



GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

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Lieutenant Governor

Paula M. Blas
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Wilfred P. Leon Guerrero, Ed.D.
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Investment Committee, Chairman

Antolina S. Leon Guerrero
Secretary

Gerard A. Cruz
Treasurer
Audit & Operations Committee,
Chairman

(Vacant)
Members' & Benefits Committee,
Chairman

Katherine T.E. Taitano
Trustee

James R.F. Duenas
Trustee

**INVESTMENT COMMITTEE MEETING
DEFINED CONTRIBUTION PLAN**

Thursday, July 25, 2013

Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 1:40 p.m. Thursday, July 25, 2013, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Chairman
James R.F. Duenas, Trustee

Staff Present:

Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Alice Tajeron, Great-West Retirement Services

Investment Consultant Present:

Terry Dennison, Mercer Investment Consulting, Inc.

II. ACTION ITEMS

- 1. March 8, 2013 Regular Investment Committee Meeting Minutes**
- 2. April 25, 2013 Regular Investment Committee Meeting Minutes**
- 3. May 30, 2013 Regular Investment Committee Meeting Minutes**
- 4. June 14, 2013 Regular Investment Committee Meeting Minutes**
- 5. April 25, 2013 Due Diligence Meeting for the Quarter Ended March 31, 2013 Minutes**

A motion was made by Committee Member James Duenas, seconded by Committee Chairman Wilfred Leon Guerrero , to approve the minutes of March 8, 2013, April 25, 2013, May 30, 2013, and June 14, 2013 Regular Investment Committee Meetings and the April 25, 2013 Due Diligence Meeting, subject to technical corrections. Without objection, the motion was passed.

III. OPEN ITEMS

None

IV. NEW BUSINESS

- 1. Mutual Fund 12b-1 Fees**

Alice Taijeron, Great-West Retirement Services (Great-West), stated that she was asked to do a comparison of revenue loss should the Retirement Fund move from its current fund to a lower share class fund. A breakdown of investments as of June 30, 2013 was provided. The potential revenue loss is approximately 93%. Controller Diana Bernardo stated that the percentages are similar to what Mercer Investment Consulting, Inc. (Mercer) has on Page 12 of their report. Chairman Leon Guerrero asked why the Retirement Fund would not want to move to a lower share class fund. Rosalia Bordallo, General Accounting Supervisor, stated that the Retirement Fund would need to pay their expenses. Controller Bernardo stated that we are now getting about \$1 Million from it and it is being used to pay our administrative fees including the Third Party Administrator expenses. Controller Bernardo stated that the question is whether the administrative fees should be paid with the 12b-1 Fees. Terry Dennison of Mercer stated that in some cases the plan sponsor pays for everything. In other cases they have a per participant charge. Mr. Dennison stated that the problem with charging for it is you get into an equity issue. Mr. Dennison stated that if you need to subsidize the plan and get the lowest fees for the participants, then everyone needs to pay. If the Government of Guam can't fund everything, it's perfectly reasonable to charge the participants.

Mr. Dennison stated that he would go with the lowest possible share class which produces almost nothing. You would make up the difference needed with a head tax per quarter for every participant account plus 2 basis points. This would be as fair as you can make it. Everyone contributes something including the people who are invested in the Index Fund. Mrs. Bordallo stated that the participants used to be charged \$52.00 a year. Trustee James Duenas stated that if moving to a lower share class is more expensive than what we have now and not paying for anything, but yet we have the money to pay the expenses, then it would be better not to move. Mr. Dennison stated that there are all sorts of issues about fees because it is a direct tax. For example, if the Retirement Fund moves to a lower share class for the BlackRock funds, they will look better because the 35 basis points compounded will put

BlackRock up to where they will look a lot better. Mr. Dennison stated that he thinks the issue is equity because of the sensible decision to map everyone unless they took affirmative action into the Target Date funds, you have a perverse situation because most of the money is in a high share class fund. Mr. Dennison stated that the money we are losing will go to the participants. It would be fair to pay it with a head tax plus maybe a 2 basis point administrative fee. Ms. Tajeron stated that it was done before at a flat rate. Mr. Dennison stated that this would be partly flat and partly asset based. Trustee Duenas asked what happens if the amount of money that the participants gain is less than the amount of money we are spending, Mr. Dennison stated that we could device a formula to make it exactly the same. Mr. Dennison stated that you can't make it neutral for every participant because what each participant pays depends on what there are invested in. In the aggregate the participants pay the same amount. Chairman Leon Guerrero stated that, from what he is hearing, there are some participants that are not paying a fee. Ms. Tajeron stated that 69-70% of the participants are paying a fee.

Trustee Duenas stated that he is trying to figure out whether it will be more beneficial to the participants to move to a lower share class. Mr. Dennison stated that the participants were paying 85% and now they are paying 50%. The participants were getting 40% and now they are getting 35%, therefore the participants as a group are losing 5 basis points by going to the cheapest share class. Mr. Dennison stated that if you go with the model of getting the cheapest share class you can get and then getting the million by levying a per participant charge plus an asset based fee to make the million, you will have made the plan fairer. Chairman Leon Guerrero asked why the formula was changed. Mrs. Bordallo stated that when the new contract was signed, the fees for Great-West decreased as a whole. Now the 12b-1 fee is able to cover all the fees. Mrs. Bordallo stated that the Retirement Fund did not need to use the per participant charge.

Mr. Dennison stated that Mercer's recommendation has been to get the cheaper share class. It is easier to defend the cheaper share class. It is fairer to do it where everyone contributes something rather than some people getting a free ride and others are subsidizing it. Mr. Dennison stated that it would not be hard to figure out what the combination is between the fixed charge and the asset based charge. Chairman Leon Guerrero asked Ms. Tajeron if that is something Great-West could do. Ms. Tajeron stated she is not sure what other plans are doing, but she could find out. Trustee Duenas stated that he is concerned that we will be losing money by moving to a lower share class. Mr. Dennison stated that we need to be aware that if we load up the Index Fund, it's not going to look like an Index Fund anymore. We can not charge everyone the same fee. Mr. Dennison stated that the question is whether the Retirement Fund is willing to have the participants pay \$150,000 more to be fairer.

Chairman Leon Guerrero asked Ms. Tajeron to play with the figures to see what she could come up with. Ms. Tajeron stated that she will work on it. Chairman Leon Guerrero stated that the target is \$1.039 Million. Trustee Duenas stated that he will not feel right moving to a lower share class losing \$150,000 and then telling the participants they have to pay an extra fee on top of that. Mr. Dennison stated that it is an absolute loss to the participants. Controller Bernardo stated that the participants will be saving to the extent of the .35%. Mr. Dennison stated that the formula has to make up the \$1.039 Million. The \$150,000 needs to be recovered by raising the fees in other places. Mr. Dennison stated that if we get the full 40 basis points in reduction, we will have to raise \$150,000 less. Controller Bernardo stated that in response to Trustee Duenas' comment, there is really no way around it. Mr.

Dennison stated that the Retirement Fund could stay where it is at. Controller Bernardo asked Mr. Dennison whether he is saying to move to a lower share class. Mr. Dennison stated that if this thing went to trial, you would bring in an expert and show that the Retirement Fund made a wise decision on behalf of the participants in the aggregate not to change to a lower share class.

Mr. Dennison suggested that he meet with Mr. Paul Sachs who deals with operational questions and show him a fact pattern and Mr. Denison will ask Mr. Sachs what would his recommendation be. Mr. Dennison stated that it is kind of odd that the Retirement Fund is losing the 5 basis points. Mr. Dennison stated that he will check whether this is common. Chairman Leon Guerrero stated that he is expecting the Investment Committee to make a recommendation to the Board based on Mr. Dennison's input.

V. INFORMATIONAL ITEMS

None

VI. OPEN DISCUSSION

1. Recommendations

- **Possible Replacement of Franklin Small-Mid Cap Growth Fund, and Nuveen Winslow Large Cap Growth Fund**

Mr. Dennison stated that he is recommending performing a search to consider replacing both Franklin Small-Mid Cap Growth Fund, and Nuveen Winslow Large Cap Growth Fund.

Committee Member James Duenas, seconded by Committee Chairman Wilfred Leon Guerrero, moved to accept Mercer Investment Consulting, Inc.'s recommendation to perform a search to consider replacing Franklin Small-Mid Cap Growth Fund and Nuveen Winslow Large Cap Growth Fund. Without objection, the motion unanimously passed.

- **BlackRock Life Path Funds**

Mr. Dennison stated that he is recommending to continue monitoring BlackRock Life Path Funds.

Committee Member James Duenas, seconded by Committee Chairman Wilfred Leon Guerrero, moved to accept Mercer Investment Consulting, Inc.'s recommendation to continue monitoring BlackRock Life Path Funds. Without objection, the motion unanimously passed.

- **Thornburg International Value Fund**

Mr. Dennison stated that he is recommending placing Thornburg International Value Fund on monitor.

Committee Member James Duenas, seconded by Committee Chairman Wilfred Leon Guerrero, moved to accept Mercer Investment Consulting, Inc.'s recommendation to place Thornburg International Value Fund on monitor. Without objection, the motion unanimously passed.

VII. CORRESPONDENCE

None

VIII. ANNOUNCEMENTS


1. Next Due Diligence Meeting: October 2013

Chairman Leon Guerrero informed the Committee members that the next Quarterly Performance meeting is tentatively scheduled for October 30, 2013.

IX. ADJOURNMENT

There being no further business before the Investment Committee, a motion was made by Committee Chairman Wilfred Leon Guerrero, seconded by Committee Member James Duenas, to adjourn the meeting at 2:15 p.m. Without objection, the motion was passed.

Respectfully submitted,



JACKIE M. BLAS
Recording Secretary

AFFIRMED:



WILFRED P. LEON GUERRERO, Ed.D.
Investment Committee Chairman