



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, January 22, 2010, 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 1:17 p.m. Friday, January 22, 2010, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Acting Chairman
 Antolina S. Leon Guerrero, Secretary
 Gerard A. Cruz, Treasurer
 Wilfred G. Aflague, Trustee
 George A. Santos, Trustee

Board of Trustees Absent:

Joe T. San Agustin, Chairman (*Excused*)
 Katherine T.E. Taitano, Trustee (*Excused*)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 18, 2009 Regular Meeting

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of December 18, 2009 Regular Meeting were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

None

IV. INFORMATIONAL ITEMS

None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)* – Director Paula Blas stated that the Retirement Fund continues to release checks for gross COLA Award balances less 10% for the attorney fee and any 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 there is no new information with regards to the pay out date of the COLA interest.

2. *Global Custody Services* – Director Blas stated that at the December 18, 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 March 2010 quarterly performance meeting with Terry Dennison of Mercer Investment Consulting, Inc. (Mercer).

Treasurer Gerard Cruz asked how much has been paid to Northern Trust. Director Blas replied, "\$60,000.00 a year for custodial banking services." Director Blas mentioned that Mr. Bob Ernst of Northern Trust will be on island in March along with Mr. Dennison for the due diligence on March 24 and 25, 2010. The Board of Trustees agreed on having the due diligence on March 24 and 25. Secretary Antolina Leon Guerrero asked whether Northern Trust will be on island annually. Director Blas replied, "Yes."

3. *Real Estate Investment Trusts (REITS)* – Director Blas stated that at the December 18, 2009 Board meeting, the Board approved to fully fund the REITS asset allocation to the target allocation of 10%. Director Blas stated that the Investment Committee will cover the asset allocation in their report.

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). Funding came from the Domestic Large Cap Equity Managers – Atalanta and Metropolitan West. Director Blas further stated that the Board approved issuing a Request for Proposal (RFP) in search of a second manager. Director Blas stated that the Selection Panel met. Trustee Wilfred Aflague asked whether discussions should always be with all three panel members. Director Blas replied, "Yes, all three panel members."

5. **Request for Proposal (RFP) – U.S. Domestic Small Capitalization Core Equity** – Director Blas stated that the RFP for U.S. Domestic Small Cap closed on November 9, 2009. Director Blas stated that Mercer completed their analysis of the eligible offerors and the Selection Panel will commence with the procurement process. The Selection Panel consists of Vice-Chairman Wilfred Leon Guerrero, Treasurer Gerard Cruz, and Trustee Wilfred Aflague.

6. **Request for Proposal (RFP) – International Developed Markets Large Cap Equity** – Director Blas stated that the RFP for International Developed Markets Large Cap Equity will be issued on February 8, 2010 and will close on March 12, 2010.

7. **Public Law 28-38: Interest Only Payments** – Director Blas stated that the Retirement Fund received a letter from the Department of Administration (DOA) dated January 8, 2010 regarding the interest only payments for Guam Memorial Hospital Authority (GMHA) and Department of Education (DOE). Director Blas stated that DOA is requesting for an adjusted interest payment schedule on outstanding GMHA and DOE balances as a result of the \$21 Million bond proceeds paid to the Retirement Fund. Director Blas stated that Public Law 28-38 mandates that interest payments in the amount of \$190,501.19 for GMHA and \$192,955.07 for DOE continue to be paid until the outstanding balances have been paid in full.

Director Blas stated that per the DOA letter, the Retirement Fund has the following options:

1. General Fund continue to make interest payments for GMHA (\$190,501.19) and DOE (\$192,955.07) and these payments will be applied to outstanding interest and principal amounts; or
2. The Retirement Fund provides DOA with an adjusted interest payment schedule for interest due on the outstanding principal amount for GMHA and DOE.

However, the Retirement Fund has a third option:

3. Remain status quo. Maintain the position that interest payments in the amount of \$190,501.19 and \$192,955.07 continue to be remitted to the Retirement Fund in compliance with the legal interpretation of the law. These interest payments will continue to be identified as opportunity costs to the Retirement Fund.

Treasurer Cruz asked why No. 1 and No. 3 differs. Director Blas stated that on No. 3, the interest payment is not applied to the outstanding balance. Acting Chairman Leon Guerrero stated that he does not understand why there are options given when there is a Public Law regarding this matter. Trustee Aflague asked whether the Retirement Fund has responded to DOA's letter. Director Blas stated that she will send a response to DOA. Acting Chairman Leon Guerrero stated that the law says that it is until the principal amount is fully paid. Rosalia Bordallo, General Accounting Supervisor, agreed with Acting Chairman Leon Guerrero that it is the law. Director Blas stated that she will respond that the Retirement Fund will remain status quo on this matter. Acting Chairman Leon Guerrero asked whether Director Blas needs direction from the Board. Director Blas replied, "Yes." Acting Chairman Leon Guerrero stated that it is the Board's position that the Retirement Fund remains the same on this matter.

Director Blas stated that the monthly interest payments for DOE and GMHA due on January 10, 2010 were paid. The Retirement Fund continues to process retirement applications for DOE eligible employees. However, GMHA is not current in remitting their Fiscal Year 2010 contributions, therefore the Retirement Fund suspended accepting retirement applications from GMHA employees until all Fiscal Year 2010 contributions have been remitted.

8. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that there are no new updates on the following lawsuits:

- Lehman Brothers – Director Blas stated that the Retirement Fund’s exposure is approximately \$3.85 Million.
- Wells Fargo – Director Blas stated that the Retirement Fund’s exposure is approximately \$13 Million. Director Blas stated that BLBG filed the Consolidated Complaint against Wells Fargo in August 2009. The defendants in the case filed three separate motions to dismiss the complaints. Director Blas stated that BLBG filed oppositions to the motions on December 15, 2009.
- Genzyme Corporation – Director Blas stated that the Retirement Fund’s exposure is approximately \$1.75 Million. Director Blas stated that the court granted the designation as one of three lead plaintiffs to the Government of Guam Retirement Fund.

Director Blas stated that she has not heard from Mr. Nicholas Blair of BLBG of his visit to the Retirement Fund. Acting Chairman Leon Guerrero stated that Mr. Blair had asked him to meet in San Diego in February 2010. Acting Chairman Leon Guerrero stated that he would rather have Mr. Blair come to Guam.

9. *Legislative Bills: Bill 185 (Domestic Partnerships) and Bill 212 (Designated Beneficiaries)* – Director Blas stated that Board Resolution 2009-001 and Richard Wright’s (Milliman Consulting, Inc.) response regarding the actuarial impact each bill would have on the Retirement Fund were forwarded to the Legislature. Director Blas stated that Bill 185 is being entertained in session at this time. Director Blas stated that Bill 212 is not in committee yet.

10. *Government of Guam Retirement Fund Proposed Legislative Bills: Bill 288-30 (COR) Amendment to §8154 Relative to Fixed Income Securities* – Director Blas stated that a public hearing was held on January 13, 2010. Director Blas stated that Mr. Dennison of Mercer will be providing written testimony to be submitted in support of Bill 288-30. Director Blas stated that the Legislature will be voting on Bill 288-30 today.

Financial Report

1. *Contributions* – Director Blas stated that as of January 19, 2010, GMHA has not remitted contributions for pay period ending December 19, 2009. All other agencies are current with their Fiscal Year 2010 employee and employer contributions.

2. *Financial Statements* – Director Blas stated that the books for the month ending December 2009 were closed on January 19, 2010.

3. *Fiscal Year 2009 Audit* – Director Blas stated that the audit for Fiscal Year ending September 30, 2009 is ongoing. Director Blas stated that the final audit reports are scheduled to be issued by March 1, 2010.

4. **Fiscal Year 2010 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of January 2010 will be paid the last week of January 2010. Director Blas stated that these benefits are provided by the General Fund.

5. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the January 2010 allotment from the General Fund and payments are on-going.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

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 December 31, 2009.

Treasurer Cruz stated that the Director of DOA has reviewed relevant GASB statements and has made certain conclusions. DOA believes that the Government of Guam Defined Benefits (DB) Plan that is currently administered by the Government of Guam Retirement Fund is not a "single-employer plan" but is instead a "cost-sharing multiple-employer plan." Treasurer Cruz stated that the Retirement Fund is a single employer plan and the Retirement Fund has maintained the definition of the single employer plan. GASB has a different definition of a single employer plan and a multiple employer plan. Treasurer Cruz stated that DOA thinks that the Government of Guam is now a multiple employer plan. They believe that autonomous agencies have their own financial entities, like the Guam Power Authority (GPA), Guam International Airport Authority (GIAA), Guam Waterworks Authority (GWA), the Port Authority of Guam (PAG) and Guam Memorial Hospital Authority (GMHA). The decision of being a multiple employer plan would mean that the actuarial rate will be calculated based on each individual entity. You can not aggregate the unfunded liability. The critical implication of the unfunded liability will no longer be listed as a line item. The unfunded liability does not belong to the Government of Guam. DOA has taken this position. Secretary Leon Guerrero asked whether DOA will assume the liability for the line agencies. Director Blas stated that it will not be listed at all. Controller Diana Bernardo stated that GMHA has already taken the unfunded liability off their books. Acting Chairman Leon Guerrero asked whether this will benefit the Retirement Fund. Treasurer Cruz stated that the impact is, if you do not list the unfunded liability in the balance sheet, it will inflate the assets. If gives the government increasing borrowing authority. Trustee Aflague asked what the effect is if the Retirement Fund is a multiple employer plan. Controller Bernardo stated that the Retirement Fund can not collect the unfunded liability. Treasurer Cruz stated that it will make the Retirement Fund's job more difficult to collect the unfunded liability. Treasurer Cruz stated that the Retirement Fund will have a hard time regulating to footnote the liability. Mrs. Bordallo stated that she is concerned if the Retirement Fund becomes a multiple employer plan. Director Blas stated that the Retirement Fund has always been operating as a single employer plan. Trustee Aflague asked whether the figures for each entity are available. Director Blas replied, "No." Controller Bernardo stated that she has asked DOA for an analysis.

Acting Chairman Leon Guerrero suggested bringing this up to Judge Alberto Lamorena. Treasurer Cruz stated that we need to get Legal Counsel's opinion. Treasurer Cruz stated that the Board of Trustees has the authority to define the plan. Director Blas stated that it was recommended that the Retirement Fund decides on whether we are a single employer or multiple employer plan and every one shall follow. Acting Chairman Leon Guerrero recommended getting an opinion from the Retirement Fund's Legal Counsel. Director Blas stated that she has been in contact with our Legal Counsel since this is time-sensitive. Director Blas stated that Legal Counsel is leaning towards the Office of Public Accountability's (OPA's) opinion. Acting Chairman Leon Guerrero stated that, according to DOA's letter, it looks like DOA has decided on this already by saying "Please be guided accordingly in the preparation of your financials." Acting Chairman Leon Guerrero asked who or where do we go to with our objection on this matter. Director Blas stated that she should have a legal opinion by Monday, January 25, 2010. Controller Bernardo mentioned that Ernst & Young is taking the same position. Trustee George Santos stated that he is in support of getting a legal opinion. Acting Chairman Leon Guerrero suggested looking into the following:

- 1) Whether or not DOA has the authority, and
- 2) The potential to violate the court order issued by Judge Lamorena.

Acting Chairman Leon Guerrero stated that if DOA does not have the authority and will violate the court order, the Board should give authorization to have the Director take care of this matter. Acting Chairman Leon Guerrero stated that the second scenario is what if DOA has the authority but violates the court order. Trustee Santos stated that the potential to violate the court order is what concerns the Retirement Fund. Treasurer Cruz stated that once the Retirement Fund receives the legal opinion, the Board will make a decision. Director Blas stated that if the legal opinion says that DOA has violated the court order, then the Board will be informed and she will get the Board's authorization to proceed.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve seeking the Retirement Fund's Legal Counsel's opinion to address the Department of Administration's authority and whether the Department of Administration has violated the Court Order issued by Judge Alberto Lamorena; and if it does, the Board of Trustees is instructing the Retirement Fund's Director to proceed with legal action. Without objection, the motion passed.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's January 2010 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 11, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of January 13, 2010 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

Treasurer Cruz reported that the Investment Committee meeting was held on January 8, 2010. Treasurer Cruz stated that the following were approved for Board action:

- 1) INVESTMENT COMMITTEE – 5 YEAR PLAN (DEFINED BEENFIT PLAN)**
 - 1. Investment Performance Review**
 - 2. Rebalance Investment Portfolio**
 - 3. Annual Manager Reviews**
 - a. Domestic Large Cap Equity**
 - b. REITS**
 - c. Domestic Small Cap Equity**
 - d. Non US Equity**
 - e. Fixed Income Managers**
 - 4. Revisit Asset Allocation Policy**
 - 5. Review Investment statutes**
 - 6. Revisit Actuarial Rate of Return**
 - 7. Achieve Approved Actuarial Rate of Return or Higher**
 - 8. Perform Asset Allocation Study**
 - 9. Revisit Investment Related Contracts Over 5 Years Old**
 - 10. Perform Feasibility Study for a New Building**
 - 11. Staff Development**
 - a. Director, Controller and General Accounting Supervisor to Attend at Least one Professional Development Training per Fiscal Year**
 - b. Provide Training and Updates in the Area of Investments for all Relevant Personnel**
 - c. Submit a Request to the Civil Service Commission to 1) Amend the Investment Specialist qualifications, and 2) Reassign the Pay Grade for the Position**
 - d. Establish an Internship Program**
 - 12. Seek Autonomous Agency Status**
 - a. Legal Counsel to Review and Provide Options**

Treasurer Cruz stated that the Investment Committee reviewed and revised the 5 Year Plan and recommends approval by the Board of Trustees.

Controller Bernardo suggested adding an Item No. 13 to include the annual review of the custodial banking services. Treasurer Cruz recommended adding the annual review of Northern Trust as No. 3f. Treasurer Cruz recommended changing No. 3 to read Annual Reviews.

Treasurer Cruz stated that No. 9 covers contracts. Acting Chairman Leon Guerrero stated that Item Nos. 1-9 has been ongoing and Item Nos. 10-12 are new.

Acting Chairman Leon Guerrero inquired about the new building and the land use study. Director Blas stated that it will cover both components. Director Blas stated that she received quotes today for the land use study. Acting Chairman Leon Guerrero recommended adding an Item 10a for the land use and building space. Acting Chairman Leon Guerrero stated that the missing component is the

legislative authority. Acting Chairman Leon Guerrero inquired about the financing of the building. Director Blas stated that it will come from the Retirement Fund's funds. Director Blas stated that 3% of the assets are for operations. Acting Chairman Leon Guerrero recommended adding an Item 10b for architect and engineering and an Item 10c for financing.

Acting Chairman Leon Guerrero inquired about staff development on Item No. 11. Director Blas stated that it is staff development in general. Acting Chairman Leon Guerrero stated that the purpose is to update knowledge of the Director, Controller and General Accounting Supervisor in the areas of investments by attending professional development training at least once a year.

Director Blas stated she met with DOA regarding creating an internship program. Acting Chairman Leon Guerrero suggested communicating with the University of Guam (UOG) to include the Retirement Fund in their internship program. Director Blas stated that the internship program should start in July 2010. Acting Chairman Leon Guerrero recommended that Item No. 11d will be to provide entry level opportunities and establish an Internship Program under Fiscal Year 2010 from June through August 2010.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the Investment Committee 5 Year Plan, with changes as discussed. Without objection, the motion passed.

2) Investment Portfolio Rebalancing – Treasurer Cruz stated that during the December 18, 2009 Board meeting, the Board approved the following:

1. Increasing the Emerging markets target allocation from 3% to 5.75% (an increase of 2.75%).
2. Fully funding the REITS Mandate Managers (Cornerstone and Security Capital) to the target allocation of 10%. Funding will come from the Fixed Income Managers (Franklin Templeton and Davis Hamilton).
- 3a. Liquidating the AXA International Large Cap Fund, or successor Fund.
- 3b. Rebalancing Fisher Investments to reduce its current allocation to the 10% target allocation.
- 3c. Adding an ETF I Share FAFE Index, which will be funded by 1) the allocations currently held by the AXA International Large Cap Equity Fund, or successor Fund, and 2) the excess allocation held by Fisher after the rebalancing in 3b above.
- 3d. Issuing a Request for Proposal for a replacement for the AXA International Large Cap Fund, or successor Fund.

Treasurer Cruz stated that the Investment Committee recommends the following:

1. Since the Board approved increase in the Target Allocation for Emerging Markets from 3% to 5.75%, requires a corresponding 2.75% decrease in the asset allocation, the Investment Committee recommends the following:
 - a. Further reducing Fisher Investments' target allocation from 10% to 7.25%, and rebalancing Fisher's allocation accordingly.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve further reducing Fisher Investments' target allocation from 10% to 7.25% and rebalancing Fisher Investments' allocation accordingly. Without objection, the motion passed.

2. Since excess allocations in Franklin Templeton and Davis Hamilton were not sufficient to fully fund the REITS Mandate Managers (Cornerstone and Security Capital), the Investment Committee recommends:
 - a. Utilizing Fisher's excess allocation from the rebalancing in item 1a above, to fully fund the REITS Managers (Cornerstone and Security Capital), and
 - b. Utilizing Fisher's remaining excess allocation for additional funding of the ETF I Share EAFE Index, as discussed in item 3c above.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve utilizing Fisher's excess allocation from the rebalancing in item 1a above, to fully fund the REITS Managers (Cornerstone and Security Capital); and utilizing Fisher's remaining excess allocation for additional funding of the ETF I Share EAFE Index, as discussed in item 3c above. Without objection, the motion passed.

Treasurer Cruz further reported that during the December 18, 2009 Board meeting, the Board scheduled the next Quarterly Performance Meeting and Annual Manager Reviews for the International, Fixed Income, and Domestic Equity Managers for March 24, 25, and 26, 2010. However, during the January 8, 2010 Investment Committee meeting, the Investment Committee revised the dates for the Annual Manager Reviews as follows:

March 24, 25, and 26, 2010

1. Capital International
2. Dimensional Fund Advisers
3. AXA Rosenberg
4. Fisher Investments

May 2010

1. Thomson Horstman & Bryant
2. Income Research & Management
3. Davis Hamilton
4. Franklin Templeton

IX. OLD BUSINESS

A. Disability Case No. 09-001

Trustee Santos stated that Disability Case No. 09-001 is still pending.

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 Treasurer Gerard Cruz, seconded by Trustee George Santos, and without objection, the meeting was adjourned at 2:40 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of January 22, 2010 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 26, 2010.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas