



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY · SECURITY · REWARDS

**Eddie Baza Calvo**  
 Governor

**Ray Tenorio**  
 Lieutenant Governor

**Paula M. Blas**  
 Director

**BOARD OF TRUSTEES**  
**Regular Meeting**  
 Friday, August 31, 2012, 12:00 p.m.  
 Retirement Fund Conference Room

**MINUTES**

*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

**DEFINED BENEFITS**

**I. ATTENDANCE, QUORUM, AND CALL TO ORDER**

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan was called to order at 1:00 p.m. Friday, August 31, 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
- 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 Tajeron, Great-West Retirement Services

**Legal Counsel Present:**

Elyze McDonald Iriarte, Carlsmith Ball LLP (1:25 p.m.)

**Investment Consultant Present:**

Maggie Ralbovsky, Wilshire Associates

## II. REVIEW AND APPROVAL OF BOARD MINUTES

### A. July 27, 2012 Regular Meeting

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of July 27, 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. Secretary Antolina Leon Guerrero asked what the amount pending distribution is. Director Blas replied, "About \$5 Million."

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that BLBG's Litigation Status Report dated August 21, 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**
- **AXA Rosenberg**
- **MF Global**

3. *Request for Proposal (RFP) - Legal Services: Portfolio Monitoring and Securities Litigation* - Director Blas stated that discussions will be held in mid October 2012.

4. *Governor's Proposed Early Retirement and Benefits Cuts* - Director Blas stated that a copy of Bill 507-31 is attached in reference to the Governor's recent press release regarding an early retirement program and re-amortization proposal. Director Blas stated that Vice Chairman Wilfred Leon Guerrero wanted to see whether this will be discussed today to come up with a unified position. Director Blas stated that she asked the Retirement Fund's Actuary for a cost analysis of the Early Retirement Incentive Plan and the effect of the 10-Year Re-Amortization as outlined in the Omnibus Bill. Vice Chairman Leon Guerrero asked when the public hearing is going to be conducted. Director Blas stated that Vice Speaker BJ Cruz has indicated that it will be held in the latter part of September 2012. Vice Chairman Leon Guerrero stated that the Board needs to take a position on this matter. Vice Chairman Leon Guerrero stated that the Retirement Fund's Investment Consultant, Ms. Maggie Ralbovsky of Wilshire Associates, had indicated that this will eventually require the investment return to be 17%. Ms. Ralbovsky stated that it is to avoid the drawdown to the principal. The majority of benefit payments are covered by employer/employee contributions. By lengthening the amortization period the contributions will decrease and by allowing more employees to immediately retire, the benefit payments will increase. Ms. Ralbovsky stated that the combination of these two factors will

cause a cash flow issue for the Retirement Fund that will basically call for a drawdown on the principal. She cautioned to keep in mind that the Retirement Fund is underfunded. Ms. Ralbovsky stated that if you drawdown the principal and can't make it up, the principal will shrink. To protect the principal you have to make up the drawdown which is expected to be 10%. Chairman San Agustin asked whether we need to generate at least a 17% return. Ms. Ralbovsky replied, "Yes."

Vice Chairman Leon Guerrero asked whether Director Blas is preparing a testimony. Chairman San Agustin stated that Director Blas, Ms. Ralbovsky, Rich Wright, and Legal Counsel should be working on the Board's position. Vice Chairman Leon Guerrero stated that he is concerned the public hearing will be conducted before the next Board meeting. Chairman San Agustin stated that we could call a Special Board meeting to review the testimony. Director Blas stated that she would like to confirm whether the Board of Trustees has a unified position. Secretary Leon Guerrero stated that the Retirement Fund met with BBMR and the Governor's representatives and they have asked about the Board's position on this. Secretary Leon Guerrero stated that those present explained that the Board has considered a longer re-amortization period and did not think that it was a wise choice as it was not going to protect the Retirement Fund. Secretary Leon Guerrero added that even in the testimony on the Hybrid Plan there was a discussion on this. Secretary Leon Guerrero stated that the Board needs to reaffirm the Board's position for Director Blas so she can prepare the testimony that the early out and the re-amortization are not good for the Retirement Fund.

Director Blas stated that BBMR's testimony submitted to the Legislature on the Hybrid Plan indicated a change in the re-amortization from 5 to 10 years but with a temporary 4-year period for the 10-year re-amortization. Treasurer Gerard Cruz asked what the contribution rate would go down to. Director Blas replied, "26% for the year 2025." Director Blas stated that it will then go back up to 28%. In the year 2016, the contribution rate will go back up to 25.18%, in 2017 it will go down to 25.15%, and in 2018 it will go back up to 28.29%. Treasurer Cruz stated that we are trying to cut through a short-term period, but if the plan for reduction is to correct the structural imbalance then a short-term relief does not achieve that. Trustee Katherine Taitano stated that it will actually help in the long run. Chairman San Agustin stated that the Administration is probably asking which is more important - the Retirement Fund's Hybrid Plan or their proposal. Can the Hybrid Plan be held back so they could push their proposal? Secretary Leon Guerrero stated that she thinks there is a gain to be made by the government if they allow the Hybrid Plan to go forward. Secretary Leon Guerrero stated that there is some relief with the 5-year re-amortization. Treasurer Cruz stated that there will be about 200 basis points of savings. Director Blas stated that because of the timing of when they are going to report out the Hybrid and the public hearing on the 10-year re-amortization and the early retirement, it is overlapping and if the Governor vetoes it they may consider implementing a five-year re-amortization. With this in mind, does the Board want to push back on this without the Hybrid? Director Blas stated that the Retirement Fund was considering a 5-year re-amortization as part of the Hybrid proposal. Treasurer Cruz suggested the status quo.

Chairman San Agustin recommended having Management prepare a position paper. Vice-Chairman Leon Guerrero asked when the Governor expects to start making these savings. Director Blas stated that the Governor is looking at October 1, 2012 for his cost-reduction plan to take effect. Secretary Leon Guerrero stated that they met and talked about what the Retirement Fund thinks about the re-amortization and if the Retirement Fund could go out 10 years. Vice Chairman Leon Guerrero stated that he senses that the Retirement Fund may go to court on this. Chairman San Agustin asked whether the FY2013 Budget Bill was signed. Secretary Leon Guerrero stated that it was just transmitted to the

Governor today and he has ten days to sign. Secretary Leon Guerrero stated that based on Vice Chairman Leon Guerrero's statement and the consensus of the Board members, the Retirement Fund's testimony would be to oppose the Omnibus Bill. Rosalia Bordallo, General Accounting Supervisor, stated that Vice Speaker Cruz had stated that each section of the Omnibus Bill will have to go through a public hearing. Chairman San Agustin recommended waiting for the FY2013 Budget Bill to be passed and for Management to prepare testimony in opposition of the Omnibus Bill. Director Blas stated that she will draft testimony in opposition of Bill 507-31. Chairman San Agustin stated that if the Governor vetoes the bill it will automatically go to second reading without a public hearing.

On a separate matter, Trustee Aflague asked whether the health insurance rebates are for active employees only. Director Blas stated that it also applies to retirees.

***Legal Counsel Elyze McDonald Iriarte joins the meeting at this time (1:25 p.m.)***

**Financial Report**

1. ***Contributions*** - Director Blas stated that as of August 28, 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 July 2012 were closed on August 15, 2012.
3. ***Fiscal Year 2012 Retirees' Supplemental Benefits*** - Director Blas stated that supplemental benefits for retirees and survivors for the month of August 2012 were paid.
4. ***Fiscal Year 2012 Medicare Reimbursements*** - Director Blas stated that payments were processed up to July 2012. Based on the increased enrollment in the Medicare Reimbursement Program, the Retirement Fund experienced a shortfall of approximately \$223,000 for Fiscal Year 2012. Director Blas stated that Management is working with the Legislature to provide the supplemental funding for Fiscal Year 2012 to pay for August and September.

**VI. LEGAL COUNSEL'S REPORT**

***Chairman San Agustin excused himself from the meeting at this time (1:30 p.m.)***

**Resolution No. 2012-01** - Legal Counsel Elyze McDonald Iriarte stated that there was a letter to the editor in yesterday's newspaper from Joe Guthrie calling for the Chairman to step down and be replaced. Legal Counsel Iriarte stated that she was assigned to draft a resolution for the Board's consideration as to the actions of the Chairman with respect to three items mentioned in the letter: 1) support of the Health Insurance Bailout Agreement of 2011; 2) support of Bill 453-31 creating the Hybrid Plan; and 3) the floor Amendment to the 2012 Budget Bill which increased benefits for survivors. Legal Counsel Iriarte stated that the resolution justifies some of the actions taken both by the Board and the Chairman. Legal Counsel Iriarte stated that Chairman San Agustin recused himself from this discussion so that the Board does not feel pressured. Legal Counsel Iriarte stated that the Chairman indicated yesterday that should the Board not agree with his actions he is willing to resign. Legal Counsel Iriarte stated that she is not sure whether the Chairman meant that he will resign as Chairman or resign from the Board. Trustee Wilfred Aflague asked whether the Board has the authority to ask the Chairman to step down. Legal Counsel Iriarte stated that the Chairman

volunteered to resign if the Board is not in agreement of his actions. Vice Chairman Leon Guerrero stated that it is unusual that Legal Counsel Iriarte is chairing this discussion. Legal Counsel Iriarte stated that she is making a report under Legal Counsel's Report.

Legal Counsel Iriarte deferred discussion to Acting Chairman Leon Guerrero. Acting Chairman Leon Guerrero stated that this item is not in today's meeting agenda. Director Blas stated that it is part of the Legal Counsel's Report on the agenda. Trustee Aflague asked whether the Board had requested the Chairman to step down. Legal Counsel Iriarte stated that the Chairman indicated that if the Board is not in agreement with his actions, he will step down. Trustee Aflague stated, for the record, that he was not in agreement with one of his actions but, that does not give him enough reason to ask the Chairman to step down. Secretary Leon Guerrero stated that she agrees with Trustee Aflague, and stated that the Board each has their own opinion and ideas on how things should be approached. Secretary Leon Guerrero stated that she does not think Mr. Guthrie should drive this Board one way or the other to have to pass a resolution in defense of our Chairman. Secretary Leon Guerrero stated that this Board's intention is to protect the Retirement Fund and its members. Secretary Leon Guerrero stated that she does not have any issues with the Chairman and does not want Mr. Guthrie to dictate to the Board as to what to do.

Legal Counsel Iriarte stated that the position Mr. Guthrie takes are issues that he has raised in motions or will be raising in motions in Court. Legal Counsel Iriarte stated that she is prepared to respond to each of those issues mentioned. Legal Counsel Iriarte stated that what is being done today is pursuant to Chairman San Agustin's request to prepare the resolution for the Board to consider. Trustee Aflague suggested leaving the "fight" in Court with Legal Counsel to represent the Board. Acting Chairman Leon Guerrero stated that he does not think that a letter to the editor should dictate the actions of the Board. Acting Chairman Leon Guerrero stated that, as far as he knows, none of the Trustees are looking for the Chairman's resignation. Secretary Leon Guerrero stated that the Chairman's thinking is that he does not want to put the Board in a bad situation. Trustee Katherine Taitano stated that none of the Trustees are being coerced into not responding to something just because he agrees with it or it is his position.

Trustee Taitano stated that she has no problem with how the Board goes through the process. Trustee Taitano asked the Board whether they need the resolution because she doesn't. Trustee George Santos stated that based on everything that was said he would like for the Board to tell the Chairman that the Board is not looking for his resignation and to assure him that the Board is supporting him as Chairman but that the Board does not agree that the Board needs to respond to every criticism given to any member of the Board. Trustee Santos stated that he appreciates his chairmanship and what he does out of the Board is his prerogative. He does not think the Board needs to be bound to a resolution in response to an editorial. Let the courts decide on whether the Board has fulfilled its fiduciary responsibility. Treasurer Cruz stated that he agrees with everything said. Secretary Leon Guerrero stated that the Board agrees that there is no need for this resolution. Acting Chairman Leon Guerrero stated that the Board should continue with Chairman San Agustin's leadership as agreed by the Board members.

***Chairman San Agustin returns to the meeting room at this time (1:45 p.m.)***

Vice Chairman Leon Guerrero informed Chairman San Agustin that with regards to the discussion regarding proposed Resolution No. 2012-01, the Board of Trustees were very supportive of his leadership and would like for him to continue with his leadership. The Board does not agree with responding to a letter to an editor. There is no action taken on the resolution. Chairman San Agustin asked whether the Board is saying that the resolution is being withdrawn and there is no need to address the public characterization challenging the credibility of the Chairman in public. Trustee Aflague stated that the Board has decided that the resolution is not necessary to respond to any letter to the editor.

Legal Counsel Iriarte provided an update on the status of current litigation involving the Retirement Fund.

***Tenorio vs. Guam Memorial Hospital Authority (GMHA)*** - Legal Counsel Iriarte reported that this case has been fully dismissed.

***Bautista and Guthrie Case vs. Perez, et al.*** – Legal Counsel Iriarte stated that the Court has decided not to rule on certain motions. It is up to Mr. Guthrie to push the Court to do so. We are still waiting for the Court to give us directions on the four pending motions. The four motions are: 1) Motion for an Enforcement Order, 2) Supplemental Motion to Enforcement Order, 3) Increase in Survivor Benefits, and 4) Reimbursement of Attorney's Fees. Legal Counsel Iriarte stated that the Court has indicated not to have it briefed. We are waiting to confirm whether to have it briefed and if it is without oral argument. Legal Counsel Iriarte stated that she has not submitted their opposition.

***Jane Story vs. Government of Guam Retirement Fund*** – Legal Counsel Iriarte stated that the Motion for Summary Judgment is still pending. The Court has 90 days to make a decision. Legal Counsel Iriarte pointed out that this case has been pending for 3 years.

***Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA)*** – Legal Counsel Iriarte stated that this is still ongoing but, there will be a Motion to Dismiss filed because of the payment made by GMHA.

## **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, 2012. Treasurer Cruz noted that there are no receivables other than the prior years' receivables. The Supplemental/COLA benefits receivable is \$61 Million. Treasurer Cruz stated that the Retirement Fund's portfolio balances continue to grow. Chairman San Agustin asked whether the percentage of drawdowns is increasing. Treasurer Cruz stated that it decreased from last year due to the receipt of bond proceeds.

## **VIII. STANDING COMMITTEE REPORTS**

### **A. Members and Benefits Committee**

Trustee Santos presented his Committee's August 2012 report to the Board of Trustees. Trustee Santos pointed out that the M&B Committee is starting a new calendar year. The majority of the Committee members have been here since 2006. The active DB membership has been reduced by 1,700 over the past 7 years. The DB retirees increased by a few hundred on to payroll. The number of members leaving the DB Plan to the DC Plan has decreased and are being replaced by new retirees which reflects that the DB Plan has not grown although the expenses have grown.

**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 14, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of August 8, 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 June 30, 2012 was held on August 29, 30, and 31, 2012. Vice Chairman Leon Guerrero noted that the Investment Committee meeting was also held on August 31, 2012.

Vice Chairman Leon Guerrero stated that the Retirement Fund's portfolio is \$1.35 Billion as of August 27, 2012.

#### **Performance for the Quarter Ended June 30, 2012**

Vice Chairman Leon Guerrero stated that Ms. Ralbovsky provided an overview of the DB Plan's Investment Performance for the Quarter Ended June 30, 2012 noting the following:

- The Retirement Fund's total portfolio underperformed its benchmark index by 71 basis points ranking at the 64<sup>th</sup> percentile of Wilshire's peer group universe for the quarter.

#### **Investment Consultant's Manager Evaluation Summary**

Ms. Ralbovsky stated that the following managers will continue to be placed on the Watch List:

- Eaton Vance (placed on watch through September 2013)
- Numeric Investors (placed on watch through December 2012)
- Franklin Templeton (placed on open-ended watch)

### **Domestic Small Cap Equity**

Ms. Ralbovsky stated that the Investment Committee's recommendation is to revise the current maximum holding limit of \$3 Billion market cap to the largest holding in the Russell 2000 market cap.

**Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation to revise the \$3 Billion Maximum Holding Limit to be the largest holding of the Russell 2000. Without objection, the motion unanimously passed.**

### **Draft Bill to Amend Investment Statute**

Vice Chairman Leon Guerrero stated that Ms. Ralbovsky discussed the draft bill to amend the investment statute based on the recommendations approved by the Board at their June 1, 2012 Board meeting. Vice Chairman Leon Guerrero stated that the proposed legislation was drafted by the Retirement Fund's Legal Counsel and Investment Consultant. Director Blas stated that the amendment to the statute is to bring it up to date. Vice Chairman Leon Guerrero stated that the Investment Committee's recommendation is to approve the draft legislation subject to corrections and revisions to the minimum requirements.

**Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation to amend the Investment Statute subject to corrections and revisions. Without objection, the motion unanimously passed.**

### **Annual Manager Review**

Vice Chairman Leon Guerrero stated that the Annual Reviews were conducted for the following managers:

- Cornerstone
- Security Capital
- Numeric
- Eaton Vance

### **Minutes**

Vice Chairman Leon Guerrero stated that the Committee reviewed and approved the Investment Committee Minutes of July 27, 2012 and the May 30, and 31, 2012 Due Diligence Meeting Minutes for the Quarter Ended March 31, 2012.

### **Quarterly Performance Meeting for Quarter Ending September 30, 2012**

Vice Chairman Leon Guerrero stated that the next Quarterly Performance meeting is scheduled for November 28, and 29, 2012. Vice Chairman Leon Guerrero stated that he asked Ms. Ralbovsky to make a presentation on Securities Lending and Directed Brokerage at that time.



**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 Wilfred Aflague, seconded by Trustee George Santos, and without objection, the meeting was adjourned at 2:15 p.m. Motion unanimously passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of August 31, 2012 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on September 28, 2012.**



**ANTOLINA S. LEON GUERRERO, Board Secretary**

**RECORDING SECRETARY:**



**Jackie Blas**