

BOARD OF TRUSTEES
Regular Meeting
Friday, March 14, 2008, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

DEFINED CONTRIBUTIONS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contribution Plan was called to order at 2:12 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

Staff Present:

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

Public Present:

Terry Dennison, Mercer Investment Consulting, Inc.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 8, 2008 Regular Meeting

Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to table approval of the Minutes of February 8, 2008 Regular Meeting. Without objection, the motion passed.

III. CORRESPONDENCE

A. March 13, 2008 Letter from Doris Brooks, Public Auditor, Regarding Transmittal of Copy of Decision and Findings of Fact on Appeal OPA-PA-07-006 Relative to the Procurement of RFP NO. GGRF-028-06

Chairman San Agustin stated that Director Paula Blas will report on this matter in her Director's Report.

IV. INFORMATIONAL ITEMS

None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. Request for Proposal (RFP): Third Party Administrator – Director Paula Blas stated that she received the Office of the Public Auditor's (OPA's) Decision and Findings of Fact on Appeal. Director Blas stated that based on the recommendation in the decision, the Retirement Fund will be going back to negotiations with Great West Retirement Services (Great West). Director Blas stated that Chairman San Agustin has completely recused himself from the negotiations panel. Chairman San Agustin stated that Trustee Antolina Leon Guerrero will join Treasurer Gerard Cruz and Trustee Katherine Taitano on the Selection Panel. Chairman San Agustin stated that Treasurer Cruz will chair the panel. Chairman San Agustin also stated for the record, that Treasurer Cruz has stated that he has no conflict of interest.

Financial Report

1. Contributions – Director Blas stated that all agencies are current with their Fiscal Year 2008 employee and employer contributions.

2. Financial Statements – Director Blas stated that the books for the month ending February 2008 were closed on March 13, 2008. The Fiscal Year ending September 30, 2007 audit has been issued.

VI. INVESTMENT COMMITTEE REPORT

Vice-Chairman Wilfred Leon Guerrero reported that the Investment Committee meeting was held on February 29, 2008.

Vice-Chairman Leon Guerrero further reported that the Investment Committee met with Mr. Terry Dennison, Mercer Investment Consulting, Inc. on March 12 and 13, 2008. Vice-Chairman Leon Guerrero stated that Mr. Dennison discussed the investment performance of the Defined Contribution (DC) Plan for the quarter ended December 31, 2007. Vice-Chairman Wilfred Leon Guerrero further stated that Mr. Dennison will make a report to the Board of Trustees on the DC Plan. Mr. Dennison

provided a copy of Mercer's report on the Retirement Fund's DC Plan for the period ending December 31, 2007 at this meeting.

Mr. Dennison reported on the investment option array. It is the Retirement Fund's fiduciary responsibility to ensure that the Retirement Fund is offering participants appropriate options. Mr. Dennison provided a Theoretical Return and Risk Chart. The chart will show that as you get more risk you should get more returns. The chart also shows the current options offered by the Retirement Fund and the most popular options. Mr. Dennison stated that the Retirement Fund wants to make sure that we have a good set of options to offer the participants each time. Mr. Dennison stated that they don't believe that there are any options that need to be added.

Mr. Dennison stated that there are two plans that have nearly identical options. The 401(a) Plan has \$170.2 Million in assets as of December 31, 2007, increasing \$0.6 Million from \$169.6 Million as of September 30, 2007. This plan does not have available the emerging markets fund.

The 457(b) Plan has \$11.7 Million in assets as of December 31, 2007, increasing \$0.4 Million from \$11.3 Million as of September 30, 2007. Mr. Dennison indicated that that the biggest change for both plans is that they replaced the INVESCO Stable Value with the Galliard Wells Fargo Stable Value.

Mr. Dennison stated that there are frequent references in which Mercer recommended placing funds on monitor or watch. Mr. Dennison stated that there are multiple funds managed by the American Funds Bond of America. The concern with American Funds Bond of America is that they had a fairly high allocation during the fourth quarter. The end of the quarter allocation was 43% and increasing position on the ABS and MBS sectors. Mr. Dennison stated that they recommend placing the American Funds Bond Fund of America on monitor.

Mr. Dennison stated that the Standish Mellon International Fixed Income is a slightly different issue. Standish Mellon's performance is below median. Mr. Dennison stated that they are still concerned with the fund's exposure to Northern Rock corporate bonds. Because of the fund's exposure to many banks' debt and the uncertainty of further downgrades, Mercer recommends placing the fund on monitor.

Mr. Dennison stated that Dodge & Cox Balanced continues to maintain its consistency of investment strategy and process. Mercer recommends retaining the fund. Mr. Dennison stated that the Vanguard 500 Index Admiral fund continues to do well.

Mr. Dennison stated that the American Funds Amcap has a weak performance due to their asset size. The American Funds Amcap funds have become extremely large. While we continue to have confidence in the fund's management team and its investment philosophy, Mercer recommends close monitoring of the fund due to its recent weakness.

Mr. Dennison stated that the Franklin Small-Mid Cap Growth was extremely successful when it was launched as a small cap fund. Franklin Small-Mid Cap Growth's performance is weak. Mr. Dennison stated that the Retirement Fund was encouraged by this fund's recent turnaround in performance for the one-year period; however, the fund has significantly underperformed the benchmark for the quarter because of the poor stock selection in the financials and technology sectors. Mercer recommends close

monitoring of the fund because of the fund's recent performance looks relatively weak compared to its early success.

Mr. Dennison stated that BlackRock Aurora has drifted up in market capitalization. Blackrock Aurora not only has performance issues, they have style issues. This fund may be replaced. Mercer recommends monitoring this fund for continuing improvement in performance.

Mr. Dennison stated that Thornburg International Value fund is relatively concentrated holding 50 to 60 stocks and constructed with limited regard for any benchmark up to 40% invested in emerging markets. Mr. Dennison stated that they have concerns regarding the fund's management and its portfolio construction. Mercer recommends close monitoring for the time being as results have been very strong.

Mr. Dennison stated that Pioneer Emerging Markets is very violable. Pioneer's performance for one year was 42.0%, 38.3% for three years and 37.7% for five years. Pioneer out performed both benchmarks. Pioneer Emerging Markets has \$829,028.00 with 0.5% assets of all plans. Mr. Dennison stated that due to Pioneer Emerging Markets specialty composition, it is important that the Investment Committee be cognizant to the fund's potential for above-average volatility. Mercer recommends close monitoring of the fund.

Rosalia Bordallo, General Accounting Supervisor, stated that it very hard trying to get participants into the 457(b) Plan. Mrs. Bordallo requested not to take away from the 457(b) Plan. Mr. Dennison stated that Mercer has a fiduciary responsibility to the plan and the participants. Treasurer Cruz suggested identifying the participants in the plan and figuring out the concentration of their assets in the plan. Vice-Chairman Leon Guerrero stated that the Pioneer Emerging Markets fund is only available to participants on the 457(b) Plan which is an optional plan.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee George Santos, moved to accept the recommendation of Mercer Investment Consulting, Inc. to establish a watch list to include the format and the expense ratio. Without objection, the motion passed.

Vice-Chairman Leon Guerrero stated that the issue is that some funds are no longer small. Mr. Dennison stated that he will provide a list of funds on the watch list in his next report. Mr. Dennison stated that his report would include a list of funds to add or delete.

Treasurer Cruz asked what the expense ratio in the DC Plan is. Mr. Dennison stated Mercer's report includes an investment expense analysis. Mr. Dennison stated that all returns booked are net of fees. Mr. Dennison stated that the expense ratios for Baron Small Cap, BlackRock Aurora Inv A, Thornburg International Value R3, and Pioneer Emerging Markets A are substantially above their respective average institutional expense ratios. Mr. Dennison stated that BlackRock Aurora has poor performance with high fees.

Mr. Dennison stated that Franklin Small-Mid Cap Growth A and BlackRock Aurora Inv A have been on the bad list for five quarters. Franklin and Aurora have both underperformed their benchmark. Mr. Dennison stated that BlackRock Aurora Inv A's performance on 3-5 years shows improvement. Mrs. Bordallo asked why hire someone with low performance. Mr. Dennison stated that if you don't start the performance monitoring until you have 3-5 years, you are giving them 36-60 months free pass.

VII. OLD BUSINESS

A. Contribution Report – February 2008

Director Blas stated that Mike Perez, Great West Retirement Services, submitted, for this meeting, a copy of the Defined Contribution (DC) Plan and the Deferred Compensation (457) Plan report for the month of February 2008.

Mr. Perez's report shows that the Defined Contribution Plan (DC) has 6,817 participants with a total contribution amount of \$870,959.44. The Deferred Compensation Plan (457) has 845 participants with a total contribution amount of \$115,719.34.

VIII. NEW BUSINESS

None

IX. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

X. ANNOUNCEMENTS

None

XI. ADJOURNMENT

There being no further business before the Board for the Defined Contribution Plan, on motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the meeting was adjourned at 3:04 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