

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

BOARD OF TRUSTEES
Regular Meeting
 Friday, June 1, 2012, 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 1:07 p.m. Friday, June 1, 2012, 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 (1:32 p.m.)
 Gerard A. Cruz, Treasurer
 Wilfred G. Aflague, Trustee
 George A. Santos, Trustee

Board of Trustees Absent:

Katherine T.E. Taitano, Trustee (*Excused*)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary
 Alice Taijeron, Great-West Retirement Services

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

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

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. April 26, 2012 Regular Meeting

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of April 26, 2012 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 Paula Blas stated that the Retirement Fund continues to compile a list of deceased COLA Awardees who did not name a beneficiary, or whose beneficiary may be deceased. COLA award disbursements for these individuals will be made to their respective estates. Director Blas stated that some individuals are coming forward as beneficiaries or heirs. Treasurer Gerard Cruz asked what needs to be done. Director Blas stated that there are some heirs that are waiting on the estate. For COLA awards of less than \$20,000, they would have to fill out a small estate affidavit and for COLA awards larger than \$20,000.00 they would need to go through probate.

2. *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 May 10, 2012 were paid. The Retirement Fund continues to process retirement applications for DOE and GMHA. Director Blas stated that the reduced contributions as a result of Public Law 31-74 have been added to this account. Interest continues to be paid on this account. Director Blas stated that she is not sure whether the Retirement Fund will get paid interest for June if we get the bond proceeds on June 7, 2012. Chairman San Agustin stated that the Retirement Fund's portion is \$24.8 million. Chairman San Agustin stated that \$3 million is for fees. Director Blas stated that the bond proceeds will take care of the balance in the interest only account which consists of the outstanding obligation for DOE and GMHA as well as the reduced contribution from June to September 2011. Chairman San Agustin stated that he would like to propose that a letter be prepared to the Governor and the Speaker thanking them for paying off the outstanding balance and to prevent this from happening in the future. Chairman San Agustin stated that this effort was initiated by then Governor Felix Camacho and Senator Mark Forbes. Chairman San Agustin stated that Management should work with the Retirement Fund's Legal Counsel and Investment Consultant on drafting the letter. Chairman San Agustin asked the Board whether they have any objection on having the letter prepared for the Governor and Speaker. The Board indicated they have no objection.

3. *Guam Memorial Hospital Authority (GMHA) Outstanding Contributions* - On May 2, 2012, Judge Vernon Perez granted the Motion by GMHA to reconsider the GMHA arguments.

4. *Government of Guam Series B Bond* - Public Law 31-196 authorized a Series B Bond to be issued. The Government of Guam Series B Bond was sold on Friday, May 25, 2012. The bond was issued in two parts: \$24.1 million proceeds for the Retirement Fund was issued as taxable and the

remaining \$78.1 million was issued as tax-exempt. The Government of Guam expects to close the bond on June 6, 2012 with bond proceeds to be received by the Trustee on June 7, 2012. In accordance with Public Law 31-196, prior to any distributions the Trustee must give a 5-day payment notice to the Governor of Guam and the Speaker of the Guam Legislature from the date the proceeds are received.

5. ***Bernstein Litowitz Berger and Grossmann (BLBG)*** - Director Blas stated that BLBG's Litigation Status Report dated May 18, 2012 on the following lawsuits is provided for the Board's information. Director Blas stated that these cases are highly confidential and BLBG asked that the cases not be discussed in a public forum.

- **Lehman Brothers**
- **Genzyme Corporation**
- **Countrywide**
- **AXA Rosenberg**
- **MF Global**

Chairman San Agustin inquired about the recovery issue. Director Blas stated that at the last Board meeting, a list of proceeds that were received was provided. Now we are working on costs identified for those investments. Treasurer Cruz stated that we need an update on Countrywide and Wells Fargo. Chairman San Agustin stated that Countrywide's settlement provides for a nominal recovery of \$52,560. Director Blas stated that she will find out the actual recovery amount. Chairman San Agustin asked whether there are any investment managers with similar cases like the coding error. Maggie Ralbovsky of Wilshire Associates replied, "Not now."

6. ***Request for Proposal (RFP) - Legal Services: Portfolio Monitoring and Securities Litigation*** - Director Blas stated that evaluations for a second portfolio monitoring service are ongoing. The Selection Panel consists of Wilfred Aflague, George Santos, and Antolina Leon Guerrero.

Financial Report

1. ***Contributions*** - Director Blas stated that as of May 29, 2012, all agencies are current with their Fiscal Year 2012 employee and employer contributions.

2. ***Financial Statements*** - Director Blas stated that the books for the month ending April 2012 were closed on May 17, 2012.

3. ***Fiscal Year 2012 Retirees' Supplemental Benefits*** - Director Blas stated that supplemental benefits for retirees and survivors for the month of May 2012 were paid.

4. ***Fiscal Year 2012 Medicare Reimbursements*** - Director Blas stated that the Retirement Fund received the May 2012 allotment from the General Fund and payments were processed accordingly. Director Blas mentioned that the appropriation is running out and that it may not be enough to pay for August and September 2012.

On a separate note, Vice Chairman Wilfred Leon Guerrero inquired about the retirement benefits for the newly hired DOE Superintendent. Director Blas stated that the provision on the retirement benefits was pulled out of the contract. Vice Chairman Leon Guerrero asked what he was asking for. Director

Blas replied, "Automatic vesting into the Retirement Fund." Director Blas stated that you can not contradict the law.

Secretary Antolina Leon Guerrero joins the meeting at this time (1:32 p.m.)

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 April 30, 2012. Treasurer Cruz stated that we will see a shift in the balance sheet at the end of the month when the \$25 million bond proceeds are received. Treasurer Cruz stated that the books were closed with \$1.7 billion in net assets as of April 30, 2012.

Treasurer Cruz stated that Management is still within its existing drawdown authority. The approved drawdown is \$3.5 million through September 2012. Chairman San Agustin asked whether we are taking this as a capital gain. Treasurer Cruz replied, "Yes." Rebalancing will come from two REITs managers. Treasurer Cruz stated that this will be discussed further under the Investment Committee Report.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos presented his Committee's May 2012 report to the Board of Trustees. Vice Chairman Leon Guerrero inquired about the disability case that was tabled. Trustee Santos stated that it is still being worked on. Chairman San Agustin inquired about the number of retirees since August 2011. Trustee Santos stated that the difference is in people getting off payroll and the new retirees that are added on to the payroll roster. Trustee Santos stated that the numbers fluctuate. There were 61 retirees added to payroll through May 2012.

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 11, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of May 9, 2012 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

B. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended March 31, 2012 was held on May 30 and 31, 2012. In addition, Vice Chairman Leon Guerrero noted that, on May 31, 2012, the Investment Committee held its regular meeting for May 2012. The Committee approved the April 26, 2012 Investment Committee Minutes and the February 22 and 23, 2012 Due Diligence Meeting Minutes for the Quarter Ended December 31, 2011.

Performance for the Quarter Ended March 31, 2012 – Vice Chairman Leon Guerrero stated that Ms. Ralbovsky provided an overview of the DB Plan’s Investment Performance for the quarter ended March 31, 2012 noting the following:

1. The Retirement Fund’s total portfolio had mixed results for the quarter. All mandates, except for the REITs mandate, outperformed their respective benchmarks.
2. Overall, the Retirement Fund’s portfolio outperformed its benchmark index by 80 basis points, ranking in the 1st percentile of Wilshire’s peer group universe for the quarter.
 - Retirement Fund Return 9.66%
 - Benchmark Return 8.86%

Investment Consultant’s Manager Evaluation Summary – Ms. Ralbovsky noted that the following managers will continue to be placed on the Watch List:

- Eaton Vance
- Numeric Investors
- Franklin Templeton

Asset Allocation: Liquidations/Funding of Accounts – Ms. Ralbovsky stated that based on the current asset allocation, a rebalancing of accounts is necessary. Chairman San Agustin asked what Dimensional Fund Advisers’ (DFA) allocation is now. Controller Diana Bernardo stated that DFA is now at 3% and their allocation is at 5%. Chairman San Agustin asked how DFA is doing. Ms. Ralbovsky stated that DFA is doing quite well. Chairman San Agustin asked whether there is any risk taken. Ms. Ralbovsky replied, “Yes, but it’s worthwhile.” Treasurer Cruz inquired about the initial funding amount to Capital. Controller Bernardo stated that it is about \$50-60 million. Ms. Ralbovsky mentioned that DFA beat the benchmark by 2%. Ms. Ralbovsky stated that Capital was even with their benchmark. Vice Chairman Leon Guerrero stated that the Investment Committee recommends the following:

1. Liquidations:		
	Cornerstone	\$ 9 Million
	Security Capital	<u>10 Million</u>
	Total	\$19 Million
2. Funding of Accounts:		
	From Liquidations Above	\$19.0 Million
	From Bond Proceeds	<u>24.8 Million</u>
	Total	\$43.8 Million
	To Dimensional Fund Advisers	\$20 Million
	To Capital International	15 Million
	Reserved for Current Operations	<u>8.8 Million</u>
	Total	\$43.8 Million

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Asset Allocation as recommended by the Investment Committee. Without objection, the motion unanimously passed.

Investment Policy Statement (IPS) – Ms. Ralbovsky stated that the proposed revised version of the IPS has no substantial change. We are hoping to close the loop on the IPS. Director Blas stated that the IPS cannot contradict the statute. Chairman San Agustin asked what revisions are being made to the IPS. Treasurer Cruz stated that they are format changes. The changes are on the following:

- **Executive Summary**

Existing Version - Includes this section which appears to be a summary of a prior asset allocation study.

Proposed Version – Does not include this section.

Reason for Change – IPS does not usually include a summary of a particular asset allocation.

Ms. Ralbovsky stated that the asset allocation study is usually separate so it is being deleted from the IPS. Chairman San Agustin stated that he wants to make sure the Retirement Fund could still have an asset allocation study as often as may be determined by the Board from time to time.

- **Introduction and Purpose**

Existing Version – Fund applicable laws and background information are currently spread across several sections.

Proposed Version – Lays out all applicable laws for the Fund, and establish the context of the IPS.

Reason for Change – More concise and clear.

- **Statement of Objectives**

Existing Version – Does not currently include objectives on performance goals.

Proposed Version – Added performance objectives in addition to the existing overall philosophical objectives.

Reason for Change – More complete statement of objectives should include performance objectives.

- **Duties and Responsibilities**

Existing Version – Currently only includes duties and responsibilities of the Consultant.

Proposed Version – Includes duties and responsibilities of the Board, the Staff, the Consultant, the Managers, the Custodian, the Securities Lending Agent, and the Actuary.

Reason for Change – More complete for a guiding document of an IPS.

- **Investment Philosophy**

Existing Version – Not currently specified but some elements are in the “securities guidelines” section.

Proposed Version – Specifically stated and clarified in a separate section. This section includes statement of time Horizon, Risk Tolerance, Asset Allocation philosophy, Rebalancing, Manager Concentration limits, and Review procedure.

Reason for Change – More complete and clear statements of philosophies related to investing.

Chairman San Agustin stated that he wants to make sure it is not restricted. Ms. Ralbovsky stated that there were no substantive changes. They are just making it more concise.

- **General Investment Guidelines**
Existing Version – Currently listed in great detail what was already in the Statute or what the interpretation of the Statute might be. This may create inconsistencies with the Statute or complications if and when the Statute is later changed.
Proposed Version – Generalize all manager guidelines and refers to the Statute and separate manager guidelines files in the Appendices for details.
Reason for Change – Remove chances of inconsistencies.
- **Performance Review Policy**
Existing Version – Currently includes this information.
Proposed Version – Largely unchanged.
- **Brokerage Policy**
Existing Version – Currently includes this information. Designates 3 brokers as preferred.
Proposed Version – Changes language on transition management to include procedure of bid seeking, rather than using one of the current directed brokers.
Reason for Change – Wilshire encourages reviewing the practice of using directed brokers. Historical evidence points to it being largely counter-productive.

Ms. Ralbovsky stated that the Retirement Fund’s Legal Counsel has reviewed the proposed revisions to the IPS. Vice Chairman Leon Guerrero stated that the Investment Committee recommends approval of the IPS as revised.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the Revised Version of the Investment Policy Statement. Without objection, the motion unanimously passed.

Current Statute Governing the Retirement Fund’s Investments – Vice Chairman Leon Guerrero stated that based on Wilshire’s review of the current statute governing the Retirement Fund’s investments (4GCA Chapter 8, Article I), Ms. Ralbovsky recommended the following revisions to the statute:

Section 8154(a)

Current Statute – All corporate (or sovereign and equivalents) issued securities must be investment grade rated. The prior Board approval of February 2012 states: “All corporate (or sovereign and equivalents) issued securities, if rated by a nationally recognized rating agency as below investment grade, the aggregate of such investment may not exceed 25% of total fixed income allocation.”

Recommended Revision – Revise language to read “may not exceed 8% of total fund”.

Section 8146(b)

Current Statute – All securities of foreign issuers combined are subject to a 15% maximum limit.

Recommended Revision – All securities of foreign issuers combined shall not exceed 35% of total fund asset value.

Chairman San Agustin asked why change the limit from 15% to 35%. Ms. Ralbovsky stated that the value to the Fund is that it may potentially improve the expected return by 35 basis

points without taking any additional risk. Chairman San Agustin asked what the impact would be. Ms. Ralbovsky stated that the impact could be calculated.

Section 8157(d)

Current Statute – Total investments in Common Stocks shall not exceed 50% of total fund.

Recommended Revision – Total investments in Common Stocks shall not exceed 70% of total fund.

Chairman San Agustin asked why change the limit from 50% to 70%. Ms. Ralbovsky stated that you could have the portfolio work harder and increase potential returns. Ms. Ralbovsky stated that we could have a better chance of potentially having less contribution.

Section 8158(e)

Current Statute – All investments in commingled/mutual funds maximum is 30%.

Recommended Revision – All investments not covered by other sections of the statute, may be invested via commingled/mutual funds subject to a maximum limit of 30% of total fund.

Ms. Ralbovsky stated that this is to clarify the definition of what investment goes in this limit. Secretary Antolina Leon Guerrero asked what the problem is in the current statute. Ms. Ralbovsky stated that it treats commingled funds as an asset class. Treasurer Cruz stated that this is defined as a mandate and not a vehicle. Ms. Rosalia Bordallo, General Accounting Supervisor, stated that some of the investment vehicles that are in the asset allocation can't be purchased separately. Ms. Ralbovsky stated that she is asking to add this language to say that if it is not covered by any other statute. Chairman San Agustin suggested a simpler language by saying "Notwithstanding other investment covered by any other section of the statute." Chairman San Agustin stated that the main words are "Not Withstanding." Director Blas stated that she will have Legal Counsel review the language recommended by both Ms. Ralbovsky and Chairman San Agustin.

Vice Chairman Leon Guerrero asked whether there are any objections to Ms. Ralbovsky's recommendations and Legal Counsel's review of the proposed language. Vice Chairman Leon Guerrero stated that the Investment Committee will thereafter review the draft language. Director Blas stated that she would contact Legal Counsel regarding this.

Treasurer Gerard Cruz, seconded by Trustee Wilfred Aflague, moved to approve to accept the recommended revisions to the statute governing the Retirement Fund's investments, subject to Legal Counsel's approval of the intent. Without objection, the motion unanimously passed.

Annual Manager Review – Vice Chairman San Agustin stated that Annual Reviews were conducted for the following managers:

- Franklin Templeton
- Garcia Hamilton
- Income Research Management

Quarterly Performance Meeting for Quarter Ending June 30, 2012 – Vice Chairman Leon Guerrero informed the Board that the next Quarterly Performance meeting is scheduled for August 29 and 30, 2012.

IX. OLD BUSINESS

None

X. NEW BUSINESS

A. New Fee Disclosure Requirements

B. Wilshire 2012 Report on State Retirement Systems: Funding Levels and Asset Allocation

Chairman San Agustin stated that the two items above is provided for the Board's information.

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

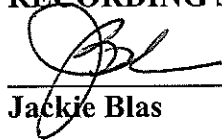
There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 2:26 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of June 1, 2012 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on June 29, 2012.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas

