a consistent, ongoing reporting system. Treasurer Cruz asked whether Northern Trust would be able to provide reports on transactions from their system. Director Blas stated that the information is reported on the actuary by statistics. Director Blas stated that she will dedicate one person to perform this task. Vice-Chairman Leon Guerrero stated that the Retirement Fund relies too much on Mercer. Chairman San Agustin stated that an in-house statistical unit will take care of this matter. Director Blas stated that she would find a position to accomplish this.

**X. NEW BUSINESS**

None

**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 2:05 p.m. on Friday, February 8, 2008 and will reconvene on Friday, February 22, 2008, at 12:00 p.m. in the Retirement Fund Conference Room. Motion passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 8, 2008 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 28, 2008.**

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**James J. Taylor, Board Secretary**

**RECORDING SECRETARY:**

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**Jackie Blas**