



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, February 22, 2013, 12:00 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

George A. Santos
 Members' & Benefits Committee,
 Chairman

Katherine T.E. Taitano
 Trustee

James R.F. Duenas
 Trustee

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 12:37 p.m. Friday, February 22, 2013, in the Retirement Fund Conference Room. Acting Chairman Wilfred Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Vice Chairman
 Antolina S. Leon Guerrero, Secretary
 Gerard A. Cruz, Treasurer
 Katherine T.E. Taitano, Trustee
 James R.F. Duenas, Trustee (1:04 p.m.)

Board of Trustees Absent:

Joe T. San Agustin, Chairman (*Excused*)
 George A. Santos, 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

Legal Counsel Present:

Vince Camacho, Carlsmith Ball LLP

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

Public Present:

Dave Burger, Burger & Comer
 Kent Morris, Western Region Vice President, Great-West Financial Services
 Ricky Hernandez, Senator Ben Pangelinan's Office

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 25, 2013 Regular Meeting

On motion of Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of January 25, 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. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)* -

Director Paula Blas stated that the Retirement Fund maintains 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 there are about 400 deceased awardees on the list. It is a slow process, but the list is slowly decreasing. Treasurer Gerard Cruz inquired about the balance of the COLA award. Director Blas stated that the balance is \$4.9 Million. Treasurer Cruz asked whether interest is still being paid. Director Blas stated that interest accrual ceased as of September 30, 2011.

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that BLBG's Litigation Status Report dated February 17, 2013 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**

Secretary Antolina Leon Guerrero asked whether BLBG has provided the numbers requested. Director Blas stated that she has not received the information requested.

3. *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 George Santos, Antolina Leon Guerrero, and Katherine Taitano. Director Blas stated that Trustee George Santos will call a meeting with the Selection Panel next month. Treasurer Cruz stated that he does not see a disadvantage of having two (2) portfolio monitoring services.

4. **Board of Trustees Election** – Director Blas stated that James R.F. Duenas was certified as the newly elected Active Member Trustee on February 2, 2013 to fill the unexpired term of Mr. Wilfred Aflague. The oath of office was administered by Chief Justice Philip Carbullido on February 14, 2013.

Financial Report

1. **Contributions** - Director Blas stated that as of February 19, 2013, all agencies are current with their Fiscal Year 2013 employee and employer contributions.
2. **Financial Statements** - Director Blas stated that the books for the month ending January 2013 will be closed next week.
3. **Fiscal Year 2013 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of February 2013 will be paid at the end of the month.
4. **Fiscal Year 2013 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the February 2013 allotment from the General Fund and reimbursements were processed accordingly. Rosalia Bordallo, General Accounting Supervisor, stated that 90% of the reimbursements have already been mailed out.
5. **Fiscal Year 2012 Audit** - Director Blas stated that the audit for Fiscal Year ending September 30, 2012 is completed. Final audit reports are scheduled to be issued no later than February 28, 2013.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

A. Fiscal Year 2012 Audit

Treasurer Cruz stated that a copy of the Retirement Fund's Financial Statements, Independent Auditors' Report and Management's Discussion and Analysis for the period September 30, 2012 and 2011 are provided for the Board's review. A copy of the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards is also provided.

Treasurer Cruz opened the floor to Dave Burger of Burger & Comer. Mr. Burger thanked Management and Staff of the Retirement Fund for preparing the Management's Discussion and Analysis (MD&A), the financial statements, footnotes to the financial statements, and all supporting schedules.

Mr. Burger reported that performance was well above average in Fiscal Year 2012 and there is no compliance issue. Mr. Burger stated that they tested the Defined Contribution (DC) Plan contributions on how the earnings are distributed to participants. Mr. Burger stated that the Governmental Accounting Standards Board (GASB) has recently issued Statement 68, Accounting and Financial Reporting for Pensions. The implementation of this statement will have an impact on the financial statements of the various Government of Guam agencies. Mr. Burger stated that previously, the various Government of Guam agencies were reporting a liability on their financial statements for the

difference between the actuarially calculated contributions and the actual contributions made. A few years ago, the agencies removed such liabilities and simply disclosed them in the footnotes to the financial statements. Mr. Burger stated that the Retirement Fund always maintained that a liability existed that should be reflected on the financial statements. Mr. Burger stated that he met with the Office of Public Accountability (OPA) when the issue came up a few years ago. Mr. Burger stated that Government of Guam agencies will have a very large unfunded liability for Fiscal Years 2014 and 2015. There will be a huge deficit which is noted on the Management Letter and footnotes.

Acting Chairman Leon Guerrero inquired about the \$1.6 Billion unfunded liability. Mr. Burger stated that it is 70% unfunded. It was 43% funded at the last actuarial valuation. The unfunded liability is now \$1.64 Billion. Treasurer Cruz stated that it is a component of the contribution rate, returns, and benefit payouts. Treasurer Cruz stated that it is an impact to the security ratio. There was a severe market decline in the last ten (10) years. Treasurer Cruz stated that it is not fully funded by the Legislature.

Acting Chairman Leon Guerrero stated that the size of the portfolio was \$1.2 Billion since he has been on the Retirement Fund Board. Treasurer Cruz stated that it is because employees are retiring and there are less employees contributing. Treasurer Cruz stated that once we are fully funded, it will be normal cost. The sooner we do it the better we are. Once it is paid off, the full 20% will be used for payroll. Mr. Burger stated that in 2012, there was a \$50 Million gap on contributions over annuities. The annuity payments continue to exceed contributions.

Mr. Burger inquired about the OPA's questions. Controller Diana Bernardo stated that she has responded to the OPA's questions. Controller Bernardo stated that if the Board approves the audit report, it will be issued next week. Treasurer Cruz mentioned that the proposed Hybrid Plan Legislation is included in the MD&A, specifically on transitioning to Social Security, combining the DC Plan with a Social Security Component, offering a Hybrid Plan, and the rationale of the DC Plan.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to approve the Retirement Fund's Fiscal Year 2012 Audit Report and Management's Discussion and Analysis. Without objection, the motion unanimously passed.

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 December 31, 2012. Treasurer Cruz stated that the Retirement Fund's net asset is \$1.443 Billion. There is still a \$56 Million balance on the prior year receivables on supplemental and COLA benefits.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Katherine Taitano presented the M&B Committee's February 2013 report to the Board of Trustees. Treasurer Cruz asked whether there are any pending disability cases. Secretary Leon Guerrero stated that there are two (2) disability cases in process. Treasurer Cruz inquired about the status of the Medical Consulting Services RFP. Secretary Leon Guerrero stated that there were two (2) proposals received and that we could probably get both.

Trustee Katherine Taitano, seconded by Secretary Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 12, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of February 6, 2013 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

Trustee James Duenas joins the meeting at this time (1:04 p.m.)

B. Investment Committee

Treasurer Cruz reported that the Quarterly Performance Meeting for the Quarter Ended December 31, 2012 was held on February 20, and 21, 2013. Treasurer Cruz noted that the Investment Committee Meeting was also held on February 21, 2013. Treasurer Cruz turned the floor over to Maggie Ralbovsky of Wilshire Associates.

Performance for the Quarter Ended December 31, 2012

Ms. Ralbovsky provided an overview of the DB Plan's Investment Performance noting the following:

- For the Quarter Ended December 31, 2012, the Retirement Fund's portfolio outperformed its benchmark index by 27 basis points, ranking at the 31st percentile of Wilshire's peer group universe for the quarter. The Retirement Fund's return was 2.03% for the quarter ended December 31, 2012 and a 3% return for January 2013. The benchmark return was 1.76% at December 31, 2012.

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** Intech from the Watch List.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to approve the removal of Intech from the Watch List. Without objection, the motion unanimously passed.

Annual Manager Review

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

- Capital International
- Dimensional Fund Advisors
- Fisher Investments
- Earnest Partners

Ms. Ralbovsky stated that the Committee met with the International Managers. It was very productive and there was a good discussion on strategy. Acting Chairman Leon Guerrero inquired about the funds filling up. Ms. Ralbovsky stated that it's Risk Parity. It was a new concept in 2005. The seven-year record for the first group of managers has been good. Most new managers have not established a good track record yet. Ms. Ralbovsky stated that we need to push the bill forward to revise the statute. Director Blas stated that it addresses everything. Treasurer Cruz asked whether it will peel away the proposed allocation of 10%. Ms. Ralbovsky replied, "Yes." Ms. Ralbovsky stated that she will update her analysis. Treasurer Cruz stated that he would like to know about improving returns. Ms. Ralbovsky stated that she will do that. Acting Chairman Leon Guerrero stated that he is not sure whether the bill will go through. Acting Chairman Leon Guerrero stated that he would like to find out what Chairman Joe T. San Agustin's reservations are before sending it to the Legislature. Director Blas stated that she will meet with Chairman San Agustin regarding his reservations so it could be addressed. Ms. Ralbovsky stated that she is not sure why timing would be an issue. Treasurer Cruz stated that the need for cost-savings is immediate. Ms. Ralbovsky stated that she may come back to Guam in mid March. Director Blas stated that once she meets with Chairman San Agustin and addresses his concerns, she will transmit the bill to the Legislature. Acting Chairman Leon Guerrero stated that he is concerned of the window closing. Treasurer Cruz stated that the proposed legislation will clean it up. Acting Chairman Leon Guerrero stated that he will also meet with Chairman San Agustin to move this forward.

Quarterly Performance Meeting for Quarter Ending March 31, 2013

Treasurer Cruz informed the Board that the next quarterly performance meeting is scheduled for May 29-30, 2013.

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 Secretary Antolina Leon Guerrero, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 1:18 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 22, 2013 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on April 1, 2013.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas