



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, March 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 12:55 p.m. Friday, March 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
 Wilfred G. Aflague, Trustee
 George A. Santos, Trustee

Board of Trustees Absent:

Gerard A. Cruz, Treasurer (*Off-Island*)
 Katherine T.E. Taitano, Trustee

Staff Present:

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

Public Present:

Chris Budasi, Senator Ben Pangelinan's Office
 Terry Dennison, Mercer Investment Consulting, Inc.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 26, 2010 Regular Meeting

Chairman San Agustin requested for a printed copy of the audit report and management letter. Controller Diana Bernardo stated that she will provide the Chairman with a copy of the audit report and management letter. Chairman San Agustin stated that he would like to look at what the report calls for. Director Paula Blas stated that there were no findings. The recurring note was on the unfunded liability.

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of February 26, 2010 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 Blas stated that Public Law 30-101 appropriated a total of \$3,169,100.00 toward paying those retirees who opted out of the COLA class and interest due to COLA awardees. Director Blas stated that \$2,021,347.00 was appropriated to pay the principal or interest from principal owed to COLA Awardees. The funds will be disbursed starting 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 \$1,147,753.00 was appropriated to pay the seventy-two (72) retirees who initially opted out and are not covered by the COLA settlement agreement. Pursuant to Public Law 30-101, these retirees will be eligible for payment under the same terms and conditions as the certified COLA class. Director Blas stated that 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. Director Blas stated that attorney fees of 10% will be deducted. Chairman San Agustin asked whether the retirees with over \$20,000.00 COLA Award will be paid their full amount. Chris Budasi of Senator Ben Pangelinan's Office stated that the retirees will eventually be paid their balance but it will not be from this appropriation. Vice-Chairman Wilfred Leon Guerrero asked what the total amount of interest due on the original COLA Award is. Director Blas replied, "It's about \$18 Million."

2. *Global Custody Services* – Director Blas stated that the Retirement Fund's participation in Securities Lending is still being tabled. Secretary Antolina Leon Guerrero asked why this is being tabled; it should be closed out. Chairman San Agustin asked Mr. Terry Dennison of Mercer Investment Consulting, Inc. (Mercer) what his recommendation is. Mr. Dennison stated that the issue is if the Retirement Fund is still thinking about participating in Securities Lending, Northern Trust might consider the 30%. Northern Trust might look for their money. Chairman San Agustin asked whether we should leave it on the meeting agenda. Mr. Dennison suggested leaving it on watch.

Director Blas stated that there is still some outstanding litigation and Vice-Chairman Leon Guerrero suggested waiting for the outcome of the litigation.

3. ***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 stated that, in addition, the Board approved to issue a Request for Proposal (RFP) in search of a second manager.

4. ***RFP: U.S. Domestic Small Capitalization Core Equity*** – Trustee Wilfred Aflague, Selection Panel Chairman, stated that the RFP in search of professional services related to providing investment management services specifically in U.S. Domestic Small Capitalization Core Equity was issued on October 5, 2009. The RFP closed on November 9, 2009 with a total of thirty (30) firms responding to the RFP. Of the 30 proposals submitted, eighteen (18) firms met the proposal requirements of the RFP. Trustee Aflague stated that Mercer provided the quantitative and qualitative analysis of the 18 firms who met the minimum qualifications. Trustee Aflague stated that at the November 20, 2009 Board meeting, Chairman San Agustin appointed the Selection Panel to initiate the evaluation process and submit its recommendation to the Board for its approval. Accordingly, the Selection Panel consisted of Trustee Gerard Cruz, Vice-Chairman Wilfred Leon Guerrero, and I. Trustee Aflague stated that the Selection Panel reviewed the firms' three (3) and five (5) years excess returns, history in investment management, product innovation, and client service. In addition, firms were evaluated on the qualitative factors that included the manager's ability to generate value-added investment ideas, portfolio construction, implementation, and how well the business is being managed. As a result, seven (7) firms were placed on the short list for discussions, listed as follows:

- | | |
|------------------------------------|-------------------------------|
| 1) AQR Capital Management | 5) ING Investment Management |
| 2) Dimensional Fund Advisors (DFA) | 6) Numeric Investors, LLC |
| 3) Eaton Vance Investment Managers | 7) Turner Investment Partners |
| 4) Gannett Welsh & Kotler (GW&K) | |

Trustee Aflague stated that the above 7 firms' representatives were invited to meet with the Selection Panel on February 23 and 25, 2010 to address questions and discuss in detail their individual firm's proposal. Trustee Aflague stated that the Selection Panel concluded their evaluations and submits their recommendation to the Board for their approval. Trustee Aflague stated that the Selection Panel recommends that the Board of Trustees select Eaton Vance Investment Managers and Numeric Investors, LLC in response to RFP No. GGRF-002-09 (Investment Managers for the U.S. Domestic Small Capitalization Core Equity) mandate related to the Defined Benefit Plan. Upon approval by the Board of Trustees of the Selection Panel's recommendation, the Director is directed to complete the necessary administrative requirements to complete the RFP process.

Chairman San Agustin inquired about the allocation. Director Blas stated that the allocation will be discussed in the Investment Committee report. Chairman San Agustin suggested that the fourth paragraph on Page 2 ("As a result of the discussion and evaluations held, the Selection Panel is recommending the replacement of the current Investment Manager for the U.S. Domestic Small Cap Core Equity") be removed. Trustee Aflague stated that he will have the aforementioned paragraph removed.

Trustee Wilfred Aflague, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve the Selection Panel's recommendation to select Eaton Vance Investment Managers and Numeric Investors, LLC in response to RFP No. GGRF-002-09 (Investment Managers for the U.S. Domestic Small Capitalization Core Equity) mandate related to the Defined Benefit Plan and the Retirement Fund Director is directed to complete the necessary administrative requirements to complete the RFP process. Without objection, the motion passed.

5. **RFP: International Developed Markets Large Capitalization Equity** – Director Blas stated that the RFP for International Developed Markets Large Cap Equity closed on March 16, 2010. The Selection Panel will consist of Chairman Joe T. San Agustin, Trustee George A. Santos, and Trustee Katherine T.E. Taitano. Director Blas mentioned that Trustee Taitano requested to be replaced. Chairman San Agustin stated that he will talk to Trustee Taitano about this matter. Chairman San Agustin requested to retain Trustee Taitano on the Selection Panel.

6. **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 March 10, 2010 were paid. The Retirement Fund continues to process retirement applications for DOE. Director Blas stated that applications for retirement for GMHA employees will be suspended until GMHA becomes current with their retirement contributions.

7. **Bernstein Litowitz Berger and Grossman (BLBG)** – Director Blas reported that there are no new updates on the following lawsuits:

- Lehman Brothers
- Wells Fargo
- Genzyme Corporation

8. **Legislative Bills: Bill 185 (Domestic Partnerships) and Bill 212 (Designated Beneficiaries)** – Director Blas stated that Bill 185 and Bill 212 have not been reported out on the legislative floor.

9. **Proposed Legislative Bills** – Director Blas reported on the following bills:

- Public Law 30-93 (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 the amendments to the bill will not be passed in time prior to the issuance of the RFP for the Fiscal Year 2011 GovGuam Group Health Insurance Program which is scheduled to be released by April 1, 2010. Director Blas stated that the Attorney General's Office will be meeting with the Retirement Fund and Senator Pangelinan's Office regarding this matter.
- Bill 288-30 (COR): Amendment to §8154 Relative to Fixed Income Securities – Director Blas stated that the bill was passed by the Legislature on March 19, 2010. The bill was signed by the Governor today.

Financial Report

1. **Contributions** – Director Blas stated that as of March 23, 2010, GMHA has not remitted contributions for pay periods ending February 13, 2010 and February 27, 2010. The Retirement Fund is not allowing GMHA eligible employees to retire. 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 February 2010 were closed on March 18, 2010.

3. **Fiscal Year 2010 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of March 2010 will be paid by today or over the weekend. These benefits are provided by the General Fund.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the March 2010 allotment from the General Fund and payments are being processed accordingly. Director Blas stated that Public Law 30-101 provided a supplemental appropriation of \$500,000 to cover the Fiscal Year 2009 Medicare premium reimbursements for retirees who reside on Guam and off-island. Any remaining balance from this appropriation will be applied to future fiscal year Medicare premium reimbursements. Chairman San Agustin asked how many retirees reside off-island. Director Blas stated that there are 800 eligible retirees (based on age) residing off-island. Chairman San Agustin asked whether there is any administrative action that should be taken. Director Blas stated that she will include the information in the Retirement Fund's June 2010 newsletter. Rosalia Bordallo, General Accounting Supervisor, suggested that the Board put a policy in place to pay the on-island eligible retirees first. Director Blas stated that, with submission of the required documents, it is on a first come first served basis.

VI. LEGAL COUNSEL'S REPORT

Director Blas stated that the Retirement Fund's Legal Counsel provided, at this meeting, an update on the status of current litigation involving the Retirement Fund.

Richard Saville vs. Government of Guam Retirement Fund, Superior Court of Guam

Director Blas stated that Legal Counsel's memorandum stated that with the submission of the Retirement Fund's written decision on Mr. Richard Saville's application and appeal for disability benefits, the Court will be entering Judgment shortly. The Judgment will confirm the Court's earlier rulings that the Retirement Fund issue written decisions on disability applications and appeals, and that the Retirement Fund's Board (rather than the Members and Benefits [M&B] Committee) issue decisions on disability applications. The Judgment also encompasses the Court's order that the Retirement Fund pay Mr. Saville's attorney's fees in the amount of \$1,767.50. Director Blas stated that Legal Counsel does not recommend that the Retirement Fund appeal once Judgment is rendered. First the Court's requirement that the Retirement Fund issue written decisions would likely be upheld by the Supreme Court. Furthermore, the plain reading of the statute supports the Court's decision that the Board, rather than the M&B Committee, issue decisions on disability applications and appeals. Finally, the amount of attorney's fees awarded is quite low and reasonable, and significantly less than the \$8,738.09 that Mr. Saville's attorney originally requested. Chairman San Agustin asked whether Mr. Saville's attorney entitled to any fees and whether there is a breakdown of the fees. Director Blas stated that Mr. Saville's appeal portion will be compensated. Secretary Leon Guerrero asked whether there is a Judgment issued. Director Blas replied, "Yes."

Secretary Antolina Leon Guerrero, seconded by Trustee Wilfred Aflague, moved to accept the Court's Order that the Retirement Fund pay Mr. Richard Saville's attorney's fees in the amount of \$1,767.50. Without objection, the motion passed.

Jane M. Story vs. Government of Guam Retirement Fund, Superior Court of Guam

Director Blas stated that Jane Story filed a Petition for a Writ of Mandate with the Superior Court of Guam over a year ago, which the Retirement Fund answered. Director Blas stated that the Court has never set this matter for hearing and Mrs. Story is not actively pursuing it. Director Blas stated that Legal Counsel recommends that the Retirement Fund continue to put this matter on hold until Mrs. Story acts upon it.

Administrative Services Corporation (ASC) vs. Government of Guam Retirement Fund, Office of Public Accountability (OPA)

Director Blas stated that on March 1, 2010, the Office of Public Accountability (OPA) issued her decision denying Administrative Services Corporation's (ASC) appeal on the Retirement Fund denial of its protest on the award of the investment management and plan administration decision to Great-West Retirement Services (Great-West). Director Blas stated that Legal Counsel's memorandum stated that while the OPA did not adequately address the issue of the untimeliness of ASC's protest, in the end the OPA found in the Retirement Fund's favor, finding that the procurement process was properly executed. The deadline for ASC to appeal to the Superior Court of Guam was March 15, 2010. That deadline passed without action by ASC. Director Blas stated that Legal Counsel consulted with her on whether or not to appeal the OPA's determination that ASC filed a timely protest. Director Blas stated that the Retirement Fund decided not to appeal because it was ultimately the prevailing party. Director Blas stated that Legal Counsel now considers this matter closed.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Rosalia Bordallo, General Accounting Supervisor, 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 February 28, 2010. Mrs. Bordallo stated that it remains basically status quo as of February 28. Mrs. Bordallo stated that a copy of the Cash Flow Statement is also provided. This remains the same as with what was previously approved. Secretary Leon Guerrero inquired about the \$1.9 Million beginning cash balance on April 2010. Is this an indication of some agencies falling behind in their contribution payments? Mrs. Bordallo stated that with GMHA being behind in their payments, other agencies may fall behind also.

Vice-Chairman Leon Guerrero inquired about DB to DC transfers. Mrs. Bordallo stated that this is done every year in March when there is an open window to transfer from the DB Plan to the DC Plan. Vice-Chairman Leon Guerrero commented that this is not good news.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos presented his Committee's March 2010 report to the Board of Trustees. Trustee Santos stated that he would like to amend his report under Section C 1. (a) "Surviving Spouse Annuity" to include a new Item d. regarding Rosa S. Borja. Trustee Santos stated that Judge Elizabeth Barrett-Anderson of the Superior Court of Guam declared that the marriage between Samuel Leon Guerrero Borja and Rosa S. Borja a valid marriage under the laws of Guam which makes Mrs. Borja entitled to survivor benefits.

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 12, as amended to include a new Item d under Section C 1; including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of March 10, 2010 and subsequent meetings thereafter. Without objection, the motion passed.

Trustee Santos recommended that Section E "Section 8123 Disability Retirement Applications" on Page 12: Applicant Numbers 09-022, 09-003, and 09-013 be entertained on Monday, March 29, 2010, when the Board of Trustees reconvenes its regular meeting at 1:00 p.m.

Disabled Adult Survivor Benefits – Amnieh Mahmoud Abdullah Saleh

Trustee Santos stated that Mrs. Derenda Saleh is applying for Disabled Adult Survivor Benefits on behalf of her daughter Amnieh Saleh. Mrs. Saleh is the court appointed guardian of Ms. Saleh. Ms. Saleh is the biological child of deceased retiree Mahmoud A. Saleh who passed away on August 2, 2008.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the Disabled Adult Survivor Benefits application of Amnieh Mahmoud Abdullah Saleh, contained on Page 13, 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 on March 24 and 25, 2010, the Investment Committee held its performance review meeting for the quarter ended December 31, 2009 with Mr. Dennison of Mercer. The Investment Committee also held Annual Reviews of the Emerging Market and International Equity Managers.

Mr. Dennison reported that the following were approved for Board action:

1. *Termination of AXA Rosenberg, Small Cap Manager* - Mr. Dennison stated that there were some errors in the figures on page 74 but that they do not change the recommendation although they do make AXA look terribly bad. Mr. Dennison stated that that due to AXA Rosenberg's poor performance and concerns raised by Mercer about the use of manual overrides in their investment process, the Investment Committee recommends the following:

- a) Termination of the AXA Rosenberg, Small Cap Equity Manager, and
- b) Use of the cash proceeds for operations.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Wilfred Aflague, moved to approve to terminate AXA Rosenberg, Small Cap Equity Manager, and to authorize use of the cash proceeds for operations. Without objection, the motion passed.

2. *Investment Portfolio Allocation to Cash* – Mr. Dennison stated that the asset allocation summary always reflects an over-allocation to cash. There is no declared range for cash. The Investment Committee recommends accepting Mercer’s recommendation to have a zero minimum and have a maximum of 0.25%.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Wilfred Aflague, moved to accept Mercer Investment Consulting, Inc.’s recommendation to have a zero minimum and a 0.25% maximum. Without objection, the motion passed.

3. *Assignment of Atalanta Contract to Evercore Partners* – Mr. Dennison stated that in a March 5, 2010 letter to the Retirement Fund, Martin Sosnoff and Craig Steinberg: a) Notified the Retirement Fund that Evercore Partners, a New York Stock Exchange (NYSE) listed company, will purchase a 49% economic interest in Atalanta Sosnoff, b) Indicated that no aspects of Atalanta’s operations are expected to change, same people, same process, and the same client service, and c) Requests Retirement Fund’s consent to assign the Investment Advisory Contract to Evercore Partners. Mr. Dennison stated that it is Mercer’s opinion that the Retirement Fund should consent to the assignment of the contract. Mercer will watch the portfolio closely, and pay close attention to the five firm principals. Mr. Dennison stated that if performance deteriorates, team members depart the organization, or Evercore’s presence creates other issues, Mercer will consider a revised recommendation. Mr. Dennison stated that based on the aforementioned opinion from Mercer, the Investment Committee recommends assignment of the contract to Evercore Partners.

Chairman San Agustin asked whether the Board is authorized to assign. Director Blas stated that the contract is still with Atalanta. Vice-Chairman Leon Guerrero suggested holding back on the Investment Committee’s recommendation and to forward this matter to the Retirement Fund’s Legal Counsel for review. Mrs. Bordallo stated that the contracts have the provision in place that the Board has the right to reassign. Chairman San Agustin stated that the same parties are involved. Mr. Dennison stated that it is the language in the Investment Advisory Contract.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the assignment of contract to Evercore Partners, subject to Legal Counsel’s review. Without objection, the motion passed.

4. *Termination of Thomson Horstmann Bryant (THB)* – Mr. Dennison stated that with the Board’s approval of the RFP Selection Panel’s recommendation for the U.S. Domestic Small Cap Search, the Investment Committee recommends the following:

- a) Termination of THB which will be replaced by Eaton Vance Investment Managers and Numeric Investors, LLC upon finalization of their contracts.

- b) The purchase of additional I Shares Russel 2000 Exchange Traded Funds (ETFs), with the cash proceeds from the termination/liquidation of THB.
- c) Upon finalization of the contracts in item a) above, the Retirement Fund will direct Northern Trust to liquidate the I Shares Russel 2000 ETFs for funding of the managers as follows:
 - (1) 50% to Eaton Vance Investment Managers, and
 - (2) 50% to Numeric Investors, LLC.

Vice-Chairman Leon Guerrero recommended expediting the contract. Mr. Dennison stated that he recommends liquidating THB and then moving the money to ETFs and then liquidating to fund new managers.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Wilfred Aflague, move to approve to terminate Thomson Horstmann Bryant (THB) and move cash proceeds to Exchange Traded Funds (ETFs), then liquidate Exchange Traded Funds (ETFs) shares to fund the two new managers upon signing of their contracts. Without objection, the motion passed.

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

1. **Quarterly Performance Meeting** – Vice-Chairman Leon Guerrero stated that Mr. Dennison provided an overview of the December 31, 2009 Quarterly Investment Performance, noting a Rate of Return of 3.6% for the quarter, compared to the 3.4% median return for Public Funds.
2. **Annual Manager Review** – Vice-Chairman Leon Guerrero stated that the Annual Reviews were conducted for the following managers: a) Capital International, b) Fisher Investments, c) Dimensional Fund, and d) AXA Rosenberg.
3. **Minutes** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed and approved the February 19, 2010 Committee Minutes.
4. **Performance Meeting for the Quarter Ending March 31, 2010 and Annual Manager Review** – Vice-Chairman Leon Guerrero stated that the next Quarterly Performance Meeting and the Annual Review of the Fixed Income Managers are scheduled for May 27 and 28, 2010.

IX. OLD BUSINESS

A. Disability Case No. 09-001

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

X. NEW BUSINESS

A. Actuarial Valuation as of September 30, 2009

Director Blas stated that she will have the report by Monday, March 29, 2010.

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. RECESS

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to recess, and without objection, the Board of Trustees meeting for the Defined Benefits Plan recessed at 2:15 p.m. on Friday, March 26, 2010 and will reconvene on Tuesday, March 30, 2010, at 1:00 p.m. in the Retirement Fund Conference Room. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 26, 2010 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on April 30, 2010.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas