



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

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

Gerard A. Cruz
 Treasurer
 Audit & Operations Committee,
 Chairman

George A. Santos
 Members' & Benefits Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

BOARD OF TRUSTEES
Regular Meeting
 Friday, November 30, 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 12:45 p.m. Friday, November 30, 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
 Gerard A. Cruz, Treasurer
 George A. Santos, Trustee
 Katherine T.E. Taitano, Trustee

Board of Trustees Absent: Antolina S. Leon Guerrero, Secretary (*Excused*)

Staff Present:
 Paula Blas, Director
 Jackie Blas, Recording Secretary
 Alice Taijeron, Great-West Retirement Services

Investment Consultant Present:
 Maggie Ralbovsky, Wilshire Associates

Public Present:
 Ken Quintanilla, KUAM

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. October 26, 2012 Regular Meeting

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of October 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 work on the 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. Treasurer Gerard Cruz inquired about the balance. Director Blas stated that it is about \$3 Million. Treasurer Cruz asked whether interest continues to accrue. Director Blas stated that interest accrual ceased as of September 30, 2011 for those Awardees/Beneficiaries who are deceased and whose beneficiaries have not been located or identified. Vice Chairman Wilfred Leon Guerrero asked where the cash is at. Director Blas stated that it is General Fund money.

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that BLBG's Litigation Status Report dated November 20, 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**

Director Blas stated that Rosalia Bordallo, General Accounting Supervisor, is still working on the numbers of the actual costs and recovery.

3. *Request for Proposal (RFP) - Legal Services: Portfolio Monitoring and Securities Litigation*

- Director Blas stated that the Selection Panel consists of George Santos, Antolina Leon Guerrero, and Katherine Taitano. The Selection Panel will meet in December 2012. Trustee Santos stated that it is an on-going process.

4. *Bill 507-31: Governor's Proposed Early Retirement and Benefits Cuts* – Director Blas stated that Bill 507-31 has not been placed on the Legislative Session Agenda.

5. *Board of Trustees Election* – Director Blas stated that Trustee Wilfred Aflague's term expired on November 13, 2012 creating an active member Trustee vacancy. The Retirement Fund Board shall

select an interim member to fill the vacancy until a new active member Trustee is elected. Director Blas stated that the Retirement Fund is currently working with the Guam Election Commission to hold the Board of Trustee's election which is scheduled for Saturday, February 2, 2013 at the Retirement Fund to fill the one (1) active member vacancy for the remaining term of Trustee Aflague's Office, which is approximately 16 months. Vice Chairman Leon Guerrero inquired about the candidate packet. Director Blas stated that candidates interested in the Trustee Office can start picking up a Candidate Packet from the Guam Election Commission. Director Blas stated that the Notice of Election is in today's Pacific Daily News and it will also be published on Saturday, December 1, 2012.

Vice Chairman Leon Guerrero stated that after the September Board meeting he encouraged Mr. David O'Brien to submit his letter of interest as an Interim Trustee. Vice Chairman Leon Guerrero stated that he would appreciate it if Director Blas would send a letter to Mr. O'Brien explaining the current process. Director Blas stated that she spoke to Mr. O'Brien this morning informing him of the election process. Vice Chairman Leon Guerrero inquired about the number of signatures required. Director Blas stated that it is 150 signatures of active members that are eligible to vote. Vice Chairman Leon Guerrero inquired about an interim appointment. Director Blas stated that it is only if there is no candidate interested or eligible to run. Director Blas stated that the Rules and Regulations read differently. There was a misinterpretation of the way the law read. The Retirement Fund's Legal Counsel's interpretation is that an interim appointment is made only if there is no interested or eligible candidate to run.

Financial Report

1. **Contributions** - Director Blas stated that as of November 27, 2012, all agencies are current with their Fiscal Year 2013 employee and employer contributions.

2. **Financial Statements** - Director Blas stated that the books for Fiscal Year ending September 30, 2012 were closed on November 23, 2012.

3. **Fiscal Year 2013 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of November 2012 were paid.

4. **Fiscal Year 2013 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the November 2012 allotment from the General Fund and reimbursements 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 September 30, 2012.

Treasurer Cruz stated that the Retirement Fund is still within its drawdown authority and will not be requesting for an amendment on the drawdown schedule provided that contributions come in on time.

Treasurer Cruz stated that the total principal drawdown for Fiscal Year 2012 was less than expected. The total principal drawdown was \$20,500,000 which is \$9 Million less than Fiscal Year 2011. Trustee Santos inquired about the total drawdown of \$51 Million in Fiscal Year 2012 and \$62 Million in Fiscal Year 2011. Director Blas stated that in 2012 the bond proceeds of about \$20 Million were received, which helped reduce the need to drawdown. Treasurer Cruz stated that the dividends and the interest received had a lot to do with the decrease in drawdowns.

Chairman San Agustin stated that the dividend decreased. Treasurer Cruz stated that there was an increase in contributions from the bond proceeds. Director Blas stated that there was an increase of \$26 Million. Chairman San Agustin asked what the total assets are now. Trustee Santos replied, "\$1.4 Billion." Director Blas stated that it is \$1.7 Million for both plans as of September 30, 2012. Treasurer Cruz stated that the investment portfolio as of September 30, 2012 was \$1.419 Billion. Treasurer Cruz stated that the Retirement Fund took receivables and made them into invested assets. Chairman San Agustin asked whether the Retirement Fund is drawing on capital gains. Treasurer Cruz replied, "Yes." Chairman San Agustin stated that the bottom line is that the drawdowns are minimal. Maggie Ralbovsky, Wilshire Associates, stated that if Bill 507-31 is passed as written, that will obviously change.

Vice Chairman Leon Guerrero inquired about the COLA benefits receivable. Treasurer Cruz stated that back in the late 1990's, the Retirement Fund was asked to pick up and fund the supplemental and COLA benefits and it is from Fiscal Years 1998 through 2002. Vice Chairman Leon Guerrero asked why it is still being carried. Director Blas stated that it is still being paid. Director Blas stated that it was funded by a "Budget Act." Vice Chairman Leon Guerrero asked whether they are paying interest. Director Blas replied, "No."

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's November 2012 report to the Board of Trustees. Trustee Santos reported that there are 70 new retirees and/or survivors being finalized.

Treasurer Cruz asked whether the Retirement Fund has a Medical Consultant on board. Director Blas stated that the Medical Consultant Services RFP closes today. There are still no responses to the RFP.

Treasurer Cruz asked whether there will come a point when all the DB members will have retired. Trustee Santos stated that there will be a point because there are only 3,100 DB members left. Treasurer Cruz asked whether it will be only the DC member payroll funding the unfunded. Trustee Santos replied, "Pretty much." Director Blas stated that it will be no different if you fund a DB or DC member because it is the same contribution rate.

Trustee George Santos, seconded by Trustee Katherine Taitano, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 24, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of November 21, 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 September 30, 2012 was held on November 28, and 29, 2012. Vice Chairman Leon Guerrero noted that the Investment Committee Meeting was also held on November 29, 2012. The Committee reviewed and approved the Investment Committee Minutes of October 25, 2012.

Performance for the Quarter Ended September 30, 2012

Ms. Ralbovsky provided an overview of the DB Plan's Investment Performance for the Quarter Ended September 30, 2012 noting the following:

- For the Quarter Ended September 30, 2012, the Retirement Fund's portfolio outperformed its benchmark index by 41 basis points ranking at the 50th percentile of Wilshire's peer group universe for the quarter.
 - Retirement Fund Return 4.77%
 - Benchmark Return 4.36%
- For the Fiscal Year Ended September 30, 2012, the Retirement Fund's portfolio outperformed its benchmark index by 29 basis points, ranking at the 13th percentile of Wilshire's peer group universe for the fiscal year.
 - Retirement Fund Return 20.10%
 - Benchmark Return 19.81%

Investment Consultant's Manager Evaluation Summary

Ms. Ralbovsky stated that the Investment Committee recommends the following:

- **Keeping** Eaton Vance and Franklin Templeton on the Watch List.
- **Removing** Numeric Investors from the Watch List.
- **Placing** Intech on the Watch List.

Treasurer Cruz inquired about Franklin Templeton's performance. Ms. Ralbovsky stated that Franklin Templeton outperformed. For the past 10 years, Franklin Templeton was under the benchmark.

Chairman San Agustin, referring to the chart on the wall, stated that the 2012 return equals the 1995 return. This will blow up the chart. Ms. Ralbovsky stated the goal is to smooth out the valley on that chart. Ms. Ralbovsky stated that Risk Parity is a very important concept that she would like to introduce to the Board. Treasurer Cruz asked whether it will be a drag if the market did well having a portion of the portfolio in Risk Parity. Ms. Ralbovsky replied, "No." Ms. Ralbovsky stated that AQR did much better than the S&P500 last year because of Risk Parity. Treasurer Cruz stated that his understanding of Risk Parity is that it smoothes out the volatility, but during really good equity markets, it will be a drag on returns. Ms. Ralbovsky replied, "Not necessarily." Treasurer Cruz asked how you would change the portfolio to do that. Ms. Ralbovsky stated that we would like to allocate a portion of the equity portfolio into Risk Parity. The Risk Parity strategy tends to have a 10% target volatility. Ms. Ralbovsky stated that Risk Parity is a very complicated concept and she would like to use a different time be more detailed.

Vice Chairman Leon Guerrero inquired about the Retirement Fund's ranking. Ms. Ralbovsky stated that the Retirement Fund was in the 13th percentile in the past year and in the 50th percentile for the quarter. Vice Chairman Leon Guerrero asked how is it compared to other returns. Ms. Ralbovsky stated that it depends on the period. Vice Chairman Leon Guerrero stated that we had a 20% return for the year and in the 13th percentile. Ms. Ralbovsky replied, "That is correct." Chairman San Agustin asked how you would sustain that. Ms. Ralbovsky replied, "Risk Parity." Ms. Ralbovsky stated that you have to use leverage for Risk Parity. Ms. Ralbovsky stated that our return is a function of the market. Vice Chairman Leon Guerrero stated that the fact that we are in the 13th percentile suggests that we are doing better than the average guy. Director Blas stated that the Retirement Fund was in the 68th percentile in the last 10 years, 18th percentile in the last 5 years, 31st percentile in the last 3 years, 51st percentile in the last two years and in the 13th percentile in Fiscal Year 2012. Ms. Ralbovsky stated that she had previously provided a universe comparison chart of the S&P 500 and it has a 95% correlation in terms of the percentile ranking. Treasurer Cruz asked how you would balance risk with a portfolio that is heavily weighted in equity. Ms. Ralbovsky stated that there are four categories of risk: 1) growth risk which is equity, 2) credit which has a correlation with equity, 3) commodities, and 4) leverage.

Director Blas stated that there is a need for a more extensive discussion on Risk Parity. Ms. Ralbovsky stated that she will discuss this topic in detail at the next Due Diligence Meeting.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve to keep Eaton Vance and Franklin Templeton on the Watch List; to remove Numeric Investors from the Watch List; and to place Intech on the Watch List. Without objection, the motion unanimously passed.

Security Capital – Request to Amend Investment Guideline Cash Limit

Ms. Ralbovsky stated that Security Capital requested by letter dated September 27, 2012, an amendment to the existing Investment Management Agreement to include a provision for the holding and management of cash. Specifically, to hold up to 20% of the account value in cash.

Ms. Ralbovsky stated that the Investment Committee's recommendation is to authorize Security Capital to hold up to 15% of the account value in cash.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation to authorize Security Capital to be hold up to 15% of the account value in cash. Without objection, the motion unanimously passed.

Directed Brokerage/Commission Recapture Program

Ms. Ralbovsky provided a discussion regarding the Directed Brokerage/Commission Recapture Program, noting the following:

- Studies have shown that the use of such program:
 - Potentially compromises best execution when directing trades to a recapture broker.
 - Encounters shrinking opportunity given shrinking commissions overall, and the rise of collective funds.

- Retirement Fund historically designated the following four brokerage firms as “designated brokers:”
 - BNY ConvergeEx Group
 - Capital Institutional Services Inc.
 - Knight Capital Group
 - Rochdale Securities LLC

As recommended by Wilshire, the Investment Committee recommends:

- Formally discontinuing this program.
- Revising the Retirement Fund’s Investment Policy Statement to eliminate the Directed Brokerage section.
- Managers will be instructed to comply with only “best execution.”

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee’s recommendation to formally discontinue the Directed Brokerage/Commission Recapture Program; revise the Retirement Fund’s Investment Policy Statement to eliminate the Directed Brokerage Section; and that the Managers will be instructed to comply with only “Best Execution.” Without objection, the motion unanimously passed.

Domestic Small Cap Equity

Ms. Ralbovsky stated that the Board, in their regular meeting on August 31, 2012, approved the revising of the definition of small cap, from the \$3 Billion Maximum Holding Limit to the largest holding in the Russell 2000 market cap. Ms. Ralbovsky stated that she presented the proposal language provided by Eaton Vance, for the index definition.

Ms. Ralbovsky stated that the Investment Committee recommends accepting the proposed language provided by Eaton Vance for the index definition.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee’s recommendation accepting the proposed language provided by Eaton Vance for the index definition. Without objection, the motion unanimously passed.

Draft Bill to Amend Investment Statute

Ms. Ralbovsky stated that the Investment Committee asked Management to obtain a section by section legal analysis of the proposed amendments. Chairman San Agustin suggested submitting the proposed bill as soon as possible so that it could be one of the first bills introduced by the 32nd Guam Legislature. Director Blas stated that she communicated with Legal Counsel Joanne Grimes this morning regarding this matter.

Annual Manager Review

Ms. Ralbovsky stated that the Annual Reviews were conducted for the following managers:

- Intech
- Winslow
- Robeco

- Metropolitan West

Quarterly Performance Meeting for Quarter Ending December 31, 2012

Vice Chairman Leon Guerrero stated that the next Quarterly Performance meeting is scheduled for February 20-22, 2013.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to accept the Investment Committee Report. Without objection, the motion unanimously passed.

IX. TRAVEL REPORT

A. Trustee George Santos and Director Paula Blas: IFEBP 58th Annual Employee Benefits Conference – November 12-14, 2012, San Diego, California

Chairman San Agustin stated that Trustee Santos and Director Blas have submitted their trip report, for the Board's information, on the IFEBP 58th Annual Employee Benefits Conference they attended on November 12-14, 2012 in San Diego, California.

B. Treasurer Gerard Cruz: AIF Training Program and APAFS 12th Annual Pacific Region Investment Conference – November 13-16, 2012, Manila, Philippines

Chairman San Agustin stated that Treasurer Cruz has submitted his trip report, for the Board's information, on the Accredited Investment Fiduciary Training Program and the Asia Pacific Association for Fiduciary Studies 12th Annual Pacific Region Investment Conference he attended on November 13-16, 2012 in Manila, Philippines.

C. Rosalia Bordallo, General Accounting Supervisor: APAFS 12th Annual Pacific Region Investment Conference – November 15-16, 2012, Manila, Philippines

Chairman San Agustin stated that Ms. Bordallo has submitted her trip report, for the Board's information, on the Asia Pacific Association for Fiduciary Studies 12th Annual Pacific Region Investment Conference she attended on November 15-16, 2012 in Manila, Philippines.

X. OLD BUSINESS

None

XI. NEW BUSINESS

A. Government of Guam Group Life Insurance Repatriation Benefits

The item above was not discussed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 2:25 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of November 30, 2012 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on December 28, 2012.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas