



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, August 27, 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 1:28 p.m. Friday, August 27, 2010, in the Retirement Fund Conference Room. Chairman Joe T. San Agustin officiated.

**Board of Trustees Present:**

Joe T. San Agustin, Chairman  
 Antolina S. Leon Guerrero, Secretary  
 Gerard A. Cruz, Treasurer  
 Wilfred G. Aflague, Trustee  
 George A. Santos, Trustee  
 Katherine T.E. Taitano, Trustee

**Board of Trustees Absent:**

Wilfred P. Leon Guerrero, Vice-Chairman\*  
*(Off-Island)*

**Staff Present:**

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

**Public Present:**

Terry Dennison, Mercer Investment Consulting, Inc.  
 Nick Delgado and Shaun Hosei, KUAM

*\* Vice-Chairman Wilfred Leon Guerrero participated via conference call.*

## **II. REVIEW AND APPROVAL OF BOARD MINUTES**

### **A. July 30, 2010 Regular Meeting**

Treasurer Gerard Cruz inquired about an item on the previous minutes regarding the status of the Retirement Fund building. Director Paula Blas stated that Debbie Ulloa, Administrative Officer, is working with the Department of Public Works (DPW) on the assessment of the building and then the A & E.

**On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of July 30, 2010 Regular Meeting were approved, subject to corrections. Motion unanimously passed.**

## **III. CORRESPONDENCE**

### **A. August 23, 2010 Letter from Senator Ben Pangelinan Regarding Public Hearing for Bill No. 450(LS) - Amendment to Section 8150**

Chairman San Agustin stated that the Committee on Appropriations, Taxation, Banking, Insurance and Land will be conducting a public hearing tonight at 6:00 p.m. regarding the amendment to Section 8150 relative to investments in bonds of U.S. and federal instrumentalities. Chairman San Agustin stated that the Board discussed their testimony and the Board is in favor of this bill. Director Blas stated that Terry Dennison of Mercer Investment Consulting, Inc. (Mercer) will be presenting testimony tonight on the bill. The Board of Trustees is invited to attend tonight's hearing.

## **IV. INFORMATIONAL ITEMS**

### **A. Executive Order No. 2010-20: Relative to the Creation of the Health Reform Advisory Task Force**

Chairman San Agustin stated that Lieutenant Governor Mike Cruz created a Health Reform Advisory Task Force. Chairman San Agustin stated that the Chairman of the Government of Guam Retirement Fund or his/her designee has been appointed as a member of the Task Force. Chairman San Agustin stated that no meeting has been scheduled yet.

### **B. Morning Star Article – “How Expense Ratios and Star Ratings Predict Success”**

Chairman San Agustin stated that the Morning Star article is provided for informational purposes.

## **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 the appropriated amount under Public Law 30-101 has been expended to COLA Awardees. No additional appropriation for the outstanding COLA principal and interest has been provided. The Retirement Fund will not be making any distributions until the Legislature provides an appropriation. Chairman San Agustin referred to his chart and stated that of 4,895 original COLA Class retirees, about 50% have passed away. Director Blas stated that of the \$123 Million, \$6 Million is still being held in trust with the Department of Administration (DOA) while settling estates and identifying beneficiaries. Director Blas stated that the Retirement Fund is still processing heirs coming in. Director Blas stated that interest continues to accrue. Chairman San Agustin mentioned that someone is eyeing to reappropriate the \$6 Million to pay off the COLA Certificates. Vice-

Chairman Wilfred Leon Guerrero asked whether another certificate is being issued. Director Blas replied, "No." Trustee Wilfred Aflague asked whether the Retirement Fund gets reimbursed for the administrative support given on the COLA project. Director Blas stated that the law mandated the Retirement Fund to provide administrative support. Rosalia Bordallo, General Accounting Supervisor, stated that DOA has the same capability to print the COLA checks. Director Blas stated that the work on the COLA Certificates is a shared task with DOA and the Retirement Fund.

2. **Global Custody Services** – Director Blas stated that this was revisited during the August 26, 2010 quarterly meeting with Mr. Dennison of Mercer. This item is being deferred to the Investment Committee report.

3. **Public Law 28-38: Interest Only Payment** – Director Blas stated that the monthly interest payments for the Department of Education (DOE) and Guam Memorial Hospital Authority (GMHA) were paid. Director Blas stated that the Retirement Fund continues to process retirement applications for DOE and GMHA. Director Blas stated that the Retirement Fund will continue to receive the monthly interest payments up until September 30, 2010. The FY2011 Budget Bill changed how the calculation of interest is to be made.

4. **GMHA Outstanding Contributions** – Director Blas stated that the Defined Benefit (DB) employee contributions were paid. The unfunded liability contributions for pay period ending July 31, 2010 due on August 20, 2010 have not been paid. Treasurer Cruz asked whether GMHA is still considered delinquent until the Retirement Fund receives both the employee contributions and the unfunded liability. Director Blas replied, "Yes."

5. **Bernstein Litowitz Berger and Grossmann (BLBG)** – Director Blas reported on the following lawsuits:

- **Lehman Brothers** – Director Blas stated that there is no new update on this case.
- **Wells Fargo** – Director Blas stated that BLBG filed an amended complaint on May 28, 2010. The hearing is scheduled for September 7, 2010.
- **Genzyme Corporation** – Director Blas stated that there is no new update on this case.
- **Countrywide** – Director Blas stated that the amended Retainer Agreement is provided in the Board packet that includes the language with regards to ensuring that BLBG will achieve the maximum recovery on behalf of the Retirement Fund. Chairman San Agustin asked Vice-Chairman Leon Guerrero whether he has reviewed the August 18, 2010 letter regarding the Retainer Agreement. Vice-Chairman Leon Guerrero replied, "Yes." Vice-Chairman Leon Guerrero stated that it is the best rate that they came up with.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve Bernstein Litowitz Berger and Grossmann's Countrywide Securities Litigation Opt-Out Revised Retainer Agreement. Without objection, the motion unanimously passed.**

6. **Legislative Bills:**

- **Bill 450-30 – Amendment to Section 8150 Relative to Investments in Bonds of U.S. and Federal Instrumentalities** – Director Blas stated that the public hearing is scheduled for 6:00 p.m. tonight at the Legislative Public Hearing Room. Oral and written testimony will be accepted. Director Blas stated that Mr. Dennison will be testifying on the bill tonight.

- **Bill 439-30 – Fiscal Year 2011 Executive Budget** – Director Blas stated that the following were appropriated for the retiree and survivor benefits:
  - \$11,375 for Supplemental Benefits
  - \$19,500 for Medical, Health, and Life Insurance Benefits
  - \$458,448 for Judges Annuities and Benefits
  - \$145,000 for Governor and Lieutenant Governor Annuities
  - \$6,770,500 for Annual COLA: only one COLA check per DB/DC retiree
  - \$702,000 for Medicare Reimbursements – Director Blas stated that the full amount was not provided for Medicare Reimbursements. Director Blas stated that the Retirement Fund had asked for \$1 Million but was given \$702,000.00. Eligible retirees must be domiciled on Guam and do not have to enroll in the GovGuam Group Health Insurance Program.
- Retirement Contribution Rate FY2011 is set at 27.46% effective October 1, 2010. Director Blas stated that the current rate is 26.04%. The actuarial rate is 29%.
- Amendment to Public Law 28-38 – Interest Only Payments for GMHA/DOE – Director Blas stated that the change removes the fixed interest payments of \$192,955.07 for DOE and \$190,501.19 for GMHA and it amends how the calculation of interest on the outstanding liabilities is calculated. Effective October 1, 2010, DOA will calculate interest based on the most recent five (5) year average annual rate of return of the DB investment portfolio, inclusive of performance which yielded negative returns. From Fiscal Year 2005 to Fiscal Year 2010, Retirement Fund received over \$25 Million in interest only payments as a result of Public Law 28-38. Treasurer Cruz asked what the five year average rate is. Mrs. Bordallo replied, “4.9%.” Chairman San Agustin asked who determines the rate of return. Mrs. Bordallo stated that what this is saying is that if the Retirement Fund actually had the money then this is what you could have made. Director Blas stated that she had asked Richard Wright of Milliman Consulting, Inc. (Milliman) to run some numbers to see what the impact would be to the Retirement Fund with regards to this change. Chairman San Agustin asked how much money we are talking about. Mrs. Bordallo replied, “\$12 Million.” Treasurer Cruz stated that is a major loss of income. Treasurer Cruz stated that the original Public Law 28-38 had the Retirement Fund receiving an income of about \$380,000.00 a month. Chairman San Agustin asked what the five year average rate of return is as of June 30, 2010. Mr. Dennison replied, “3.8%.” Chairman San Agustin stated that he would like to have the Retirement Fund’s Legal Counsel review this. Chairman San Agustin stated that the Board has the fiduciary responsibility to monitor changes in the rate of return. Director Blas stated that Legal Counsel recommended that the Retirement Fund run this formula by the actuary in order to determine whether the new formula has a negative impact on the Retirement Fund. Once the Retirement Fund receives the actuary’s response, then the Board would decide whether or not to accept this or pursue other options. Mr. Dennison stated that this is the actuarial assumption and it is a very bad precedent. Secretary Antolina Leon Guerrero stated that we want the actuary to determine what the rate of return should be. Trustee Aflague suggested writing a letter to the Governor with a copy to the Legislature objecting to this because of the aforementioned items. Treasurer Cruz stated that he agrees with Trustee Aflague of sending a letter to the Governor. Chairman San Agustin recommended getting the actuary’s response before doing anything else. Trustee Aflague mentioned that the bill has not been signed yet.

Trustee Wilfred Aflague, seconded by Secretary Antolina Leon Guerrero, moved to approve to send a letter to the Governor, with a copy to the Legislature, objecting to this part of the Budget Bill on the grounds that the new formula may have a negative impact on the Retirement Fund. Without objection, the motion unanimously passed.

- Government of Guam Classification Study was passed. Director Blas stated that the new pay scales for Retirement Fund employees will be requested for in the Fiscal Year 2011 Budget. Director Blas stated that the impact is \$79,000.00 for the year.
- Board Members Stipends – Director Blas stated that this allows for compensation for Board Members who serve more than 10 years or more on a Board to receive a stipend of \$250.00 per month for meetings attended during the month. The Board Stipend remains at \$50.00 per meeting, but no more than \$100.00 per month. Board Members have the option to receive the stipend.

### **Financial Report**

1. **Contributions** – Director Blas stated that as of August 24, 2010, all agencies are current with their Fiscal Year 2010 employee and employer contributions with the exception of GMHA. Director Blas stated that GMHA contributions are currently due for July 31, 2010.

2. **Financial Statements** – Director Blas stated that the books for the month ending July 2010 were closed on August 12, 2010.

3. **Fiscal Year 2010 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of August 2010 were paid.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the August 2010 allotment from the General Fund and payments are processed accordingly.

## **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) and Prior Year Receivables for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended July 31, 2010. Treasurer Cruz stated that the Retirement Fund is still on track with its cash flow and drawdown authority. Chairman San Agustin requested for a month to month statistical table on the percentage of withdrawals from principal. Trustee George Santos praised Treasurer Cruz on the Retirement Fund's total DB assets of \$1.3 Billion and requested to start using that figure instead of \$1.2 Billion.

## **VIII. STANDING COMMITTEE REPORTS**

### **A. Members and Benefits Committee**

Trustee Santos presented his Committee's August 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 August 11, 2010 and subsequent meetings thereafter. Without objection, the motion unanimously passed.**

Chairman San Agustin stated that he received a letter from the Retirement Fund's Legal Counsel regarding Disability Retirement. Chairman San Agustin stated that he is referring Legal Counsel's letter dated August 27, 2010 to the M&B Committee.

## **B. Investment Committee**

Treasurer Cruz reported that the Investment Committee meeting was held on August 13, 2010. Treasurer Cruz also reported that on August 26, 2010, the Investment Committee held its performance review meeting for the quarter ended June 30, 2010 with Mr. Dennison of Mercer.

Mr. Dennison reported on the following informational items:

- 1. Quarterly Fund Review** – Mr. Dennison stated that he provided an overview of the current state of the Economic and Capital Market Environment. Mr. Dennison stated that news reports have been relentlessly negative in outlook. The decline in the housing sector, new and previously owned, and the increasing possibility of a double dip recession. Mr. Dennison stated that the DB performance for the quarter ended June 30, 2010 was -6.2% for the three month period which was due to declines across-the-board in investments, -1.7% year to date, and 1.9% for fiscal year to date.
- 2. Asset Allocation Policy** - Mr. Dennison stated that he presented to the Investment Committee for their consideration, two new investment strategies, Best of Mercer, Constructing a Global Equity Portfolio and Defensive Equity Strategies.
- 3. Northern Trust Presentation** – Mr. Dennison stated that Mr. Robert Ernst's presentation to the Investment Committee consisted of the current services provided by Northern Trust to the Retirement Fund, the financial health of Northern Trust, and a new proposal for a securities lending program. Mr. Dennison stated that this was discussed and Retirement Fund Management was directed to request the Retirement Fund's Legal Counsel to review and provide an analysis of the indemnification section of Northern Trust's contract.
- 4. Minutes** – Treasurer Cruz stated that the Committee reviewed and approved the following Investment Committee Minutes:
  - a. July 9, 2010 Investment Committee Meeting
  - b. March 24, and 25, 2010 – Due Diligence Meeting (For Quarter Ended December 31, 2009)

Treasurer Cruz stated that the following item was approved for Board action:

- 1. Funding of New Managers** – Treasurer Cruz stated that the funding of the new managers will occur as of October 1, 2010. Treasurer Cruz stated that the Investment Committee recommended to

liquidate the Russell 2000 I Shares, with the proceeds to be distributed equally (50-50 split) between Eaton Vance Management and Numeric Investors LLC.

**Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the Investment Committee's recommendation to liquidate the Russell 2000 I Shares, with the proceeds to be distributed equally between Eaton Vance Management and Numeric Investors LLC. Without objection, the motion unanimously passed.**

**Securities Lending** – Treasurer Cruz mentioned that Northern Trust brought to the table, in addition to a more conservative collateral pool, an indemnity agreement. Treasurer Cruz stated that he believes Northern Trust did not have the indemnity agreement the last time around. Director Blas pointed out that the indemnity provision was included in the agreement. Treasurer Cruz stated that, as Mr. Dennison indicated earlier, Management was requested to seek Legal Counsel's analysis of the indemnification section of Northern Trust's contract. Treasurer Cruz stated that it seems that Northern Trust capped the risk that the Investment Committee was concerned about when the Committee decided not to go forward with the securities lending program. Vice-Chairman Leon Guerrero asked where Northern Trust is at with the lawsuit they were looking at. Treasurer Cruz stated that Northern Trust settled some and there are some that are still pending. Treasurer Cruz stated that the one lawsuit that the Committee is most concerned about is with Chicago Teachers. Treasurer Cruz stated that Northern Trust is going to provide some updates. Northern Trust's comment was that none of their clients lost money. Treasurer Cruz stated that Northern Trust made all their clients whole. Mr. Dennison stated that the reason why Chicago Teachers is significant is that their loss was \$400 Million. Chairman San Agustin asked for Mr. Dennison's opinion on Northern Trust's presentation. Mr. Dennison stated that the old model of Northern Trust's securities lending had a problem. What Northern Trust is not suggesting to do is accepting cash collateral. There is a moral hazard. Mr. Dennison stated that the intent is to make as much money but only with high security collateral. Vice-Chairman Leon Guerrero stated that he thought that the issue is whether the bank has the fiduciary responsibility on that program when they loaned out the securities. Mr. Dennison stated that the issue was how they invest in the collateral. Vice-Chairman Leon Guerrero mentioned that Yale University took a big loss on securities lending and asked whether Mr. Dennison could get some feedback from Yale University regarding this issue. Mr. Dennison stated that he could look at what is on the public record. Chairman San Agustin asked whether in the event of default, the Retirement Fund would get their security back. Mr. Dennison stated that if there is a major blow out, Northern Trust will be obligated to pay but may be unable to pay. Chairman San Agustin reiterated that Legal Counsel is to clarify the indemnification agreement. Chairman San Agustin stated that the Retirement Fund also needs a letter from Northern Trust stating that they took care of all the litigations they have and that the results were satisfactory and that the Retirement Fund will get their securities back if it is at risk. Treasurer Cruz stated that using non cash base collateral will reduce the risk. Mr. Dennison stated that nothing has been decided yet, the Investment Committee is still investigating this and that it is still in a due diligence mode. Vice-Chairman Leon Guerrero requested to have a copy of the letter sent to him.

Chairman San Agustin stated that the Retirement Fund has negotiated the fees on this and if the Retirement Fund is not going into securities lending, then the fees will have to be revisited for the custodial relationship. Mr. Dennison reminded the Board that the amount that Northern Trust is eating is \$280,000.00. Chairman San Agustin stated that we must decide one way or another. Trustee Aflague asked whether there has been an investigation on a conflict of interest with officers and members of the banks. Mr. Dennison stated that he has no knowledge of it and it is an unlikely

circumstance. Trustee Aflague stated that he is confused about having \$900 Million available for lending. Do we have a choice of who can borrow from our securities? Mr. Dennison replied, "Yes." Trustee Aflague asked how this becomes effectuated if we agree to sign it. Treasurer Cruz stated that the Board sets up the parameters and the conditions. Trustee Aflague asked whether the Board is overstepping its fiduciary responsibility if we choose who to lend the money to. Chairman San Agustin replied, "No." Secretary Leon Guerrero stated that the Board will select from the list on who to loan the money to. Trustee Aflague asked whether Management has secured a legal opinion on securities lending program. Director Blas replied, "Yes." Mr. Dennison stated that the Board sets up the rules and Northern Trust executes the rules.

Mrs. Bordallo made a comment that income derived from securities lending should be utilized for staff training. Chairman San Agustin stated that training should be a part of the budget.

Mr. Dennison stated that his recommendation on securities lending is subject to clarification of the indemnification agreement with parameters that they suggested.

**IX. OLD BUSINESS**

None

**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 Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 3:19 p.m. Motion unanimously passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of August 27, 2010 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on September 24, 2010.**



**ANTOLINA S. LEON GUERRERO, Board Secretary**

**RECORDING SECRETARY:**

  
**Jackie Blas**