

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Edward J.R. Galvo
Governor

Raymond S. Tenorio
Lieutenant Governor

Paula M. Blas
Director

BOARD OF TRUSTEES
Regular Meeting
 Friday, December 17, 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

James J. Taylor, Ph.D.
Secretary
Investment Committee, Vice-Chairman

MINUTES

DEFINED BENEFITS

Gerard A. Cruz
Treasurer
Audit & Operations Committee,
Chairman

George A. Santos
Members' & Benefits Committee,
Chairman

Katherine T.E. Taitano
Trustee

Antolina S. Leon Guerrero
Trustee

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 12:18 p.m. Friday, December 17, 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
- Alice Taijeron, Great-West Retirement Services

Public Present:

- Terry Dennison, Mercer Investment Consulting, Inc.
- A. Ricky Hernandez and Edison Manaloto, Senator Ben Pangelinan's Office of Finance & Budget

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. November 29, 2010 Regular Meeting

Chairman San Agustin asked for a clarification on Page 3 of 8 on the first paragraph where Treasurer Gerard Cruz stated that the average rate of return is 5%. Director Paula Blas stated that the average rate of return for the past five years is 5%.

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of November 29, 2010 Regular Meeting were approved, subject to corrections. Motion unanimously passed.

III. CORRESPONDENCE

Chairman San Agustin stated that he has an amortization schedule along with the chart showing the benefit payment structure which is not included in the Board packet. Chairman San Agustin stated that the investment returns should be paying for benefits. Chairman San Agustin stated that the Retirement Fund is not fully funded. Director Blas stated that the Retirement Fund's funding ratio is 50%. Terry Dennison of Mercer Investment Consulting, Inc. (Mercer) commented that if you look at the total benefit payments for 2010, which is \$173 Million, and compare that to the total investments and if benefits are going to be paid out of investment returns, then we will need a return of about 15% and if we are fully funded then we will only need a return of 7.5%. Chairman San Agustin stated that the contributing factor is that the Retirement Fund is not fully funded.

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 no additional appropriation for the outstanding COLA principal and interest has been provided. Director Blas stated that Bill 492-30 which provides for an additional \$3 Million has not been reported out of Committee. Chairman San Agustin stated that the Board of Trustees submitted its position statement concerning Bill 492. Director Blas stated that it's the Board's position statement on the indemnification section of the bill. Chairman San Agustin thanked Mr. Dennison for his input on this matter.

2. *Global Custody Services* – Director Blas stated that she received Northern Trust's loan detail report as of December 13, 2010. Director Blas stated that the Retirement Fund began participating in the Securities Lending Program.

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 December 10, 2010 were paid. The Retirement Fund has suspended processing retirement applications for DOE and GMHA until both departments are current with their employee and employer contributions. Director Blas stated that GMHA is now close to \$4 Million in arrears (\$3.8 Million). Chairman San Agustin stated that the arrears will continue to grow. Director Blas stated that the loan from Guam Economic Development Authority (GEDA) is only \$12 Million which is enough to pay the

Retirement Fund but GMHA will pay their vendors instead. Chairman San Agustin stated that if GMHA can not pay the \$4 Million, he would like to negotiate a payment plan with the stipulation that if an employee is retiring, the Retirement Fund must be made whole for that employee. Director Blas stated that there are several employees from GMHA showing interest in retiring.

4. *Guam Memorial Hospital Authority (GMHA) Outstanding Contributions* – Director Blas stated that at the October 29, 2010 Board meeting, the Board instructed Legal Counsel to file a Writ of Mandate against GMHA for the outstanding contributions. The Retirement Fund filed the Writ of Mandate on November 12, 2010. The Attorney General (AG) is representing GMHA and they have until January 11, 2011 to file their response to the Writ. Director Blas stated that Public Law 30-200 authorized GMHA to enter into a revolving loan and direct loans up to \$25 Million. GEDA's Request for Proposal (RFP) for GMHA loans closed Tuesday, December 14, 2010. Director Blas stated that GMHA should have a clearer direction on when they will be able to receive funds by early next week.

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

- Lehman Brothers – Director Blas stated that BLBG is waiting for the court's decision on the motion to dismiss. It has been pending before the courts for months, but all they can do is wait until the court rules.
- Wells Fargo – Director Blas stated the court scheduled a jury trial date on August 27, 2012. Director Blas stated that Wells Fargo has extended interest in settling the case prior to trial. Documents are being forwarded to BLBG.
- Genzyme Corporation – Director Blas stated that BLBG is waiting for the court's decision on the motion to dismiss. Negotiations are ongoing.
- Countrywide – Director Blas stated that the court issued an order placing an indefinite continuance on the final approval hearing date. BLBG believes this is likely related to ongoing negotiations between all parties regarding the requests for exclusions.

Chairman San Agustin asked whether Vice-Chairman Wilfred Leon Guerrero has spoken to BLBG. Vice-Chairman Leon Guerrero stated that he spoke to Blair Nicholas mostly on the Securities Lending Program and not on other cases. Vice-Chairman Leon Guerrero asked whether the Retirement Fund received Joanne Grimes' (the Retirement Fund's Legal Counsel) bill regarding the Securities Lending Program because according to Mr. Blair, there is no fee. Director Blas stated that there is no fee charged from BLBG. Director Blas stated that she will look into this month's billing from Legal Counsel. Vice-Chairman Leon Guerrero stated that Legal Counsel Grimes spent one hour with Mr. Blair. Director Blas stated that it was to clarify Mr. Blair's memorandum to the Retirement Fund regarding Cash Collateral. Vice-Chairman Leon Guerrero stated that it was also to point out possible pitfalls.

6. *Request for Proposal (RFP) for Investment Consultant Services* – Director Blas stated that the RFPs issued on October 27, 2010 closed on November 29, 2010. There are eight (8) proposals for RFP No. GGRF-001-11 (Defined Benefit [DB] Plan), and five (5) proposals for RFP No. GGRF-002-11 (Defined Contribution [DC]/457 Plan) who have met the minimum requirements. The Selection Panel consists of Chairman Joe T. San Agustin, Trustee Wilfred G. Aflague, and Controller Diana Bernardo. Chairman San Agustin stated that there are two DC plans and one DB plan. We need a transition on the DB Plan and we need to negotiate with Mr. Dennison on a project basis. Mr. Dennison stated that Mercer adopted to no longer provide investment consultant services to DB plans

on a retainer basis, but will continue on a retainer basis for the DC Plan and consider working on a project basis for the DB Plan. Mr. Dennison stated that the issue is to clarify what projects they can do. Chairman San Agustin suggested for a transition on the DB Plan and then determine later to merge DB and DC. Vice-Chairman Leon Guerrero asked what the cut-off date is. Mr. Dennison replied, "On or before March 31, 2011." Treasurer Cruz stated that there are a lot of issues that the Retirement Fund could utilize Mr. Dennison on a project basis. Mr. Dennison stated that Mercer could continue on the DC Plan on status quo so as not to disrupt the flow at this time. Treasurer Cruz stated that the Board does not have to make a decision regarding the DC Plan now. Secretary Antolina Leon Guerrero suggested doing the DB Plan first. Chairman San Agustin asked to start working on the response to the RFP now. Director Blas stated that she will work on the responses. Director Blas stated that Mr. Dennison will go back and see what projects Mercer can do. At this time, Chairman San Agustin asked Vice-Chairman Leon Guerrero whether he could sit in his place as a Selection Panel member. Vice-Chairman Leon Guerrero accepted to be a member of the Selection Panel.

7. *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 450-30 was passed by the Legislature and signed into law as Public Law 30-210. Chairman San Agustin expressed his appreciation to Senator Ben Pangelinan and Mr. Dennison who were very instrumental on the passing of the bill.
- ***Bill 492-30 – Distribution of Additional COLA Payments for Certificates of Claim Issued*** – Director Blas stated that the public hearing was held on December 3, 2010. Chairman San Agustin stated that both he and Vice-Chairman Leon Guerrero will need to recuse themselves from this bill.

Trustee George Santos recommended for Chairman San Agustin to send a letter to Senator Ben Pangelinan to thank him for being very instrumental in the progress of this Board during the past two years.

Bill 498-30 (COR) “AN Act to Amend Subsection (a) of §8121 of Chapter 8 of Title 4, Guam Code Annotated, Relative to the Suspension of Annuity Payment” (Public Law 30-233) – Director Blas stated that Bill 498 is for an exception for DB Plan retirees not to suspend their annuity while employed under the DC Plan. Director Blas stated that prior to this, only legislative employees, teachers, health care, customs, police, fire, and Revenue Tax, were exempt from suspending their annuity. Bill 498 extends the exemption to the Governor, Lt. Governor, and unclassified employees appointed by the Governor. Secretary Leon Guerrero stated that Bill 498 will grant double-dipping. Director Blas stated that this would also allow for paying into Social Security rather than the DC Plan. Vice-Chairman Leon Guerrero asked whether anyone from Retirement Fund attended the public hearing. Director Blas replied, "No, because it was at the same time as the due diligence." Director Blas stated that the Retirement Fund will submit testimony. Vice-Chairman Leon Guerrero asked what the Retirement Fund's recommended position on this bill is. Chairman San Agustin stated that the Board's position is to oppose exempting members from contributing to the DC Plan. Treasurer Cruz stated that double-dipping is not detrimental to the Retirement Fund. Director Blas stated that the impact to the Retirement Fund is the portion of the unfunded. Chairman San Agustin stated that if it goes to this trend then they should eliminate DC and go to Social Security. Secretary Leon Guerrero asked whether there are double-dippers in the DC Plan. Director Blas replied, "Yes." Secretary Leon Guerrero asked whether allowing retirees to double dip affects the Retirement Fund. Treasurer Cruz

stated that funding is not from the same source. Director Blas stated that if double dipping is not an issue, then everyone should be allowed. Chairman San Agustin asked whether an employee in the DC Plan is also enrolled in Social Security. Director Blas replied, "No."

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to authorize Director Paula Blas to put the Board of Trustees' position on Bill 498-30 in writing to the Legislature. Without objection, the motion unanimously passed.

Director Blas stated that she will work on the testimony in opposition to exempting DB retirees from enrolling in the Defined Contribution Plan.

Financial Report

1. Contributions – Director Blas stated that as of December 14, 2010, all agencies are current with their Fiscal Year 2011 employee and employer contributions with the exception of GMHA and DOE. DOE has not remitted contributions for one pay period totaling approximately \$1.4 Million. Director Blas stated that DOE should be cleared by next week.

2. Financial Statements – Director Blas stated that the books for the month ending November 2010 will be closed on December 23, 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 December 2010 will be paid at the end of the month.

5. Fiscal Year 2011 Medicare Reimbursements – Director Blas stated that the Retirement Fund received the December 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 October 31, 2010. Treasurer Cruz stated that the assets in the DB Plan total \$1.5 Billion and \$255 Million in the DC Plan.

Treasurer Cruz stated that he is requesting for an increase in principal drawdowns. Treasurer Cruz stated that Item 5 of the Investment Committee Report explains the drawdown. This item will be discussed in the Investment Committee's Report. Chairman San Agustin stated that he objects to deferring this item to the Investment Committee Report. Treasurer Cruz stated that on December 8, 2010, Management liquidated \$1.5 Million in principal, in addition to the \$3.5 Million that was

previously approved by the Board. Treasurer Cruz stated that Management will likely need to liquidate another \$2.5 Million in order to meet pension payroll for December 31, 2010. Controller Bernardo stated that the drawdown is needed to meet the December 15, 2010 payroll. Treasurer Cruz stated that it will be a total of \$4 Million by December 31, 2010. Controller Bernardo stated that she would like to clarify that the \$2.5 Million is an anticipated drawdown. Treasurer Cruz stated that he is requesting for a \$4 Million additional authority. Chairman San Agustin asked what would be the overall total drawdown. Trustee Santos replied, "\$7.5 Million." Treasurer Cruz stated that he is requesting authority to liquidate \$15 Million as needed.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to authorize Management to liquidate up to \$15 Million of the Exchange Traded Fund I Shares EAFE Index, as needed, to meet operating needs over the next two months. Without objection, the motion unanimously passed.

At this time Secretary Antolina Leon Guerrero asked to be excused from the meeting (1:30 p.m.)

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's December 2010 report to the Board of Trustees.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 7, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of December 10, 2010 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

B. Investment Committee

Vice-Chairman Leon Guerrero reported that the Investment Committee meeting was held on December 15, and 16, 2010 along with its Quarterly Performance meeting for the quarter ended September 30, 2010 with Mr. Terry Dennison of Mercer Investment Consulting, Inc. (Mercer). The Annual Manager Reviews were conducted for the following managers: Security Capital, Cornerstone, Atalanta, Intech, Winslow, Robeco, and Metropolitan West. Vice-Chairman Leon Guerrero stated that the Committee reviewed and approved the Investment Committee Minutes of November 12, 2010. Vice-Chairman Leon Guerrero informed the Board that the next Quarterly Performance Meeting is scheduled for March 24, and 25, 2011.

Vice-Chairman Leon Guerrero stated that the following items were approved for Board action:

- 1. Metropolitan West** - Mr. Dennison stated that in November 2010, Metropolitan West was placed on watch status due to the departure of two of its three founding partners. Mr. Dennison indicated that Mercer views this news as significant and negative, and recommends that clients invested in the strategy seek other options. Possible options include: 1) Transferring funds currently in the portfolio to an Exchange Traded Fund (ETF), and issuing a Request for Proposal (RFP) for a replacement manager; and 2) Reducing potential risks in the portfolio by transferring two-thirds of the funds in the portfolio to an ETF. Mr. Dennison stated that the Investment Committee recommends

transferring two-thirds of the funds in the portfolio to an ETF. Since the current market value of the portfolio is approximately \$92 Million, approximately \$61 Million will be transferred to an EFT. The remaining \$31 Million will remain with Metropolitan West. Chairman San Agustin asked why transfer two-thirds. Vice-Chairman Leon Guerrero stated that it is Mercer's recommendation to partially defund. Chairman San Agustin stated that they have a low turnover ratio. Chairman San Agustin stated that the portfolio will remain the same for one year. Rosalia Bordallo, General Accounting Supervisor, suggested holding off in immediately terminating them. Treasurer Cruz stated that he wants to go out for an RFP.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee George Santos, moved to approve the Investment Committee's recommendation to transfer two-thirds of the funds in the portfolio to an Exchange Traded Fund, on a conditional basis that a Request for Proposal be issued. Without objection the motion unanimously passed.

2. **Capital International** - Mr. Dennison stated that he recommends that the Board perform a market check by issuing an RFP for the Emerging Markets mandate. The Emerging Markets is not a good place to leave Exchange Trade Funds (ETFs). Mr. Dennison noted that Capital International is not performing badly, nor did any key personnel leave. However, they continue to accept new money into the fund, which will grow the fund to such levels that may negatively affect their ability to efficiently and effectively manage the Retirement Fund's portfolio. Chairman San Agustin stated that we can make a selection after a market check. Chairman San Agustin recommended deleting or not including "a market check" in the RFP. Director Blas stated that the phrase "a market check" will not appear in the RFP.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve Mercer Investment Consulting, Inc.'s recommendation that the Board perform a market check by issuing a Request for Proposal for the Emerging Markets mandate. Without objection the motion unanimously passed.

3. **Numeric Investors and Easton Vance** – Mr. Dennison stated that Numeric Investors and Easton Vance were partially funded on October 2010. Mr. Dennison that the Investment Committee recommends full funding as follows:

a. Liquidate the following, whose allocations are currently over the target allocation:

Winslow	\$14 Million
Intech	\$14 Million
Cornerstone	\$6 Million
Security Capital	\$10 Million
TOTAL	<u>\$44 Million</u>

Mr. Dennison stated that the \$44 Million will then be divided equally (\$22 Million) to fund the two new managers – Numeric Investors and Eaton Vance.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation to liquidate \$44 Million, to be divided equally to fully fund Numeric Investors (\$22 Million) and Eaton Vance (\$22 Million). Without objection the motion unanimously passed.

4. Funding of New Non-U.S. Equity Developed Markets Manager (Earnest Partners) – Mr. Dennison stated that the Investment Committee recommends the following:

- a. Changing the target allocation for the Non-U.S. Equity Developed Markets Mandate to 50% for each manager as follows:
Fisher Investments from 7.25% to 4.625%
Earnest Partners from 2.00% to 4.625%

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee George Santos, moved to approve the Investment Committee’s recommendation to change the target allocation to 50% for Fisher Investments and 50% for Earnest Partners. Without objection, the motion unanimously passed.

- b. Upon signing of the contract with Earnest Partners, it will be funded up to 4.625% through the liquidation of:
 1. Fisher Investments to reduce its allocation to 4.625%, and
 2. A portion of the assets in the ETF – I Shares EAFE Index.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee’s recommendation to authorize funding Earnest Partners up to 4.625%. Without objection, the motion unanimously passed.

5. Liquidation for Operations – Mr. Dennison stated that this item was discussed and approved earlier under the Treasurer’s Report.

In conclusion of the Investment Committee report, Mr. Dennison stated that he provided an overview of the DB Plan’s September 30, 2010 Quarterly Investment Performance, noting the following:

- a. A Rate of Return of 12.3% for the fiscal year, compared to the 10.2% median return for Public Funds.
- b. The Retirement Fund outperformed its Blended Index and ranked in the top quintile (12%) of the Public Funds Universe for all periods evaluated.

Mr. Dennison stated that the Retirement Fund’s asset, as of June 30, 2010 through September 30, 2010, increased \$3.6 Million.

At this time, Mr. Dennison handed out an article of interest, for the Board’s information, regarding *“Funds’ Looming Liquidity Crisis – Asset Allocation Decisions Will Affect Ability to Pay Benefits in Future Years.”*

IX. OLD BUSINESS

None

X. NEW BUSINESS

None

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

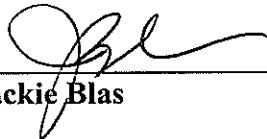
There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 2:08 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of December 17, 2010 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on January 28, 2011.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas