

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

BOARD OF TRUSTEES
Reconvened Regular Meeting
 Friday, March 6, 2009, 12:00 p.m.
 Retirement Fund Conference Room

Felix P. Camacho
 Governor

Michael W. Cruz, M.D.
 Lieutenant Governor

Paula M. Blas
 Director

Trustees:

Joe T. San Agustin
 Chairman

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

James J. Taylor, Ph.D.
 Secretary
 Investment Committee, Vice-Chairman

Gerard A. Cruz
 Treasurer
 Audit & Operations Committee,
 Chairman

George A. Santos
 Members' & Benefits Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

Antolina S. Leon Guerrero
 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 reconvened at 1:10 p.m. Friday, March 6, 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
 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

Public Present:

Terry Dennison, Mercer Investment Consulting, Inc.

Chairman San Agustin stated that the Board of Trustees will now reconvene its regular meeting from Friday, February 27, 2009. Chairman San Agustin stated that the Board of Trustees will be entertaining, at today's meeting, the Review and Approval of the Board Minutes and the Investment Committee Report.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. September 26, 2008 Regular Meeting, October 3, 2008 Reconvened Meeting, October 31, 2008, December 5, 2008 and January 16, 2009 Regular Meetings

On motion of Treasurer Gerard Cruz, seconded by Trustee Antolina Leon Guerrero, and without objection, the Minutes of September 26, 2008 Regular Meeting, October 3, 2008 Reconvened Meeting, October 31, 2008, December 5, 2008 and January 16, 2009 Regular Meetings were approved, subject to corrections. Motion passed.

III. Investment Committee

Regular Investment Committee Meeting

Vice-Chairman Wilfred Leon Guerrero reported that the Investment Committee meeting was held on February 13, 2009. The Committee reviewed and approved the Investment Committee Minutes of January 9, 2009.

Vice-Chairman Leon Guerrero reported on the following informational items:

- 1. Robeco Letter "Guideline Change"** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed Robeco's October 22, 2008 letter relative to the requirement that limits investment holdings to no more than 5% of the portfolio's market value in any one issuer. Vice-Chairman Leon Guerrero stated that Robeco is requesting that the guidelines be changed wherein, "Robeco shall limit the investments of the portfolio in any one issuer to the greater of 5% of the market value of the portfolio, or the index weighting of that issuer, plus one full percentage point."

Vice-Chairman Leon Guerrero stated that the Investment Committee requested that Robeco provide an analysis supporting its request, and deferred making a decision until it is discussed with Mercer Investment Consulting, Inc. (Mercer) during this week's due diligence meetings.

- 2. Aberdeen – Bernstein Litowitz Berger & Grossmann's (BLBG) Review of Asset Listing** – Vice-Chairman Leon Guerrero stated that the Investment Committee had previously requested that BLBG review the list of Aberdeen's assets, which were transferred to Davis Hamilton and Income Research Management (IRM). Vice-Chairman Leon Guerrero stated that Management indicated that BLBG is still reviewing the list and upon completion, BLBG will let the Retirement Fund know whether there is a basis for legal action against Aberdeen.

3. **Funding of Managers** – Vice-Chairman Leon Guerrero stated that funding of the following Managers was deferred for discussion during the meetings with Mercer scheduled this week:
 - a) Cornerstone Real Estate Advisers (REITS) – Partially funded on December 2008
 - b) Security Capital Research & Management (REITS) – Partially funded on December 2008
 - c) Thomson Horstmann & Bryant (U.S. Domestic Small Capitalization) – not yet funded
4. **Asset Allocation** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the latest asset allocation as of February 11, 2009, noting that the total market value of the portfolio dropped from approximately \$1.129 Billion at September 30, 2008 to approximately \$944.5 Million as of February 11, 2009.
5. **March 4, 5, and 6, 2009 “Quarterly Performance and Annual Manager Reviews”** – Vice-Chairman Leon Guerrero stated that no changes were made to the schedule for the March 2009 Due Diligence Meetings.

March 2009 Quarterly Performance Meeting

Vice-Chairman Leon Guerrero stated that the Investment Committee also held its performance review for the quarter ending December 31, 2008 with Mercer Investment Consulting, Inc. (Mercer) and the Annual Manager Reviews of its Fixed Income and International Managers on March 4, 5, and 6, 2009. Vice-Chairman Leon Guerrero stated that Mr. Terry Dennison from Mercer will address a couple of items for Board action.

1. Robeco Letter “Guideline Change”

Mr. Dennison stated that Robeco is requesting to amend the guidelines to 1% limitation instead of 5%. Mr. Dennison stated that the 1% is very reasonable with less discretion. Mr. Dennison stated that their recommendation is to approve the index plus 1%. Mr. Dennison pointed out that it is not the performance of the index. Chairman San Agustin asked what is being changed. Treasurer Gerard Cruz used Exxon as an example of having more than 5%. Chairman San Agustin stated that Robeco did not provide an analysis as requested. Robeco did not justify their request. Chairman San Agustin stated that documentation was not provided. Controller Diana Bernardo stated that the analysis was requested by the Investment Committee. Controller Bernardo stated that based on Mercer’s recommendation, the analysis is no longer needed. Chairman San Agustin stated that Item A of the Investment Committee Report should be reworded that notwithstanding clarification from Mercer, the analysis is no longer needed. Secretary James Taylor stated that he understood the issue today is not needed based on 5% of the index. Secretary Taylor stated that the Retirement Fund could obtain stock of 5% based on Mercer’s recommendation.

Treasurer Gerard Cruz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to recommend to allow Robeco’s request, after further clarification provided by Mercer Investment Consulting, Inc., notwithstanding the analysis initially requested from Robeco which was not received. Without objection, the motion passed.

Mr. Dennison reported on the funding of three mandates that are partially funded or unfunded.

2. A. Funding of Managers – Real Estate Investment Trusts (REITS)
1) Cornerstone and Security Capital

Mr. Dennison stated that the two managers, Cornerstone and Security Capital, were partially funded at the December 2008 meeting. They were funded up to 25% of the target mandate level. Mr. Dennison stated that the question arose on whether to expand that. Mr. Dennison stated that his recommendation is that the Retirement Fund maintain status quo and withhold further funding at this time based on valuation and prospective market action.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Antolina Leon Guerrero, moved to accept Mercer Investment Consulting, Inc.’s recommendation to maintain status quo and hold further funding at this time for the Real Estate Investment Trusts for Cornerstone and Security Capital. Without objection, the motion passed.

B. Funding of Managers – U.S. Domestic Small Capitalization
1) Thomson Horstmann & Bryant (THB)

Mr. Dennison stated that the U.S. Domestic Small Capitalization mandate is currently unfunded. Mr. Dennison stated that this was intended to be 10% of the total fund. The designated manager is Thomson Horstmann & Bryant (THB). Mr. Dennison stated that his recommendation is, due to a decline in Mercer’s level of confidence about THB’s investment process particularly the relative looseness of their controls and the fact that Mercer downgraded THB’s rating, to partially fund this mandate but to use Exchange Traded Funds (ETFs), the authority of which was provided by the Legislature, to fund up to 25% of the plan allocation. Mr. Dennison stated that he has no objection if the Retirement Fund lowered it to 10% or 1% of total fund. Mr. Dennison stated that Mercer is open to the 25% or 10% mandate. Mr. Dennison stated that this should be funded in part so that it remains visible for reporting. Mr. Dennison stated that he does not recommend full funding due to valuation and the risks in small cap due to the current economic environment.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept Mercer Investment Consulting, Inc.’s recommendation to approve funding for the U.S. Domestic Capitalization mandate at the 10% level of the total fund to be placed in an Exchange Traded Funds (ETFs). Without objection, the motion passed.

3. Income Research and Management (IRM) Request

Mr. Dennison stated that IRM is requesting to extend the guideline to waive the six month extension granted by the Board in October 2008. Mr. Dennison stated that, per Steve Weiss of IRM, this may be the last extension needed. Mr. Dennison further stated that IRM is also requesting to move \$19 Million out of the IRM Portfolio into the Transition Portfolio. Chairman San Agustin asked what the percentage would be. Mr. Dennison stated that this will be an isolated portfolio and unmarketable portfolio.

Chairman San Agustin asked how much of the \$19 Million will be moved. Vice-Chairman Leon Guerrero stated that it is almost at the target. Mr. Dennison stated that he would like to start as soon as possible and give time to work out the toxic portfolio. Mr. Dennison stated that he would like to start on April 1, 2009. Treasurer Cruz stated that the 50% is not in transition. Treasurer Cruz stated that in speaking with Mr. Weiss, his recommendation is to assign the guideline and permit.

Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, moved to approve the Investment Committee's recommendation to Extend the Guideline Waiver for another six months and to permit the transfer of assets to the Transition Portfolio. Without objection, the motion passed.

4. Informational Items

A. December 31, 2008 Quarterly Performance Meeting

Vice-Chairman Leon Guerrero stated that Mr. Dennison provided an overview of the Defined Benefit Plan's December 31, 2008 Quarterly Investment Performance which reflected a portfolio return of -11.6%.

B. Securities Lending

Vice-Chairman Leon Guerrero stated that Mr. Dennison also provided an update on Securities Lending and indicated that the Retirement Fund should continue to suspend participation in the Securities Lending program.

C. Managers Reviewed

Vice-Chairman Leon Guerrero stated that the managers reviewed included the following: 1) Capital International, 2) Fisher Investments, 3) AXA Rosenberg, 4) Franklin Templeton, 5) Dimensional Fund Advisers, 6) Income Research Management, and 7) Davis Hamilton.

D. March 31, 2009 Quarterly Performance Meeting

Vice-Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is scheduled for May 28 and 29, 2009. The Board of Trustees indicated that the dates mentioned are okay with them.

IV. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None


V. ANNOUNCEMENTS

None

VI. ADJOURNMENT


There being no further business before the Board for the Defined Benefits Plan, on motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 1:38 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 6, 2009 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on June 26, 2009.

for 

James J. Taylor, Board Secretary

RECORDING SECRETARY:



Jackie Blas