



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY · SECURITY · REWARDS

**Felix P. Camacho**  
 Governor

**Michael W. Cruz, M.D.**  
 Lieutenant Governor

**Paula M. Blas**  
 Director

**BOARD OF TRUSTEES**  
**Regular Meeting**  
 Friday, March 27, 2009, 12:00 p.m.  
 Retirement Fund Conference Room

*Trustees:*

**Joe T. San Agustin**  
 Chairman

**Wilfred P. Leon Guerrero, Ed.D.**  
 Vice-Chairman  
 Investment Committee, Chairman

**Antolina S. Leon Guerrero**  
 Secretary

**Gerard A. Cruz**  
 Treasurer  
 Audit & Operations Committee,  
 Chairman

**George A. Santos**  
 Members' & Benefits Committee,  
 Chairman

**Katherine T.E. Taitano**  
 Trustee

**Wilfred G. Aflague**  
 Trustee

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 12:47 p.m. Friday, March 27, 2009, 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  
 Antolina S. Leon Guerrero, Trustee

**Board of Trustees Absent:**

Katherine T.E. Taitano, Trustee

**Staff Present:**

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

**Public Present:**

Alfred F. Duenas, Senator Ben Pangelinan's Office  
 Angelica Okada, Senator Ben Pangelinan's Office

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

### **A. February 26, 2009 Regular Meeting, February 27, 2009 and March 6, 2009 Reconvened Meetings**

**On motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the Minutes of February 26, 2009 Regular Meeting were approved, subject to corrections. Motion passed.**

**Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to table the Minutes of February 27, 2009 and March 6, 2009 Reconvened Meetings. Without objection, the motion passed.**

## **III. CORRESPONDENCE**

None

## **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 Paula Blas stated that several meetings with the COLA Class, Senators, Department of Administration (DOA) and Retirement Fund were held regarding the COLA Claim Certificates. In anticipation of issuing the credit for the second bond in late 2008, it was the consensus of the COLA Class not to proceed with issuing the COLA Claim Certificates. Director Blas stated that given the current market conditions, the retirees do not see GovGuam issuing the credit for the bond any time soon. Director Blas stated that at the last GovGuam Association of Retired Persons (GGARP) meeting on March 14, 2009, the retirees decided to proceed with pursuing the implementation of Public Law 29-18 and issuance of the COLA Claim Certificates. Director Blas stated that on March 16, 2009, Attorney Michael Phillips sent a letter to the Director of DOA seeking to add accrued interest on outstanding COLA Award balances and alternative remedies for payment of the outstanding COLA Award balances. Vice-Chairman Wilfred Leon Guerrero asked why Attorney Phillips is pushing this matter. Director Blas stated that the COLA Award was \$123 Million. We may be looking at \$150 Million once the whole process is completed. Director Blas stated that some awardees may be desperate to sell their certificates at a lower price. Vice-Chairman Leon Guerrero asked what the starting date of interest is. Director Blas stated that it starts from November 2006 to the date of distribution. Director Blas stated that DOA has solicited the Guam Economic Development & Commerce Authority's (GEDCA's) assistance in issuing a Request for Proposal (RFP) for the issuance and administration of the COLA Claim Certificates. Certificates may be used to off-set taxes. Chairman San Agustin asked whether there will be only one bond. Alfred Duenas from Senator Ben Pangelinan's office stated that there are a series of bonds. There are different rates for the dump closure and the COLA Claim. Chairman San Agustin asked how it would be prioritized. Mr. Duenas stated that it will be marketed at the same time.

**2. *Global Custody Services* – Director Blas stated that at the March 6, 2009 Board meeting, the Board continued to suspend participation in Securities Lending. Director Blas stated that the Retirement Fund will revisit Securities Lending during the May due diligence meeting with Mr. Terry**

Dennison of Mercer Investment Consulting, Inc. (Mercer). Director Blas stated that there is still only one option available at this time.

3. **Real Estate Investment Trusts (REITS)** – Director Blas stated that at the December 5, 2008 Board meeting, the Board approved a 2.5% investment in REITS. Director Blas stated that funding for Cornerstone Real Estate Advisers and Security Capital Research & Management is completed. Director Blas stated that an asset listing of REITS investments for each investment manager is provided in the Investment Committee Report. Treasurer Gerard Cruz asked whether this has been made whole yet. Director Blas replied, “No.”

4. **U.S. Domestic Small Capitalization Core Equity** – Director Blas stated that a total asset allocation of 10% of the total portfolio was approved for a Small Cap allocation. Director Blas stated that given the current market environment, Mercer recommended to fund Small Cap anywhere between 10%-25% of the Small Cap total asset allocation. Director Blas stated that this will be placed in an Exchange Traded Fund (ETF). Director Blas stated that at the March 6, 2009 Board meeting, the Board authorized funding of 10% of the Small Cap asset allocation to be placed in an ETF. Director Blas stated that based on the current market values, this equates to approximately \$8 Million. Director Blas stated that full funding of the Small Cap asset allocation will be revisited at the May quarterly performance meeting with Mercer. Director Blas stated that the ETF was to replace the Small Cap manager Thompson Horstmann Bryant (THB). Director Blas stated that Mr. Dennison recommends replacing THB. Director Blas stated that the ETF is a temporary vehicle. Rosalia Bordallo, General Accounting Supervisor, added that there were concerns Mr. Dennison brought up with THB. Secretary James Taylor asked which ETF. Director Blas stated that she will get the name of their manager. Director Blas stated that she will not be doing anything with THB at this time.

5. **Request for Proposal: Banking Services** – Director Blas stated that evaluations are completed. The Selection Panel Committee recommendation is attached. Chairman San Agustin stated that he would like to excuse himself from this item of the agenda. Chairman San Agustin was excused from the meeting at this time. Vice-Chairman Leon Guerrero becomes the Acting Chairman at this point. Director Blas stated that Acting Chairman Leon Guerrero, Trustee Antolina Leon Guerrero and Trustee Katherine Taitano are on the Selection Panel. Acting Chairman Leon Guerrero stated that four firms responded timely to the RFP. The Panel, based on the evaluation factors, weights assigned to each factor, and discussions with the offerors, recommends to the Board that selection for banking services for the Retirement Fund be made in the following order: Preference #1: Bank of Guam, Preference #2: Citizen Security Bank and Preference #3: First Hawaiian Bank. Trustee Leon Guerrero stated that all the proposals were fairly equal. Acting Chairman Leon Guerrero stated that Bank of Hawaii was a disappointment to him. Bank of Hawaii was not interested in this contract. Secretary Taylor mentioned that Bank of Hawaii is pulling out from Guam. Acting Chairman Leon Guerrero stated that the instrument used on the evaluation were from other banking services. Treasurer Cruz asked to see the proposals. Director Blas stated that Treasurer Cruz may see the selected bidder's proposal only. Trustee Leon Guerrero mentioned that fees were waived. Secretary Taylor stated that he is concerned of the fees being waived. Acting Chairman Leon Guerrero stated that this will be looked at during negotiations. Mrs. Bordallo pointed out that First Hawaiian Bank is charging fees. Trustee George Santos asked what the previous charges are. Mrs. Bordallo stated that it is about \$1.00 to \$2.00. Director Blas stated that the fees could be renegotiated. Secretary Taylor stated that he may have a conflict with Bank of Guam and First Hawaiian Bank. Controller Diana Bernardo stated that if you are going to personally benefit then it would be a conflict. Mrs. Bordallo stated that she could bring up the

matter of having a conflict of interest to the Office of the Public Auditor (OPA). Acting Chairman Leon Guerrero asked what the next step is. Director Blas stated that it will go to negotiations. Trustee Leon Guerrero asked to have Treasurer Cruz and Mrs. Bordallo help out on reviewing the proposal to verify that there are no hidden fees. Acting Chairman Leon Guerrero asked Director Blas to proceed with negotiations.

**Trustee Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Selection Panel's recommendation that the selection for banking services for the Retirement Fund be made in the following order: Preference #1 – Bank of Guam; Preference #2 – Citizens Security Bank; and Preference #3 – First Hawaiian Bank. With a unanimous vote of yes, the motion passed. Absent were: Chairman Joe T. San Agustin and Trustee Katherine Taitano.**

*Chairman San Agustin rejoined the meeting at this time.*

6. **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. Treasurer Cruz asked whether this will be paid off. Director Blas stated that it is included in the budget to pay this off.

7. **Bernstein Litowitz Berger & Grossmann (BLBG)** – Director Blas stated that BLBG submitted their report on an investigation of potential claims that the Retirement Fund has against the issuer of certain securities purchased by Aberdeen Asset Management. It is BLBG's recommendation that the Retirement Fund seek to be appointed as lead plaintiff in the class action lawsuit against Wells Fargo. Director Blas stated that the deadline to move for lead plaintiff is March 30, 2009. Director Blas stated that a copy of the March 20, 2009 letter from Nicolas Blair of BLBG is attached. Chairman San Agustin stated that the Board needs to ratify his certification pursuant to the federal securities law authorizing filing of a lead plaintiff motion on behalf of the Retirement Fund. Director Blas stated that there is no new update with regards to the Lehman lawsuit.

**Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to ratify Chairman Joe T. San Agustin's Certification pursuant to the Federal Securities Law authorizing filing of a lead plaintiff motion on behalf of the Retirement Fund. Without objection, the motion passed.**

8. **Health Plan Study** – Director Blas stated that the Health Study is currently being conducted by Milliman, Inc. Director Blas stated that a draft of the study/progress report is expected to be remitted by this afternoon. Director Blas stated that Milliman is having a hard time completing the study because they are not getting the data from the Department of Administration (DOA) and Guam Memorial Hospital Authority (GMHA). Chairman San Agustin suggested contacting the director of DOA to get the needed data. Director Blas stated that Milliman was able to get data from the health providers. Director Blas stated that the Department of Public Health and Social Services (PHSS) provided data to Milliman. Chairman San Agustin asked Management to write to DOA to request for aggregate data.

#### **Non-Base Inclusion**

Vice-Chairman Leon Guerrero inquired about an "Old Business" item regarding data on Non-Base Inclusion. Director Blas stated that she has the count. Director Blas stated that the Retirement Fund

closed the window on non-base inclusion. Director Blas stated that based on the number of individuals, 2,000 maybe eligible for non base inclusion. Vice-Chairman Leon Guerrero stated that there is no cap on the non-base at this time. Chairman San Agustin asked whether there is a need to amend the law. Director Blas replied, "Yes." Secretary Taylor asked to have Legal Counsel draft legislation to change the law on non-base inclusion. Mr. Duenas mentioned that the OPA is a proponent of this.

### **Financial Report**

1. ***Contributions*** – Director Blas stated that all agencies are current with their employee and employer contributions for Fiscal Year 2009. Director Blas stated that the actuarial rate in the Fiscal Year 2010 Budget is 25.2%. Treasurer Cruz stated that there was a discussion to charge the autonomous agencies that are separate entities – and to redefine GovGuam as a multiple employer plan. Controller Bernardo stated that she did ask Milliman to have the autonomous agencies pay the full amount. Chairman San Agustin stated that there is one rate for everyone now. Trustee Santos stated that the General Fund is not paying the actuarial rate. Director Blas stated that different rates of employer contributions would need to be tracked. Chairman San Agustin asked whether to continue to charge one rate or individual rates. Secretary Taylor stated that the Retirement Fund should get the full actuarial rate of contributions from autonomous agencies and invest it. Secretary Taylor suggested having Management present this at the next meeting. Chairman San Agustin stated to have Management provide options.

2. ***Financial Statements*** – Director Blas stated that the books for the month ending February 2009 were closed on March 17, 2009.

3. ***Fiscal Year 2009 Retirees' Supplemental Benefits*** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of March 2009 were paid.

4. ***Medicare Reimbursement*** – Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2009 monthly allotments and payments are processed accordingly.

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

Director Blas stated that Legal Counsel provided, at this meeting, an update on the status of current litigation involving the Retirement Fund.

### **Richard Saville**

Director Blas stated that Legal Counsel provided a breakdown of attorney fees and costs on the Saville case. Director Blas stated that Saville prevailed on the Writ of Mandate. Director Blas stated that Saville's attorney is seeking reimbursement of his attorney's fees and costs. Chairman San Agustin asked how much? Director Blas stated \$8,738.09. Chairman San Agustin asked how much the bill from the Retirement Fund's Legal Counsel is. Director Blas stated that she will get the amount. Secretary Taylor stated that Legal Counsel cites that Guam law "allows" recovery of damages and costs. Is it "allows" or "requires" recovery of damages and costs? Director Blas stated that she will take a look at the Writ of Mandate. Treasurer Cruz stated that the Writ was for the Board to reconsider the case. Chairman San Agustin stated that Saville went to Court on a procedural issue. Vice-Chairman Leon Guerrero stated that Legal Counsel is saying Attorney Randall Cunliffe will prevail. Director Blas asked whether the Board would like to negotiate a reduction in the fees and costs.

Chairman San Agustin stated that there is no recovery for damages in the Writ, that there is a claim for reimbursement. Chairman San Agustin asked what our Legal Counsel's opinion on this matter is. Director Blas stated that the Retirement Fund's Legal Counsel is saying that because Saville prevailed in the Writ and because the Judge decided in favor of the applicant, Saville's attorney could successfully argue for reimbursement. Chairman San Agustin stated that Legal Counsel is saying that the Retirement Fund should go ahead and pay the reimbursement. Director Blas stated that it will cut our costs. Director Blas asked whether the Board wants her to renegotiate a reduction. Chairman San Agustin reiterated that there is a motion on the floor to deny reimbursement.

**Trustee George Santos, seconded by Secretary James Taylor, moved to deny the reimbursement of attorney's fees. In favor of motion to deny: Trustee George Santos, Secretary James Taylor, Treasurer Gerard Cruz and Trustee Antolina Leon Guerrero. Against motion to deny: Chairman Joe San Agustin and Vice-Chairman Wilfred Leon Guerrero. Absent: Trustee Katherine Taitano. With four affirmative votes, the motion passed.**

### **Jane Story**

Director Blas stated that Jane Story has filed a Petition for a Writ of Mandate with the Superior Court of Guam on the denial of her application for disability benefits. The Retirement Fund's answer is due on April 24, 2009. Secretary Taylor recommended waiting to hear from our Legal Counsel. Chairman San Agustin stated that the Board should dispose of this matter at this time since the next Board meeting is on April 24th. Chairman San Agustin stated that the Board deliberated on this case with all parties present. Director Blas stated that the Board could call an Executive Session for litigation before April 24th. Chairman San Agustin stated that the Board will wait for Legal Counsel's response and then call for a Special Session between now and April 24th.

## **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 February 28, 2009. Treasurer Cruz stated that it looks like the market is beginning to turn around. Treasurer Cruz stated that the audit has been completed. Treasurer Cruz pointed out that the Retirement Fund has been consistently early on delivering the audit. Chairman San Agustin mentioned that the Public Auditor, Doris Flores Brooks, was very pleased with the Retirement Fund. Treasurer Cruz commended Management for doing a good job. Vice-Chairman Leon Guerrero suggested drafting a resolution commending Retirement Fund Staff and Management for doing a great job. Chairman San Agustin stated that the Legislature presented a resolution commending the Department of Administration (DOA) for submitting their audit report on time. Chairman San Agustin further stated that DOA gave all their employees a special achievement award. Director Blas stated that the Bureau of Budget and Management Research (BBMR) and the Department of Revenue and Taxation employees were also given a merit award of 3.5% of their base pay. Director Blas stated that the 3.5% was considered a non-base pay. Director Blas suggested that the Board also allow Management to give the Retirement Fund employees a special merit award. Mrs. Bordallo stated that since DOA gave their employees 3.5% for doing their regular job, then the Retirement Fund employees should be given 6% for doing the job above expectation.

**Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to authorize Director Paula M. Blas to implement a special achievement award of 3.5% of their base pay to the Retirement Fund staff and to provide the Board with the information through Chairman San Agustin. Without objection, the motion passed.**

Treasurer Cruz reported that the drawdown projection is as follows: \$3 Million in April 2009, \$2.5 Million in May 2009 and \$2.5 Million in June 2009. Chairman San Agustin asked whether there are any reinvestments. Treasurer Cruz replied, "No." Treasurer Cruz stated that it is an issue of timing.

## **VIII. STANDING COMMITTEE REPORTS**

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

Trustee George Santos presented his Committee's March 2009 report to the Board of Trustees.

**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 11, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of March 11, 2009 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that the Members and Benefits Committee recommends revising the Recommendation for Disability Form, which is completed by the applicant's primary physician, and the medical evaluation form utilized by the independent physicians. Trustee Santos further stated that the Members and Benefits Committee also recommends creating a medical review team to consist of two independent licensed and practicing physicians to conduct the independent examinations and evaluations, and the Retirement Fund's medical consultant. Trustee Santos stated that the Medical Review Team will review all disability applications and provide their recommendation to the Board. Dr. E. Fred Schroeder and Dr. Patrick Santos will be the independent physicians.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the Alternative to Disability Retirement Procedures as recommended by the Members and Benefits Committee. Without objection, the motion passed.**

*Trustee George Santos was excused from the meeting at this time (2:45 p.m.)*

### **B. Investment Committee**

Vice-Chairman Leon Guerrero stated that the Investment Committee did not have a meeting in March 2009. Chairman San Agustin mentioned that the Market Value was \$929 Million as of March 23, 2009. Chairman San Agustin stated that although the market dropped, income is still steady.

### **C. Audit Committee**

No report was made at this time.

**D. Governmental Liaison**

No report was made at this time.

**IX. OLD BUSINESS**

None

**X. NEW BUSINESS**

**A. Bernstein Litowitz Berger & Grossmann LLP (BLBG) – Portfolio Monitoring Quarterly Report – Fourth Quarter 2008**

Chairman San Agustin stated that a status report was provided, at this meeting, by BLBG. Director Blas stated that the second amended consolidated class action complaint against Lehman Brothers was filed in February 2009. Controller Bernardo stated that she will provide a listing of recovery/settlements. Chairman San Agustin asked whether the actual cash is less. Controller Bernardo stated that she will get a report on this.

**XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT**

None

**XII. ANNOUNCEMENTS**

None

**XIII. ADJOURNMENT**

**There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 2:49 p.m. Motion passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 27, 2009 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 31, 2009.**



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**Antolina S. Leon Guerrero, Board Secretary**

**RECORDING SECRETARY:**

  
\_\_\_\_\_  
**Jackie Blas**