



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Felix P. Camacho
 Governor

Michael W. Cruz, M.D.
 Lieutenant Governor

Paula M. Blas
 Director

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

BOARD OF TRUSTEES
Regular Meeting
 Monday, November 29, 2010, 12:00 p.m.
 Retirement Fund Conference Room

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 1:00 p.m. Monday, November 29, 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
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary
 Kenneth Dunstan, Benefit Program Administrator
 Lena Sanchez, Benefit Specialist II

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. October 29, 2010 Regular Meeting

Chairman San Agustin inquired about the status of the Securities Lending Program. Director Paula Blas stated that it is on track and that she will ask Robert Ernst from Northern Trust to provide a status report.

On motion of Treasurer Gerard Cruz, seconded by Trustee George Santos, and without objection, the Minutes of October 29, 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 Blas reported that no additional appropriation for the outstanding COLA principal and interest has been provided. Treasurer Gerard Cruz asked whether the attorney is eligible for the 7% interest. Director Blas replied, “No.”

2. *Global Custody Services* – Director Blas stated that at the October 29, 2010 Board meeting, the Board agreed to participate in the Securities Lending Program. The Securities Lending Agreement has been signed and Northern Trust has set-up the Retirement Fund's account for participation. Director Blas reiterated that she will request for a status report from Mr. Ernst.

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 November 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. Treasurer Cruz asked how much is due from GMHA. Rosalia Bordallo, General Accounting Supervisor, replied, “\$4-6 Million and it is accruing interest.”

4. *Guam Memorial Hospital Authority (GMHA) Outstanding Contributions* – Director Blas stated that at the October 29, 2010 Board meeting, the Board instructed the Retirement Fund's Legal Counsel to file a Writ of Mandate against GMHA for the outstanding contributions. Director Blas stated that the Writ was filed on November 12, 2010. Chairman San Agustin asked whether there is a copy of the Writ available. Director Blas stated that she will provide a copy. Director Blas stated that GMHA was served with the Writ. The judge will schedule a hearing date. Director Blas stated that the Retirement Fund only received the accrued “Interest Only Payments.” GMHA is due for five (5) pay periods. Director Blas stated that the outstanding principal still accrues interest. Chairman San Agustin asked why not bill GMHA on the 4% difference between the legislation and the actual rate of return. Secretary Antolina Leon Guerrero stated to get on record on the difference. Chairman San

Agustin suggested bringing this matter to Legal Counsel's attention. Controller Bernardo stated that GMHA paid \$21 Million on the Bond proceeds in 2009 which dropped the rate. Director Blas stated that there are two interest payments. Chairman San Agustin asked why the Legislature is telling the Retirement Fund what the interest rate of return is. Why is the Legislature dictating what they want to pay? Treasurer Cruz stated that we should charge the actuarial rate of return. Chairman San Agustin asked what the average rate of return is. Treasurer Cruz replied, "5%."

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

- Lehman Brothers
- Wells Fargo
- Genzyme Corporation
- Countrywide

Chairman San Agustin stated that there is about \$22 Million in litigations. Director Blas stated that it takes about two to five years to resolve any type of class action lawsuits. Director Blas stated that we are getting closer to settling the Wells Fargo lawsuit. The Court has scheduled a trial date for August 27, 2012, but may not have to go to trial if settled. Director Blas stated that she had asked Blair Nicholas of BLBG to provide a status of the cases right before the monthly Board meetings.

6. ***Request for Proposal (RFP) for Investment Consultant Services*** – Director Blas stated that the Request for Proposal (RFP) closes today at 5:00 p.m. The Selection Panel will consist of Chairman Joe T. San Agustin, Trustee Wilfred G. Aflague, and Controller Diana T. Bernardo.

7. ***Hay Study*** – Director Blas stated that at the October 29, 2010 Board meeting, the Board approved the implementation of the Hay Study to be effective October 1, 2010. The total annual cost increase is \$94,383.29 inclusive of retirement contributions and Medicare taxes. Treasurer Cruz asked whether next year's impact would be minimal. Director Blas replied, "Yes." Chairman San Agustin stated that the chart shows that some employees had no increase. Chairman San Agustin asked how this would be addressed. Director Blas stated that she is not able to implement. These employees reached the maximum. Trustee Katherine Taitano asked whether the performance evaluation period was moved. Director Blas replied, "Yes." Trustee Taitano inquired about the General Accounting Supervisor (GAS) and Controller positions on the Hay Study. Director Blas stated that the Department of Administration (DOA) only used GAS within their department. Director Blas stated that, as a result of the Hay Study, the GAS position is a Pay Grade P. The Controller position is also at Pay Grade P. Director Blas stated that she will seek a Pay Grade S for the Controller position during the Hay Study appeal process.

8. ***Legislative Bills:***

- ***Bill 450-30 – Amendment to Section 8150 Relative to Investments in Bonds of U.S. and Federal Instrumentalities*** – Director Blas stated that Bill 450 is on the third reading file.
- ***Bill 492-30 – Distribution of Additional COLA Payments for Certificates of Claim Issued*** – Director Blas stated that a public hearing is scheduled for 8:30 a.m. this Friday, December 3rd. Director Blas mentioned that the Certificate of Claims will be recognized as a General Fund obligation. Treasurer Cruz inquired about the statute of limitations on the unclaimed COLA funds. Director Blas stated that there is no time limitation. Director Blas stated that the Guam

Economic Development Authority (GEDA) will still have to approve the terms and condition of the note. Director Blas stated that she received Legal Counsel's opinion regarding a concern of indemnification. Chairman San Agustin requested to have Legal Counsel provide testimony opposing this bill. Director Blas stated that she will inform Legal Counsel.

Financial Report

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

2. **Financial Statements** – Director Blas stated that the books for the month ending October 2010 were closed on November 17, 2010.

3. **Fiscal Year 2010 Audit** – Director Blas stated that the audit for Fiscal Year Ending September 30, 2010 is ongoing. Final audit reports are scheduled to be issued no later than February 25, 2011.

4. **Fiscal year 2011 Retirees' Supplemental Benefits** – Director Blas stated that the Supplemental benefits for retirees and survivors for the month of November 2010 were paid.

5. **Fiscal Year 2011 Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the November 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 September 30, 2010.

Treasurer Cruz stated that the chart showing the summary of drawdowns is provided for the Board's information. Treasurer Cruz provided the following highlights:

- 1999: Benefit payments include supplemental benefits and insurance for General Fund, Guam Power Authority, Guam Waterworks Authority, and Guam Memorial Hospital
- 2000-2002: Contributions included \$125 Million in Supplemental/COLA receivables, and \$43 Million in ERIP receivables
- 2002: Contribution rate = 19.8%
- 2003: Contribution rate = 26% on October 1, 2002, 18.6% as of March 1, 2003
- 2004: Contribution rate = 18.6%
- 2005: Contribution rate = 20.81%
- 2006: Contributions include \$11.9 Million from Guam Telephone Authority for unfunded liability
- 2009: \$8 Million of the \$21 Million bond proceeds were used to meet benefit payments.

Treasurer Cruz stated that the green shading represents contributions, red represents principal drawdowns, and the blue represents interest and dividends. Trustee Wilfred Aflague asked what we need to do to maintain lower drawdowns. Controller Bernardo stated that it's dependent on the remittance of contributions. Trustee George Santos recommended amending the chart provided to show totals. In conclusion, Treasurer Cruz stated that the Retirement Fund's total assets are \$1.75 Million. The total portfolio is \$1.18 Billion.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's November 2010 report to the Board of Trustees. Trustee Santos informed the Board that he would like to amend his Committee Report to include a third disability application (Disability Case No. 09-001) on Page 14.

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 13, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of November 10, 2010 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

Secretary Leon Guerrero stated that based on the M&B Committee's review and findings during their meeting of November 10, 2010, the following disability applications, contained on Page 14, are recommended to be presented to the Board for their discussion and disposition.

Chairman San Agustin informed everyone present at today's meeting that the disability applicants are referred to by their case numbers. The names of the applicants are not provided or known by the Board of Trustees. Chairman San Agustin stated that if an applicant would like to address the Board, he/she would have to waive his/her rights to the privacy of their medical records and he/she must state his/her name for the record. Chairman San Agustin indicated that the applicant present at today's meeting did not wish to address the Board.

1. DISABILITY CASE NO. 10-003

Secretary Leon Guerrero presented a summary of the medical consultant's findings regarding the application for medical disability, Case No. 10-003. The applicant is a sixty (60) year old School Aide II employed by DOE. On March 2, 2010, the applicant had a cerebellar infarction and surgery was performed to evacuate 60cc's of brain tissue by neurosurgeon Steven Hayashida. Since that operation, the applicant had experienced incoordination and difficulty with gait, difficulty in the use of the right hand and arm, and a tendency to veer to the right. The applicant does not use an assistive device for walking but requires someone or something to hold on to so that the applicant does not fall. The medical examiners who have assessed the applicant differ in their disability ratings. The applicant's family physician assesses 100% disability, Dr. Fred Schroeder assesses 57% disability and Dr. Patrick Santos assesses 22% disability. As a result of the applicant's stroke in March 2010, the applicant now suffers a neurological disability with impairment of station and gait. The Retirement Fund's Medical Consultant, Dr. John C. Steele, gave a disability rating of 44%.

Secretary Leon Guerrero stated that the applicant's son delivered a copy of the applicant's discharge summary showing that the applicant was admitted to the Intensive Care Unit (ICU) on November 20, 2010 and was discharged on November 24, 2010. Treasurer Cruz asked why the applicant was admitted to the hospital. Secretary Leon Guerrero stated that the applicant suffered a stroke. Secretary Leon Guerrero stated that both physicians stated that the applicant will have a problem returning to work.

Secretary Antolina Leon Guerrero, seconded by Trustee George Santos, moved to approve full disability pension for Disability Case No. 10-003, based on the applicant's recent medical condition. With a unanimous affirmative vote, the motion unanimously passed.

2. DISABILITY CASE NO. 10-004

Secretary Leon Guerrero presented a summary of the medical consultant's findings regarding the application for medical disability, Case No. 10-004. The applicant who is a sixty-one (61) year old School Bus Driver with the Department of Public Works applied for disability retirement on August 6, 2010. The applicant suffers from end stage renal disease due to diabetes, blurring of vision and impairment of balance. Since July 14, 2010, the applicant has required hemodialysis and that therapy will need to continue indefinitely. Dr. Robert Nerves gave an assessment of 80% disability by AMA guidelines, Dr. Patrick Santos gave an assessment of 85% disability, and Dr. Vincent Duenas gave an assessment of 82% disability. All the examiners who have assessed the applicant agreed that the applicant's disability rating by AMA guidelines is 80+%. The Retirement Fund's Medical Consultant recommends disability pension for complicated diabetes mellitus and end stage renal disease.

Trustee Wilfred Aflague, seconded by Trustee George Santos, moved to approve full disability pension for Disability Case No. 10-004, based on the applicant's recent medical condition. With a unanimous affirmative vote, the motion unanimously passed.

3. DISABILITY CASE NO. 09-001

Director Blas stated that this case was tabled pending off-island medical treatment. The applicant's spouse requested from the Committee for a third independent physician. Trustee Taitano stated that the applicant's primary physician passed away and that the applicant chose one of the Retirement Fund's review physicians to be his/her primary physician. Director Blas stated that the applicant was admitted to the hospital by Dr. Fred Schroeder and was sent to Dr. Vincent Duenas. The applicant passed away on November 26, 2010.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve full disability pension for Disability Case No. 09-001, based on the applicant's recent medical condition. With a unanimous affirmative vote, the motion unanimously passed.

Application for Disabled Adult Survivor Benefits – FRANCES T.F. LUJAN

Trustee Santos stated that Frances T.F. Lujan is applying for Disabled Adult Survivor Benefits on behalf of herself. Ms. Lujan is the biological child of deceased retiree Alejandro G. Lujan who passed away on January 15, 2010. Trustee Santos stated that based on the M&B Committee's review and findings during their meeting of November 10, 2010, the following application for Disabled Adult

Survivor Benefits, contained on Page 15, is recommended to be presented to the Board for their discussion and disposition. Chairman San Agustin stated that he is concerned of the disabled adult claim if the applicant was not disabled when he/she was a minor. Chairman San Agustin stated that he would like to get a clarification of the law regarding applicants being over the age of eighteen years.

Secretary Antolina Leon Guerrero, seconded by Trustee George Santos, moved to approve the application for Disabled Adult Survivor Benefits for Frances T.F. Lujan, contained on Page 15, based on the Committee's review and findings during their meeting of November 10, 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 November 12, 2010. The Committee reviewed and approved the Investment Committee Minutes of October 8, 2010 and the August 26, 2010 Due Diligence Minutes (for Quarter Ended June 30, 2010).

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

1. *Funding of Earnest Partners (New International Large Cap Equity Manager)* – Treasurer Cruz stated that the Investment Committee recommends funding Earnest Partners \$26.5 Million (upon signing of the contract) by liquidating a portion of the Exchange Traded Funds (ETF) – I Shares EAFE Index.

Treasurer Gerard Cruz, seconded by Trustee Wilfred Aflague, moved to approve the Investment Committee's recommendation to fund Earnest Partners \$26.5 Million, upon signing of the contract, by liquidating a portion of the Exchange Traded Funds I Shares EAFE Index. Without objection, the motion unanimously passed.

Informational Items:

1. *Metropolitan West* – Treasurer Cruz stated that on November 1, 2010, Metropolitan West was placed on watch status due to the departure of two of the three founding partners. Treasurer Cruz stated that Gary Lisenbee, the third co-founder, will remain with Metropolitan West and assume the duties of CIO and CEO. Treasurer Cruz stated that the Investment Committee requested that Terry Dennison of Mercer Investment Consulting, Inc. provide the Committee with his comments relative to the impact, if any, on our portfolio.

2. *Quarterly Performance Meeting for Quarter Ended September 30, 2010* – Treasurer Cruz stated that the next Quarterly Performance Meeting and the Annual Manager Reviews of Domestic Equity and REITs Managers are scheduled for December 15, 16, and 17, 2010.

Treasurer Cruz further reported on the Asset Allocation as of November 8, 2010 on the Market (Actual) Allocation versus Target Allocation and on the Interest and Dividend Income. Treasurer Cruz stated that it was down \$32,316,646 from \$37,383,902 in FY2009.

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 2:50 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of November 29, 2010 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on December 17, 2010.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas