



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, September 25, 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 12:50 p.m. Friday, September 25, 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
- Antolina S. Leon Guerrero, Secretary
- Gerard A. Cruz, Treasurer
- Wilfred G. Aflague, Trustee
- George A. Santos, Trustee
- Katherine T.E. Taitano, Trustee

Staff Present:

- Paula Blas, Director
- Diana Bernardo, Controller
- Jackie Blas, Recording Secretary

Public Present:

- Jesus G. Duenas, Sr.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. August 28, 2009 Regular Meeting

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of August 28, 2009 Regular Meeting were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

A. September 2, 2009 Letter from Jesus G. Duenas, Sr. – Response to Memorandum Dated August 19, 2009 Regarding Prior Year Service Credit

Director Paula Blas stated that she received a letter from Mr. Duenas in response to her letter dated August 19, 2009 regarding his request for reconsideration for Prior Year Service Credit. Director Blas stated that Mr. Duenas is requesting for the opportunity to appear before the Board on this matter. Mr. Duenas is trying to redeposit a refund he made upon reemployment on March 16, 1990. Director Blas stated that Mr. Duenas had 180 days to make a redeposit. Director Blas stated that Mr. Duenas claims that he was not given the form for redeposit. Vice-Chairman Wilfred Leon Guerrero inquired about the Retirement Fund's procedure on providing the form. Director Blas stated that the processor will have the individual fill out the enrollment application and then determines what forms will be given to that individual. Vice-Chairman Leon Guerrero stated that Mr. Duenas did mark "Yes" on his application. Director Blas stated that Mr. Duenas was informed in 2002 that the 180 days had passed. Director Blas stated that Mr. Duenas did not say anything at that time, but now wants to make a redeposit. Trustee Wilfred Aflague mentioned that Mr. Duenas had two opportunities to meet the 180 days requirement. Secretary Antolina Leon Guerrero stated that the Retirement Fund will not be able to determine whether Mr. Duenas received the form. Secretary Leon Guerrero stated that in 2002, when Mr. Duenas was obtaining an assessment, he was told about the 180 days window to pay but he did not do or say anything about it. Mr. Duenas did not raise the argument in 2002 regarding the 180 days requirement. Chairman San Agustin asked how much Mr. Duenas will need to pay back. Director Blas stated that the figure compounded to date is \$1,174.00. Director Blas stated that if Mr. Duenas is granted the service credit, he will have the twenty-five years full service.

Chairman San Agustin recognized Mr. Duenas at this time. Mr. Duenas thanked the Board for giving him the opportunity to appear before them. Mr. Duenas stated that he has been communicating with the Retirement Fund. Mr. Duenas stated that the Retirement Fund is putting the blame on him. Mr. Duenas stated that this was an administrative oversight with the Retirement Fund. Mr. Duenas stated that on March 16, 2009, he submitted his enrollment application and the forms provided to him by Ms. Bobbie Cepeda. Mr. Duenas asked that the Retirement Fund show that he refused the form in question. Mr. Duenas stated that the Retirement Fund failed to provide him the form or notify him of repayment. Mr. Duenas stated that the Retirement Fund failed to advise him of the amount due for the prior year service credit.

Secretary Leon Guerrero asked Mr. Duenas if it was his intention to make a repayment. Mr. Duenas replied "Yes, and that he informed Ms. Cepeda of it." Secretary Leon Guerrero asked Mr. Duenas what Ms. Cepeda said to him. Mr. Duenas stated that Ms. Cepeda told him that she will work on it. Treasurer Gerard Cruz asked whether Ms. Cepeda told him that he would have to make a repayment. Mr. Duenas stated that Ms. Cepeda told him that she was to compute the amount to be paid.

Chairman San Agustin asked whether the 180 days window ever even started since Mr. Duenas is saying that he was never given the form. Director Blas stated that the 180 days is from the date of returning to membership. Chairman San Agustin asked whether the timeframe to apply or make an arrangement for a repayment lapsed. Director Blas replied, "Yes." Chairman San Agustin stated that Mr. Duenas was never told how much he had to repay. Vice-Chairman Leon Guerrero asked for a clarification on the July 31, 2008 letter that was stamped received by the Retirement Fund on March 25, 2009. Mr. Duenas stated that it was a follow up letter that he hand delivered to the Retirement Fund on March 25, 2009. Chairman San Agustin asked Mr. Duenas whether it was his intention to retire in 2008. Mr. Duenas replied, "No, but that he was just checking on his years of service." Chairman San Agustin asked Mr. Duenas whether he is ready to retire. Mr. Duenas replied, "Not until another year or two." Treasurer Cruz asked Mr. Duenas whether Ms. Cepeda informed him of the repayment. Mr. Duenas replied, "Yes, but that Ms. Cepeda was going to do the computation.

Mr. Duenas thanked the Board for the time afforded to him and asked that the Board consider his request for repayment of prior year service credits. Vice-Chairman Leon Guerrero asked Mr. Duenas whether he is prepared to pay back the amount due plus interest. Mr. Duenas replied, "Yes, if he could afford it, he'll pay it right away." Mr. Duenas left the meeting at this time.

Treasurer Cruz stated that there is an equal responsibility by both parties. Treasurer Cruz stated that Mr. Duenas knew of the repayment and that if Ms. Cepeda did not get back in touch with him he should have gotten back to the Retirement Fund or Ms. Cepeda regarding the repayment. Director Blas stated that the fact is that Mr. Duenas was told that he had to make a repayment but that it had to be computed. Chairman San Agustin stated that it is clear that Mr. Duenas' intention was to make payment. Treasurer Cruz stated that Mr. Duenas may have gotten the form but waited for Ms. Cepeda to get back to him. Secretary Leon Guerrero stated that the 180 days starts on the date of reemployment. Director Blas stated that Mr. Duenas is saying that the Retirement Fund could not establish that he received the form for repayment. Director Blas further stated that Mr. Duenas is saying that he verbally informed Ms. Cepeda of the repayment but that the paperwork was never done. Chairman San Agustin stated that the Board will now entertain a motion to approve or disapprove Mr. Duenas' request for Prior Year Service Credits.

Chairman Joe T. San Agustin, seconded by Secretary Antolina Leon Guerrero, moved to poll the Board of Trustees on whether to approve or disapprove Mr. Jesus G. Duenas' Request for Prior Year Service Credits. The following voted to disapprove the request: Secretary Antolina Leon Guerrero, Trustee George Santos, Treasurer Gerard Cruz, Trustee Wilfred Aflague, and Trustee Katherine Taitano. The following voted to approve the request: Vice-Chairman Wilfred Leon Guerrero, and Chairman Joe T. San Agustin. With five votes for disapproval, the motion passed to disapprove Mr. Duenas' request for Prior Year Service Credits.

IV. INFORMATIONAL ITEMS

None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

I. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Care No. SP206-93)* - Director Blas stated that the Retirement Fund continues to release checks for gross COLA Award balances less 10% for the attorney fee and applicable taxes. Director Blas stated that taxes, child support, or other government levies were assessed for amounts due to settle the levies.

Director Blas stated that Public Law 29-18 authorized the Department of Administration (DOA) to issue COLA Class Certificates of Claim for COLA Awards and interest calculated at a rate of 7% from date of settlement. Director Blas stated that on August 14, 2009, DOA issued a Statement of Account to each COLA recipient indicating the interest amount due and payable by the General Fund. Chairman San Agustin asked whether there is funding for the interest payment. Director Blas stated that there is no funding this fiscal year. Director Blas stated that DOA has informed the COLA recipients of what they can do with the statement of account. Director Blas stated that it is a statement of account and not a line of credit. Director Blas stated that the interest payment may be settled by next year. Chairman San Agustin stated that DOA needs an appropriation of \$20 Million for the interest payment.

2. **Global Custody Services** – Director Blas stated that at the August 28, 2009 Board meeting, the Board continued to suspend participation in Securities Lending. Director Blas stated that, according to Northern Trust, the only option available to the Retirement Fund is the Basic Collateral option. Secretary Antolina Leon Guerrero asked whether Northern Trust is going to submit a cost-benefit analysis as recommended by Mercer. Director Blas replied, “Yes.” Director Blas stated that the Retirement Fund will revisit participation in Securities Lending during the December 2009 quarterly performance meeting with Terry Dennison of Mercer Investment Consulting, Inc. (Mercer).

3. **Real Estate Investment Trusts (REITS)** – Director Blas stated that at the August 28, 2009 Board meeting, the Board approved additional funding of approximately \$12 Million to Cornerstone Real Estate Advisors and no additional funding to Security Capital. Director Blas stated that the funding transmitted to Cornerstone came from Franklin Templeton, a Fixed Income manager.

4. **U.S. Domestic Small Capitalization Core Equity** – Director Blas stated that at the August 28, 2009 Board meeting, the Board approved funding of \$45 Million to Thomson Horstmann & Bryant (THB). Director Blas stated that funding came from the Domestic Large Capitalization Equity Managers – Atalanta and Metropolitan West.

Director Blas stated that a Request for Proposal (RFP) for U.S. Domestic Small Capitalization was also approved and will be issued on October 5, 2009. The deadline to submit a response to the RFP is November 9, 2009.

5. **Public Law 28-38** – Director Blas stated that monthly interest payments for Department of Education (DOE) and Guam Memorial Hospital Authority (GMHA) due on September 10, 2009 were paid. Director Blas stated that the Retirement Fund continues to process applications for retirement for GMHA and DOE eligible employees.

6. **Bernstein Litowitz Berger and Grossmann (BLBG)** – Director Blas provided an update on the following lawsuits:

- **Lehman Brothers** – Director Blas stated that this case is still in litigation.
- **Wells Fargo** – Director Blas stated that the court has granted designation of lead plaintiff to New Orleans Employees’ Retirement System group and the case will be argued in California.

- **Aberdeen Assets Management** – Director Blas stated that at the August 28, 2009 Board meeting, the settlement was accepted and approved. Director Blas stated that the Retirement Fund received the settlement proceeds on September 1, 2009.
- **Genzyme Corporation** – Director Blas stated that BLBG will be filing a motion for the Retirement Fund as lead plaintiff. Chairman San Agustin asked what the exposure of Genzyme is. Director Blas stated that she has the breakdown.

7. **Public Law 30-55: Fiscal Year 2010 Executive Budget** – Director Blas stated that a Cost of Living Allowance (COLA) of \$1,100.00 for each retiree of the Government of Guam Retirement Fund who is retired as of September 30, 2009, or his/her survivor, shall be paid no later than November 1, 2009. Director Blas stated that any retiree or survivor eligible to receive the COLA may waive their COLA payment by filing a notarized affidavit waiving the COLA payment with the Retirement Fund on or before November 1, 2009. Director Blas stated that if a retiree is a Defined Benefit (DB) and a Defined Contribution (DC) retiree, he/she or his/her survivor shall only be entitled to one COLA payment.

8. **Legislative Bills: 138, 185, and 212** – Director Blas stated that each of the proposed bills entitles a “partner,” “spouse,” or “beneficiary” to certain rights, which either specifically or implicitly include a right to the retirement benefits of the DB Plan member and his or her surviving spouse, partner or beneficiary. Director Blas stated that copies of the bills are attached. Director Blas stated that a Board Resolution affirming the Board’s position is attached for review and approval. Director Blas stated that with Bill 212, 100% of the members will have survivors since Bill 212 allows an individual to name anyone as his/her a survivor. Trustee Aflague asked what was the percentage typically used. Director Blas replied, “65%.” Director Blas stated that about 28-30% is with the same sex partner or whoever is designated as a survivor. Director Blas stated that this will drive benefit costs up adding that if Bill 212 passes, the Legislature should identify funding for it. Vice-Chairman Leon Guerrero recommended changing the language of the resolution so that it states that funding should be identified. Director Blas stated that if this is not funded, the Retirement Fund could deny benefits. Director Blas stated that in a prior ruling the judge asserted that it is the Retirement Fund’s fiduciary responsibility. Chairman San Agustin reiterated Director Blas’ statement that if it can not be funded, the Retirement Fund will not pay out benefits. Director Blas stated that she will change the language of the resolution as recommended by Vice-Chairman Leon Guerrero.

Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary Antolina Leon Guerrero, moved to approve Resolution No. 2009-002 Relative to the Government of Guam Retirement Fund’s Position Statement on Bills 138, 185, and 212 Creating New Benefits Under the Defined Benefit Plan, as modified. Without objection, the motion passed.

Financial Report

1. **Contributions** – Director Blas stated that as of September 22, 2009, 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 August 2009 were closed on September 11, 2009.

3. **Fiscal Year 2009 Retirees’ Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of September 2009 will be paid next week.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the September 2009 allotment from the General Fund and payments were processed accordingly. Director Blas stated that Medicare recipients will each receive a reimbursement for an equal number of months provided that all required documents have been submitted as of September 9, 2009.

Director Blas stated that, based on the increased enrollment in the Medicare Reimbursement Program, the Retirement Fund will be experiencing a shortfall of approximately \$92,000 for Fiscal Year 2009. Director Blas stated that Management is working with the Legislature to provide the additional funding for Fiscal Year 2009. Director Blas stated that Fiscal Year 2010 Medicare Reimbursement does not require enrollment in a Medical Health Plan but the retiree/survivor must be domiciled on Guam.

VI. LEGAL COUNSEL'S REPORT

Director Blas stated that the Retirement Fund's Legal Counsel's letter is provided for the Board's information. Director Blas stated that Legal Counsel is working on draft legislation on Collateralized Mortgage Obligations (OMB) and Commercial Mortgage-Backed Securities (CMBS). Vice-Chairman Leon Guerrero stated that if it is not mentioned, it is not allowed. Secretary Leon Guerrero stated that if things develop, we will need to take it to the Legislature again. Director Blas stated that it could be brought to the Board for approval. Director Blas asked whether to make it non permissible. Vice-Chairman Leon Guerrero replied, "Yes." Director Blas stated that we may need to revisit our statutes. Director Blas stated that currently we are working on legislation that would allow us to use CMO and CMBS. Treasurer Cruz stated to move the limitations in fixed income. Director Blas stated that she will obtain Legal Counsel's draft legislation for the Board's review.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

A. Government of Guam Retirement Fund Fiscal Year 2010 Proposed Budget

Chairman San Agustin asked whether the proposed budget provides an incentive award for the staff. Treasurer Cruz stated that there is a provision in the proposed budget that allows for an incentive award. Chairman San Agustin also asked whether training and development is included. Treasurer Cruz replied, "Yes." Chairman San Agustin recommended keeping the position open for the Investment Specialist. Controller Diana Bernardo stated that the Investment Specialist is a classified position that the Retirement Fund has not been able to fill.

Treasurer Cruz stated that the actuary fees have increased due to the different studies conducted. Treasurer Cruz stated that the administrative expense of \$5,011,530 in Fiscal Year 2009 has decreased by \$1,709. Treasurer Cruz stated that some positions have been eliminated.

Secretary Leon Guerrero inquired about the building expansion. Director Blas stated that a feasibility study will be conducted on the building improvements.

Trustee Wilfred Aflague, seconded by Trustee George Santos, moved to approve the Government of Guam Retirement Fund Fiscal Year 2010 Budget. Without objection, the motion passed.

Treasurer Gerard 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 DB Plan and the DC Plan for the month ended August 31, 2009.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 15, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of September 9, 2009 and subsequent meetings thereafter. Without objection, the motion passed.

Chairman San Agustin stated that Dr. John Steele, the Retirement Fund's Medical Consultant, will be going off-island. Chairman San Agustin raised the issue on disability cases that are still with Dr. John Steele. Director Blas stated that Dr. Steele will have his reports completed by next week.

B. Investment Committee

Vice-Chairman Leon Guerrero reported that the Investment Committee meeting was held on September 11, 2009. The Committee reviewed and approved the Investment Committee Minutes of August 14, 2009.

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

1. *Funding of Managers* – Vice-Chairman Leon Guerrero stated that the REITS and U.S. Domestic Small Capitalization Mandates are not yet fully funded.

REITS – Vice-Chairman Leon Guerrero stated that during the quarterly performance meeting on August 27, 2009, Mr. Dennison of Mercer recommended funding Cornerstone Real Estate Advisors an additional \$12 Million. Vice-Chairman Leon Guerrero stated that Mr. Dennison also recommended no additional funding, at that time, for Security Capital due to their more aggressive investment style.

Vice-Chairman Leon Guerrero stated that although further funding of both managers will be discussed during the next quarterly performance meeting in December 2009, the Investment Committee requested that Mr. Dennison provide his recommendations in writing, specifically indicating why he did not recommend full funding for both Cornerstone and Security Capital.

U.S. Domestic Small Capitalization Equity Mandate – Vice-Chairman Leon Guerrero stated that the Domestic Small Cap Equity Mandate has been partially funded as follows: a) \$16.8 Million in Exchange Traded Funds, and b) \$45 Million to Thomson Horstmann & Bryant (THB), representing approximately 40% of the mandate.

Vice-Chairman Leon Guerrero stated that a Request for Proposal (RFP) will be issued to search for a second Domestic Small Cap Equity Manager.

2. **Investment Committee Goals and Objectives** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the Draft Matrix, which is subject to further discussion during the next Committee meeting.

3. **Asset Allocation** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the latest asset allocation as of September 8, 2009, noting that compared to the approximately \$1.129 Billion market value of the portfolio at September 30, 2008, the market value was approximately \$1.176 Billion as of September 23, 2009.

Director Blas pointed out that the next Investment Committee meeting is scheduled for October 9, 2009 which is on the same day as the APAFS Conference in Manila. Director Blas asked whether the Investment Committee would like to meet the following Friday, October 16, 2009. The Investment Committee members indicated that it is okay to meet on October 16, 2009.

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 Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 3:15 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of September 25, 2009 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on October 30, 2009.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas