



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, June 26, 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 12:41 p.m. Friday, June 26, 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
 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
 Jackie Blas, Recording Secretary

Public Present:

Alfred F. Duenas, Senator Ben Pangelinan's Office

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. March 6, 2009 Reconvened Meeting, March 27, 2009, April 24, 2009 and May 29, 2009 Regular Meetings

Director Paula Blas stated that during the absence of Secretary James Taylor, Trustee Antonina Leon Guerrero will be reviewing the Board minutes.

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of March 6, 2009 Reconvened Meeting were approved, subject to corrections. Motion passed.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to table the Minutes of March 27, 2009, April 24, 2009 and May 29, 2009 Regular Meetings. Without objection, the motion passed.

III. CORRESPONDENCE

A. June 12, 2009 Letter from Thomson Horstmann & Bryant, Inc. Regarding Funding of the Small Cap Core Mandate

Chairman San Agustin stated that he received a letter from Thomson Horstmann & Bryant (THB) regarding the Board's decision to defer funding of the small cap core mandate until the return of more normal levels of market volatility. Chairman San Agustin stated that THB provided an update on their performance and also highlighted how they handled market low opportunities. Chairman San Agustin referred THB's letter to the Investment Committee for a response.

IV. INFORMATIONAL ITEMS

None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

I. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)* –

Director Blas stated that, as of today, the Retirement Fund released checks totaling \$93.2 Million for gross COLA Award balances and applicable taxes. Director Blas stated that tax, child support, or other government levies were assessed for amounts due to settle the levies. Director Blas stated that payment for the beneficiaries identified will be paid the full amounts due to them. Director Blas stated that COLA inquiry forms may be filed out. There is a great deal of COLA disbursements going to the retirees' estate. Treasurer Gerard Cruz stated that he is concerned about individuals claiming against the estates. Treasurer Cruz asked whether there is sufficient control to prevent fraud. Director Blas replied, "Yes." Vice-Chairman Wilfred Leon Guerrero asked how many are in the estates category. Director Blas stated that there are 594 going to estates and unknown beneficiaries. Vice-Chairman Leon Guerrero asked whether interest will be paid on the COLA award. Director Blas stated that no interest was authorized to be paid out. Director Blas stated that interest was tied to the certificates which has become moot.

On a separate issue regarding COLA, Vice-Chairman Leon Guerrero asked whether a letter was sent to Dr. Bruce Karolle. Vice-Chairman Leon Guerrero stated that Dr. Karolle retired very close to the COLA cut-off date. Director Blas stated that those retirees retiring close to the cut-off date can not be

included. Director Blas stated that she has addressed Dr. Karolle's concern. Director Blas stated that she will look into this matter and will respond to Dr. Karolle again.

2. **Global Custody Services** - Director Blas stated that at the May 29, 2009 Board meeting, the Board continued to suspend participation in Securities Lending. Director Blas stated that the Retirement Fund will revisit participation in Securities Lending during the August 2009 quarterly performance meeting with Terry Dennison of Mercer Investment Consulting, Inc. Treasurer Cruz asked whether the collateral options have changed. Director Blas replied, "No." The only option still available is the Basic Collateral option.

3. **Real Estate Investment Trusts (REITS)** - Director Blas stated that the new accounts for the REITS managers, Cornerstone Real Estate Advisers and Security Capital Research & Management have been set up with Northern Trust. Director Blas stated that an asset allocation of 10% of the Retirement Fund's total asset allocation was approved for REITS. Director Blas stated that due to the market volatility, at the December 5, 2008 Board meeting, the Board approved an asset allocation of 2.5% in REITS. Director Blas stated that at the May 29, 2009 Board meeting, the Board maintained the approved asset allocation of 2.5% in REITS and did not approve additional funding.

4. **U.S. Domestic Small Capitalization Core Equity** - Director Blas stated that the new account for the Small Cap manager, Thomson Horstmann & Bryant (THB) has been set up with Northern Trust. Director Blas stated that a total asset allocation of 10% of the total portfolio was approved for a Small Cap allocation. However, given the current market environment, Mercer Investment Consulting, Inc. (Mercer) recommended to fund Small Cap any where 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 the Board, at their March 6, 2009 meeting, suspended funding of THB and authorized funding of 10% of the Small Cap asset allocation to be placed in an ETF. Based on current market values at the time of funding, this equated to approximately \$8 Million. Director Blas stated that at the May 29, 2009 Board meeting, the Board did not allocate additional funding for the Small Cap asset class.

5. **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) due on June 10, 2009 were paid. The Retirement Fund continues to process applications for retirement for GMHA and GPSS eligible employees. Director Blas stated that the Retirement Fund has been informed that the Department of Administration (DOA) will cease interest payments effective July 10, 2009. Director Blas stated that, as of June 22, 2009, the total outstanding balances for GMHA and GPSS are \$17,358,827 and \$17,280,587 respectively. Director Blas stated that Public Law 30-01, as amended by Public Law 30-07, authorized \$21,820,856 from bond proceeds to pay for GMHA and GPSS outstanding contributions and interest. Director Blas stated that the bond was to satisfy the full balance of \$34 Million plus interest due. Director Blas stated that with the \$21.8 Million payment, DOA is thinking to cut off interest accrued. Director Blas stated that it will eventually collect interest when retiring. Controller Diana Bernardo stated that it has to be applied to interest first. Chairman San Agustin stated to pay the interest and then pay the principal. Vice-Chairman Leon Guerrero asked what would be the net result. Director Blas stated \$12.8 Million in principal. Controller Bernardo stated that \$13.5 Million in interest is outstanding for prior fiscal years. Director Blas stated that she is concerned that the interest payment was going to be stopped pursuant to Public Law 29-19. Director Blas stated that it is an ongoing debt. The balance is being reduced. Vice-Chairman Leon Guerrero

asked what it would be with the new principal. Director Blas stated that it varies. Director Blas stated that it can not be less than 7.5%. Vice-Chairman Leon Guerrero asked what is the rationale of the 7.5%. Director Blas stated that it is the actuarial rate. Director Blas stated that the last fiscal year was negative, interest was not charged as per the law. Vice-Chairman Leon Guerrero recommended referring this matter on how to apply interest to the Investment Committee. Controller Bernardo asked whether the Retirement Fund and Board is going to keep the same position wherein GPSS and GMHA employees will not be allowed to retire if the interest-only payments are not remitted to the Retirement Fund. Chairman San Agustin replied, "Yes." Chairman San Agustin stated that the same conditions apply for retirement of GMHA and GPSS employees pursuant to Public Law 28-38.

6. *Bernstein Litowitz Berger and Grossmann (BLBG)* – Director Blas stated that, on February 23, 2009, BLBG filed the second amended consolidated class action complaint against Lehman to include equity/debt securities. Director Blas stated that there are no new updates on this case.

Director Blas stated that BLBG filed a lead plaintiff motion on behalf of the Retirement Fund in the class action lawsuit against Wells Fargo Action. Motions for designation of lead plaintiff and location of venue have been filed. Director Blas stated that no decision has been made by the court.

Director Blas stated that BLBG was asked to review the Aberdeen portfolio to see whether any investments made caused the Retirement Fund to sustain losses due to Aberdeen's non-compliance with the Retirement Fund statutes or policies. Director Blas stated that BLBG completed their analysis of the Retirement Fund's potential legal claims against Aberdeen in connection with investments made in CMOs and CDOs. Director Blas stated that after review of the Retirement Fund agreement with Aberdeen, BLBG submitted their recommendation on June 2, 2009 on the course of action to take. Vice-Chairman Leon Guerrero stated that BLBG will communicate with Aberdeen to first try to resolve the matter. Director Blas stated that if BLBG does not prevail, the judge may order the Retirement Fund to pay for Aberdeen's legal fees. Director Blas stated that she has not communicated with BLBG yet. Treasurer Cruz asked whether they are willing to negotiate an out of court settlement. Director Blas stated that she will communicate with BLBG to proceed. Treasurer Cruz recommended having Legal Counsel clarify whether it complies with the Retirement Fund's law.

7. *Health Plan Study* – Director Blas stated the Health Study is currently being conducted by Milliman Consulting, Inc. (Milliman). A final copy of the health study will be completed once Milliman receives the additional data requested from SelectCare. Trustee Leon Guerrero asked why the Department of Administration (DOA) can't provide the data. Director Blas stated that SelectCare said that they will provide the data but has not done so.

Financial Report

1. *Contributions* – Director Blas stated that all agencies are current with their Fiscal Year 2009 employee and employer contributions.

2. *Financial Statements* – Director Blas stated that the books for the month ending May 2009 were closed on June 10, 2009.

3. *Fiscal Year 2009 Retirees' Supplemental Benefits* – Director Blas stated that the Supplemental Benefits for retirees and survivors for the month of June 2009 will be paid this week.

4. **Medicare Reimbursements** – 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

A. Liberty Perez’s Application for Reinstatement in the Defined Benefit Plan

Director Blas stated that the Retirement Fund’s Legal Counsel provided their opinion regarding Liberty Perez’s application for reinstatement in the Defined Benefit (DB) Plan. Director Blas stated that the Retirement Fund statute is not clear on this. Treasurer Cruz stated that the action was reversed and it is as if Ms. Perez never left the DB plan. Chairman San Agustin stated that circumstances pushed Ms. Perez to do what she did. Trustee Leon Guerrero stated that Ms. Perez knew that if she was reemployed by the Government of Guam, she would be under the Defined Contributions (DC) Plan. Treasurer Cruz asked whether Ms. Perez would have to repay the Retirement Fund if she were reinstated in the DB plan. Chairman San Agustin stated that Ms. Perez must make the Retirement Fund whole. Chairman San Agustin stated that Ms. Perez’s request states that she will pay all her contributions back. Vice-Chairman Leon Guerrero stated that the government reinstated Ms. Perez by reversing the action. Trustee George Santos stated to let Ms. Perez take the Retirement Fund to court. Controller Bernardo stated that she is aware that the document is signed by employees and that they are counseled, but she is not certain that the employees are counseled that should they be reemployed with the government they will be under the DC Plan. Trustee Santos stated that he is not aware whether the employees are counseled of being under the DC Plan when reemployed with the government. Treasurer Cruz stated that in this case, the government acknowledged their mistake and is trying to make this person whole. Director Blas stated that Legal Counsel made a recommendation drafting legislation to include prohibiting re-enrollment in the DB plan upon any type of reinstatement. Vice-Chairman Leon Guerrero stated that the Retirement Fund should adopt a policy that employees can not withdraw their contributions. Chairman San Agustin recommended pursuing legislation for future cases.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve to readmit Liberty Perez into the Defined Benefit Plan. In favor of motion to readmit: Vice-Chairman Wilfred Leon Guerrero, Trustee Katherine Taitano, Treasurer Gerard Cruz, and Chairman Joe T. San Agustin. Against motion to readmit: Trustee Antolina Leon Guerrero and Trustee George Santos. Absent: Secretary James Taylor. With four affirmative votes, the motion passed.

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, 2009. Treasurer Cruz stated that the Retirement Fund’s assets are moving up. Chairman San Agustin stated that it dropped 10% but that it is going up.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee’s June 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 10, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of June 10, 2009 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

Vice-Chairman Leon Guerrero reported that the Investment Committee meeting was held on June 12, 2009. The Committee reviewed and approved the Investment Committee Minutes of May 15, 2009.

Vice-Chairman Leon Guerrero stated that the following were discussed for Board Action:

1) Government of Guam Bond Proceeds Re: Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS) Receivables

Vice-Chairman Leon Guerrero stated that during the June 12, 2009 Investment Committee meeting, Management indicated that the Retirement Fund expects to receive approximately \$30 Million to \$35 Million from the Government of Guam General Fund for outstanding GMHA and GPSS contributions, including interest. Vice-Chairman Leon Guerrero stated that the Investment Committee had recommended allocating funds received as follows: \$6 Million reserved for current operations; \$10 Million in Non-US Equity Small Cap; and the remaining balance in Domestic Small Cap Equity.

Vice-Chairman Leon Guerrero stated that Management had just indicated that the Retirement Fund will receive approximately \$21.8 Million instead of the \$30-35 Million. Vice-Chairman Leon Guerrero stated that Management now recommends allocating the \$21.8 Million as follows:

Reserved for current operations:	\$8 Million
Funding/Investment in:	
Non-US Equity Small Cap	\$5 Million
Domestic Small Cap Equity	\$8.8 Million
TOTAL FUNDS RECEIVED	\$21.8 Million

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation of allocating funds received from the Government of Guam Bond Proceeds Re: Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS) Receivables as follows: 1) \$8 Million reserved for current operations; 2) \$5 Million for funding/investment in Non-US Equity Small Cap; and 3) \$8.8 Million for funding/investment in Domestic Small Cap Equity. Without objection, the motion passed.

2) Bernstein Litowitz Berger and Grossman (BLBG) June 2, 2009 Letter Re: Aberdeen Investments

Vice-Chairman Leon Guerrero stated that BLBG addressed the Retirement Fund's concerns regarding investments made by Aberdeen Asset Management on behalf of the Retirement Fund. Vice-Chairman

Leon Guerrero stated that the Investment Committee recommends pursuing claims against Aberdeen wherein BLBG will first try to resolve the claims with Aberdeen before filing any litigation. Vice-Chairman Leon Guerrero stated that if unsuccessful, BLBG will notify the Retirement Fund first before pursuing litigation.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation to pursue claims against Aberdeen Asset Management (Aberdeen) wherein Bernstein Litowitz Berger and Grossman (BLBG) will first try to resolve the claims with Aberdeen before filing any litigation and if unsuccessful, BLBG will notify the Retirement Fund first before pursuing litigation. Without objection, the motion passed.

Information Items

1) **Funding of Managers** – Vice-Chairman Leon Guerrero stated that funding for the following Managers was deferred for discussion during the next quarterly performance meetings with Mercer Investment Consulting, Inc. on August 27, and 28, 2009: 1) Cornerstone (REITS) – partially funded on December 2008; 2) Security Capital (REITS) – partially funded on December 2008; and 3) Thomson Horstmann & Bryant (U.S. Domestic Small Cap) – not yet funded. Vice-Chairman Leon Guerrero stated that the U.S. Domestic Small Cap Mandate was partially funded via \$8 Million in Exchange Traded Funds (ETFs).

2) **Asset Allocation** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the latest asset allocation as of June 8, 2009, noting that the total market value of the portfolio dropped from approximately \$1.129 Billion at September 30, 2008 to approximately \$1.040 Billion as of June 8, 2009. Controller Bernardo pointed out that the Retirement Fund's portfolio as of June 26, 2009 is \$1.022 Billion.

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

None

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 George Santos, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 2:00 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of June 26, 2009 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 31, 2009.



Antolina S. Leon Guerrero, Board Secretary

RECORDING SECRETARY:



Jackie Blas