



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, January 31, 2014, 12:30 p.m.
 Retirement Fund Conference Room

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

Katherine T.E. Taitano
 Trustee

James R.F. Duenas
 Trustee

David M. O'Brien
 Trustee

MINUTES

DEFINED CONTRIBUTIONS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contribution Plan was called to order at 12:48 p.m. Friday, January 31, 2014, 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
 James R.F. Duenas, Trustee
 David M. O'Brien, 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 Tajjeron, Director, Client Relations & Plan Counseling, Great-West Financial

Investment Consultant Present:

Terry Dennison, Mercer Investment Consulting, Inc.

Public Present:

John Borne, Vice President, Government Markets & Client Relations, Great-West Financial, West Region
 Tom Budinger, Adelante Capital Management USA
 Christian Cristobal, Senator Ben Pangelinan's Office

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 20, 2013 Regular Meeting

Chairman San Agustin inquired about the status of Bill 245-32. Director Paula Blas stated that Bill 245 was moved to the third reading file. Treasurer Gerard Cruz asked whether there are any amendments. Chairman San Agustin stated that the amendments are included.

On motion of Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of December 20, 2013 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. *Defined Benefit (DB)/Defined Contribution (DC) Plan Alternatives* - Director Blas stated that Senator Ben Pangelinan requested for current data and cost estimates of options he is considering. Milliman provided two draft responses on the estimated cost of the proposed Hybrid Plans, and the comparison of Social Security and DC Plan with the Hybrid Plans. Chairman San Agustin suggested having a working session to review the responses. Director Blas suggested having it on Tuesday or Wednesday next week at 1:30 p.m. The Board agreed to have it on Wednesday, February 5, 2014 at 1:30 p.m. Treasurer Cruz asked whether Rich Wright from Milliman would join the working session via a conference call. Director Blas replied, "Yes." Secretary Antolina Leon Guerrero asked whether the Public Auditor would be invited. Director Blas replied, "Yes."

2. *Standard Insurance* – Director Blas stated that Standard Insurance provides a Group Long Term Disability (LTD) and Group Survivor Death Life Insurance (Life) to DC Plan active participants. The premiums are funded by the Government of Guam. As of December 31, 2013, there are approximately 7,900 DC covered participants. The Fiscal Year 2014 insurance premiums per participants are as follows:

- \$14.27 per pay period (\$370.89 annually) Group Long Term Disability
- \$4.75 per pay period (\$123.37 annually) Group Survivor Death Life Insurance

Director Blas stated that during the December 2013 Board meeting, Chairman San Agustin inquired about the status of participants on Disability, and whether there are any statistical reports. Copies of summary reports were provided for the Board's review. The reports include participants currently on disability, participants whose disability payments terminated in 2013, and claims filed between 2012 and January 2014 which were approved, denied, pending or incomplete. Secretary Leon Guerrero asked whether the reports are provided upon request. Director Blas stated that the reports are provided on a monthly basis. The premium statistics are provided on a yearly basis. Trustee David O'Brien observed that Standard acts on the applications in a timely basis. The average turnaround time is about three months. Treasurer Cruz stated that the applications are submitted on a timely basis if all the required documents are complete. Chairman San Agustin stated that Standard should have an office

on-island to expedite the application process. Trustee O'Brien stated that there are only 65 cases and it would be hard to justify setting up an office on-island. Director Blas stated that Standard took over the Group Life Insurance for Government of Guam. Director Blas reiterated that Standard provides LTD and Life only to active DC participants. Director Blas stated that she will check with the Department of Administration during the Health Insurance Negotiations and explore the possibility of having an on-island office or representative.

Financial Report

1. **Contributions** - Director Blas stated that as of January 28, 2014, all agencies are current with their Fiscal Year 2014 employee and employer contributions.

2. **Financial Statements** - Director Blas stated that the books for the month ending November 2013 were closed on January 17, 2014.

3. **Fiscal Year 2013 Audit** - Director Blas stated that the audit for the Fiscal Year Ending September 30, 2013 is ongoing. The final audit reports are scheduled to be issued no later than February 28, 2014.

