



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, February 26, 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 12:17 p.m. Friday, February 26, 2010, 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
- Rosalia Bordallo, General Accounting Supervisor
- Jackie Blas, Recording Secretary
- Mike Perez & Alice Taijeron, Great-West Retirement Services

Public Present:

- Rodalyn Marquez, Audit Supervisor, Office of Public Accountability
- Dave Burger, Burger & Comer
- Alfred Duenas, Senator Ben Pangelinan's Office

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 22, 2010 Regular Meeting

Chairman San Agustin raised an issue on Page 7 of the January 22, 2010 Board Meeting Minutes regarding Staff Development in the Investment Committee's Five Year Plan. Vice-Chairman Wilfred Leon Guerrero stated that this will be addressed in Investment Committee.

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of January 22, 2010 Regular Meeting were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

None

IV. INFORMATIONAL ITEMS

None

At this time Chairman San Agustin recommended to move the Audit Committee Report, Item VIII C to Item V of the meeting agenda.

V. Audit Committee

1. Fiscal Year 2009 Audit

Director Paula Blas stated that a copy of the Retirement Fund's Financial Statements, Independent Auditors' Report and Management's Discussion and Analysis for the period September 30, 2009 and 2008 are provided for the Board's review. Director Blas stated that a copy of the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards is also provided.

Treasurer Gerard Cruz opened the floor to Dave Burger of Burger & Comer and Rodalyn Marquez, Audit Supervisor, from the Office of Public Accountability (OPA). Ms. Marquez stated that there were some changes made on the figures on the Draft FY09 Financial Highlights and they are included in the financial statement. Chairman San Agustin asked why the figures were changed. Ms. Marquez stated that the figures used in the draft were incorporated into the revised financial statement. Controller Diana Bernardo stated that, on the initial draft, the OPA was picking up the wrong line items. Controller Bernardo stated that the Retirement Fund corrected the figures. Ms. Marquez stated that she added comments on the Management's Discussion and Analysis which is part of the Retirement Fund's Financial Report.

Mr. Burger reported that the Guam Memorial Hospital Authority (GMHA) receivable is no longer in the books. Chairman San Agustin asked where the balance due from GMHA is reflected. Mr. Burger stated that the GMHA note was taken off. Chairman San Agustin stated that he disagrees that the GMHA note be written off. Secretary Antolina Leon Guerrero stated that what the Chairman is asking is where it is recorded in the books. Mr. Burger stated that Public Law 28-38 is on the interest payments. Treasurer Cruz asked where would the Retirement Fund find the figure if GMHA came today, requesting to pay off the note. Controller Bernardo stated that the figure is reflected on the receivables on Page 23 of the Statement of Plan Net Assets. Trustee Wilfred Aflague referred to the

GMHA balance of \$5.4 Million and Department of Education (DOE) balance of \$7.3 Million. Trustee Aflague asked whether payments made are applied to the interest and principal. Rosalia Bordallo, General Account Supervisor replied, "Yes." Trustee Aflague asked whether the Retirement Fund is improperly allowing GMHA employees to retire. Director Blas stated that only the term of payment was changed from five years to ten years. All other terms and conditions remain the same in Public Law 28-38. Treasurer Cruz stated that the legislation is specific on the amount due.

Mr. Burger reported on the unfunded liability in the Management Letter. Mr. Burger stated that late in December 2009, the Director of DOA issued a memorandum to all Government of Guam agencies. In that memorandum, she determined that the Retirement Fund was a "multiple employer" plan and not a "single employer" plan. With such determination, the various Government of Guam agencies would remove the actuarially determined liability for unfunded pension benefits from their financial statements and would instead disclose the liability in their footnotes. Mr. Burger stated that the Governmental Accounting Standards Board (GASB) did not provide a clear definition that would enable readers to make an adequate determination if a plan was a single employer or multiple employer. Mr. Burger stated that the OPA called a meeting to go over this issue. Mr. Burger stated that he agreed to disagree. Mr. Burger stated that the ownership of the Guam Power Authority (GPA), Guam Waterworks Authority (GWA) and the Port Authority of Guam (PAG) is the Government of Guam. Mr. Burger stated that there is a liability which will eventually be paid by the General Fund. Treasurer Cruz asked whether GPA could operate on its own. Director Blas replied, "No, not according to the current statute." Vice-Chairman Leon Guerrero stated that this now takes us to the question of whether there is a violation to Judge Alberto Lamorena's court order.

Chairman San Agustin stated that the unfunded liability is not a Retirement Fund liability. It should not be there in the first place as it is a General Fund liability. Mr. Burger stated that DOA will look at the actuarial report and that is when the unfunded liability will then go back into the books. Mr. Burger stated that they recommend that the Retirement Fund continue to reinforce the position that it is a single employer plan. Trustee Aflague asked what happens if there is a law to change to a multiple employer plan. Mr. Burger stated that if it were to change to a multiple employer plan, the Retirement Fund would have to send it to the actuary for figures. Vice-Chairman Leon Guerrero recommended writing to DOA. Chairman San Agustin asked where the OPA stands on this issue. Ms. Marquez stated that they are staying in the neutral on this. Chairman San Agustin stated that the OPA can not stay in the middle of this issue. Treasurer Cruz stated that it lies with the Retirement Fund. Chairman San Agustin stated that the OPA should make a determination. Ms. Marquez stated that a definition was not clear in GASB. Vice-Chairman Leon Guerrero stated that GASB is saying that the Retirement Fund should make its own determination of its status and that the Government of Guam agencies should follow the Retirement Fund's determination.

Secretary Leon Guerrero stated that we should ask the OPA what the impact would be. Mr. Burger stated that the impact would be on the financial statements. Secretary Leon Guerrero stated that the Retirement Fund should maintain its stand as a single employer plan. Controller Bernardo commented that the OPA agreed with DOA, but the bottom line is what the Retirement Fund determines. Controller Bernardo stated that the Board has the authority to decide. Controller Bernardo stated that DOA should respond to the Retirement Fund's letter. Vice-Chairman Leon Guerrero stated that the OPA is waiting for the Retirement Fund and DOA. The Retirement Fund should take a position. Controller Bernardo stated that the OPA was not going to take a position, but that DOA and the Retirement Fund should work it out. Chairman San Agustin stated that the Retirement Fund should

take the position that it is a single employer plan. Chairman San Agustin stated that the Retirement Fund should raise the issue to DOA and the other agencies of the consequences of DOA's action. Chairman San Agustin stated to include the Legislature because it is their responsibility. Vice-Chairman Leon Guerrero would like to show for the record that the Board has carried out their fiduciary responsibility on this issue.

In closing, Mr. Burger stated that the Retirement Fund is the only agency where the Controller prepares its management letter for the audit. Mr. Burger also stated that they did not identify any deficiencies or material weaknesses.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve to have the Retirement Fund Director raise the issue of the consequences of the Department of Administration's action regarding its determination that the Retirement Fund is a multiple employer plan. Without objection, the motion passed.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the Government of Guam Retirement Fund's Fiscal Year 2009 Audit. Without objection, the motion passed.

Trustee Wilfred Aflague was excused from the meeting at this time (1:30 p.m.).

VI. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. ***Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case 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 any applicable taxes. Taxes, child support, or other government levies were assessed for the amounts due to settle the levies. Director Blas stated that there is no new update with regards to the COLA interest payment.
2. ***Global Custody Services*** - Director Blas stated that at the January 22, 2010 Board meeting, the Board continued to suspend participation in Securities Lending. 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).
3. ***Real Estate Investment Trusts (REITS)*** - Director Blas stated that as of February 16, 2010, full funding of the REITS asset allocation was completed.
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 - Atlanta and Metropolitan West. Director Blas stated that the Board also approved to issue a Request for Proposal (RFP) in search of a second manager.
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. Mercer completed their analysis of the eligible offerors, and the Selection Panel will commence with discussions with the offerors and the evaluation process. Director Blas stated that 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 was 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 monthly interest payments for the Department of Education (DOE) and Guam Memorial Hospital Authority (GMHA) due on February 10, 2010 were paid. The Retirement Fund continues to process retirement applications for DOE and GMHA eligible employees.

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

- Lehman Brothers
- Wells Fargo
- Genzyme Corporation

9. **Legislative Bills - Bill 185: Domestic Partnerships and Bill 212: Designated Beneficiaries** - Director Blas stated that Board Resolution 2009-01 and Milliman's response regarding the actuarial impact each bill would have on the Retirement Fund were forwarded to the Legislature. Director Blas stated that both bills have not been voted on by the Legislature.

10. **Proposed Legislative Bills** - Director Blas reported on the following bills:

- **Bill 107: An Act to Require Health Insurance Companies who Contract with Government of Guam to Make Available Health Insurance De-Identified Detailed Medical and Dental Utilization and Cost Information Data Subject to Meeting HIPAA Regulations** – Director Blas stated that Bill 107 was passed and signed into law on February 8, 2010. The intent of the bill was to allow Government of Guam to make the information public and share it with interested offerors for GovGuam's Group Health Insurance Program. Director Blas stated that the Attorney General (AG) opined that the bill did not explicitly allow for the data information provided by the providers to be made public information, therefore the Department of Administration (DOA) will not be authorized to share the information with interested offers. Concerns regarding the public disclosure of this information to parties outside of the GovGuam Health Insurance Negotiation Team have been brought to the attention of Senator Ben Pangelinan. Amendments to the bill and current mandates are proposed as a solution. However, the amendments will not be passed in time prior to the issuance of the RFP. Director Blas stated that the RFP for the Fiscal Year 2011 GovGuam Group Health Insurance Program will be released by April 1, 2010. Director Blas stated that Senator Pangelinan is trying to work on how to make the information public. Trustee Leon Guerrero asked whether DOA could obtain the information. Director Blas replied, "Yes." Chairman San Agustin asked what Senator Pangelinan's position on this matter is. Alfred Duenas from Senator Pangelinan's office stated that they are waiting for the newly appointed Attorney General's opinion. Mr. Duenas stated that Senator Pangelinan has provided the first step by passing the law.
- **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. The bill is expected to be placed on the session agenda this week. Mr. Duenas stated the bill is on third reading and

should be ready for voting. Mr. Duenas stated that favorable comments were made on Bill 288-30.

- **Bill 317-30: Supplemental Appropriations for Fiscal Year 2010**
 - **OPT OUT Retirees** - Director Blas stated that 72 retirees who initially opted out and were not covered by the COLA settlement agreement will be eligible for payment under the same terms and conditions as the certified COLA class. There will be no interest accrued or paid for any payments to OPT OUT Retirees. COLA payments under this bill will not exceed \$20,000.00. Attorney fees of 10% will be deducted. Mr. Duenas stated that \$1.2 Million was appropriated by the Legislature. Chairman San Agustin asked how many of the 72 retirees are over \$20,000.00. Mr. Duenas stated that half are over \$20,000.00 and the other half are below \$20,000.00. Chairman San Agustin commented that the 72 retirees will have the benefit of receiving COLA without paying attorney fees. Director Blas stated that attorney fees of 10% will be deducted. Director Blas stated that interest will not be paid to the 72 retirees.
 - **COLA Interest Payments** – Director Blas stated that principal or interest from principal owed to COLA Awardees will be disbursed starting with the Awardee with the lowest initial award from the class settlement, followed by the next lowest initial award, and repeating the disbursement methodology until all the funds appropriated and authorized are exhausted. Director Blas stated that an appropriation of \$3 Million is provided for these payments. Director Blas stated that the total interest due is \$18 Million.
 - **Medicare Premium Reimbursements** – Director Blas stated that a supplemental appropriation of \$155,000.00 for Fiscal Year 2009 for September 2009 Medicare premium reimbursements was provided. Any remaining balance from this appropriation shall be carried forward and applied to future Fiscal Year Medicare premium reimbursements. Director Blas stated that a bill was introduced by Senator B.J. Cruz to also reimburse retirees who are off-island.

Financial Report

1. **Contributions** – Director Blas stated that as of February 23, 2010, all 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 January 2010 were closed on February 19, 2010.
3. **Fiscal Year 2009 Audit** – Director Blas stated that the audit for Fiscal Year ending September 30, 2009 is completed. The final audit reports are scheduled to be issued and released 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 February 2010 have been paid.
5. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the February 2010 allotment from the General Fund and payments are processed accordingly.

VII. LEGAL COUNSEL'S REPORT

No report was made at this time.

VIII. 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) and Prior Year Receivables for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended January 31, 2010. Treasurer Cruz stated that the Cash Flow Statement handed out at today's meeting is for informational purposes only and that he would like to maintain the existing drawdown authority. Treasurer Cruz reported that the audit will be released on March 1, 2010. Treasurer Cruz further reported that there was a 7.5% rate of return for 2009.

IX. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos presented his Committee's February 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 14, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of February 10, 2010 and subsequent meetings thereafter. Without objection, the motion passed.

Adult Disabled Survivor Annuity Benefits – Alfred B. Crisostomo, Jr.

Trustee Santos stated that Mr. Alfred B. Crisostomo, Jr. is applying for disabled adult survivor benefits on behalf of himself. Trustee Santos stated that Mr. Crisostomo is the biological child of Mr. Alfred B. Crisostomo who passed away on January 23, 2009. Chairman San Agustin complimented Director Blas for obtaining the necessary information pertaining to this matter. Director Blas stated that she reviewed the files and there was nothing on record showing that the annuitant had a disabled son. Director Blas stated that the primary physician's documents needed to be produced. Director Blas stated that the Retirement Fund was then able to secure the documents from the Department of Public Health and Social Services (PH&SS). Chairman San Agustin asked whether there will be a retro payment. Director Blas stated that retro will be from the annuitant's date of death which was January 23, 2009.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the adult disabled survivor annuity benefits application of Alfred B. Crisostomo, Jr., contained on Page 15, including relevant documents, based on the Committee's review and findings during their meeting of February 10, 2010 and subsequent meetings thereafter. Without objection, the motion passed.

Adult Disabled Survivor Annuity Benefits – Jocelyn T. Nededog

Trustee Santos stated that Mrs. Kathleen Nededog Leon Guerrero is applying for disabled adult survivor benefits on behalf of her sister Jocelyn T. Nededog. Trustee Santos stated that Mrs. Leon Guerrero is the court appointed guardian of the disabled adult. Ms. Nededog is the natural child of Mrs. Josefina T. Nededog, a deceased annuitant who passed away on January 8, 2009. Trustee Santos stated that Ms. Nededog had previously applied for disabled adult survivor benefits on February 19, 2009. Ms. Nededog's application was presented and discussed at the May 29, 2009 Board meeting and the Board had recommended that Ms. Nededog obtain a third medical examination.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the adult disabled survivor annuity benefits application of Jocelyn T. Nededog, contained on Page 16, including relevant documents, based on the Committee's review and findings during their meeting of February 10, 2010 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 February 19, 2010. The Committee reviewed and approved the Investment Committee Minutes of January 8, 2010. Vice-Chairman Leon Guerrero reported on the following information items:

1. *Asset Allocation* - Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the asset allocation summary as of February 17, 2010, noting that rebalancing of the Portfolio will be discussed with Mr. Dennison of Mercer during the Quarterly Performance Meetings on March 24 and 25, 2010. Vice-Chairman Leon Guerrero reported that the Retirement Fund's Portfolio as of February 24, 2010 was \$1.18 Billion.

2. *Northern Trust Securities Lending* – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed a document provided by Mr. Dennison, which indicated that the Chicago Public School Teacher's Pension and Retirement Fund and the City of Atlanta Firefighter's Pension Plan filed a joint lawsuit against Northern Trust for breach of fiduciary duty in managing their assets in securities lending programs. Vice-Chairman Leon Guerrero stated that based on discussions with Mr. Dennison during the December 16 and 17, 2009 Quarterly Performance Meetings, the Investment Committee recommended that the Retirement Fund not participate in securities lending at this time. Vice-Chairman Leon Guerrero stated that this item will be revisited during the Quarterly Performance Meetings on March 24 and 25, 2010.

X. TRAVEL REPORT

A. Vice-Chairman Wilfred P. Leon Guerrero: Mercer Investment Conference – January 28-29, 2010, San Francisco, California

Chairman San Agustin stated that Vice-Chairman Leon Guerrero's travel report on the Mercer-Sponsored Investment Conference he attended on January 28-29, 2010 in San Francisco, California, is submitted for the Board's information. Vice-Chairman Leon Guerrero reported that one-third of the attendees were Mercer employees. Vice-Chairman Leon Guerrero recommended that Retirement Fund staff attend the next Mercer Investment Conference.

XI. OLD BUSINESS

A. Disability Case No. 09-001

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

XII. NEW BUSINESS

None

XIII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIV. ANNOUNCEMENTS

None

XV. 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 2:05 p.m. Motion passed.

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



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas