

BOARD OF TRUSTEES
Regular Meeting
Friday, March 14, 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 was called to order at 12:15 p.m. Friday, March 14, 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
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee
Antolina S. Leon Guerrero, Trustee

Board of Trustees Absent:

James J. Taylor, Secretary (*Off-Island*)

Staff Present:

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

Public Present:

Antonio T. Pangelinan, University of Guam (Plant Maintenance)
Winton Young, First Hawaiian Bank
Terry Dennison, Mercer Investment Consulting, Inc.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 8, 2008 Regular Meeting and February 22, 2008 Reconvened Meeting

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to table approval of the Minutes of February 8, 2008 Regular Meeting and February 22, 2008 Reconvened Meeting. Without objection, the motion passed.

III. CORRESPONDENCE

A. March 11, 2008 Letter from George Bamba, Governor's Chief of Staff, Regarding Letter Sent to Senator Edward Calvo Regarding Insurance Payments for Government of Guam Retirees

Chairman San Agustin stated that he received a copy of Governor Felix Camacho's letter to Senator Edward Calvo regarding insurance payments for Government of Guam retirees. Chairman San Agustin stated that the Governor suggested that the Retirement Fund lobby to make sure that the Legislature make the necessary appropriation to cover the shortfall of \$11.7 Million for the health insurance for retirees.

IV. INFORMATIONAL ITEMS

A. Marianas Business Journal Article – “Supreme Court Extends Remedies to Individual 401(k) Plan Participants in Some Cases” – Chairman San Agustin stated that the article states that the U.S. Supreme Court recently held that 401(k) plan participants can sue their fund managers in federal court for losses resulting from the manager's breach of fiduciary duty. Chairman San Agustin stated that the letter from the Retirement Fund's Legal Counsel states that this article does not apply to the Retirement Fund. Director Paula Blas stated that this applies to the 401(k) plans governed by ERISA. This is not applicable to the Government of Guam Retirement Fund's 401A Plan.

B. Pensions & Investments Article – “Time to Rethink Performance Measurement” – Chairman San Agustin stated that the Retirement Fund has been discussing the different methodologies in improving performance of investment managers. Chairman San Agustin stated that this is for informational purposes.

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 the Promissory Note assigned to the COLA Class is pending Bank of Guam's closure on the purchase. Director Blas stated that the Retirement Fund will handle the distribution of the checks through General Fund checks. The Department of Administration (DOA) and the Retirement Fund will work out a Memorandum of Understanding (MOU) with regards to the procedure. The Retirement Fund will open a separate account strictly for the COLA distribution. Director Blas stated that the interest earned is still being negotiated with DOA. There are administrative costs incurred by the Retirement Fund. Chairman San Agustin asked about the pending COLA payments. Director Blas stated that it is with the General Fund. Treasurer Gerard Cruz asked how much is left in the COLA Class. Director Blas replied, “32 Million.” Director Blas stated that once this is completed, the COLA certificates would be established. Chairman San Agustin asked what the cost of administering the COLA award is. Director Blas stated that the cost would be calculated. Chairman San Agustin stated that the COLA does not belong to the Retirement Fund. Director Blas stated that, by law, the Retirement Fund administers the COLA.

Director Blas stated that pursuant to Public Law 29-19, the Guam Economic Development and Commerce Authority (GEDCA) will proceed to issue the actual credit. It is not known when this will be issued.

2. ***Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA) (Case No. SP0231-02)*** – Director Blas stated the motion filed by the defendants will be heard today. Director Blas stated that the Retirement Fund’s Legal Counsel acted based on the Board’s decision on the matter.
3. ***Organic Act / Trust Agreement*** – Director Blas stated that this is pending Secretary Taylor’s comments and recommendations.
4. ***Request for Proposal (RFP): Custodial Bank Services*** – Director Blas stated that contractual negotiations are ongoing.
5. ***Request for Proposal (RFP): Real Estate Investment Trusts (REITS)*** –Director Blas stated that price negotiations are ongoing.
6. ***Request for Proposal (RFP): Small Capitalization Core Equity*** – Director Blas stated that price negotiations are ongoing.
7. ***Request for Proposal (RFP): Legal Services*** – Director Blas stated that the Selection Panel will be meeting next week when Secretary Taylor returns.
8. ***Request for Proposal (RFP): U.S. Domestic Core Fixed Income*** – Director Blas stated that price negotiations are ongoing.
9. ***Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity*** – Director Blas stated that price negotiations are ongoing.
10. ***Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity*** – Director Blas stated that contractual negotiations are ongoing.
11. ***Request for Proposal (RFP): Proxy Voting Services*** – Director Blas stated that Vice-Chairman Wilfred Leon Guerrero is chairing this panel.
12. ***Public Law 28-38*** –Director Blas stated that the interest payments for the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) have been received. Chairman San Agustin stated that this is an automatic deduction from the treasury.
13. ***Staff Training and Development*** – Director Blas stated that she has compiled a schedule from the Retirement Fund’s division heads with regards to staff training. Director Blas stated that thirty-five to forty staff will be attending training this year. Staff may attend two to three trainings depending on their position. There are summer classes offered on the Doc Sanchez Scholarship Program. Vice-Chairman Leon Guerrero asked whether there is any staff training on investments. Director Blas replied, “Yes, there are three slotted for investments training.” Director Blas stated that training is

scheduled for April and May 2008. Trustee Katherine Taitano stated that there are training packages regarding on-line courses. Director Blas stated that some of the staff has taken courses on-line.

Financial Report

1. Contributions – Director Blas stated that 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 February 2008 were closed on March 13, 2008. Director Blas stated that the audit has been issued.

3. Fiscal Year 2008 Retirees' Supplemental Benefits – Director Blas stated that the supplemental benefits have been paid.

4. Medicare Reimbursements – Director Blas stated that the Medicare reimbursements have been processed. Chairman San Agustin mentioned that Mr. Eloy Hara had confronted him that he was not made aware of the Medicare premium reimbursements.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Gerard 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 January 31, 2008.

Treasurer Cruz stated that the audit has been completed. The audit is available on the Office of the Public Auditor's (OPA's) website. Chairman San Agustin stated that some of the findings need to be addressed. Chairman San Agustin stated that one of those findings is the forfeiture. Chairman San Agustin stated that the forfeiture would be used for cost incurred. We would need to show that the Plan is now paying for itself. Chairman San Agustin stated that there would always be the question of whether the money should be allocated to the agencies or applied to the participants.

Treasurer Cruz stated that we should expect to see some negative returns. Chairman San Agustin inquired about the cash flow. Treasurer Cruz stated that the drawdown schedule that was approved is still relevant. Treasurer Cruz stated that he would like to see the allotments come in on time. Chairman San Agustin asked where the drawdown would come from. Treasurer Cruz stated that it would come from the managers with capital gain.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Chairman San Agustin inquired about the age retirement applications without survivor's annuity. Director Blas stated that if a retiree, without a surviving spouse or minor child, passes away just months after retirement, the excess contributions will then go to the designated beneficiary. Director Blas stated that an assessment of the excess contributions is made at the time of death.

Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 18, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of February 20, 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 February 29, 2008. The Committee discussed the status of the following Request for Proposals (RFPs):

- a. Custodial Bank Services
- b. Real Estate Investment Trusts (REITs)
- c. U.S. Domestic Small Cap Core Equity
- d. U.S. Domestic Core Fixed Income
- e. U.S. Domestic Large Cap Growth Equity
- f. U.S. Domestic Large Cap Value Equity
- g. Proxy Voting

Vice-Chairman Leon Guerrero further reported that the Performance Review with four managers (AXA Rosenberg Investment Management LLC, Fisher Investments Institutional Group, Capital International, Inc. and Dimensional Fund Advisors, Inc.) was held on March 12 and March 13, 2008. Vice-Chairman Leon Guerrero stated that Mr. Terry Dennison, Mercer Investment Consulting, Inc., discussed the investment performance of the Defined Benefit (DB) Plan for the quarter ended December 31, 2007. Vice-Chairman Leon Guerrero stated that the market was not that good during the past few months. Vice-Chairman Leon Guerrero stated that Mr. Dennison will make a presentation, under the New Business portion of the agenda, on the 130-30 Funds and Rule 144A Securities. Chairman San Agustin requested to attach the transcription of the performance review to the Investment Committee report.

C. Audit Committee

Treasurer Cruz stated that he had reported the Fiscal Year 2007 Audit in his Treasurer's Report.

D. Governmental Liaison

No report was made at this time.

IX. TRAVEL REPORT

A. Wilfred P. Leon Guerrero: International Foundation of Employee Benefit Plans (IFEBP) Trustees and Administrators Institutes, February 11-13, 2008, Lake Buena Vista, Orlando, Florida

Chairman San Agustin stated that Vice-Chairman Leon Guerrero has submitted his travel report for the IFEBP Trustees and Administrators Institutes Conference he attended on February 11-13, 2008 in Orlando, Florida.

X. OLD BUSINESS

A. Actuary Recommendation

Chairman San Agustin inquired about the status of the management review recommendation. Director Blas stated that a good portion of the recommendation has been implemented. Director Blas stated that she will report on this matter at the next meeting.

B. Government of Guam Retirement Fund Annual Report

Chairman San Agustin stated that there has been no annual report since 2003. There has been no newsletter in awhile. Chairman San Agustin suggested going out on a Request for Proposal (RFP) to write and compile the information for the annual report. Vice-Chairman Leon Guerrero recommended that Management be directed to issue an RFP for the publication of the annual report.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Katherine Taitano, moved to approve that Management be directed to issue a Request for Proposal (RFP) for the publication of the Retirement Fund's annual report for Fiscal Years 2004 through 2007. Without objection, the motion passed.

XI. NEW BUSINESS

A. Market Analysis and Review of the Retirement Fund Investments

Terry Dennison, Mercer Investment Consulting, Inc. (Mercer), has provided, at this meeting, a copy of Mercer's report on the Retirement Fund's Defined Benefit (DB) Plan for the period ending December 31, 2007.

Mr. Dennison reported that the market environment since third quarter 2007 turned very negative. The recovery on the U.S. economy which started in 2002 up to 2007 lasted three and half to four years. Mr. Dennison stated that about 22% of the Retirement Fund's assets are invested in securities outside of the U.S.

Mr. Dennison stated that the performance for the calendar year was a 9.9% return. The median public fund return was 8.3%. The Retirement Fund did 1.6% better than the median return. The Retirement Fund was in the top 21% of other U.S. public pension plans. Mr. Dennison stated that if the Retirement Fund owned its strategic asset allocation as passive funds, we would have gotten a 6.9% return. The fund returned 9.4% per year for three years and 10.1% per year for five years. Mr. Dennison stated that the domestic equity did very well. It was above the median for the quarter for one

year and three years. For one year, the return for domestic equity was 10.1% which is almost twice the Standard & Poor's 500.

Mr. Dennison stated that the international equity performance for shorter periods was not as attractive. The returns achieved for one year and five years were better than the domestic equity. The Retirement Fund benefited from the international investing. Mr. Dennison stated that the emerging markets return when up 3.4%. For one year, Capital Research & Management (CRM) was up 39.5 % which by far the strongest performer of any asset class.

Mr. Dennison stated that the fixed income is about benchmark performance. Mr. Dennison stated that Vice-Chairman Leon Guerrero had earlier mentioned the extended equity funds or 130-30 funds. This provides a manager doing well an opportunity to increase the contributions they are making to our return. Mr. Dennison stated that Metropolitan West's (Met West's) performance has been stellar. Met West was up 60 basis points when the index was down 5.8% which puts them in the top 6%.

Mr. Dennison spoke on risk. There is a trade off between risk and return. Mr. Dennison stated that you must adopt an investment strategy whose risk profile you are comfortable with. Mr. Dennison stated that he spoke to the Chairman and had suggested that in light of new market environment, it would be good to revisit the asset allocation. Mr. Dennison pointed out that the Retirement Fund has a higher return at somewhat higher level of risks. The Retirement Fund made money by accepting a little more risk. The level of risk is relatively low.

Mr. Dennison stated that the chart on the board shows the Retirement Fund's annual rate of returns of its investments by fiscal year. For the last four years, the Retirement Fund matched or significantly exceeded its actuarial assumption. The returns have been relatively steady. The investments in emerging markets have been very beneficial. Mr. Dennison stated that we can't guarantee a 16.2% rate of return as we did in Fiscal Year 2007. There is a connection between the fact that we have not gotten the funding needed, therefore we have gotten less money. Mr. Dennison stated that this has permanently damaged our ability to create wealth.

B. Mercer Presentation

Mr. Dennison stated that one of the Retirement Fund's international developed market managers, Fisher Investments Institutional Group (Fisher), has been investing a portion of the fund in emerging markets. That is not authorized by their investment agreement. Mr. Dennison asked whether we should force Fisher to go back to their guidelines and force them out of the emerging markets. Mr. Dennison stated that if an asset allocation study was done today our starting point would be a 5% allocation to emerging markets rather than the 3% we are at today partly because it reduces the risk of the total portfolio.

Mr. Dennison stated that the Retirement Fund's emerging market policy allocation is 3.00%. The total fund market value as of December 31, 2007 was \$1,380,269,004. The current CRM investment is \$59,573,661 which comprises 5.32% of total fund. CRM is 1.32% beyond the policy. The current Fisher investment is \$149 Million. Fisher is about 15% in emerging markets which is their internal limit. There is a difference between what Fisher is doing and what CRM is doing. CRM's mandate is to hold emerging markets. Fisher is asking to take up to 15% of their developed market mandate and invest it in emerging markets. The decision to hold emerging markets on the part of Fisher is a

management decision which is why they are paid a fee to use their judgment on where to invest. Fisher is proposing not to put 15% in emerging markets at all times but to have the discretion to go up to 15%. Mr. Dennison stated that if Fisher decides to put 15% of their total current dollar allocation into emerging markets that will be \$22,486,532. And, it will be a further increment versus the total fund of 1.63%. The total Pro-Forma will be now 5.95% in emerging markets. This will bring us to 2.95% above policy. Mr. Dennison stated that if the pro-forma limit was 20%, then they would put \$29,982,043 in emerging markets which is an additional 2.7%. This would give us 6.49% in emerging markets and would then be 3.49% over policy.

Mr. Dennison stated that it is to the Retirement Fund's benefit to let Fisher go to the 15% limit. Mr. Dennison stated that their recommendation would be to allow Fisher to go to the 15% limit in emerging markets. Treasurer Cruz stated that he is reluctant to make changes for Fisher. It is not a good practice for the Board to do this. Treasurer Cruz stated that it has always been the Board's practice to develop the strategic allocation, hire the managers for specific mandates and then have them graded for their performance in that specific mandate. Treasurer Cruz stated that if we want greater allocation towards emerging markets then why not stay with the manager that the Board agreed with: CRM. We can't deny the fact that Fisher made money. Trustee Cruz stated that we need to look out for a manager who is outside their authority. Chairman San Agustin asked how much tolerance would be given. Trustee Cruz asked whether we would want a manager shifting and then asking to be bailed out. Trustee Cruz stated that 3% may be too low an allocation towards emerging markets. Mr. Dennison stated that he agrees with Treasurer Cruz. Chairman San Agustin stated that we need to figure out the risk. Treasurer Cruz stated that the systematic approach would be to address the strategic allocation. Mr. Dennison stated that if the Board does not grant this, Fisher will sell out on Monday. Mr. Dennison stated that Fisher owns \$22 Million worth of securities. Chairman San Agustin stated that the Retirement Fund would get the capital gain. Mr. Dennison stated that the Retirement Fund would be charged 1% in transaction costs. Rosalia Bordallo, General Accounting Supervisor, stated that we don't have to pay for their mistake. Mr. Dennison stated that the Retirement Fund could be restored to the condition before this happened or sell out. If the Retirement Fund sells it, it would cost \$220,000. Mrs. Bordallo stated that she has seen another manager commit a violation and who not only made the Retirement Fund whole but also gave the gain. Chairman San Agustin asked whether the Retirement Fund will get the gain if sold on Monday. Mr. Dennison replied, "Yes, but it would cost \$220,000." Treasurer Cruz stated that there are two issues: the first one is that this is not a practice we want done and the other is to address the issue of freezing them at this then move forward with the new strategic allocation. Vice-Chairman Leon Guerrero asked whether we heard from them. Director Blas replied, "Yes, we received an email." Treasurer Cruz stated that Fisher is asking for a minimum limit of 15%. Mr. Dennison stated that the current allocation is 12.3%. Chairman San Agustin suggested freezing the level of their current allocation of 12.3% pending review of the strategic allocation. Treasurer Cruz suggested writing a letter that they are out of compliance. Trustee Antonina Leon Guerrero suggested specifying "out of compliance" and to maintain their current percentage. Chairman San Agustin asked how the Retirement Fund was notified. Mr. Dennison stated that Fisher was asking questions on ADR accounts. Chairman San Agustin stated that vital information needs to be brought before the Board. Vice-Chairman Leon Guerrero stated that Mrs. Bordallo did check with the consultant. Director Blas stated that it was pertaining to regulations and that we needed to confirm this with the consultant. Chairman San Agustin stated that the Investment Committee Chairman needs to be informed before hand. Chairman San Agustin stated that there is a communication breakdown. Trustee Leon Guerrero stated that Mrs. Bordallo asked the consultant whether it was allowed and the question of the mandate also came up. Trustee Leon Guerrero asked

Chairman San Agustin whether Management is not allowed to go to the consultant without going to the Board. Vice-Chairman Leon Guerrero asked Mrs. Bordallo to make sure that he gets a copy of the emails. Chairman San Agustin inquired about the strategic allocation. Mr. Dennison stated that he will not be able to make the May 30, 2008 Board meeting. Mr. Dennison stated that he would work with Management on the schedule.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve to allow Fisher Investments Institutional Group to maintain their current allocation of 12.3% pending review of the strategic allocation. Without objection, the motion passed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Chairman San Agustin recognized Mr. Winton Young from First Hawaiian Bank. Mr. Young thanked the Board for having First Hawaiian Bank as the Retirement Fund's custodian for banking services since 1974 to present. Mr. Young stated that First Hawaiian Bank is requesting for a transfer of securities and that he will provide a written certification of the transfer. Chairman San Agustin thanked First Hawaiian Bank. Chairman San Agustin mentioned that he was the Board Chairman of the Retirement Fund when the custodial banking services were designated to First Hawaiian Bank. Mr. Young stated that it was a pleasure serving the Retirement Fund and looks forward to a smooth transition. Chairman San Agustin agreed with Mr. Young on having a smooth transition. Treasurer Cruz recommended writing a letter of appreciation. Chairman San Agustin suggested a formal Board resolution.

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the meeting was adjourned at 2:12 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 14, 2008 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