VI. THIRD PARTY ADMINISTRATOR'S REPORT

A. Contribution Report – December 2013

Director Blas stated that Alice Taijeron, Director, Client Relations & Plan Counseling, Great-West Financial (Great-West) provided the TPA Report for the month ending December 31, 2013 on the DC Retirement System 401(a) Plan and the 457 Deferred Compensation Plan.

Ms. Taijeron stated that the 401(a) Plan had total assets of \$359,142,883.76. There was an increase in assets of \$8,244,725.79 or 2.35% over the prior month, and a market growth of 1% from November to December 2013. The market growth from January to December 2013 is 16%. The 457 Plan had total assets of \$35,153,667.18. There was an increase in assets of \$798,335.85 or 2.32%, and a market growth of 1% from November to December 2013. The market growth from January to December 2013 is 23%. The total combined assets were \$394,296,550.94. There was an increase in combined assets of \$9,043,061.64. The market growth from November to December 2013 is 2% and 16% from January to December 2013.

Ms. Taijeron stated that the 401(a) Plan had total contributions of \$4,361,856.09. There was an increase in contributions of \$2,199,576.35 or 101.72%. The 457 Plan had total contributions of \$401,405.95. There was an increase in contributions of \$66,589.22 or 20%. The total combined contribution was \$4,763,262.04. There was an increase in combined contributions of \$2,266,165.57 or 10%.

Chairman San Agustin asked what caused the increase and whether the increase will reduce the drawdown for DB annuities. Rosalia Bordallo, General Accounting Supervisor, replied, "Yes, and the increase was due to retroactive payments made to uniform personnel." Trustee James Duenas stated that he is concerned about not receiving the Government share for those years for the DB Plan. Director Blas stated that it is applied to the years earned. Ms. Bordallo stated that the Retirement Fund is taking a loss for no compensation. The law is based on when it is paid. Director Blas stated that it is applied to the annual salary. Trustee Duenas stated that it will hurt the Retirement Fund. Chairman

San Agustin stated that we could off-set it. Director Blas stated that the harm comes in when the employees come in to retire. Trustee Duenas asked whether it is considered late. Director Blas stated that in actuality it is late. Trustee O'Brien stated that the Retirement Fund does have an economic loss. Chairman San Agustin asked Director Blas to check on the opportunity loss. Director Blas stated that she will check on it. Vice Chairman Wilfred Leon Guerrero suggested having Mr. Wright report on the impact.

Treasurer Gerard Cruz, seconded by Trustee James Duenas, moved to accept the Third Party Administrator's Report. Without objection, the motion unanimously passed.

VII. INVESTMENT COMMITTEE REPORT

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended December 31, 2013 was held on January 30, 2014. Vice Chairman Leon Guerrero noted that the Investment Committee Meeting was also held on January 30, 2014. The Committee reviewed and approved the Investment Committee Minutes of December 13, 2013.

1. Quarterly Performance

Vice Chairman Leon Guerrero stated that Mr. Terry Dennison, Mercer Investment Consulting, Inc., provided an overview of the DC Plan's Investment Performance for the Quarter Ended December 31, 2013, noting the following:

- a. BlackRock Life Path Funds** – Mr. Dennison recommended continuing to monitor BlackRock Life Path Funds. Their performance is improving and approaching their standards.
- b. Thornburg International Value Fund** – Mr. Dennison stated that during the October 2013 Performance Meeting, Mercer was directed to perform a search for the replacement of the Thornburg International Value Fund. This was discussed with the Investment Committee. Mr. Dennison stated that there are four candidates from the search. Mr. Dennison stated that based on the results of the search report, the Investment Committee recommends:
 1. Replacing the Thornburg International Value Fund with the Transamerica International Equity Fund I; and
 2. That the Retirement Fund Management work with Great-West to determine "an implicit expense ratio to replace the revenue sharing component" of the Thornburg International Value Fund.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept the Investment Committee's recommendation to replace the Thornburg International Value Fund with the Transamerica International Equity Fund I and for Retirement Fund Management to work with Great-West Financial to determine an implicit expense ratio to replace the revenue sharing component of the Thornburg International Value Fund. Without objection, the motion unanimously passed.

c. ***Dreyfus/Standish Global Fixed Income Fund I*** – Mr. Dennison stated that in December 2013, Management received a Proxy from Dreyfus, the current DC Mutual Fund Vendor for the Global Fixed Income mandate. The proposal was forwarded to Mercer for review.

1. Based on a review by Mr. Dennison, it was determined that Dreyfus' proposal would dramatically modify the current investment guidelines.
2. The risk of such a proposal is that the make-up of the fund could change from its current allocation in a manner that existing investors did not contemplate.

Mr. Dennison stated that based on the above, the Investment Committee recommends that the Board:

- a. Vote not to accept Dreyfus' recommendation to approve the proposed change; and
- b. Put Dreyfus "on watch," pending the outcome of the vote.

Mr. Dennison stated that Dreyfus's issue is not performance. The Investment Guidelines would be modified if the proposed changes is approved. Information will be provided on a quarterly basis from Great-West on the nature of the Fund.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept the Investment Committee's recommendation to place Dreyfus on the Watch List and not to accept any proposed changes. Without objection, the motion unanimously passed.

2. ***Proxy Voting***

Mr. Dennison stated that the DC Plan Investment Policy Statement (IPS) be amended to include Proxy Voting, with proxies to be voted in the best interest of the Retirement Fund members. Mr. Dennison stated that the Investment Committee recommends that all future proxies received by the Retirement Fund be handled as follows:

- a. Proxies received will be forwarded to the Investment Consultant for review and recommendation.
- b. The Investment Consultant's recommendation will be forwarded to the Investment Committee and the Board for final disposition.

Vice Chairman Wilfred Leon Guerrero, seconded by Trustee James Duenas, moved to accept the Investment Committee's recommendation to forward all Proxies received to the Retirement Fund's Investment Consultant for review and recommendation. The Investment Consultant's recommendation will be forwarded to the Investment Committee and the Board for final disposition. Without objection, the motion unanimously passed.

3. ***Assignment of Advisory Agreement Between the Retirement Fund and Advised Assets Group, LLC (the "Adviser")***

Mr. Dennison stated that in a letter dated December 16, 2013, the Retirement Fund was notified that:

1. The Adviser is owned by Power Corporation of Canada.

2. A change in the ultimate control of Power Corporation of Canada resulted when voting securities held directly or indirectly by Paul G. Desmarais were transferred to The Desmarais Family Residuary Trust, upon his passing on October 8, 2013.
3. Under the Investment Advisers Act of 1940, such change may be deemed to have resulted in a technical “assignment” of the Agreement, requiring the Retirement Fund’s consent to such assignment.
4. As per the Adviser, 1) the assignment has no effect on the terms of the Agreement, and 2) the assignment is not expected to have any effect on the management or policies of the Adviser, or result in any change in the nature, level, or quality of services provided under the Agreement.

Mr. Dennison stated that based on the above, the Investment Committee recommends that the Board consent to the technical assignment of the Agreement and continuation of the Agreement in accordance with its existing terms. Vice Chairman Leon Guerrero stated that the Investment Committee agrees that the agreement is still in tack.

Treasurer Gerard Cruz, seconded by Trustee James Duenas, moved to accept the Investment Committee’s recommendation to consent to the technical assignment of the Agreement and continuation of the Agreement in accordance with its existing terms. Without objection, the motion unanimously passed.

4. Default Fund

Secretary Leon Guerrero inquired about changing the default from BlackRock to Great-West Secured Foundation. Treasurer Cruz stated that the superior option will be to recommend the change on behalf of the participants. Trustee O’Brien stated that he is concerned of the timing of the recommendation. Trustee O’Brien stated that he thought the M&B Committee was going to look at it. Mr. Dennison asked how often is it defaulting to a default. Ms. Taijeron stated that it is common. Director Blas stated that the participants have the option to opt-out.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to send the recommendation to change the default fund to the M&B Committee for further review. Without objection, the motion unanimously passed.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero informed the Board that the next Quarterly Performance Meeting is tentatively scheduled for April 24, 2014.

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

VIII. OLD BUSINESS

None

IX. NEW BUSINESS

None

X. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XI. ANNOUNCEMENTS

None

XII. ADJOURNMENT

There being no further business before the Board for the Defined Contribution Plan, on motion of Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 1:30 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of January 31, 2014 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 28, 2014.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas