



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, November 22, 2013, 12:30 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

Katherine T.E. Taitano
 Trustee

James R.F. Duenas
 Trustee

David M. O'Brien
 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 1:10 p.m. Friday, November 22, 2013, 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
 Jackie Blas, Recording Secretary
 Alice Taijeron, Great-West Retirement Services
 Peter Duenas, Acting Benefit Program Administrator
 Jackie Sablan & Lena Sanchez, Benefit Specialist II

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

Public Present:

Christian Cristobal, Senator Ben Pangelinan's Office

II. REVIEW AND APPROVAL OF BOARD MINUTES

- A. October 31, 2013 Regular Meeting**
- B. November 4, 2013 Reconvened Meeting**

On motion of Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of October 31, 2013 Regular Meeting and the Minutes of November 4, 2013 Reconvened 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.

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that BLBG's Litigation Status Report dated November 19, 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**
- **MF Global**
- **Invacare Corporation**

Director Blas stated that the Retirement Fund was appointed to serve as Lead Plaintiff in the Invacare Corporation case. Treasurer Gerard Cruz inquired about the Invacare case. Secretary Antolina Leon Guerrero stated that Invacare withheld information. Secretary Leon Guerrero asked whether the Retirement Fund needs a third monitoring service in light of Northern Trust's services. Treasurer Cruz clarified that Northern Trust does not provide monitoring services for the Retirement Fund but rather files on behalf of the Fund when a class action has been settled and distributions are to be made.

3. *Legislative Bills/Public Laws*

- **Bill 170-32 – Relative to the Investment Sections of the Defined Benefits (DB) Plans of the Government of Guam Retirement Fund**

Director Blas stated that Bill 170-32 was passed by the Legislature and transmitted to the Governor on November 15, 2013 for signature. The Governor has until Tuesday, November 26, 2013, to sign or veto the bill. Chairman San Agustin stated that an amendment was made by Senator Michael San Nicolas. Chairman San Agustin stated that he spoke to Senator Ben Pangelinan and he said that Senator San Nicolas made a recommendation on the floor. Director Blas stated that the amendment was made when the Retirement Fund Board was in a meeting. Director Blas stated that Legal Counsel

is concerned that provisions were added without consultation to the Retirement Fund given the impact of the Retirement Fund's obligations to comply with the requirements. Chairman San Agustin stated that the bill was amended at Committee level. Chairman San Agustin stated that there is a concern related to brokers. Secretary Leon Guerrero stated the concern is whether the Investment Managers are Financial Industry Regulatory Authority (FINRA) and Security and Exchange Commission (SEC) members. Secretary Leon Guerrero stated that the Retirement Fund does not hire brokers. We hire Investment Managers and they are not FINRA members. Director Blas stated that it is not applicable. Maggie Ralbovsky of Wilshire Associates stated that this is something that is subject to interpretation. Trustee David O'Brien suggested having Legal Counsel Joanne Grimes meet with the Governor's Legal Counsel. Secretary Leon Guerrero asked if it is simpler to repeal the section that was amended. Chairman San Agustin stated there is too much invested on this bill. The Chair suggested letting the bill pass and then repealing the section in question with proper justification. Trustee O'Brien suggested asking Legal Counsel's opinion on whether to have the bill pass. Secretary Leon Guerrero suggested having Director Blas speak to Legal Counsel with Ms. Ralbovsky and then communicating with the Governor's office. Director Blas stated that she will provide Legal Counsel Grimes with the different scenarios. Chairman San Agustin stated that the Board's position is to have the bill pass then repeal the section in question.

4. *Director and Officers (D&O) Liability Insurance* - Director Blas stated that additional information is pending from the underwriters. The Retirement Fund's D&O policy will expire on May 3, 2014. An Invitation for Bid (IFB) will be issued in early February 2014 to provide a continuation of coverage. The inclusion of the recommended changes in the amount of coverage will be addressed at that time. Trustee O'Brien inquired about the current coverage. Director Blas stated that the current coverage is \$2 Million and the recommended change is to increase coverage to \$9 Million. Director Blas asked whether the Board wants to wait until February and do a new policy. Director Blas stated that the IFB is open to everyone. Director Blas stated that any changes will require a re-bid.

Financial Report

1. *Contributions* - Director Blas stated that as of November 19, 2013, 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 September 30, 2013 are scheduled to be closed by December 6, 2013.

3. *Fiscal Year 2014 Retirees' Supplemental Benefits* - Director Blas stated that supplemental benefits for retirees and survivors for the month of November 2013 will be paid at the end of the month.

4. *Fiscal Year 2014 Medicare Reimbursements* - Director Blas stated that the Retirement Fund received the November 2013 allotment from the General Fund and reimbursements were processed accordingly. Director Blas stated that the Medicare Reimbursement now includes premium for Medicare Part D effective October 1, 2013. Vice Chairman Wilfred Leon Guerrero asked whether the premium increased. Director Blas stated that it will increase in January 2014.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Cruz stated that the cash flow is provided at this meeting. Treasurer Cruz stated that the drawdown authorization is still within its existing schedule.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Secretary Leon Guerrero presented the Committee's November 2013 report to the Board of Trustees. Chairman San Agustin inquired about DC disability cases. Director Blas stated that they are handled directly by Standard Insurance. Chairman San Agustin requested for a status from Standard on pending disability applications. Director Blas stated that she will get the information requested.

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 16, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of November 13, 2013 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

DISABILITY CASE NO. 13-003

Secretary Leon Guerrero stated that the applicant is a 43 year old Environmental Health Specialist Supervisor at the Department of Public Health & Social Services with almost 19 years of service. The applicant applied for disability on March 12, 2013. The reason for application is Diabetic Retinopathy, Legally Blind, DM Type II, Diabetic Neuropathy, Coronary Artery Disease, Hypertension, Hyperlipidemia, and Hyperuricemia. The applicant was examined by Dr. Patrick Santos on August 20, 2013 and Dr. Fred Schroeder on August 27, 2013. Secretary Leon Guerrero stated that the two physicians indicated that the impairment does preclude the applicant from working. Secretary Leon Guerrero stated that the Retirement Fund's Medical Consultant finds the applicant impaired by a number of diagnoses and symptoms and considers a full disability pension is appropriate for this applicant.

At this time Chairman San Agustin asked whether the applicant is present noting that if the applicant would like to address the Board, he/she would have to waive his/her right to the privacy of his/her medical records and he/she must state his/her name for the record. Chairman San Agustin indicated that no one came forward.

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept the Retirement Fund's Medical Consultant's findings and recommendation that a full disability pension is appropriate and to approve a full disability pension for Disability Case No. 13-003. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Vice Chairman Wilfred Leon Guerrero, Trustee David O'Brien, Trustee James Duenas, Treasurer Gerard Cruz, Chairman Joe San Agustin. With six "Yes" votes, the motion unanimously passed. Trustee Katherine Taitano was absent.

DISABILITY CASE NO. 13-005

Secretary Leon Guerrero stated that the applicant is a 46 year old Teacher who is employed with the Department of Education with 22 years of service. The applicant applied for disability on February 13, 2013. The reason for application is End Stage Renal Disease, High Blood Pressure, partially Blind in Left Eye, and Leg Cramps. The applicant was examined by Dr. Patrick Santos on September 20, 2013 and Dr. Fred Schroeder on October 7, 2013. Secretary Leon Guerrero stated that the two physicians indicated that the impairment does preclude the applicant from working. Secretary Leon Guerrero stated that the Retirement Fund's Medical Consultant finds the applicant impaired by a number of diagnoses and symptoms and considers a full disability pension is appropriate for this applicant.

At this time Chairman San Agustin asked whether the applicant is present noting that if the applicant would like to address the Board, he/she would have to waive his/her right to the privacy of his/her medical records and he/she must state his/her name for the record. Chairman San Agustin indicated that no one came forward.

Secretary Antolina Leon Guerrero, seconded by Trustee James Duenas, moved to accept the Retirement Fund's Medical Consultant's findings and recommendation that a full disability pension is appropriate and to approve a full disability pension for Disability Case No. 13-005. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Vice Chairman Wilfred Leon Guerrero, Trustee David O'Brien, Trustee James Duenas, Treasurer Gerard Cruz, Chairman Joe San Agustin. With six "Yes" votes, the motion unanimously passed. Trustee Katherine Taitano was absent.

Chairman San Agustin stated that he is concerned that the disability application process takes a long time. Chairman San Agustin stated that he would like to shorten the time of the application process. Vice Chairman Leon Guerrero stated that he shares the Chairman's concern, but with one case the Medical Consultant's recommendation was to wait for one year for the applicant to reapply. It is not always a bureaucratic problem. Chairman San Agustin stated that someone called the radio station complaining that the process is taking too long. Secretary Leon Guerrero suggested that a status of applications be prepared for the M&B Committee's review.

B. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended September 30, 2013 was held on November 20, and 21, 2013. The Regular Investment Committee Meeting was held on November 21, 2013. The Committee reviewed and approved the Investment Committee Minutes of October 30, 2013.

Bill 170-32 – Changes to DB Plan Investment Statutes - Ms. Ralbovsky compared the Retirement Fund's current asset allocation to three (3) target portfolio allocations. After discussions with the Investment Committee, Ms. Ralbovsky recommended, upon the enactment of Bill 170-32 into law, to implement Portfolio A over a 5-Step process.

Ms. Ralbovsky further noted that, if Bill 170-32 is enacted into law, the Committee recommends:

1. Accepting Wilshire's recommendation to implement Portfolio A over a period of time in 5 steps,
2. Amending the Investment Policy Statement to reflect changes in the law and the strategic allocation;
3. Issuing the following Request for Proposals (RFPs) to accomplish Step 1:
 - a. RFP for Core Bonds,
 - b. RFP for Core and Opportunistic High Yield Bonds,
 - c. RFP for Global REITs

Ms. Ralbovsky stated that we cannot get to Portfolio A in one step, so she is proposing a 5 Step process. Step 1 will be close to the current allocation, and future steps are subject to further discussion. Vice Chairman Leon Guerrero stated that he recommends Portfolio A. Chairman San Agustin asked what the expected return is. Treasurer Cruz stated that it is 7.1%. Ms. Ralbovsky stated we are chasing the current Retirement Fund target return of 6.4% to 7.1%; if we do not make the 7.1% return the unfunded liability will increase. Chairman San Agustin asked if we will exceed the actuarial return. Ms. Ralbovsky replied, "No, we will meet the actuarial rate." Trustee O'Brien stated that the current return does not meet the actuarial rate. Ms. Ralbovsky stated that it will be fully funded in 2028.

Treasurer Cruz asked whether we will begin funding new managers to include High Yield and REITS. Ms. Ralbovsky stated yes to include High Yield, the current managers invest in high grade. Treasurer Cruz inquired about the allocation. Ms. Ralbovsky stated that it is currently approximately \$120 Million. Chairman San Agustin inquired about percentage. Ms. Ralbovsky stated that it is 8%. Ms. Ralbovsky stated that the proposal is to move from U.S. REITs to Global REITs. Ms. Ralbovsky stated that the RFP would require the following categories: 1) Core High Yield, and 2) Opportunistic High Yield Managers. Chairman San Agustin asked Ms. Ralbovsky to explain High Yield. According to Ms. Ralbovsky they are fixed income securities which are not investment grade rated. There are two different types, Core High Yield and Opportunistic High Yield, which should compliment each other.

Treasurer Gerard Cruz, seconded by Vice Chairman Wilfred Leon Guerrero, moved to accept Wilshire's recommendation to implement Portfolio A over a period time in five (5) steps, subject to passage of Bill 170-32. Without objection, the motion unanimously passed.

Treasurer Gerard Cruz, seconded by Trustee James Duenas, moved to accept Wilshire's recommendation to amend the Investment Policy Statement to reflect the passage of Bill 170-32. Without objection, the motion unanimously passed.

Treasurer Gerard Cruz, seconded by Trustee James Duenas, moved to accept Wilshire's recommendation to perform searches necessary to accomplish Step 1 High Yield and Global REITs. Without objection, the motion unanimously passed.

Target Allocation - Vice Chairman Leon Guerrero stated that the Investment Committee reviewed the current asset allocations noting that the allocation to fixed income is below the minimum target of 25%. Ms. Ralbovsky stated that, given the possible changes to the asset allocation if Bill 170-32 is enacted, the Investment Committee recommends remaining at status quo. No changes will be made at this time.

Northern Trust - Vice Chairman Leon Guerrero stated that Robert Ernst and Bradley Blackwell of Northern Trust provided: 1) an overview of the services provided to the Retirement Fund, 2) other securities lending collateral options for the Investment Committee's consideration, and 3) a discussion of compliance monitoring services also offered by Northern Trust. Controller Bernardo stated that she will provide Northern Trust with the Investment Policy Statement regarding compliance monitoring for Northern Trust to provide a quote. Ms. Ralbovsky stated that, given the possible changes to the asset allocations if Bill 170-32 is enacted, the Investment Committee recommends remaining at status quo for both securities lending and compliance monitoring services. No changes will be made at this time.

Fiscal Year 2013 Performance - Ms. Ralbovsky provided an overview of the DB Plan's Investment Performance noting that for the Quarter and Fiscal Year Ended September 30, 2013, the Retirement Fund's portfolio outperformed its benchmark index, ranking at the 24th and 26th percentile of Wilshire's peer group universe for the quarter and the fiscal year, respectively. The Retirement Fund's return for the quarter was 5.52% and 14.36 for the fiscal year. The benchmark return for the quarter was 4.86% and 12.55% for the fiscal year.

Watch List - Ms. Ralbovsky stated that she recommends keeping Eaton Vance and Franklin Templeton on the Watch List.

Annual Reviews - Ms. Ralbovsky stated that annual reviews were conducted with Robeco and Intech. Ms. Ralbovsky stated that no issues emerged from the meeting.

Next Quarterly Performance Meeting - Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting for the Quarter Ending December 31, 2013 is tentatively scheduled for February 26, and 27, 2014.

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

IX. TRAVEL REPORT

- A. Vice Chairman Wilfred P. Leon Guerrero: APAFS 13th Annual Pacific Region Investment Conference – November 7-8, 2013, Manila, Philippines**
- B. Secretary Antolina S. Leon Guerrero: Mercer's Global Investment Forums – October 21-22, 2013, Vancouver, Canada**
- C. Trustee James R.F. Duenas: IFEBP New Trustees Institute and IFEBP 59th Annual Employee Benefits Conference – October 19-23, 2013, Las Vegas, Nevada**

Chairman San Agustin stated that Vice Chairman Wilfred Leon Guerrero, Secretary Antolina Leon Guerrero, and Trustee James Duenas submitted their travel report for the Board's information on the conference they attended.

X. OLD BUSINESS

None

XI. NEW BUSINESS

A. Policy Advising Services for Pension Reform Issues

Director Blas stated that this item was discussed in the DC meeting.

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 Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 2:52 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of November 22, 2013 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on December 20, 2013.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas