

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Edward J.B. Calvo
 Governor

Raymond S. Tenorio
 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
 Friday, January 28, 2011, 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 1:05 p.m. Friday, January 28, 2011, 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
 Gerard A. Cruz, Treasurer
 Wilfred G. Aflague, Trustee
 George A. Santos, Trustee

Board of Trustees Absent:

Antolina S. Leon Guerrero, Secretary
 Katherine T.E. Taitano, Trustee
 (Off-Island)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary
 Dr. John C. Steele, Retirement Fund Medical Consultant (1:55 p.m.)
 Jackie Sablan, Benefit Specialist II
 Lena Sanchez, Benefit Specialist II

Legal Counsel Present:

Vince Camacho, Carlsmith Ball LLP

Public Present:

Ricky Hernandez, Senator Ben Pangelinan's Office of Finance and Budget

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 17, 2010 Regular Meeting

Treasurer Gerard Cruz pointed out an error on Page 5 of 9 of the December 17, 2010 minutes. The minutes should be corrected to read "\$255 Million in the DC Plan" instead of \$1.3 Billion. Jackie Blas, Recording Secretary, noted the correction to be made.

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of December 17, 2010 Regular Meeting were approved, as corrected, and subject to further technical 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 Public Law 30-239 reallocated \$3 Million from the COLA Award appropriations for deceased COLA Awardees, survivors, and beneficiaries to pay the outstanding principal and interest amounts to retirees, survivors, and beneficiaries in accordance with Public Law 30-239. In addition, it also authorizes the Governor to sell the COLA Certificates as General Obligation Promissory Notes backed by the full faith and credit of the Government of Guam. Director Blas stated that notes are not authorized to be sold unless the Guam Economic Development Authority (GEDA) approves the terms and conditions of the Note sale.

Director Blas stated that the funds will be disbursed starting with the next lowest initial award (\$22,300.00 as of the last disbursement). Director Blas stated that she spoke to someone from GEDA and they are not sure how to package it. Director Blas stated that the terms and conditions are not formalized on how to settle the certificates.

2. *Global Custody Services* – Director Blas stated that the Retirement Fund is currently participating in the Securities Lending Program. Attached is Northern Trust's earnings summary report as of January 10, 2011. The details for the report will be reported out at the next Investment Committee meeting on February 11, 2011 and will then be presented to the Board at their February meeting. Chairman San Agustin inquired about the net income. Director Blas stated that the net income is \$3,657.55.

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 January 10, 2011 were paid. The Retirement Fund continues to process retirement applications for DOE. GMHA retirement applications will be suspended until GMHA is current with their employee and employer contributions. Director Blas stated that the interest payment dropped from \$383,000 to \$50,000. Chairman San Agustin asked why it dropped. Director Blas stated that the five-year average includes negative returns. Treasurer Cruz stated that the Retirement Fund should demand

the actuarial rate of return. Chairman San Agustin stated that we need to challenge this. Director Blas stated that she will check into it.

4. **Guam Memorial Hospital Authority (GMHA) Outstanding Contributions** – Director Blas stated that Public Law 30-200 authorized GMHA to enter into revolving loan funds and direct loans for up to \$25 Million. GEDA’s Request for Proposal (RFP) for GMHA loans closed Tuesday, December 14, 2010. As of January 20, 2011, the loan agreement was still with the Attorney General’s (AG’s) office for review. Chairman San Agustin inquired about the outstanding amount. Director Blas stated that it is \$5 Million including the Defined Contribution (DC) Plan. Chairman San Agustin inquired about the status of the case. Legal Counsel Camacho stated that the application was filed and we are just waiting for the Court to schedule a hearing date. Retirement Fund’s Legal Counsel, Vince Camacho, stated that he will follow up on the hearing date. Director Blas mentioned that about 20 employees from GMHA have expressed interest in retiring.

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. Director Blas stated that we are still waiting for the Court to set a date.
- Wells Fargo – Director Blas stated that the court scheduled a jury trial date on August 27, 2012. Chairman San Agustin asked what the chances of settling out of court are. Director Blas stated that the defendants are trying to negotiate settlement. Director Blas stated that she will have an updated report by the next Board meeting.
- Genzyme Corporation – Director Blas stated that BLBG is waiting for the court’s decision on the motion to dismiss.
- 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. Director Blas stated that they are trying to negotiate \$7 Million.

6. **Request for Proposal (RFP) for Investment Consultant Services** – Director Blas stated that evaluations for the Defined Benefit (DB) Plan Investment Consulting Services (RFP No. GGRF-001-11) and DC/457 Investment Consulting Services (RFP No. GGRF-002-11) are ongoing. Director Blas stated that the Selection Panel will consist of Joe T. San Agustin, Wilfred Leon Guerrero, and Diana Bernardo. Treasurer Cruz asked whether the Retirement Fund received any word from Terry Dennison of Mercer Investment Consulting, Inc. (Mercer) regarding what projects they can do. Director Blas stated that she has not received anything from Mr. Dennison.

7. **Legislative Bills:**

- **Bill 40-31 (COR) – Amends Public Law 30-233, Relative to Suspension of Annuity Payment from the Defined Benefit Plan** - Director Blas stated that Bill 40-31 basically corrects deficiencies and technical omissions in Public Law 30-233 which completely negated the intent of Public Law 30-233. The bill also adds the Judiciary branch to the list of exemptions from suspension of annuity.
- **Bill 492-30 – Distribution of Additional COLA Payments for Certificates of Claim Issued** - Director Blas stated that Bill 492-30 was signed into law on January 20, 2011 as Public Law 30-239.

8. ***Suspension of Hay Study Pay Plan*** – Director Blas stated that Executive Order 2011-02 rescinded Executive Orders 2010-24 and 2010-25 that authorized the implementation of the Hay Study Plan. Effective January 30, 2011 Government of Guam will be reverting back to the 1991 Unified Pay Plan until such time the Governor reinstates the Hay Study Pay Plan. Director Blas stated that in consultation with the Retirement Fund’s Legal Counsel, the Retirement Fund will comply with Executive Order 2011-02 and revert back to the 1991 Unified Pay Plan. Chairman San Agustin mentioned that the Controller’s position is unclassified and is not affected by the Executive Order.

Financial Report

1. ***Contributions*** – Director Blas stated that as of January 24, 2011, all agencies are current with their Fiscal Year 2011 employee and employer contributions with the exception of GMHA.

2. ***Financial Statements*** – Director Blas stated that the books for the month ending December 2010 were closed on January 21, 2011.

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 January 2011 will be paid at the end of the month.

5. ***Fiscal Year 2011 Medicare Reimbursements*** – Director Blas stated that the Retirement Fund received the January 2011 allotment from the General Fund and payments are processed accordingly.

VI. LEGAL COUNSEL’S REPORT

Director Blas stated that an update on the status of current litigation involving the Retirement Fund is provided for the Board’s information:

- Jane M Story vs. GGRF – Director Blas stated that the Retirement Fund is waiting for an assignment of a judge to hear the case. Trustee Wilfred Aflague inquired about why most of the judges recused themselves from this case. Director Blas stated that Ms. Story has several different lawsuits in court. Legal Counsel Camacho stated that Judge Steven Unpingo and Judge Anita Sukola are not allowed to hear cases from the law firm of Phillips and Bordallo.
- Luis Reyes vs. DOE – Director Blas stated that Mr. Reyes’ case has been settled.
- GGRF vs. GMHA – Director Blas stated that on January 25, 2011, the Retirement Fund applied for a hearing date on the Petition. We expect the Court to issue the Writ at the hearing in this matter.
- GGRF vs. Robert Underwood and Lorraine Underwood – Director Blas stated that this case is now between the two parties (Robert Underwood and Lorraine Underwood).
- Antonio Pangelinan vs. GGRF – Director Blas stated that Judge Anita Sukola granted the Retirement Fund’s motion to dismiss, ruling that Mr. Pangelinan’s Petition was untimely filed.

Legal Counsel Camacho stated that the proposed Economic Growth and Tax Relief Reconciliation Act (EGTRRA) amendments to the Government of Guam’s Defined Contribution Plan and the Defined Benefit Plan, which changes are necessary to comply with the Internal Revenue Code requirements is provided for the Board’s review. Legal Counsel Camacho stated that the proposed changes need to be

adopted within ninety (90) days. Legal Counsel Camacho stated that the Plan Restatement Document on the DC Plan is restated every five years to comply with the requirements for tax-qualified governmental plans under Section 401(a) of the United States Internal Revenue Code of 1986, as amended, applicable to Guam under the corresponding mirror provisions of the Guam Territorial Income Tax Code. The latest plan restatement was effective October 1, 2010. A letter of determination must be submitted to the Director of the Department of Revenue and Taxation by January 31, 2011. Legal Counsel Camacho stated that a summary of the primary changes under EGTRRA Plan Restatement is provided for the Board's review.

Legal Counsel Camacho stated that the proposed amendment of the Plan on the DB Plan must be filed with the Department of Revenue and Taxation and then it is sent to the Legislature for adoption. The letter of determination is submitted to the Legislature. Chairman San Agustin mentioned that there is a letter of ruling from Revenue and Taxation.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the proposed Economic Growth and Tax Relief Reconciliation Act Amendments to the Government of Guam's Defined Contribution Plan and the Defined Benefit Plan. Without objection, the motion unanimously passed.

At this time the Resolutions, "Relative to Approving the Submission of the Restatement of the Government of Guam Defined Contribution Retirement System Plan and Trust Agreement to the Director, Government of Guam Department of Revenue and Taxation," and "Relative to Approving the Submission of the Government of Guam Defined Benefit Plan Amendment to the Director, Government of Guam Department of Revenue and Taxation," were circulated for the Board of Trustees' signatures.

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 DB Plan and the DC Plan for the month ended November 30, 2010 and December 31, 2010. Also submitted is the Retirement Fund's Cash Flow Statement which includes the drawdown schedule from October 2009 of Fiscal Year 2010 through March 2011 of Fiscal Year 2011.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos presented his Committee's January 2011 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 14, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of January 12, 2011 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

Trustee Santos stated that based on the M&B Committee's review and findings during their meeting of January 12, 2011, the following disability applications, contained on Page 15, 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. 10-007

Trustee Santos stated that the M&B Committee recommends tabling Disability Case No. 10-007.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the Members and Benefits Committee's recommendation to table Disability Case No. 10-007. Without objection, the motion unanimously passed.

2. DISABILITY CASE NO. 10-010

Trustee Santos stated that this fifty-three (53) year old Highway Sign Worker I with the Department of Public Works made application for disability retirement on August 10, 2010. The applicant's symptoms related to a physical disability, with numbness of his/her hands and inability to stand or walk on his/her own. The applicant indicated he/she was in the end stage of liver cirrhosis and possible cancer. Trustee Santos stated that the applicant was examined by Dr. Fred Schroeder for the Retirement Fund on October 20, 2010. Dr. Schroeder assessed the applicant's degree of disability for liver and biliary tract disease as 89%. The applicant was also examined by Dr. Patrick Santos for the Retirement Fund on October 5, 2010. Dr. Santos assessed the applicant's disability as 95% for end stage liver disease and hepatocellular cancer of the liver. The applicant's primary physician, Dr. Hoa Van Nguyen, estimates a 100% impairment of the whole person.

Trustee Santos stated that the M&B Committee recommends approval on Disability Case No. 10-010.

Trustee George Santos, seconded by Trustee Wilfred Aflague, moved to approve full disability pension for Disability Case No. 10-010. With a unanimous affirmative vote, the motion unanimously passed.

Vice-Chairman Wilfred Leon Guerrero asked whether the disability retirement rate is still the same. Director Blas stated that the rate is 66 and 2/3% for disability retirement. Vice-Chairman Leon Guerrero asked whether the disability has to be caused by employment. Director Blas replied, "No." Retirement Fund's Medical Consultant, Dr. John Steele, stated that this applicant is a drinker but the applicant's disability does not relate to alcoholism. Dr. Steele stated that the issue of drinking is a difficult one. Legal Counsel Camacho stated that it is not a basis for disability.

B. Investment Committee

Controller Diana Bernardo reported that the Investment Committee meeting was held on January 14, 2011. The Committee reviewed and approved the Investment Committee Minutes of December 10, 2010. Controller Bernardo informed the Board that the next Quarterly Performance Meeting, for quarter ended December 31, 2010, and Annual Review of Non U.S. Equity Managers is scheduled for March 24, and 25, 2011.

Controller Bernardo reported on the following informational items:

1. As Directed by the Board of Trustees During the December 17, 2010 Meeting:
 - Two-thirds (\$61 Million) of the funds in the Metropolitan West portfolio were liquidated and are in the process of being transferred into an Exchange Traded Fund (ETF) I Shares Russell 1000 Value Index. The Investment Committee requested that Management provide a report indicating the gains/losses from the liquidation. This will be provided at the next Committee meeting.
 - Numeric Investors and Eaton Vance were funded an additional \$22 Million each, through the partial liquidation of Winslow \$14 Million, Intech \$14 Million, Cornerstone \$6 Million, and Security Capital \$10 Million. Controller Bernardo stated that Numeric Investors and Eaton Vance are now up to their full funding level.
 - Earnest Partners was funded \$29 Million through the partial liquidation of the ETF I Shares EAFE Index, and was funded an additional \$32 Million on January 26, 2011 through the partial liquidation of Fisher. This will result in a 4.625% target allocation for both managers as directed by the Board.
 - Although Management was authorized to liquidate an additional \$2.5 Million, if necessary, to meet pension payroll for December 31, 2010, the liquidation was not made since there were sufficient funds.
 - Due to the Government of Guam's current cashflow issues, \$15 Million of the ETF I Shares EAFE Index was liquidated in January 2011, to meet operating needs/pension payroll over the next two months.
2. Bernstein Litowitz Berger & Grossmann's (BLBG's) January 4, 2011 Letter Regarding "AXA Rosenberg: Claims for Recovery of Losses" – Controller Bernardo stated that, in BLBG's letter to the Retirement Fund, Mr. Blair Nicholas indicated:
 - They believe investors have strong claims to recoup losses caused by AXA's coding error and intentional cover up.
 - In order to determine the Retirement Fund's potential claims, BLBG will need to review the Retirement Fund's documents pertaining to AXA. Controller Bernardo stated that the Retirement Fund did provide the requested documents.
 - Upon receipt and analysis of the documents, BLBG will provide the Retirement Fund with a comprehensive assessment regarding its legal options without any obligation to utilize or retain BLBG in this matter.

Five-Year Plan: Vice-Chairman Leon Guerrero stated that the Five-Year Plan was discussed in the Investment Committee. Director Blas stated that she will report quarterly on the building plan. Director Blas stated that she is moving forward with the Architect and Engineering (A&E). Treasurer Cruz stated that the Retirement Fund should build for its use. The Retirement Fund is not in the business of being a landlord. Vice-Chairman Leon Guerrero stated that the Retirement Fund could make money by leasing. Director Blas stated that a feasibility study was conducted by Captain Hutapea & Associates.

IX. OLD BUSINESS

None

X. NEW BUSINESS

None

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

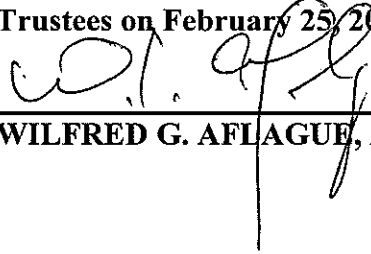
XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 2:58 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of January 28, 2011 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 25, 2011.



WILFRED G. AFLAGUE, Acting Board Secretary

RECORDING SECRETARY:



Jackie Blas