

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

BOARD OF TRUSTEES
Regular Meeting
 Friday, August 26, 2011, 12:00 p.m.
 Retirement Fund Conference Room

Eddie Baza Calvo
 Governor

Ray 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

MINUTES

DEFINED BENEFITS

Gerard A. Cruz
 Treasurer
 Audit & Operations Committee,
 Chairman

George A. Santos
 Members' & Benefits Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

Wilfred G. Aflague
 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 1:01 p.m. Friday, August 26, 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
 Antolina S. Leon Guerrero, Secretary
 Gerard A. Cruz, Treasurer
 George A. Santos, Trustee

Board of Trustees Absent:

Wilfred G. Aflague, Trustee (*Excused*)
 Katherine T.E. Taitano, Trustee (*Excused*)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary
 Kenneth Dunstan, Benefit Program Administrator
 Jackie Sablan, Benefit Specialist II
 Lena Sanchez, Benefit Specialist II

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

Medical Consultant Present:

Dr. John C. Steele (*1:29 p.m.*)

Public Present:

Rosie Concepcion

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. July 29, 2011 Regular Meeting

Treasurer Gerard Cruz asked whether the issue with Luis Reyes has been resolved. Director Paula Blas replied, "Not yet." An updated status report will be provided by Legal Counsel.

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of July 29, 2011 Regular Meeting were approved, subject to 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 Blas stated that additional funding has been appropriated through Public Law 31-74, but funds will not be available until the reimbursement from Guam Waterworks Authority (GWA) to the General Fund has been completed. Director Blas stated that COLA is not included in the proceeds for the bond. Director Blas stated that the outstanding balance is \$19 Million.

2. *Public Law 28-38: Interest Only Payments* – Director Blas stated that the monthly interest payments for Department of Education (DOE) and Guam Memorial Hospital Authority (GMHA) due on August 10, 2011 were paid. The Retirement Fund continues to process retirement applications for DOE and GMHA. Director Blas stated that the Retirement Fund received a check from Department of Administration (DOA) on August 10, 2011.

3. *Guam Memorial Hospital Authority (GMHA) Outstanding Contributions* – Director Blas stated that Judge Vernon Perez has not rendered his decision on the Petition for Writ of Mandamus against GMHA. Director Blas stated that Judge Perez has ninety (90) days to render his decision.

4. *Bernstein Litowitz Berger and Grossmann (BLBG)* – Director Blas stated that BLBG's Litigation Status Report dated August 22, 2011 on the following lawsuits is provided for the Board's information:

- **Lehman Brothers** – BLBG will move forward with discovery and have scheduled an initial discovery conference with the defendants for the first week in September 2011. Director Blas stated that this lawsuit is close to reaching settlement with the individual owners of Lehman Brothers.
- **Wells Fargo** – The Court has scheduled a final approval hearing for October 27, 2011. Vice Chairman Wilfred Leon Guerrero inquired about the amount expected on this lawsuit. Treasurer Cruz stated that the losses are smaller than the exposure of \$13 Million. Director Blas stated that the total settlement is \$125 Million. Treasurer Cruz stated that the \$13 Million was money at risk. Treasurer Cruz stated that Wells Fargo preliminarily agreed to the \$125 Million settlement. The Judge will approve the payment and will decide on its distribution.

- **Genzyme Corporation** – BLBG is waiting for the Court’s decision on the motion to dismiss.
- **Countrywide** – 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.
- **AXA Rosenberg** – A hearing on defendants’ motions to dismiss is currently scheduled for October 14, 2011 in San Francisco. Chairman San Agustin asked whether the coding error could have been known. Maggie Ralbovsky of Wilshire Associates (Wilshire) stated that AXA discovered the coding error themselves. The issue is that AXA did not expose it. Treasurer Cruz stated that AXA took it on their own to correct the coding error without informing anyone.

Chairman San Agustin stated that the Retirement Fund is at a loss of approximately \$50 Million from these lawsuits. Director Blas clarified that its exposure and it does not necessarily mean losses. Chairman San Agustin asked what the recovery amount is. Director Blas stated that it is \$3 Million. Chairman San Agustin stated that he had asked that this should be included as a line item. Treasurer Cruz stated that there is a line item that talks about recovery.

Financial Reports

1. **Contributions** – Director Blas stated that as of August 23, 2011, all agencies are current with their Fiscal Year 2011 employee and employer contributions.
2. **Financial Statements** – Director Blas stated that the books for the month ending July 2011 were closed on August 19, 2011.
3. **Fiscal Year 2011 Retirees’ Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of August 2011 will be paid by the end of the month.
4. **Fiscal Year 2011 Medicare Reimbursements** – Director Blas stated that the Retirement Fund received the August 2011 allotment from the General Fund and payments were 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, 2011. The Retirement Fund’s assets are \$1.75 Billion. Treasurer Cruz stated that the receivables increased due to the Health Insurance Bailout Agreement. GMHA’s receivable is \$17 Million including the current year contributions. Treasurer Cruz inquired about the contribution rate for next year. Director Blas stated that the proposed contribution rate is 28.30%. The current rate is 27.46%.

Chairman San Agustin inquired about the drawdown authority. Treasurer Cruz stated that the current drawdown schedule is adequate. No additional authorization is needed at this time for drawdown.

VIII. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended June 30, 2011 was held on August 24 and 25, 2011.

Performance for the Quarter Ended June 30, 2011

The Retirement Fund's Investment Consultant, Maggie Ralbovsky of Wilshire Associates, provided an overview of the DB Plan's Investment Performance noting the following:

- The Portfolio ranked in the 79th Percentile of the Wilshire peer group universe. This is compared to the benchmark of 24 Basis Points.
- The quarter-end Total Fund Return of 0.83% underperformed its 1.07% benchmark. There was a \$12.5 Million gain.
- All investment mandates underperformed their respective benchmarks.

Ms. Ralbovsky stated that the Retirement Fund's portfolio is very well structured. Chairman San Agustin commented that the Retirement Fund is not as bad as other pension funds. Ms. Ralbovsky reflected on an article which stated to reduce your risk in the total portfolio level. Do not focus on individual investment. "Focus on the forest, not on the trees."

Manager Evaluation Summary

Ms. Ralbovsky indicated that the following managers will continue to be kept on the watch list:

- Atalanta Sosnoff
- Metropolitan West
- Eaton Vance

The one-year watch is due to the organizational change.

Vice Chairman Leon Guerrero stated that, as requested by the Investment Committee during the last Due Diligence Meeting, Wilshire provided the following information:

Securities Lending - An update of the Securities Lending Contract based on Wilshire's discussion with the Retirement Fund's Legal Counsel. A Securities Lending Policy will be drafted for the Investment Committee's review.

Economic Risk Factor Based Asset Allocation - An analysis of what returns would be if the Retirement Fund implements an Economic Risk Factor Based Asset Allocation.

Investment Structure – Active Risk Budgeting - Analysis of what cost savings and returns could be realized if a passive suite is implemented. During the last Due Diligence Meeting, Wilshire indicated they generally recommend clients hold a passive suite for major asset classes, with an allocation ranging from 5-10%.

Annual Reviews

Vice Chairman Leon Guerrero stated that annual reviews were conducted for the following investment managers:

- Numeric Investors
- Cornerstone
- Security Capital

Annual reviews were also conducted for Bank of Guam and Northern Trust. Vice Chairman Leon Guerrero stated that there are no major concerns raised. With regards to custodial banking, the Investment Committee learned that \$14 Million was loaned out under the Securities Lending Program and as a result of that, there is revenue of \$185,000 that was realized.

Asset Allocation

Vice Chairman Leon Guerrero stated that no change to the asset allocation or rebalancing of accounts is recommended at this time.

Quarterly Performance Meeting

Vice Chairman Leon Guerrero informed the Board that the next Due Diligence Meeting is scheduled for November 30 and December 1, 2011.

B. Members and Benefits Committee

Trustee George Santos presented his Committee's August 2011 report to the Board of Trustees. Controller Diana Bernardo made a comment on the Annuity Worksheets. The worksheets should not be stamped/signed before the Board meeting. Controller Bernardo stated that the worksheets on disability applicants are stamped upon Board approval. The worksheets that are again brought before the Board for an adjustment due to finalization of annuity should have a separate approval date. Director Blas stated that this matter has been discussed and that particular process is going to be changed.

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 9, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of August 11, 2011 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

Disabled Adult Survivor Benefit Stipend Applicant – SHANALYNE RAE S. BERMUDES

Trustee Santos stated that Ms. Bermudes is applying for Disabled Adult Survivor Benefits on her own behalf. Trustee Santos stated that Ms. Bermudes is the biological child of deceased retiree Ramon C. Bermudes who passed away on July 11, 2011. Trustee Santos stated that based on their review and findings during their meeting of August 11, 2011, the Committee recommends Board approval of the application for Disabled Adult Survivor Benefits for Shanalyne Rae S. Bermudes.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the application for Disabled Adult Survivor Benefits for Shanalyne Rae S. Bermudes, contained on Page 11, based on the Committee's review and findings during their meeting of August 11, 2011 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

DISABILITY CASE NO. 10-013

Secretary Antolina Leon Guerrero stated that the applicant is a 44 year old Fire Fighter I with the Guam Fire Department (GFD) with 18 years and seven months of service. The application for disability was filed on October 15, 2010 and the reason for the application is that the applicant was certified to be legally blind by Dr. Robert Jack. The Retirement Fund's two physicians examined the applicant. Dr. Patrick Santos examined the applicant on March 30, 2011 and Dr. Fred Schroeder on April 15, 2011. The Retirement Fund's Medical Consultant found that the applicant's impairment is due to diabetes and recommends that the Board interview the applicant.

Chairman San Agustin asked Dr. John Steele, Retirement Fund's Medical Consultant, to explain diabetic retinopathy. Dr. Steele stated that it is a disease of the eyes, of the retina. Dr. Steele stated that nephropathy and neuropathy are common complications of diabetes. Dr. Steele stated that the applicant is of a very young age. The applicant may need hemodialysis in the future. It is important that the applicant be seen by the Board of Trustees because of the applicant's assessment by AMA Guidelines being low. Dr. Steele stated that Dr. Santos assessed the applicant at 61% and Dr. Schroeder's assessment was 71%. Chairman San Agustin inquired about a person being legally blind. Dr. Steele stated that it is an impairment of vision. It is not a medical term, but it indicates severeness, near blindness. Dr. Steele stated that by the AMA Guidelines used, the applicant suffers near blindness in the left eye and severe vision loss on the right. By AMA Guidelines, the applicant suffers 62 to 73% impairment of the whole person with a visual system impairment rating of 70 to 89%, a functional vision score of 30 to 11 points and a profound vision loss in the range of normal vision. The application's visual acuity is 20/1000 and better. The applicant has visual fields of 6%. Dr. Steele stated that the applicant has a very high rating for vision impairment by the AMA Guidelines which is 62 to 73%. Chairman San Agustin asked whether that impairment precludes the applicant from performing his actual occupation. Dr. Steele stated that the case is before the Board for assessment of his impairment. Vice Chairman Leon Guerrero stated that Dr. Steele mentioned the young age of the applicant. Is that suggesting that the applicant's condition will improve? Dr. Steele replied, "No, it will get worse." Dr. Steele stated the applicant's age is not crucial to determining the applicant's disability. Dr. Steele stated that he could have left out the reference to the applicant's age. Chairman San Agustin stated that the GFD has indicated that the applicant can't be employed as a fire fighter. Chairman San Agustin asked what kind of job the applicant can perform with such impairment. Secretary Leon Guerrero stated that Dr. Schroeder's report states that "In terms of disability, another way of working at this is to consider what kind of work he can possibly do. Clearly, he is not fit to be a fire fighter or medic with this level of vision. In addition, most sedentary jobs require more vision that he seems capable of. I'm not sure he can even manage as a dispatcher. Unfortunately, I think his prognosis for his vision is poor." Chairman San Agustin read out loud a section of the definition of Total and Permanent Disability: *"The impairment shall be one that substantially precludes a person from performing with reasonable regularity the substantial and material parts of any gainful work or occupation that he would be competent to perform were it not for that impairment, and if founded upon condition which render it reasonably certain that it will continue indefinitely."* Chairman San Agustin stated that this is what bothers him. Secretary Leon Guerrero stated that she is concerned that

there will be a precedence set that an individual being legally blind is unemployable. Chairman San Agustin asked whether the Board is in a position to have the applicant look for another job. Dr. Steele stated that it's been left up to the applicant's department to find a suitable position. Dr. Steele stated that, in determining eligibility for disability, he does not really consider the occupation of the applicant. Dr. Steele reiterated that the applicant's condition may worsen. Chairman San Agustin stated that the applicant can't perform his duties at his current position as a fire fighter.

Dr. Steele stated that it is the Board's responsibility to make a decision on the basis of conducting an interview with the applicant. Vice Chairman Leon Guerrero pointed out that the Retirement Fund's Medical Consultant indicated that his recommendation is to have the Board interview the applicant. Secretary Leon Guerrero asked whether the applicant is present at today's meeting. Chairman San Agustin asked whether the applicant is present and that if the 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. The applicant indicated that he is not comfortable addressing the Board. Chairman San Agustin stated, for the record, that the applicant was given the opportunity to appear before the Board and the applicant indicated that he is not comfortable addressing the Board. Chairman San Agustin stated that the Board will now proceed on the merits presented. Dr. Steele stated that the two evaluations were below 61% and 71% and does not meet the criteria of 75% disability. Dr. Steele stated that he does understand why the applicant does not want to be interviewed by the Board. Chairman San Agustin stated that it is up to the applicant. We have to respect the applicant's decision.

Treasurer Cruz pointed out that, as a Fire Fighter I, the position description requires: A) Possession of a valid Emergency Medical Technician (EMT) basic certificate and B) Possession of a valid Driver's License, both of which the applicant can't obtain. Does this preclude the applicant from performing his duties as a Fire Fighter I? Chairman San Agustin stated that the applicant can't drive. Treasurer Cruz pointed out that an administrative desk job is not listed in the Fire Fighter I position description. The applicant is not trained for other positions in GFD. Secretary Leon Guerrero asked what other positions are available within GFD for someone with a vision impairment. Secretary Leon Guerrero stated that the question is whether the applicant meets the criteria of total impairment. Chairman San Agustin stated that he is bothered with the word "precludes" in the definition of Total and Permanent Disability. Chairman San Agustin reiterated that GFD has indicated that the applicant can not perform his duties.

Vice Chairman Leon Guerrero asked whether the AMA Guidelines were adopted by the Board. Chairman San Agustin replied, "Yes." Vice Chairman Leon Guerrero stated that he read the physicians' reports and concludes that the applicant can't meet the requirements of the position description of a Fire Fighter I. The physicians' assessments indicate that the applicant is not meeting the 75% disability threshold. Secretary Leon Guerrero stated that the Board is not only looking at numbers.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve full disability pension for Disability Case No. 10-013. Votes as follows: Yes Votes – Trustee George Santos, Vice Chairman Wilfred Leon Guerrero, Treasurer Gerard Cruz, Chairman Joe T. San Agustin; No Votes – Secretary Antolina Leon Guerrero. With four "Yes" votes, the motion passed. Trustees Katherine Taitano and Wilfred Aflague were absent.

DISABILITY CASE NO. 11-003

Secretary Leon Guerrero stated that the applicant is a 47 year old School Aide III with the Department of Education (DOE) with 27 years of service. The applicant applied for disability retirement on January 28, 2011 for cancer of the Nasopharyngeal, Stage IV, treated with chemotherapy, radiation and surgery. Dr. Santos examined the applicant on June 16, 2011 and Dr. Schroeder examined the applicant on June 29, 2011. The applicant completed a course of radiation, chemotherapy and surgical resection in October 2010. The applicant suffers symptoms of fatigue, weakness, shortness of breath, some unsteadiness in walking and postural hypotension. These symptoms are likely in consequence of her therapy and are likely to improve. The Retirement Fund's Medical Consultant's recommendation is for the Board to interview the applicant.

Treasurer Cruz asked whether the cancer started in the applicant's nasal. Dr. Steele stated that it started in the back of the applicant's throat. It is a common cancer that can be delayed or cured by chemotherapy and radiation of which treatments the applicant received. Dr. Steele stated that Dr. Schroeder estimated the applicant's impairment at 41%, Dr. Santos' assessment was 55% and Dr. Vincent Duenas' assessment was 34%. Dr. Steele stated that two of the applicant's disability assessments were below 50% which would be an automatic disapproval and that's the reason he recommended that the applicant be interviewed by the Board. Treasurer Cruz asked whether there are any signs of reoccurrence. Dr. Steele replied, "No signs at this time." Secretary Leon Guerrero asked whether the applicant's symptoms of fatigue will improve. Dr. Steele stated that it will improve.

At this time Chairman San Agustin asked whether the applicant is present and that if the 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. The applicant appeared before the Board and stated that her name is Rosie Concepcion. Ms. Concepcion inquired about her rating of 50%. Treasurer Cruz stated that the disability threshold is 75% impairment of the whole body by AMA Guidelines. Treasurer Cruz stated that the applicant's whole body impairment assessed by two physicians is below 50%. Ms. Concepcion asked whether an applicant assessed below 75% is ineligible for a disability pension. Treasurer Cruz stated that determination of disability is not only based on numbers, there are other factors considered. Ms. Concepcion stated that she was treated in Los Angeles for Stage IV Cancer. Ms. Concepcion stated that she loves to work but she is not able to help her fellow employees do her job. Ms. Concepcion stated that she forces herself to answer the phones even if she is in pain. Ms. Concepcion stated that she needs to go back to Los Angeles for a follow up every six months. Guam does not have the equipment available on island like a PET Scan. Ms. Concepcion stated that she has inquired about retiring with the years of service she has and was told she would retire at 36%. Ms. Concepcion stated that she wouldn't be able survive with that income. Treasurer Cruz asked the applicant when her last treatment was. Ms. Concepcion stated that her treatment was from June 22, 2010 through August 9, 2010. Treasurer Cruz asked whether the applicant is off medications. Ms. Concepcion replied, "Yes." Treasurer Cruz asked whether the applicant is getting better since her last treatment. Ms. Concepcion stated that her doctor told her to rest at least 90% of the day. Ms. Concepcion stated that she weakens easily. Treasurer Cruz asked the applicant what she would do if she stays at home. Ms. Concepcion stated that she would force herself to get up. Ms. Concepcion stated that it is easier for her to rest at anytime when she is at home. Ms. Concepcion stated that it is hard for her to rest while at work.

Secretary Leon Guerrero asked the applicant about the possibility of working for two more years in order to retire at 30 years full retirement. Ms. Concepcion stated that if she has to work to make her 30 years, she will try her best to do so. Secretary Leon Guerrero asked what the percentage for 30 years service is. Director Blas replied, "70%." Chairman San Agustin stated that the applicant had inquired about optional retirement. Chairman San Agustin pointed out that seeking disability is not a way of seeking more compensation. Secretary Leon Guerrero stated that the applicant is seeking disability because of her cancer. Ms. Concepcion stated that she is concerned of going back to Los Angeles every six months for a follow up. Ms. Concepcion thanked the Board for giving her the opportunity to address the Board.

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve full disability pension for Disability Case No. 11-003. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero; No Votes – Trustee George Santos, Vice Chairman Wilfred Leon Guerrero, Treasurer Gerard Cruz, Chairman Joe T. San Agustin. With four "No" votes, the motion failed. Trustees Katherine Taitano and Wilfred Aflague were absent.

IX. OLD BUSINESS

None

X. NEW BUSINESS

None

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

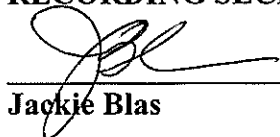
There being no further business before the Board for the Defined Benefits Plan, on motion of Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 3:04 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of August 26, 2011 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on September 30, 2011.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas