

BOARD OF TRUSTEES

Regular Meeting

Friday, June 27, 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 12:27 p.m. Friday, June 27, 2008, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Acting Chairman
Gerard A. Cruz, Treasurer
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee
Antolina S. Leon Guerrero, Trustee

Board of Trustees Absent:

Joe T. San Agustin, Chairman (*Off-Island*)
James J. Taylor, Secretary (*Off-Island Conf*)

Staff Present:

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

Public Present:

KUAM Cameraman

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 22, 2008 Reconvened Meeting, March 14, 2008, April 25, 2008 and May 29, 2008 Regular Meetings

On motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the Minutes of February 22, 2008 Reconvened Meeting and March 14, 2008 Regular Meeting were approved, subject to corrections. Motion passed.

Treasurer Gerard Cruz, seconded by Trustee Katherine Taitano, moved to table approval of the Minutes of April 25, 2008 and May 29, 2008 Regular Meetings. Without objection, the motion passed.

III. CORRESPONDENCE

A. Letter from Rossana A. Quitugua Regarding Retirement Benefits of Matilde Blas Quitugua

Director Paula Blas stated that a letter addressed to Chairman Joe T. San Agustin was received from Rossana Quitugua regarding the retirement benefits of Matilde Blas Quitugua. Director Blas asked that the correspondence from Ms. Quitugua be referred to Management. Director Blas stated that she will respond to Ms. Quitugua's letter to address her concern. Acting Chairman Leon Guerrero referred Ms. Quitugua's letter to Management.

IV. INFORMATIONAL ITEMS

None

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 Retirement Fund is compiling a list of deceased COLA Awardees who did not name a beneficiary or whose beneficiary is deceased. A complete list of these names should be ready by the end of July and will be published in the newspaper in early August.

Director Blas stated that the Retirement Fund has received the funds for the Guam Telephone Authority (GTA) Promissory Note. Distribution was made.

Director Blas stated that Public Law 29-18 mandated the Department of Administration (DOA) to issue certificates of claim to COLA Awardees. Treasurer Gerard Cruz asked what the certificates could be used for. Director Blas stated that the statute reads that it could only be used towards local taxes. The certificates can not be negotiated with regards to off-setting any withholding taxes. The Department of Revenue and Taxation (Rev and Tax) will not accept the certificates for Gross Receipt Tax (GRT) off-set. Treasurer Cruz asked whether the certificates could be used to pay utilities. Director Blas stated that the certificates can not be used to pay utilities. Director Blas stated that it is a promissory note that the government is giving to the COLA Awardees saying that they still are owed money. Treasurer Cruz asked how long the certificates are good for. Director Blas replied, "365 days and is subject to be renewed."

Director Blas stated that Public Law 29-19 authorized the Governor to issue a second bond of \$115 Million to pay off the COLA Awards so that certificates would not have to be issued. Acting Chairman Leon Guerrero asked what Governor Felix Camacho's position on this matter is. Director Blas stated that she does not know, but that the Guam Economic Development and Commerce Authority (GEDCA) is the entity that will be issuing the credit for the new bond. Director Blas stated that payments now are only being made to beneficiaries. Acting Chairman Leon Guerrero asked how many retirees/survivors are still waiting for COLA payments. Director Blas replied, "Roughly 3,500."

2. Request for Proposal (RFP): Custodial Bank Services - Director Blas stated that the contract has been finalized and is ready for signature. The Retirement Fund should be getting the contract from Northern Trust by next week.

3. Request for Proposal (RFP): Real Estate Investment Trusts (REITS) - Director Blas stated that the contract for Cornerstone is ready for signature. Acting Chairman Leon Guerrero asked what is being negotiated. Director Blas replied, "The terms of the contract."

Acting Chairman Leon Guerrero mentioned that Mercer Investment Consulting, Inc. (Mercer) is taking too long on providing a short list. It takes about three months to get the short list from Mercer. Acting Chairman Leon Guerrero requested for Management to speak to Mercer regarding this matter. Director Blas stated that Security Capital is still negotiating the terms of the contract.

4. Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity - Director Blas stated that the contract has been finalized and is ready for the Board of Trustees' signature.

5. Request for Proposal (RFP): Legal Services - Director Blas stated that evaluations are ongoing. Trustee Katherine Taitano will be reporting this item out at the July Board meeting.

6. Request for Proposal (RFP): U.S. Domestic Core Fixed Income - Director Blas stated that Income Research & Management (IRM) is now on board.

7. Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity - Director Blas stated that Intech's Legal Counsel is still reviewing the Retirement Fund's recommendations and comments on the amendments. Director Blas stated that Winslow Capital Management (Winslow) is having a hard time with the Rev & Tax in obtaining the necessary licensing and registration requirements. Director Blas stated that it has something to do with a regulatory issue with regards to a Series 765 license.

8. Request for Proposal (RFP): Proxy Voting Services - Director Blas stated that Controller Diana Bernardo and Rosalia Bordallo, General Accounting Supervisor, will be providing the Investment Committee with a draft proxy voting policy.

9. **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) were paid on June 10, 2008.

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 May 2008 were closed on June 11, 2008.

3. **Fiscal Year 2008 Retirees' Supplemental Benefits** - Director Blas stated that the supplemental benefits for retirees and survivors for the month of May 2008 were paid.

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

No report was made at this time.

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 May 31, 2008. Treasurer Cruz stated that the Retirement Fund does not need to make a principal drawdown this month. Treasurer Cruz stated that he also provided, at this meeting, the Cash Flow Statement for the Board's review. Treasurer Cruz stated that things are moving along as anticipated. Treasurer Cruz pointed out that there was no cash drawdown made in June. Mrs. Bordallo stated that a drawdown was made in May. Treasurer Cruz stated that there is a carry over of \$2 Million. Treasurer Cruz stated that we may not have to drawdown in July. Trustee Antolina Leon Guerrero inquired about the appropriations listed on the cash flow statement. Director Blas stated that it is General Fund appropriations. Mrs. Bordallo stated that these are not carried in the books.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Trustee George Santos, seconded by Trustee Katherine Taitano, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 7, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of June 4, 2008 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

Treasurer Cruz reported that the Investment Committee Meeting was held on June 13, 2008. The Committee reviewed and approved the Investment Committee Minutes of May 8, 2008. Treasurer Cruz stated that the following was also discussed and approved by the Committee for Board action.

1. Bernstein Litowitz Berger & Grossmann LLP (BLB&G) – June 11, 2008 Letter –

Treasurer Cruz stated that the Committee reviewed BLB&G's June 11, 2008 letter and their June 12, 2008 email to Chairman San Agustin regarding the Lehman Brothers (Lehman) Securities Litigation. According to BLB&G, the Retirement Fund has incurred losses of approximately \$3.85 Million because of serious misconduct and securities fraud committed by Lehman. BLB&G has conducted a detail investigation into the misconduct by Lehman and strongly recommends that the Retirement Fund seek appointment as lead plaintiff. The deadline to move for lead plaintiff is June 30, 2008. Treasurer Cruz stated that the Committee also reviewed the two emails from Chairman San Agustin on June 12, 2008 and the Certification from BLB&G, which was signed by Chairman San Agustin on June 12, 2008. Treasurer Cruz stated that the Investment Committee recommends that the Board of Trustees affirm Chairman San Agustin's decision to authorize BLB&G to file a motion for appointment as lead plaintiff on its behalf in the Lehman Brothers Securities Litigation lawsuit. Trustee Leon Guerrero asked what will this mean being the lead plaintiff. Treasurer Cruz stated that the Retirement Fund would be the first in as potential for class action lawsuit. This is just a way of starting the process. Director Blas stated that another public pension fund with a bigger stake would take lead over the Retirement Fund.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve to affirm Chairman Joe T. San Agustin's decision to authorize Bernstein Litowitz Berger & Grossmann LLP (BLB&G) to file a motion for appointment as lead plaintiff on its behalf on the Lehman Brothers Securities Litigation lawsuit. Treasurer Gerard Cruz voted yes, Trustee George Santos voted yes, Trustee Antolina Leon Guerrero voted yes to affirm, Trustee Katherine Taitano voted yes to affirm, Acting Chairman Wilfred Leon Guerrero voted yes. Chairman Joe T. San Agustin and Secretary James Taylor were absent. Without objection, the motion passed.

Treasurer Cruz stated that the Committee discussed the status of the contracts for the following:

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

Trustee Taitano pointed out that she was incorrectly listed as a member of the Investment Committee in the May 8, 2008 Meeting Minutes. Director Blas stated that she will bring this to the attention of the Committee's recording secretary.

C. Audit Committee

No report was made at this time.

D. Governmental Liaison

1. Bill 283 – Exchange Traded Funds (ETFs)

Director Blas stated that Bill 283 will be placed on the session agenda next week.

2. Bill 308 – An Act to Amend 4GCA §8127(a) Relative to Medical Examination Requirements for Government of Guam Disability Retirements

a. Government of Guam Retirement Fund Position Statement

Director Blas stated that the public hearing on Bill 308 was held on June 23, 2008. Director Blas stated that she attended the public hearing and submitted a position statement. Director Blas stated that Bill 308 will also be placed on next week's session agenda. Treasurer Cruz asked what the legislative intent is. Director Blas stated that the senators wanted to add a provision with regards to the medical examination not being required once the annuitant reaches age or where the actual years of services plus the number of years on disability retirement would qualify the annuitant to retire as a regular retiree. Director Blas stated that she did not want that provision included since it would be subject to interpretation. Director Blas stated that the Retirement Fund has several definitions for regular retirement. Director Blas stated that the concern brought before the Legislature was the medical reexamination on the first five years and then every three years thereafter. Director Blas stated that the proposed legislation is asking that the Retirement Fund not have the annuitants undergo reexaminations that often. Director Blas stated that given the history of the Retirement Fund of disability applicants, only two were found no longer disabled. Director Blas stated that it is kind of a win-win for the Retirement Fund in terms of not having to pay for the medical examination and at the same time ensuring the Board's fiduciary responsibilities are not compromised. Acting Chairman Leon Guerrero asked whether the Retirement Fund pays for the required re-examinations. Director Blas stated that disability retirees are referred to the Retirement Fund's physician at the Retirement Fund's expense. Trustee Taitano asked whether the Director is asking the Legislature to consider the seven-year period of annual monitoring. Director Blas replied, "Yes". Acting Chairman Leon Guerrero asked what the cost for examination is. Director Blas replied, "\$200.00 to 400.00." Acting Chairman Leon Guerrero stated that he does not agree with Director Blas that it is a win-win situation. Trustee Taitano asked whether there were any changes made on the proposed bill. Director Blas stated that, at the hearing, the senators were inclined to remove the proposed language and accept the seven-year period. Acting Chairman Leon Guerrero asked whether any disability applicants have ever been referred off-island for further medical examination. Trustee Leon Guerrero stated that the disability applicants are referred to local physicians.

IX. TRAVEL REPORT

A. Wilfred P. Leon Guerrero: IFEBP Trustees and Administrators Institutes, June 4-7, 2008, Carlsbad, California

Acting Chairman Leon Guerrero stated that he has submitted his travel report on the IFEBP Trustees and Administrators Institutes he attended on June 4-7, 2008 in Carlsbad, California.

Acting Chairman Leon Guerrero stated that he learned that three months is too long to develop a short list for money managers to be hired. Acting Chairman Leon Guerrero requested for Management to ask Mercer about this.

Trustee Leon Guerrero asked whether there is anything in the contract regarding response time. Director Blas stated that the next time the Retirement Fund makes a request for an analysis from Mercer, she will tell Mercer that the analysis would be due within thirty days.

B. Paula M. Blas: IFEBP Certificate of Achievement in Public Plan Policy (CAPPP) Employee Pensions Part I and Part II, June 10-13, 2008, Chicago, Illinois

Acting Chairman Leon Guerrero stated that Director Blas has submitted her travel report on the IFEBP CAPPP Employee Pensions Part I and Part II sessions she attended on June 10-13, 2008 in Chicago.

X. OLD BUSINESS

A. Resolution No. 2008-002: Settlement Authority re: Ralph W. Gutierrez

Director Blas stated that the Board of Trustees had authorized the Retirement Fund's Legal Counsel to negotiate a settlement with Mr. Ralph Gutierrez with regards to the offset in his disability retirement and his current employment at the time. Director Blas stated that Resolution No. 2008-002 would authorize her to enter into and execute the settlement. Director Blas stated that the Board had given Legal Counsel a threshold of \$52,000.00. The Retirement Fund settled for \$55,000.00.

Acting Chairman Leon Guerrero inquired about the \$77,000.00. Director Blas stated that the \$77,000.00 was the original amount. Trustee Leon Guerrero stated that the Board came to a compromise. Acting Chairman Leon Guerrero asked how much is Legal Counsel being paid. Director Blas stated that approximately \$75,000.00 has been expended in legal fees. Director Blas stated that there are two cases.

Director Blas stated that the settlement agreement shows how the settlement payments are going to be made. The initial \$35,000.00 is to be paid in three installments. The first installment of \$11,666.00 will be paid upon signing of the settlement; the second installment of \$11,666.00 to be paid on or before August 18, 2008; and the third installment of \$11,668.00 will be paid on or before October 17, 2008. Director Blas stated that the balance of \$20,000.00 will be paid bi-monthly and deducted from Mr. Gutierrez's annuity check until such time the \$20,000.00 has been paid in full.

Acting Chairman Leon Guerrero asked whether there are any interest payments. Director Blas stated that the Board did not ask for interest payment.

Director Blas stated that it is in the best interests of the Retirement Fund to settle the case. Trustee Taitano inquired about the extra number on item B on Page 1 – "\$25,6333.32." Trustee Taitano also inquired about the first due date on the Settlement Agreement. Director Blas stated that the amount should read \$25,633.32. Director Blas stated that once the Settlement Agreement is entered into, the first installment would be due immediately.

Acting Chairman Leon Guerrero asked Director Blas whether the Board authorized her to negotiate this. Director Blas stated that the Board asked Legal Counsel to negotiate this. Acting Chairman Leon Guerrero asked whether Director Blas is recommending adoption of Resolution No. 2008-002. Acting Chairman Leon Guerrero also asked whether Director Blas is comfortable with settling this case. Director Blas replied, "Yes." Trustee Leon Guerrero stated that she thought that disability retirement ceases if the annuitant is gainfully re-employed. Director Blas stated that the annuitant is still under disability retirement unless at re-examination the physician says the annuitant is no longer disabled.

Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to approve to adopt Government of Guam Retirement Fund Resolution No. 2008-002. Without objection, the motion passed.

XI. NEW BUSINESS

A. Group Health Insurance Negotiations Report by Ana San Nicolas, Retiree Advocate

Director Blas stated that no report was submitted at this time. Acting Chairman Leon Guerrero stated that it should have been a requirement for the appointed retiree advocate to submit a report to the Board. Treasurer Cruz stated that a report should be made at the next Board meeting regarding the status of the insurance negotiations. Acting Chairman Leon Guerrero recommended setting out the conditions of Mrs. Ana San Nicolas' appointment and that her appointment is subject to an annual review. Director Blas stated that Mrs. San Nicolas can not provide any information at this time since negotiations have not been closed. Acting Chairman Leon Guerrero stated that Mrs. San Nicolas should attend the Board meetings and report that she did participate in negotiations. Mrs. Bordallo stated that Mrs. San Nicolas was not made aware that the Board would have a role with her. Acting Chairman Leon Guerrero stated that Mrs. San Nicolas is a professional individual. Trustee Leon Guerrero asked whether negotiations are still ongoing. Mrs. Bordallo stated that the actual sit-down meeting has been completed. Trustee Taitano asked what the Board's expectation of Mrs. San Nicolas' presence at the Board meeting is. Acting Chairman Leon Guerrero stated that Mrs. San Nicolas should provide a report of her activities.

Trustee Leon Guerrero stated that this would be a great time for the Retirement Fund to start looking at the Government of Guam's health insurance plan. Treasurer Cruz stated that Mrs. San Nicolas' involvement now would be helpful for next year's negotiations. Director Blas stated that she will write a letter to Mrs. San Nicolas letting her know to provide a report on the first round of negotiations. Acting Chairman Leon Guerrero stated that Mrs. San Nicolas should keep the Board apprised of the health insurance negotiations. Treasurer Cruz stated that Mrs. San Nicolas does not have to be present at the Board meeting, that she could provide the Board with a written report. Mrs. Bordallo asked whether the Board would retain Mrs. San Nicolas for next year's negotiations. Trustee Taitano stated that Mrs. San Nicolas will be evaluated through her reports to the Board. Treasurer Cruz suggested that Mrs. San Nicolas provide suggestions on changes that need to be made for future health insurance negotiations.

B. Board Election of Officers (Effective July 1, 2008)

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve to retain the present composition of officers of the Retirement Fund Board of Trustees as follows: Joe T. San Agustin, Chairman; Wilfred P. Leon Guerrero, Vice-Chairman; Gerard A. Cruz, Treasurer; and James J. Taylor, Secretary. Without objection, the motion passed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

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 1:30 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of June 27, 2008 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 25, 2008.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas