



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, September 24, 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 1:20 p.m. Friday, September 24, 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

Board of Trustees Absent:

Wilfred P. Leon Guerrero, Vice-Chairman
(Off-Island)
 Katherine T.E. Taitano, Trustee

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. August 27, 2010 Regular Meeting

On motion of Trustee George Santos, seconded by Trustee Wilfred Aflague, and without objection, the Minutes of August 27, 2010 Regular Meeting were approved, subject to corrections. Motion unanimously 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 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. Director Blas reported that the \$1,100.00 Annual COLA will be paid on or before November 1, 2010. The Annual COLA will also be paid to those who retired on or before September 30, 2010.

Chairman San Agustin stated that, at a meeting for retirees that he attended in Mangilao, Ivan Carbullido indicated that there is a group of lawyers who wants to buy the certificates at 92¢ on the dollar on the principal amount and with zero interest. Chairman San Agustin stated that the lawyers are asking for a list of the COLA Certificate recipients. Director Blas stated that people that are interested in purchasing the certificates should place an ad in the newspaper. If the COLA Certificate recipient is interested in selling then he or she should get in touch with the person who placed the ad. Treasurer Gerard Cruz stated that the Board does not have the authority to negotiate anything on behalf of the retirees. Chairman San Agustin stated that nothing in writing has been submitted. Chairman San Agustin stated that if anyone is sincere on purchasing the COLA Certificates, that person should place an ad in the newspaper. Director Blas stated that there are several forms that need to be filled out in order to transfer the certificates. Treasurer Cruz asked how many more recipients need to be paid. Director Blas replied, "About 2,300." Director Blas mentioned that the certificates are still earning interest. The certificate no longer accrues interest once it is fully paid.

2. *Global Custody Service* - Director Blas stated that at the August 27, 2010 Board meeting, the Board reconsidered participation in Securities Lending. Northern Trust offered an alternative non-cash collateral option that would be made available to the Retirement Fund. Director Blas stated that this non-cash collateral option would consist of AAA-rated OECD Government debt. Director Blas stated that the Board requested for additional information from Northern Trust and will revisit participation in Securities Lending during the October 2010 Board meeting. Director Blas stated that the Retirement Fund's Legal Counsel is in communication with Northern Trust. Treasurer Cruz stated that the Board has not decided to move forward. Chairman San Agustin stated that if the Board is not considering participation in Securities Lending, the Board may have to re-bid the whole custodial agreement. Treasurer Cruz asked whether Northern Trust is aware of that. Chairman San Agustin stated that he made that point while Northern Trust was here. Secretary Antonina Leon Guerrero asked why go through the re-bid process. Director Blas stated that the Scope of Work included Securities Lending.

Chairman San Agustin stated that if the Board knocks out Securities Lending, the fees will increase from \$50,000 to \$200,000, which will be a major change in the contract.

3. 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 September 10, 2010 were paid. The Retirement Fund continues to process retirement applications for DOE. Director Blas stated that GMHA retirement applications will be suspended until GMHA is current with their employee and employer contributions.

Director Blas mentioned that the Board asked for the actuary's (Milliman Consulting, Inc.) analysis of what the impact would be to the Retirement Fund with regards to the change of the calculation of interest. Director Blas stated that the actuary concluded that this amendment does not affect the required contribution rate for the Retirement Fund. Treasurer Cruz asked what the last five-year average rate of return was. Director Blas replied, "5.5%." Chairman San Agustin asked whether the 5.5% would have an impact on the amount being paid every month. Director Blas replied, "Yes." Chairman San Agustin asked whether it is a moving average. Director Blas stated that it is a fixed amount for the year. Rosalia Bordallo, General Accounting Supervisor, stated that when you are doing an actuarial study, you are looking at 7% rate of return and that it is based on the information at that time. Any change to the cash does not affect the liability or assumptions. Chairman San Agustin stated that the interest income will decrease. Treasurer Cruz stated that it will decrease substantially.

Chairman San Agustin stated that he had asked for a chart showing the drawdowns. Treasurer Cruz stated that there is a cash flow chart. There is a 50/50 chance that we will or won't take a drawdown. Treasurer Cruz stated that the principal drawdown will decrease from \$383,456 to \$54,000. Trustee George Santos stated that the principal drawdown is between \$18,500,000 and \$19,000,000 annually. Treasurer Cruz stated that the total principal drawdown for the first 6 months in FY2010 was \$19,200,000. We are now looking at a drawdown of \$18,500,000 for the first 6 months in FY2011. Chairman San Agustin asked what the impact is on contributions. Treasurer Cruz stated that the total anticipated drawdown is going to be \$37 Million versus \$19.5 Million. Treasurer Cruz stated that these are budget figures, forecast based on information. Chairman San Agustin asked why the actuary is saying there is no impact. Treasurer Cruz stated that what the actuary is saying is that every year he calibrates the contribution rate by running a new actuarial study. So if the government is paying 7% interest, his argument is that is all his study assumes. If the Retirement Fund makes more than the 7%, in terms of the actual return on our investment rate, that becomes a benefit to the Retirement Fund. Treasurer Cruz stated that if the Retirement Fund makes less than 7%, then the contribution rate for the following year gets adjusted. Chairman San Agustin stated that the Board needs to speak to Milliman on this matter. Treasurer Cruz stated that Milliman is taking this from an actuarial stand point. Milliman's actuarial study is conducted every year. Controller Diana Bernardo stated that she wanted to make a clarification on the cash flow that, although the principal drawdown for the next 6 months is \$18,500,000 it is estimated on the high end and a provision was made for the fact that contributions from GMHA and DOE may be late. That is, the \$3 Million monthly drawdown is at the higher end with the assumption that those contributions will come in late and it may not happen. Trustee Santos stated that it is a conservative projection.

4. GMHA Outstanding Contributions – Director Blas stated that the Defined Benefit (DB) employee contributions for pay period ending August 28, 2010 were due on September 20, 2010. The unfunded liability contributions for pay period ending August 14, 2010 due on September 3, 2010 and

the unfunded liability contributions for pay period ending August 28, 2010 due on September 20, 2010 have not been paid. Director Blas stated that GMHA is \$665,070.44 in arrears for the two pay periods they are behind. The Retirement Fund is not retiring GMHA eligible employees. Chairman San Agustin asked whether there are any employees pending for retirement. Director Blas stated that there are 18-20 eligible employees on their list with two major disability applicants. Secretary Leon Guerrero inquired about the Writ of Mandate that was supposed to be filed. Director Blas stated that GMHA made payment when they were informed of the Writ being filed. Chairman San Agustin stated that the Legislature authorized GMHA to borrow money and may be in the process of getting a loan of about \$12.5 Million. Secretary Leon Guerrero asked what the options are for the Board in terms of communicating with GMHA. Director Blas stated that she could send a letter to GMHA. Trustee Santos stated that the standing rule is to send a letter and by the next Board meeting, if this issue still persists, we could entertain a recommendation to take GMHA to Court. Director Blas stated that she will send a letter to GMHA.

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 there is no new update of this case.
- ***Genzyme Corporation*** – Director Blas stated that there is no new update on this case.
- ***Countrywide*** – Director Blas stated that the direct resolution will not be subject to the fee schedule as outlined in BLBG’s legal agreement. BLBG outlines their fee recovery in the Retainer Agreement for this litigation dated August 18, 2010. Director Blas stated that BLBG commenced the direct negotiations with defendants’ counsel. Director Blas stated that the defendants tried to file a motion to dismiss but the Judge denied the motion.

Chairman San Agustin asked why there is no movement on the Lehman Brothers, Wells Fargo and Genzyme cases. Director Blas stated that it may be because of the motions being filed back and forth with the Courts. Chairman San Agustin stated that there is about \$20 Million not earning interest. Director Blas stated that the Retirement Fund already opted into their class action suits. Director Blas stated that she will ask BLBG for updates on Lehman Brothers, Wells Fargo and Genzyme Corporation lawsuits. Director Blas stated that she will find out what options are available on these lawsuits.

6. ***Legislative Bills: Bill 450-30 – Amendment to Section 8150 Relative to Investments in Bonds of U.S. and Federal Instrumentalities*** – Director Blas stated the Public Hearing was held on August 27, 2010. Bill 450-30 is scheduled to be voted on at the next Legislative Session in October 2010.

Financial Report

1. ***Contributions*** – Director Blas stated that as of September 21, 2010, all agencies, except GMHA, are current with their Fiscal Year 2010 employee and employer contributions.

2. ***Financial Statements*** – Director Blas stated that the books for the month ending August 2010 were closed on September 15, 2010.

3. ***Fiscal Year 2010 Retirees’ Supplemental Benefits*** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of September 2010 will be paid at the end of the month.

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

VI. LEGAL COUNSEL’S REPORT

Antonio T. Pangelinan – Director Blas stated that a status hearing was held yesterday to schedule the dates for the motions to be filed. Director Blas stated that she will get an update from the Retirement Fund’s Legal Counsel on this matter.

Robert Underwood: Qualified Domestic Relations Order (QDRO) – Director Blas stated that the Retirement Fund filed for an interpleader with the courts to make a determination on the interpretation of the QDRO that was issued on behalf of Robert Underwood and Lorraine Aguilar. Director Blas stated that the interpretation of the part that addressed COLA was interpreted to be only the Annual COLA that should be split and not the LOLA COLA.

VII. TREASURER’S REPORT OF FINANCIAL STATUS

A. Government of Guam Retirement Fund Fiscal Year 2011 Proposed Budget

Treasurer Cruz stated that the proposed Fiscal Year 2011 Operating Budget of \$5.321 Million represents an increase of \$311,472 or 6.2% from the Retirement Fund’s Fiscal Year 2010 budget. Treasurer Cruz reported that the increase is due largely to the \$291,472 increase in the personnel benefits budget in order to facilitate implementation of the results of the Hay Study and the Fiscal Year 2011 medical and dental insurance rates. Other increases include \$15,000 for travel which includes allocation for employee training and transportation, \$25,500 for consultants (proxy voting services), and \$16,000 for office supplies. Chairman San Agustin asked for a report on proxy voting. Director Blas stated that she will request for a report regarding proxy voting.

Treasurer Cruz stated that there is a provision in the budget for minor repairs on the Retirement Fund building to include deferred maintenance and painting. Treasurer Cruz stated that there is a reduction on contractual services which includes a reduction in actuarial fees. There is a reduction of \$15,000 on program services and maintenance. Chairman San Agustin asked whether this includes services by DMR. Treasurer Cruz replied, “Yes.”

Secretary Leon Guerrero inquired about the Investment Specialist position. Secretary Leon Guerrero asked how you would compare that position to the Investment Consultant Services. Treasurer Cruz stated that the Investment Specialist position will not eliminate the Investment Consultant Services. Director Blas stated that she would like to ask the Department of Administration (DOA) to increase the Investment Specialist I position to Investment Specialist II.

Chairman San Agustin asked whether the Controller and the General Accounting Supervisor are satisfied with the proposed budget. Both Controller Bernardo and Mrs. Bordallo indicated yes. Controller Bernardo stated that she has no objection on the proposed budget.

Treasurer Gerard Cruz, seconded by Trustee Wilfred Aflague, moved to approve the Government of Guam Retirement Fund Fiscal Year 2011 Budget. Without objection, the motion unanimously passed.

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 August 31, 2010. Also submitted is the Retirement Fund's Cash Flow Statement which includes the drawdown schedule from October 2010 to March 2011 of Fiscal Year 2011.

Treasurer Gerard Cruz, seconded by Trustee Wilfred Aflague, moved to approve the Retirement Fund's Fiscal Year 2011 Drawdown Schedule from October 2010 to March 2011 in the total amount of \$30,500,000. Without objection, the motion unanimously passed.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's September 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 8, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of September 8, 2010 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

Application for Disabled Adult Survivor Benefits – TIMOTHY F. KINSELLA

Trustee Santos stated that Timothy F. Kinsella is applying for Disabled Adult Survivor Benefits on behalf of himself. Mr. Kinsella is the biological child of deceased retiree Francis J. Kinsella who passed away on December 6, 2009. Trustee Santos stated that based on their review and findings during their meeting of September 8, 2010, the Committee recommends Board approval of the application for Disabled Adult Survivor Benefits for Timothy F. Kinsella.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the application for Disabled Adult Survivor Benefits for Timothy F. Kinsella, contained on Page 9, based on the Committee's review and findings during their meeting of September 8, 2010 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

B. Investment Committee

Treasurer Cruz reported that the Investment Committee meeting was held on September 10, 2010 and September 17, 2010. The Committee reviewed and approved the Investment Committee Minutes of August 13, 2010 and May 27, 2010 Due Diligence Meeting (For Quarter Ended March 31, 2010) Minutes.

Treasurer Cruz stated that the Investment Committee reconvened its regular meeting on September 17, 2010 to entertain the following:

1. Securities Lending – Treasurer Cruz stated that during the August 26, 2010 Due Diligence Meeting, Robert Ernst presented Northern Trust’s securities lending proposal. The power point presentation highlighted factors Northern Trust feels will mitigate the potential risk to the greatest extent possible. Treasurer Cruz stated that during the September 17, 2010 Investment Committee meeting, the Committee discussed Northern Trust’s proposal with the Retirement Fund’s Legal Counsel, Joanne Grimes. Legal Counsel was instructed to contact Mr. Ernst to obtain an official written proposal. Upon receipt of the proposal, Legal Counsel will:

- (1) Discuss the proposal with Terry Dennison of Mercer Investment Consulting, Inc. (Mercer),
- (2) Provide the Investment Committee with her comments relative to the indemnification provisions of the existing securities lending agreement, and
- (3) Advise the Board of events upon which indemnification is triggered under the securities lending agreement.

IX. TRAVEL REPORT

A. Trustees Antolina Leon Guerrero and George Santos, Director Paula Blas: NAGDCA 2010 Annual Conference – September 12-15, 2010, Philadelphia, Pennsylvania

Chairman San Agustin stated that Trustees Leon Guerrero and Santos, and Director Blas have submitted their travel report on the National Association of Government Defined Contribution Administrators (NAGDCA) 2010 Annual Conference they attended on September 12-15, 2010 in Philadelphia, Pennsylvania. The report is submitted for the Board’s information.

X. OLD BUSINESS

None

XI. NEW BUSINESS

None

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 2:30 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of September 24, 2010 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on October 29, 2010.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas