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RETIREMENT FUND
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Investment Committee, Chairman

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Treasurer
Audit & Operations Committee,
Chairman

Katherine T.E. Taitano
Trustee

James R.F. Duenas
Trustee

David M. O'Brien
Trustee

**INVESTMENT COMMITTEE MEETING
DEFINED CONTRIBUTION PLAN**
Wednesday, October 30, 2013
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 1:30 p.m. Wednesday, October 30, 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, Member
David M. O'Brien, Trustee

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Alice Taijeron, Great-West Retirement Services

Investment Consultant Present

Terry Dennison, Mercer Investment Consulting, Inc.

II. ACTION ITEMS

1. September 25, 2013 Regular Investment Committee Meeting Minutes

A motion was made by Committee Member James Duenas, seconded by Committee Vice Chairman Gerard Cruz, to approve the minutes of September 25, 2013 Regular Investment Committee Meeting, subject to technical corrections. Without objection, the motion was passed.

III. OPEN ITEMS

1. ClearBridge Mid Cap Core Fund I – (Replacement for Franklin Small Mid-Cap Growth Fund)

Terry Dennison of Mercer Investment Consulting, Inc. stated that the simple rule is that we should get the cheapest expense ratio share class because it imposes the least reduction of return to the participants. Mr. Dennison stated that there are five share classes available for the ClearBridge Mid Cap Core Fund. Three are irrelevant share types – Class A, Class C, and Class R. There are two share classes to consider - Class I and Class IS. Class I has an expense ratio of 86 basis points. The participant's return will be reduced by 86 basis points to pay managers fees and other expenses. This will provide 15% of revenue sharing to cover the cost of Great-West Retirement Services' (Great-West) recordkeeping. Class IS has an expense ratio of 81 basis points, which is 5 basis points less. Class IS is the cheaper of the two share classes, but provides no revenue sharing.

Mr. Dennison stated that the conundrum is if you elect to use the cheapest share class, which is Class IS, it is the lowest cost for participants, but it reduces the total amount of revenue sharing by 15 basis points. The Fund has to be self supporting. The combination of revenue sharing and fees paid by the participants has to cover the costs.

Mr. Dennison stated that he provided two choices – the first choice is to choose the share class with the lowest expense ratio, which is Class IS. The second choice is to not choose the lowest share class, but the one that provides the most revenue for the participants as a class, which is Class I. Mr. Dennison stated that there is no obvious choice. "You already have funds where participants using them are free-riding." Mr. Dennison stated that if you invest entirely in the index funds, you are contributing nothing to revenue sharing. There is also the issue of disproportionate contributions to recordkeeping costs.

Mr. Dennison stated that Mercer recommends choice No. 2 (Class I) which is not the lowest costs share class. It's more nuanced argument of its behalf is it represents the greatest good for the greatest number. The participants as a class benefit the most from using Class I. Mr. Dennison stated that the cheapest share class disadvantages participants as we are throwing away 15 basis points of revenue sharing to benefit participants in one fund 5 basis points. Trustee James Duenas stated that with Class I, you are only giving up 5 basis points to get the 15 basis points. So, you actually gain 10 basis points. Mr. Dennison stated that the difference is that one small group is paying more to benefit everybody. Trustee Duenas asked what is the percentage of participation. Alice Tajeron of Great-West stated that there are 424 participants in the Franklin Small Mid Cap. Mr. Dennison stated that the dollar amount is \$18 Million. Trustee Duenas stated that if there were a greater percentage of participants in this area, it will be more beneficial if we chose Share Class I because for the amount of basis points they

are giving up, they will be gaining a lot more. Mr. Dennison again mentioned “the greatest good for the greatest number.”

Committee Chairman Leon Guerrero asked Ms. Taijeron how much of the increase in the size of the plan coming from investment returns and how much from contributions. Ms. Taijeron stated that it is a 2% market increase. Mr. Dennison stated that he could back out the market effects if Ms. Taijeron could get the contributions net of the withdrawals. Trustee Duenas asked whether Franklin has a fee. Ms. Taijeron replied, “Yes.” Trustee Duenas asked what is their fee. Mr. Dennison stated that it is 98 basis points. Ms. Taijeron stated the revenue sharing is at 15%.

Committee Vice Chairman Gerard Cruz, seconded by Committee Member James Duenas, moved to accept Mercer Investment Consulting, Inc.’s recommendation to replace Franklin Small-Mid Cap Growth Fund with ClearBridge Mid Cap Core Fund I and to select Share Class I. Without objection, the motion unanimously passed.

2. Replacement of Thornburg International Value Fund

Committee Chairman Leon Guerrero stated that Mercer recommends performing a search for the replacement of Thornburg International Value Fund.

Committee Vice Chairman Gerard Cruz, seconded by Committee Member James Duenas, moved to accept Mercer Investment Consulting, Inc.’s recommendation to perform a search for the replacement of Thornburg International Value Fund. Without objection, the motion unanimously passed.

3. BlackRock Life Path Fund / Secure Foundation

Mr. Dennison stated that there needs to be education and due diligence from Great-West on the differences between the two funds. Mr. Dennison stated that if the Retirement Fund is looking for a replacement for BlackRock and leave Great-West as it stands, then a search could be performed.

Committee Vice Chairman Gerard Cruz stated that there are components in the Secure Foundation Fund that do not exist in the current BlackRock Life Path Fund that acts as a default. Mr. Dennison stated that the question is does everyone understand how this thing works. Committee Vice Chairman Cruz stated that a more aggressive approach to educate those in BlackRock funds of the annuity benefits in the Secure Foundation Fund. Ms. Taijeron stated that Great-West does educate participants on the Secure Foundation Fund, but Great-West can’t show any bias to one fund. Ms. Taijeron stated that Great-West shows comparisons and discusses the benefits. Trustee David O’Brien asked whether the recommendation is that, perspectivevely make Great-West the default. Director Paula Blas stated that Mr. Dennison is putting the entire BlackRock on replacement. Trustee O’Brien stated that the participants should be given the option to opt-out. Director Blas stated that the participants are given that option.

Controller Diana Bernardo asked Mr. Dennison whether he is saying that the Board needs to hear more from Ms. Taijeron regarding Secure Foundation as opposed to BlackRock and then from there make

the decision as to whether it will be the default fund going forward. Mr. Dennison stated that the decision would be that 1) you could stay with BlackRock as a status quo; 2) move participants from BlackRock to Secure Foundation; and 3) replace BlackRock and have a new fund-to-fund and have Secure Foundation as a secondary set. Mr. Dennison stated that there is strong argument that BlackRock is underperforming. Trustee O'Brien asked whether the market share and participation changes affect the fees on Secure Foundation. Committee Vice Chairman Cruz stated that the fees become eligible for a different share class as a result of a higher balance moving into that account. Ms. Taijeron stated that she will look into it. Committee Member Duenas asked Ms. Taijeron if she could educate the participants between now and January as to what the plan offers, and what their gains and losses are. Ms. Taijeron stated that they will educate the participants on how Secure Foundation works. Committee Chairman Leon Guerrero stated that this matter will be discussed further at the January 30, 2014 meeting. Mr. Dennison stated that we will look at the three options with more information at that time.

IV. NEW BUSINESS

None

V. INFORMATIONAL ITEMS

None

VI. OPEN DISCUSSION

None

VII. CORRESPONDENCE

None

VIII. ANNOUNCEMENTS

1. **Next Due Diligence Meeting: January 30, 2014**

Committee Chairman Leon Guerrero informed the Committee members that the next Quarterly Performance meeting is tentatively scheduled for January 30, 2014.

IX. ADJOURNMENT

There being no further business before the Investment Committee, a motion was made by Committee Vice Chairman Gerard Cruz, 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