



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

(Vacant)
Members' & Benefits Committee,
Chairman

Katherine T.E. Taitano
Trustee

James R.F. Duenas
Trustee

**INVESTMENT COMMITTEE MEETING
DEFINED BENEFIT PLAN**

Friday, March 8, 2013
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 12:10 p.m. Friday, March 8, 2013, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Chairman
Gerard A. Cruz, Vice Chairman
James R.F. Duenas, Trustee

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Jackie Blas, Recording Secretary

Investment Committee Membership - Committee Chairman Leon Guerrero asked whether Board Chairman Joe San Agustin had officially named Trustee James Duenas as a member of the Investment Committee. Director Paula Blas stated that Chairman San Agustin hasn't said anything because the Chairman left off-island the day after Trustee Duenas was sworn in. Chairman Leon Guerrero informed Trustee Duenas of the due diligence meetings and how it would affect his work schedule. The due diligence meetings are usually two days for the Defined Benefit (DB) Plan and one day for the Defined Contribution (DC) Plan. Chairman Leon Guerrero stated that he will leave Trustee Duenas' appointment to the Investment Committee up to Board Chairman San Agustin.

Bill 47-32 – Director Blas stated that Bill 47 was based on a resolution that was signed by the Board in January 2011. Director Blas stated that when the DC Plan was restated, the DB Plan also went up for redetermination for the tax qualification with the Department of Revenue and Taxation. Revenue and Taxation gave a favorable determination for both plans, but in order to comply with the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), there has to be an amendment to the Retirement Fund's statute. This will keep the DB Plan tax exempted. Director Blas stated that the Retirement Fund has to be in compliance by April 1, 2013.

II. ACTION ITEMS

- 1. January 24, 2013 Regular Investment Committee Meeting Minutes**
- 2. February 21, 2013 Regular Investment Committee Meeting Minutes**
- 3. August 29, and 30, 2012 Due Diligence Meeting for the Quarter Ended June 30, 2012 Minutes**
- 4. November 28, and 29, 2012 Due Diligence Meeting for the Quarter Ended September 30, 2012 Minutes**
- 5. February 20, and 21, 2013 Due Diligence Meeting for the Quarter Ended December 31, 2012 Minutes**

A motion was made by Vice Chairman Gerard Cruz, seconded by Chairman Wilfred Leon Guerrero, to approve the minutes of January 24, 2013 and February 21, 2013 Regular Investment Committee Meetings, subject to technical corrections; and to table the minutes of the August 29, and 30, 2012, the November 28, and 29, 2012, and the February 20, 2013 Due Diligence Meetings. Without objection, the motion was passed.

III. OPEN ITEMS

None

IV. NEW BUSINESS

None

V. INFORMATIONAL ITEMS

- 1. Asset Allocation Summaries**

Vice Chairman Gerard Cruz asked whether there are any changes to the asset allocation. Controller Diana Bernardo stated that there are no changes, but she would like the Committee to make a request to drawdown some money. Vice Chairman Cruz asked whether we have the authority to drawdown

beyond the \$5 Million. Controller Bernardo stated that we don't want to keep drawing down \$3.5 Million every month. Since the market is up, you may want to consider drawing down \$8 to \$10 Million at one time which we've done in the past. Controller Bernardo stated that the last time a large drawdown was made was when the bond money came in. Vice Chairman Cruz asked Controller Bernardo how much is she proposing to drawdown. Controller Bernardo stated \$10 or \$12 Million which will take us to the end of the fiscal year. Chairman Leon Guerrero wanted a clarification on the current drawdown amount. Controller Bernardo stated that it is \$3.5 a month. Chairman Leon Guerrero asked whether Controller Bernardo wants to drawdown for up to the end of the fiscal year. Vice Chairman Cruz stated that it's to do a lump sum drawdown of up to \$10 Million. Chairman Leon Guerrero asked why is this being proposed. Controller Bernardo stated that it is because the market is up. Chairman Leon Guerrero asked where the money will be place. Controller Bernardo stated that it will be in an administrative account with Northern Trust. Vice Chairman Cruz asked whether the money could be rebalanced to an ETF account so that it could be earning consistently with the market. Controller Bernardo stated that we could consider doing this and talk to the Retirement Fund's Investment Consultant about it. Director Blas stated that Maggie Ralbovsky of Wilshire Associates, was saying that the cost of an ETF is a little higher than an Index Fund.

Controller Bernardo reiterated that the request is to drawdown from \$10 to \$12 Million from Domestic Large Cap Managers to go into an ETF rather than an administrative account. The drawdown should take us to the end of the fiscal year.

2. Income Summary

Controller Bernardo stated that a summary of interest and dividend income is provided to the Committee for review and informational purposes. The year-to-date total of interest and dividend is \$16.7 Million.

3. Securities Lending

Controller Bernardo stated that a summary of securities lending earnings is provided to the Committee for review and informational purposes.

VI. OPEN DISCUSSION

Unfunded Liability – Chairman Leon Guerrero asked Director Blas if she heard from Rich Wright of Milliman, Inc. regarding the unfunded liability. Vice Chairman Cruz stated that the unfunded liability as of September 30, 2012 was \$1.5 Billion. Director Blas stated that the unfunded liability as of September 30, 2011 was \$1.6 Billion. The September 30, 2012 number is expected to go down. Director Blas stated that Mr. Wright will be on island on March 20-22, 2013. Chairman Leon Guerrero stated that there should be a discussion regarding why the unfunded liability keeps going up. Director Blas stated that the unfunded fluctuates. Vice Chairman Cruz stated that between 2011 and 2012, the unfunded liability went down. One issue is that the contribution rate has not matched the actuarial rate. Chairman Leon Guerrero stated that it appears that the contribution from the Government of Guam is the major contributor of the unfunded liability. Vice Chairman Cruz stated that the other issue is that on certain years the returns were less than the actuarial rate. The biggest

impact of why the unfunded liability grew has to do with the contribution rate. Chairman Leon Guerrero stated that the law requires the Retirement Fund to provide the Legislature the rate for appropriation and the Legislature is supposed to appropriate that rate. Director Blas stated that actuarially the Legislature is supposed to fund the Retirement Fund. Vice Chairman Cruz stated that the statute is not definitive that the Legislature has to fund the Retirement Fund at the actuarial rate.

VII. CORRESPONDENCE

None

VIII. ANNOUNCEMENTS

1. Next Due Diligence Meeting: May 29-30, 2013

Controller Bernardo informed the Committee that the next due diligence meeting is tentatively scheduled for May 29-30, 2013.

IX. ADJOURNMENT

There being no further business before the Investment Committee, a motion was made by Vice Chairman Gerard Cruz, seconded by Chairman Wilfred Leon Guerrero, to adjourn the meeting at 12:35 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