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Trustee

December 18, 2009

To: Joe T. San Agustin, Board Chairman
From: Wilfred Leon Guerrero, Investment Committee Chairman
Subject: Quarterly Performance Meeting – December 16, and 17, 2009

Defined Benefit Plan

On December 16, and 17, 2009, the Investment Committee held its quarterly performance meeting for September 30, 2009. The Committee also held Annual Manager Reviews of its Domestic Large Cap Equity and REITs Managers.

In attendance were Trustees Gerard Cruz, Wilfred Aflague, Joe T. San Agustin, Antolina Leon Guerrero, and I. Other attendees were Terry Dennison of Mercer Investment Consulting Inc., Mike Perez of Great West, Doris Brooks from the Office of the Public Auditor, Paula Blas, Diana Bernardo and Rosalia Bordallo.

The following were approved for Board Action:

1) Investment Portfolio Rebalancing

Recommendation:

Based on discussions with Terry Dennison, the Committee recommends the following:

- a) Increasing the Target Allocation for **Emerging Markets** from 3% to 5.75%.
- b) Commencing in January 2010, **Rebalance the Portfolio** as follows:
 - i) Fully fund the **REITs** Mandate Managers (Cornerstone and Security Capital) to the target allocation of 10%. Funding will come from the Fixed Income Managers (Franklin and Davis Hamilton).
 - ii) Terminate the **AXA International** Large Cap Manager.
 - iii) Rebalance Fisher **Investments** to reduce its current allocation to the 10% Target Allocation.

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- iv) Add an **ETF I Shares EAFE Index**, which will be funded by the allocations currently held by the AXA International Large Cap Equity Manager, and the excess allocation currently held by Fisher.
- v) **Issue a Request For Proposal** to search for a replacement for AXA International Large Cap Equity.

2) **Securities Lending**

Recommendation:

Based on discussions with Terry Dennison, the Committee recommends that the Fund not participate in securities lending at this time. This item will be revisited in the next quarterly performance meeting.

Informational Items:

1. **Quarterly Performance Meeting**

Terry Dennison provided an overview of the DB Plan's 9/30/09 Quarterly Investment Performance, wherein he:

- a) Recommended termination of AXA International Large Cap Equity,
- b) Recommended closely monitoring of AXA International Small Cap, and
- c) Noted a rate of Return of 7.5% for 2009, versus the negative 14.8% return in 2008.

2. **Annual Manager Review**

Annual Reviews were conducted for the following managers:

- 1. Robeco,
- 2. Metropolitan West,
- 3. Atalanta Sosnoff,
- 4. Winslow Capital,
- 5. INTECH,
- 6. Cornerstone, and
- 7. Security Capital

3. **December 31, 2009 Quarterly Performance Meeting and Annual Manager Review**

The proposed schedule for the next Quarterly Performance Meeting and annual review of the *International, Fixed income and Domestic Small Cap Equity Managers* is: **February 24, 25, and 26, 2010.**