

BOARD OF TRUSTEES
Reconvened Regular Meeting
Friday, February 22, 2008, 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 reconvened at 12:00 p.m. Friday, February 22, 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 (*12:23 p.m.*)
Katherine T.E. Taitano, Trustee
Antolina S. Leon Guerrero, Trustee

Board of Trustees Absent:

George A. Santos, Trustee

Staff Present:

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

Legal Counsel Present:

Elyze McDonald, Carlsmith Ball LLP (*1:34 p.m.*)

Public Present:

Dave Burger, Burger & Comer
George Castro, Certified Court Reporter

Chairman San Agustin stated that the Board of Trustees will now reconvene its regular meeting from Friday, February 8, 2008. Chairman San Agustin stated that the Board of Trustees will be entertaining, at today's meeting, the Fiscal Year 2007 Audit, legal matters, and the Selection Panel's report on the status of the Request for Proposals (RFPs).

II. AUDIT COMMITTEE
A. Fiscal Year 2007 Audit

Chairman San Agustin asked whether the Public Auditor, Doris Flores Brooks, will be in attendance at today's meeting. Controller Diana Bernardo stated that Mrs. Brooks had indicated that the Office of the Public Auditor (OPA) is pre-occupied with the procurement appeals and would not be able to attend today's meeting.

Treasurer Gerard Cruz stated that Mr. Dave Burger from Burger & Comer would report to the Board of Trustees on the Fiscal Year 2007 Audit. Mr. Burger stated that the financial statements were reviewed at committee level. There are additional documents, provided at this meeting: the Compliance and Internal Control Report, the Management Letter, and the Highlights from the OPA. Mr. Burger stated that the highlights from the OPA would have to be changed.

Mr. Burger stated that there are no reportable findings in the Compliance and Internal Control Report. There are no deficiencies in internal control, no violation of employment controls or violations of laws or regulations. Mr. Burger stated that the wording on the compliance report has changed from last year based on the revisions imposed by the *Government Auditing Standards*. Chairman San Agustin stated that the Compliance Report should be different each year. Mr. Burger stated that the boiler plate language changed for Fiscal Year 2007. Mr. Burger stated that he is still waiting for answers from the Management Letter. Mr. Burger stated that he wrote up the situation as it exists at this time. Chairman San Agustin asked what are the questions posed. Mr. Burger stated that the Management Letter is broken down into two parts: the current year finding and the prior year finding being repeated.

1) Current Year Finding:

Forfeitures – Mr. Burger stated that it was finally decided that the Plan must pay for the operation. Forfeiture money was used to recover expenses. Chairman San Agustin asked whether there is an explanation on the impact included in the report. Chairman San Agustin asked whether there is an audited forfeiture account. Mr. Burger replied, "Yes." Chairman San Agustin asked what the change is. Mr. Burger stated that it's on the study and the allocation. Chairman San Agustin asked where the study is. Mr. Burger asked Controller Bernardo to provide the Chairman with the allocation. Controller Bernardo stated that in Fiscal Year 2002, we reported a finding related to the lack of a mechanism to use forfeited employer contributions to recover plan administrative expenses. Treasurer Cruz stated that Public Law 28-141 clarified the method by which the Retirement Fund could use the forfeiture funds. Public Law 28-141 gave Management discretion to develop a formula so forfeiture money could be used to offset general administrative expenses. Chairman San Agustin asked that this be cited in the report. Mr. Burger stated that he will expand on this matter.

Defined Contribution (DC) Plan Expenses – Mr. Burger stated that he is trying to get this answered. Mr. Burger stated that he is not able to complete this task at the local level with Great West Retirement Services (Great West). Treasurer Cruz asked whether the information is provided in the Third Party Administrator (TPA) contract. Mr. Burger stated that the contract with the TPA addresses that

participants are charged \$13.52 per quarter plus quarterly billings for their expenses subject to an annual limit. Vice-Chairman Wilfred Leon Guerrero stated that we are looking at \$18.00 per quarter per participant. Mr. Burger stated that the \$13.52 in the contract is roughly \$450,000.00 a year to the TPA. The \$4.10 gets deducted from the participants but goes back to the Plan. The 65 basis points on the stable value fund get deducted and go back to the Plan. Mr. Burger stated that the 12b-1 fees and the profile series come from another source. Treasurer Cruz stated that the 12b-1 fees are from the managers. Director Paula Blas stated that it then comes back to the Plan and offsets their expenses. Mr. Burger stated that it just recently comes back to the Plan. Chairman San Agustin stated that there is cause to develop an investigation. Treasurer Cruz suggested that a letter be sent to Great West of the Retirement Fund's intent to investigate this matter. Mr. Burger stated that he was told by the local office (Great West) that a letter was sent to their boss off-island. Trustee Katherine Taitano stated that Management should still send a letter to Great West. Mr. Burger stated that Great West has been in half of Fiscal Year 2008 and he would still have to ask the same question again for Fiscal Year 2008. Vice-Chairman Leon Guerrero stated that the Board should write a letter regarding this matter. Mr. Burger stated that he will include a sentence that states that he recommends that the Board investigate this matter further. Mr. Burger stated that this item will go back to the OPA. Mr. Burger stated that he has sent an email to the OPA that he could release the audit report and the Compliance and Internal Control Report but would hold off on the Management Letter. Controller Bernardo stated that the OPA is aware that there are pending items and that there may be additional findings. Controller Bernardo recommended for the Board to consider approving the report if there are no other issues, subject to review of the Audit Committee. Chairman San Agustin stated that it does not work that way. Treasurer Cruz asked whether we are just waiting on the Management Letter. Mr. Burger stated that if the Management Letter was going to be issued today, he would expand on the first part. Director Blas stated that once the Board approves the audit report, it would be sent to the OPA. Mr. Burger stated that the OPA will issue their highlights at the same time as the financials and the compliance report are placed on the website.

Secretary James Taylor arrives at this time (12:23 p.m.)

Chairman San Agustin suggested sending the whole package at the same time. Chairman San Agustin stated that the completed staff work should first go to the Board of Trustees. Director Blas stated that the OPA does not make any approvals. Mr. Burger stated that the OPA writes up their own highlights based on the final documents.

2) Prior Year Finding Being Repeated:

Disaster Recovery Plan – Director Blas stated that there is a procedure in place for storing backups, although a written disaster recovery plan is not in place. Chairman San Agustin asked what kind of recovery plan we are talking about. Mr. Burger stated that it is for the entire facility. Secretary James Taylor suggested hiring an outside consultant. Chairman San Agustin stated that there must be a comprehensive plan. Mr. Burger stated that there is no centralized comprehensive written plan. Chairman San Agustin asked when the imaging project would be implemented. Director Blas stated that Management is trying to get the imaging system inter-related to the current system which is the AS400. Chairman San Agustin asked how far back the imaging of records would go. Director Blas replied, "From inception." Chairman San Agustin asked whether there are any duplicate copies. Rosalia Bordallo, General Accounting Supervisor, replied, "No." Chairman San Agustin asked Mrs. Bordallo whether she is afraid knowing that there are no duplicate copies. Mrs. Bordallo replied, "No." Bordallo stated that the AS400 would have the record of retirees on payroll. The AS400 is very good in tracking current membership. Secretary Taylor asked Mrs. Bordallo to give him assurance that

there is no problem. Chairman San Agustin stated that the Retirement Fund is solely relying on the AS400. Mrs. Bordallo stated that a full system back-up is done monthly and then it is sent to the Bank of Guam to be stored in a safe deposit box. Trustee Antolina Leon Guerrero asked whether there is a need of the imaging system if there is already back-up being done monthly. Director Blas stated that there are other documents that would need imaging. Director Blas stated that the imaging project is labor intensive. Treasurer Cruz asked whether there is a resolution. Treasurer Cruz suggested developing a plan. Secretary Taylor suggested bringing in someone to develop a plan. Chairman San Agustin stated that he agrees with Secretary Taylor on bringing in someone to create or develop a plan. Treasurer Cruz asked whether we could still run the payroll system during a disaster. Director Blas stated that retirees' payroll was still processed after Typhoon Pongsona. Chairman San Agustin asked whether the plan would be developed in-house or with outside assistance. We may need to issue a Request for Proposal (RFP). Director Blas stated that we need to get the Disaster Recovery Plan completed. Chairman San Agustin asked what the target date is for completing the Disaster Recovery Plan. Treasurer Cruz replied, "Within ninety (90) days." Vice-Chairman Leon Guerrero stated that the plan can not be accomplished in 90 days. Director Blas stated that a written policy could be completed in 90 days. A comprehensive plan could be done thereafter. Treasurer Cruz stated that he will provide an outline to start off the plan. Mr. Burger stated that the compliance deadline is September 30, 2008. Vice-Chairman Leon Guerrero stated that the target date for completion should be September 30, 2008.

Office of the Public Auditor (OPA) Fiscal Year 2007 Highlights – Secretary Taylor stated that the OPA has done an excellent job; however, their key mistake is that there is no comparable data. We don't have comparative information on other public pension plans. Secretary Taylor stated that Mercer has provided the information in their quarterly report. Chairman San Agustin asked what the impact of not funding the fund is. Secretary Taylor stated that, although the Legislature and the Governor have increased the level of contribution, the actual funding ratio is still going down. Mr. Burger stated that he has written up this issue in the past. Chairman San Agustin suggested to add it back in. Treasurer Cruz stated that the amount liquidated has gone down. Mr. Burger stated that he could repeat his previous comments – "Management strongly urges and recommends the Guam Legislature to (1) fully fund the actuarially determined contribution rate each year, (2) consider modifying the Defined Benefit Plan (DB Plan) to reduce benefits and set a maximum annual annuity in dollar amount and (3) consider offering incentives to induce DB Plan members to transfer to the Defined Contribution Plan (DC Plan)." Secretary Taylor stated that five years from now if the Retirement Fund goes bankrupt, the auditor will also be criticized. Mr. Burger stated that he could repeat the statement. Chairman San Agustin asked whether the OPA fully support the three recommendations. Chairman San Agustin asked what progress has been made on the three recommendations. Treasurer Cruz stated that there are other things the Retirement Fund could do to address the unfunded liability instead of considering modifying the DB Plan to reduce benefits and set a maximum annual annuity in dollar amount. Vice-Chairman Leon Guerrero asked what other things the Retirement Fund could do. Treasurer Cruz stated that the Retirement Fund could better the investment portfolio, closing up the holes on the payouts, address collection, and have the Legislature fund at the actuarial rate. Vice-Chairman Leon Guerrero stated that the Board should go on record indicating options and transmit it to the Legislature. Chairman San Agustin stated that recommendations 1 and 2 are contradictory. Trustee Taitano stated that 1 and 2 are not necessarily contradictory. Chairman San Agustin asked whether the Board would support the Legislature on modifying the DB Plan. Trustee Taitano replied, "Not before you have exercised everything you could." Chairman San Agustin stated that he will not support that. Chairman San Agustin recommended reconsidering the wording on this paragraph. Trustee Taitano suggested deleting recommendation 2. Director Blas stated that recommendation 2 will be deleted. Chairman San Agustin used the sale of the Guam Telephone Authority (GTA) as an example with regards to

GTA retirees being covered on their unfunded portion. Chairman San Agustin asked whether the Retirement Fund could fund the current retirees. Trustee Cruz stated that the Retirement Fund would have to continue to fund them. Mrs. Bordallo stated that those not on the roll cannot retire and will not retire. Trustee Cruz asked why separate the contributions from those who are already invested. Chairman San Agustin stated that the formula of the contributions is broken down into various components which include the unfunded component. Secretary Taylor stated that he would like to see some comparable data. Secretary Taylor also noted that one paragraph needs to be enhanced and we need to have the auditor continue to say something about being actuarially sound.

Treasurer Gerard Cruz, seconded by Trustee Katherine Taitano, moved to approve the Fiscal Year 2007 Audit Report, subject to corrections as discussed. Without objection, the motion passed.

III. INFORMATIONAL ITEMS

A. Opal Financial Group Institutional Investor Education Benefit Forum, May 5-7, 2008, San Antonio, Texas

Chairman San Agustin informed the Board of Trustees that the Opal Financial Group's Institutional Investor Education Benefit Forum is scheduled for May 5-7, 2008 at the Westin Riverwalk in San Antonio, Texas.

B. Financial Research Associates (FRA) Real Estate Derivatives 2008, May 15-16, 2008, New York City

Chairman San Agustin informed the Board of Trustees that the Financial Research Associates' Real Estate Derivatives 2008 Conference is scheduled for May 15-16, 2008 at the Flatotel in New York City.

IV. STANDING COMMITTEE REPORTS

A. Investment Committee

1. Status of Request for Proposals (RFPs)

a. Request for Proposal (RFP) – GGRF 003-07: U.S. Domestic Publicly Traded Real Estate Investment Trusts (REITS)

Treasurer Cruz stated that the Selection Panel, based on the evaluation factors, ranked Cornerstone Real Estate Advisers and Security Capital Research & Management to be the best-qualified firms to provide professional services related to providing investment management services specifically in the U.S. Domestic Publicly Traded Real Estate Investment Trusts (REITS). Treasurer Cruz stated that the Selection Panel recommends that the Board select Cornerstone Real Estate Advisers and Security Capital Research & Management, with an allocation of 10%, in response to RFP No. GGRF 003-07 (Investment managers for the U.S. Domestic Publicly Traded Real Estate Investment Trusts) mandate related to the Defined Benefit Plan. Upon approval by the Board of the Selection Panel's recommendation, the Director is directed to complete the necessary administrative requirements to complete the RFP process. Chairman San Agustin asked whether any of the new managers have been funded. Treasurer Cruz stated that the contract has not been signed. Chairman San Agustin again asked whether the contracted new managers been funded. Director Blas replied, "No." Mrs. Bordallo stated that funds have to be reallocated. Chairman San Agustin asked how many value managers we have. Treasurer Cruz replied "There are currently two value managers plus Robecco."

Treasurer Gerard Cruz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve the Selection Panel's recommendation of CORNERSTONE REAL ESTATE ADVISERS and SECURITY CAPITAL RESEARCH & MANAGEMENT, with a total mandate of 10%, in response to RFP No. GGRF 003-07. Without objection, the motion passed.

Trustee Katherine Taitano asked to be excused from the meeting at this time (1:30 p.m.)

b. Request for Proposal (RFP) – GGRF 004-07: U.S. Domestic Small Capitalization Core Equity

Secretary Taylor stated that the Retirement Fund does not formally have a Small Cap Core Equity fund. The Selection Panel determined two from Mercer's analysis – Cadence Capital Management (Cadence) and Thomson Horstmann & Bryant (THB). Secretary Taylor stated that Cadence dropped out. Secretary Taylor stated that THB was very impressive. The Selection Panel recommends that the Board select Thomson Horstmann & Bryant in response to RFP No. GGRF 004-07 (Investment Managers for the U.S. Domestic Small Capitalization Core Equity) mandate related to the Defined Benefit Plan. Chairman San Agustin inquired about the asset allocation. Vice-Chairman Leon Guerrero stated that the allocation would come from a large cap. The current large cap allocation is 39.87%. The proposed allocation is 30%. Treasurer Cruz stated to allocate 10%. Vice-Chairman Leon Guerrero stated that the large cap allocation would be 30% and the small cap allocation would be 10%.

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to approve the Selection Panel's recommendation of THOMSON HORSTMANN & BRYANT, with a total mandate of 10% from a large cap, in response to RFP No. GGRF 004-07. Without objection, the motion passed.

c. Request for Proposal (RFP) – GGRF 030-07: U.S. Domestic Large Cap Growth Equity

Secretary Taylor stated that the Selection Panel determined three qualified from Mercer's analysis – Intech, Winslow Capital Management and Wells Capital Management. Secretary Taylor stated that the Selection Panel was impressed with Intech and Winslow. The Selection Panel recommends that the Board select Intech and Winslow Capital Management in response to RFP No. GGRF 030-07 (Investment managers for the U.S. Domestic Large Capitalization Growth Equity) mandate related to the Defined Benefit Plan. Chairman San Agustin inquired about the asset allocation. Vice-Chairman Leon Guerrero stated that the allocation would be 30%. Vice-Chairman Leon Guerrero stated that there are currently two on board. The recommendation is to hire two managers. There is an issue on the other two managers. Secretary Taylor stated that Mercer has recommended doing away with Davis Hamilton Jackson & Associates and that RCM is questionable. Vice-Chairman Leon Guerrero stated that the Investment Committee would sort out the four managers. Treasurer Cruz recommended approval in order to get the contract moving and to sort out the four managers prior to funding.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Selection Panel's recommendation of INTECH and WINSLOW CAPITAL MANAGEMENT, with a total mandate of 30%, in response to RFP No. GGRF 030-07. Without objection, the motion passed.

d. Request for Proposal (RFP) – GGRF 029-07: U.S. Domestic Core Fixed Income

Treasurer Cruz stated that the Selection Panel’s recommendation is Davis Hamilton Jackson & Associates and Income Research & Management, with a 30% allocation. Treasurer Cruz stated that both Aberdeen and Franklin Templeton were acquired by acquisition. Vice-Chairman Leon Guerrero stated that the Investment Committee will sort out the managers. Treasurer Cruz stated that the Selection Panel recommends that the Board select Davis Hamilton Jackson & Associates and Income Research & Management in response to RFP No. GGRF 029-07 (Investment managers for the U.S. Domestic Core Fixed Income) mandate related to the Defined Benefit Plan. Treasurer Cruz stated, for the record, that Wamco is still on the approved list of money managers. Wamco was defunded but was not officially terminated.

Treasurer Gerard Cruz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve the Selection Panel’s recommendation of DAVIS HAMILTON JACKSON & ASSOCIATES and INCOME RESEARCH & MANAGEMENT, with a total mandate of 30%, in response to RFP No. GGRF 029-07. Without objection, the motion passed.

V. OLD BUSINESS

A. Retirement Fund Statistical Information

Chairman San Agustin posted statistical charts in the conference room bulletin board.

B. Government of Guam Retirement Fund vs. Ralph Gutierrez

Legal Counsel Elyze McDonald stated that the motions for summary judgment are still pending. The parties have not reached a resolution on settlement. Chairman San Agustin asked whether there are any counteroffers. Legal Counsel McDonald stated that they did receive counteroffers based on the authority provided to her. Treasurer Cruz asked who is hearing the case. Legal Counsel McDonald replied, “Judge Arthur Barcinas.”

VI. NEW BUSINESS

A. Request for Proposal (RFP) – Regular Banking Services

Chairman San Agustin stated that the Selection Panel for the banking services RFP will consist of Vice-Chairman Wilfred Leon Guerrero, Secretary James Taylor and Trustee Antolina Leon Guerrero. Chairman San Agustin stated that there will be no staff on the Selection Panel, but that staff support would be provided.

VII. EXECUTIVE SESSION

A. Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA)

Legal Counsel McDonald stated that she is the Attorney for the Board of Trustees and as such, she is recommending that the Board of Trustees conduct an executive session to discuss legal issues related to potential litigation involving the Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA), SP231-02.

Trustee Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve that the Board of Trustees go into Executive Session. Without objection, the motion passed.

EXECUTIVE SESSION: 1:51 P.M.

RECONVENED: 2:45 P.M.

At this time Chairman San Agustin announced that the Board of Trustees has returned to its regular meeting.

Legal Counsel McDonald certified that the only matters discussed during the executive session were related to the Retirement Fund's participation in the GMHA case. Legal Counsel McDonald stated that she will be signing a declaration to that effect.

Chairman San Agustin stated that Legal Counsel McDonald will now report on the status of some of the legal cases pending:

Great West Retirement Services (Great West) Appeal – Legal Counsel McDonald stated that a decision was supposed to be rendered by this week. The OPA had asked for additional documentation which was provided earlier this week. Chairman San Agustin asked what documents. Legal Counsel McDonald replied, “Log of bids received and the evaluation sheets.” Director Blas stated that the actual draft decision has been completed. Treasurer Cruz asked how the argument on the appeal was. Legal Counsel McDonald stated that the argument went well. Director Blas stated that the audio version is available on the OPA's website. Chairman San Agustin asked what Legal Counsel's analysis on the case is. Legal Counsel McDonald stated that the Retirement Fund has a good case. The Retirement Fund was justified in terminating negotiations based on a lack of responsiveness on the part of Great West. Great West's argument was pretty weak. Legal Counsel McDonald stated that Great West asked that the confidential sealed documents be released. Legal Counsel McDonald stated that the hearing officer ruled in the Retirement Fund's favor. Chairman San Agustin asked what would be the next step. Legal Counsel stated that the next step would be to review the decision issued by the OPA. Secretary Taylor stated that based on the auditor's report earlier today on Great West there may be even more reason.

Carl T.C. Gutierrez - Vice-Chairman Leon Guerrero inquired about the status of former Governor Gutierrez's case. Director Blas stated that the matter is completely done.

Richard Saville – Legal Counsel McDonald stated that there is a motion for summary judgment which was filed by the Retirement Fund. Legal Counsel McDonald stated that Mr. Saville's counsel is seeking for a Writ for Mandamus. The Retirement Fund presented a very strong motion. The hearing on the motion for summary judgment is scheduled for May 8, 2008. Chairman San Agustin stated that Mr. Saville applied for disability but then retired on age. Treasurer Cruz inquired about the variance of the current age annuity versus disability annuity. Director Blas stated that it would be from the time he applied for disability to the time he died. Director Blas stated that we are looking at about \$60,000.00 to \$80,000.00. Treasurer Cruz stated that Mr. Saville's case is that he was wrongfully denied disability retirement.

VIII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

IX. ANNOUNCEMENTS

None

X. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Treasurer Gerard Cruz, seconded by Trustee Antolina Leon Guerrero, and without objection, the meeting was adjourned 2:52 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 22, 2008 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on June 27, 2008.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas