



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

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

June 26, 2009

To: Joe T. San Agustin, Board Chairman
From: Wilfred Leon Guerrero, Investment Committee Chairman
Subject: Investment Committee Meeting – June 12, 2009

Defined Benefit Plan

On June 12, 2009, the Fund held its regular Investment Committee meeting. In attendance were Trustees Gerard Cruz, Dr. James Taylor, Joe T. San Agustin, and I. Other attendees were Diana Bernardo and Rosalia Bordallo.

The following were discussed for Board Action:

1) Gov Guam Bond Proceeds Re: GMH and GPSS Receivables

Management indicated that the Fund expects to receive approximately \$30 million to \$35 million from the Government of Guam General Fund for outstanding GMH and GPSS contributions, including interest.

Management recommended that amounts received be invested, with \$6 million reserved for current operations.

RECOMMENDATION:

The Investment Committee recommends allocating funds received as follows:

Reserved for current operations:	\$ 6.0 million
Funding/Investment in:	
Non-US Equity Small Cap	\$10.0 million
Domestic Small Cap Equity	\$ <u>xx.x</u> million (Remaining Balance)
Total Funds Received	\$ <u>xx.x</u> million

2) Bernstein's 6/02/09 Letter Re: Aberdeen Investments

In its **May 22, 2009 letter** to the Fund, Bernstein addressed the Fund's concerns regarding investments made by Aberdeen Asset Management on behalf of the Fund. They indicated the following:

- a) Aberdeen purchased on behalf of the Fund, three securities that appeared to be unauthorized under Section 8159 because they are CMOs backed by liens, junior to first mortgages.
- b) Based on current market prices they estimated that the Fund suffered unrealized losses of approximately \$906,370 on the three improper investments.
- c) Bernstein was unable to recommend a course of action for the Fund, since they had not yet reviewed Aberdeen's contract.

In its **June 2, 2009 letter** and June 3, 2009 email, Bernstein indicated the following:

- a) Based on their review and interpretation of the Contract, the Fund has potential rights of recovery for either **breach of contract** or **compensatory relief** since Aberdeen was in violation of the Guam Code and the Fund's Investment Policy Statement.
- b) **Under Breach of Contract** --- The Fund would be entitled to recover its losses of approximately \$906,370, and potentially any fees it paid to Aberdeen relating to the improper investments.
- c) **Under Compensatory Relief** --- The Fund would be entitled to recover its losses of approximately \$906,370, potentially any fees it paid to Aberdeen relating to the improper investments, **plus interest**.
- d) Should the Board decide to pursue the claims, Bernstein can try to resolve the claims with Aberdeen before filing any litigation.

RECOMMENDATION:

The Investment Committee recommends pursuing claims against Aberdeen wherein Bernstein will first try to resolve informally with Aberdeen. If unsuccessful, Bernstein will notify the Fund first before pursuing litigation.

Informational Items

3) Funding of Managers

Funding of the following Managers was deferred for discussion during the next quarterly performance meetings with Mercer Investment Consulting Inc. on August 27, and 28, 2009.

- a) Cornerstone (REITs) – Partially funded on Dec. 2008.
- b) Security Capital (REITs) – Partially funded on Dec. 2008.
- c) Thomson Horstmann & Bryant (U.S. Domestic Small Cap) - Not yet funded.
 - The U.S. Domestic Small Cap Mandate was Partially Funded via \$8M in Exchange Traded Funds (ETF)

4) Asset Allocation

The 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 9/30/08 to approximately \$1.04 billion as of 6/08/09.

5) Minutes

The Committee reviewed and approved the Investment Committee Minutes of May 15, 2009.