



GOVERNMENT OF GUAM
RETIREMENT FUND

STABILITY · SECURITY · REWARDS

BOARD OF TRUSTEES

Regular Meeting

Friday, February 28, 2014, 12:30 p.m.

Retirement Fund Conference Room

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

Katherine T.E. Taitano
Trustee

James R.F. Duenas
Trustee

David M. O'Brien
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 12:51 p.m. Friday, February 28, 2014, 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
- Katherine T.E. Taitano, Trustee
- James R.F. Duenas, Trustee (1:23 p.m.)
- David M. O'Brien, Trustee

Staff Present:

- Paula Blas, Director
- Diana Bernardo, Controller
- Rosalia Bordallo, General Accounting Supervisor
- Jackie Blas, Recording Secretary
- Alice Tajeron, Director, Client Relations & Plan Counseling, Great-West Financial
- Peter Duenas, Acting Benefit Program Administrator
- Jackie Sablan & Lena Sanchez, Benefit Specialist II

Investment Consultant Present:

- Maggie Ralbovsky, Wilshire Associates

Public Present:

- Franklin Cooper-Nurse & Joy Bulatao, Office of Public Accountability
- Tom Budinger, Adelante Capital Management USA
- Selina Onedera-Salas, Senator Ben Pangelinan's Office
- Dave Burger, Burger & Comer
- Cynthia Cepeda

Chairman San Agustin stated that the Board will entertain the Fiscal Year 2013 Audit at this time.

II. Fiscal Year 2013 Audit

Treasurer Gerard Cruz stated that a copy of the Retirement Fund's Financial Statements, Independent Auditor's Report and Management's Discussion and Analysis (MDA) for the periods September 30, 2013 and 2012 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, who just completed the audit. Mr. Burger stated that the Office of Public Accountability (OPA) looked at the draft and had a chance to ask questions and had their questions answered. Mr. Burger stated that Controller Diana Bernardo prepared the financials, footnotes, and the MDA. Mr. Burger pointed out that the title on the Balance Sheet on Page 27 changed to "Statement of Plan Net Position." The title used to be "Statement of Plan Net Assets." Mr. Burger stated that the investment returns in 2013 were good, but not as good as in 2012. Mr. Burger stated that the OPA pointed out that it is not as good as the University of Guam (UOG). Mr. Burger stated that we have \$2 Billion in total assets. Investment income has to be used to meet the annuity requirement. The contribution rate for next year is going down. Mr. Burger stated that they did not notice any delinquent receivables. There are some receivables being amortized over time. Chairman San Agustin asked what the balance is at this time. Mr. Burger stated that it is \$50 Million.

Mr. Burger stated that the General Accounting Standards Board (GASB) 68 will have an impact on the financial statements of the various Government of Guam agencies in 2015. There will be more disclosure. It will be a requirement in 2015 to have the unfunded liability reflected on the financial statements at its full amount. The Retirement Fund has \$1.5 Billion in this report. The Retirement Fund may have a line item. Chairman San Agustin asked how GASB 68 will apply to the Retirement Fund. Mr. Burger stated that the unfunded liability is not reflected here. To the Retirement Fund, it is immaterial. Trustee David O'Brien asked whether this has anything to do with the MDA on Page 12. It states the concerns related to this issue. Mr. Burger stated that with GASB, there is no debate. It is either a single-employer plan or a multiple-employer plan. Trustee O'Brien asked whether the concerns on Page 12 will go away with the implementation of GASB 68 in 2015. Mr. Burger replied, "Yes." Trustee O'Brien asked where the liability was reflected before. Mr. Burger replied, "In the footnote." Vice Chairman Wilfred Leon Guerrero asked what Mr. Burger's recommendation is to address the unfunded liability. Vice Chairman Leon Guerrero added that the unfunded liability must be paid in 17 years. Director Blas stated that at that time the contribution rate will reduce to the normal cost of administration. Vice Chairman Leon Guerrero stated that David John is saying that the Retirement Fund is not doing anything to address the unfunded liability. Secretary Antolina Leon Guerrero stated that Vice Chairman Leon Guerrero is asking where Mr. John is getting his information since it is not in the audit.

Chairman San Agustin asked Mr. Burger whether the Retirement Fund is healthy. Mr. Burger replied, "Yes, for the last 2 years the Retirement Fund did very good." Chairman San Agustin asked whether the Retirement Fund is keeping up with its benefit payments. Mr. Burger stated that the Retirement Fund is on the right track with the actuarial rate. Treasurer Cruz pointed out that there were a couple of years when the Retirement Fund experienced negative returns. Vice Chairman Leon Guerrero stated that his point is that there is a plan in place, but it is being said that the Retirement Fund is not addressing the problem. Mr. Burger stated that the Retirement Fund is doing what it should be doing. Trustee O'Brien stated that each year there is that question if we are meeting the actuarial rate through the contributions. The amortization period has not been changed. Trustee Katherine Taitano stated that there are more sides to it. Some are in our control and some are not. Chairman San Agustin stated that the law specifies the contribution rate the Retirement Fund should receive. Mr. Burger stated that the Legislature has been real close in paying the actuarial rate. Chairman San Agustin stated that they should work on a plan towards meeting the actuarial rate. The autonomous agencies are not paying the actuarial rate. Director Blas stated that the actuarial rate is the budgetary rate.

Chairman San Agustin asked whether there are any discrepancies. Mr. Burger stated that when he first started here, the Retirement Fund was two years behind on issuing its audit, but now the Retirement Fund is within five months. Franklin Cooper-Nurse from the OPA's Office stated that there are still some agencies that are behind in issuing their audits. Mr. Cooper-Nurse stated that the OPA is on the same page with Mr. Burger. The OPA has submitted its Fiscal Year 2013 Financial Highlights for the Retirement Fund's review and approval. Mr. Cooper-Nurse stated that the OPA would like to commend the Retirement Fund for its eight consecutive years of no compliance and internal control findings, and its first year of no management letter comments. The Retirement Fund is in the front of the line in getting its audits issued. Chairman San Agustin suggested moving those comments to the front of the report.

Vice Chairman Leon Guerrero inquired about the funding status on Page 2 of the Management Letter – "Annuity payments continue to exceed contributions, so plan assets must be liquidated to meet the annuity obligations. The Fund cannot remit all contributions to the investment managers due to the cash flow situation." Secretary Leon Guerrero stated that this is saying that we are using the contributions to meet payroll. Chairman San Agustin stated that the Retirement Fund should use the returns to pay for benefit payments instead of using the contributions. Chairman San Agustin stated that we should not use the contributions to pay the benefit payments. Treasurer Cruz stated that we would incur transaction costs if we had to drawdown from investments for benefit payments. Treasurer Cruz added that the Retirement Fund Board is entrusted with a Trust Fund. Secretary Leon Guerrero stated that there is no harm to the active members. Chairman San Agustin stated that the government has a liability obligation on the Defined Benefit Plan.

Mr. Burger stated that if there are no other questions or concerns, this concludes his presentation. The Board of Trustees thanked Mr. Burger for completing the audit.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to adopt the Retirement Fund's Fiscal Year 2013 Audit Report. Without objection, the motion unanimously passed.

III. REVIEW AND APPROVAL OF BOARD MINUTES

- A. January 31, 2014 Regular Meeting
- B. February 5, 2014 Reconvened Meeting

On motion of Secretary Antolina Leon Guerrero, seconded by Trustee David O'Brien, and without objection, the Minutes of January 31, 2014 Regular Meeting and the February 5, 2014 Reconvened Meeting were approved, subject to technical corrections. Motion unanimously passed.

IV. CORRESPONDENCE

None

V. INFORMATIONAL ITEMS

None

VI. 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 February 15, 2014 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

3. *Legislative Bills / Public Laws*

- **Bill 245-32 – Relative to Public Law 32-086: Investment Sections of the Defined Benefits Plans of the Government of Guam Retirement Fund**

Director Blas stated that Bill 245-32 was introduced to address the removal of the amendments made in Public Law 32-086. Bill 245 was passed by the Legislature on February 17, 2014 and forwarded to the Governor for his signature. Director Blas stated that the Governor has 10 calendar days to act on the bill. The Governor has the option to sign the bill into law or let it lapse into law. Director Blas stated that the effective date of the bill will be retro to the original date the bill became Public Law, which was November 27, 2013. Chairman San Agustin stated that the amended date should be the effective date. He asked "Why retro?" Director Blas stated that it is because the first bill passed has certain provisions that are detrimental to the Retirement Fund. The amendments are not in the best interest of the Retirement Fund and to make sure there are no questions, it is being made retroactively effective. Maggie Ralbovsky of Wilshire Associates stated that Legal Counsel made a point that you leave a gap in place if the managers are not FINRA members. Ms. Ralbovsky stated that Legal

Counsel wanted to make sure there was no question as far as the managers the Retirement Fund had in place or any movements that the Retirement Fund did could be questioned. Ms. Ralbovsky stated that Legal Counsel does not want to leave a gap. Secretary Leon Guerrero stated that the bill eliminates the gap.

- **Bill 228-32 – Relative to the Exemption of Beneficiaries of the Defined Benefits Retirement Plan from Suspension of their Annuity Payments for Limited Term Appointments as School Bus Drivers or Automotive Mechanics**

Director Blas stated that Bill 228-32 was passed by the Legislature and signed into law by the Governor on February 10, 2014 as Public Law 32-128. Retired Bus Drivers can now double dip.

- **Bill 224-32 – Relative to Clarifying Legal and Contractual Remedies in Guam Procurement Law**

Director Blas stated that a roundtable discussion on Bill 224-32 has been scheduled for March 6, 2014. Senator Tom Ada also introduced a second bill, Bill 246-32. Director Blas stated that the Retirement Fund has a procurement law to follow. Retirement Fund has procurement authority, but by law, we still have to follow the local procurement law.

4. *Director and Officers (D&O) Liability Insurance* – Director Blas stated that the Retirement Fund’s D&O policy will expire on May 3, 2014. Director Blas stated that IFB GGRF No. 14-001 closed with one offeror, which is our current underwriter. The coverage will increase from \$2 Million to \$9 Million. Chairman San Agustin inquired about cost. Director Blas stated that the cost for the current policy is \$200,000. With the increase to \$9 Million, the cost will be \$480,000 with coverage for 18 months. Chairman San Agustin asked whether this is acceptable. Director Blas replied, “Based on our asset size, yes.”

Trustee David O’Brien, seconded by Secretary Antolina Leon Guerrero, moved to accept and proceed with the award of the Director and Officers (D&O) Liability Insurance coverage for \$9 Million. Without objection, the motion unanimously passed.

5. *Competitive Wage Plan (aka: Hay Plan)* – Director Blas stated that the cost to the Retirement Fund for full implementation of the Hay Plan would be approximately \$100,000 inclusive of Medicare and Retirement contributions. Director Blas stated that Management is requesting to move forward with the implementation of the Hay Plan. Vice Chairman Leon Guerrero asked whether the Retirement Plan is in a position to implement the Hay Plan. Director Blas replied, “Yes.”

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the implementation of the Hay Plan, which will be effective January 26, 2014. Without objection, the motion unanimously passed.

6. *Board of Trustees Election* – Director Blas stated that the Notice of Election appeared in the Pacific Daily News on Wednesday, February 19, 2014. Interested individuals may pick up a Candidate Packet at the Guam Election Commission. Deadline for submission of Nominating Petitions and Candidate’s Statement of Eligibility is Thursday, March 20, 2014.

Financial Report

1. **Contributions** - Director Blas stated that as of February 25, 2014, 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 December 2013 were closed on February 6, 2014.
3. **Fiscal Year 2013 Audit** - Director Blas stated that the audit for Fiscal Year Ending September 30, 2013 is completed. The final audit reports are scheduled to be issued no later than March 6, 2014.
4. **Fiscal Year 2014 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of February 2014 were paid.
5. **Fiscal Year 2014 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the February 2014 allotment from the General Fund and reimbursements were processed accordingly.

VII. LEGAL COUNSEL'S REPORT

No report was made at this time.

VIII. TREASURER'S REPORT OF FINANCIAL STATUS

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 January 31, 2014. Treasurer Cruz stated that the drawdown is still within its existing authority.

IX. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended December 31, 2013 was held on February 26, and 27, 2014. The Regular Investment Committee Meeting was held on February 27, 2014. The Committee reviewed and approved the Investment Committee Minutes of January 30, 2014 and the November 20, and 21, 2013 Due Diligence Meeting Minutes for the Quarter Ended September 30, 2013.

Ms. Ralbovsky stated that the following were approved by the Investment Committee for Board action:

1. **Target Asset Allocation** – Ms. Ralbovsky stated that the Investment Committee reviewed the current asset allocation noting that the allocation of Fixed Income is below the minimum target allocation of 25%, and considered rebalancing. However, given the changes to the asset allocation if Bill 245-32 is enacted into law, the Investment Committee opted not to rebalance at this time.

Ms. Ralbovsky stated that since the process of implementing a new strategic allocation and the cost to transition outweighs the benefits of rebalancing, the Investment Committee recommends waiving, for six months, the ranges in the asset allocation.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to waive for six months the ranges in the asset allocation. Without objection, the motion unanimously passed.

2. ***Request for Proposals (RFPs)*** – Ms. Ralbovsky stated that if Bill 245-32 is enacted into law, the Retirement Fund may implement its Rebalancing Step 1 of Portfolio A, as approved by the Board during their November 2013 meeting. Ms. Ralbovsky stated that the Investment Committee recommends issuance of RFPs for the following:

- a. Core and Opportunistic High Yield Bonds,
- b. Global REITs, and
- c. Transition Managers.

Vice Chairman Wilfred Leon Guerrero, seconded by Trustee James Duenas, moved to approve the issuance of Request for Proposals for the Core and Opportunistic High Yield Bonds, Global REITs, and Transition Managers; contingent upon the passage of bill 245-32. Without objection, the motion unanimously passed.

3. ***TBAs (To Be Announced)*** – Ms. Ralbovsky stated that in December 2013, an issue arose that one of the managers is trading TBAs. TBAs are mortgage pools that have yet to be issued. Ms. Ralbovsky stated that the Retirement Fund's Investment Statutes prohibits derivatives trading. TBAs can be interpreted as derivatives. Ms. Ralbovsky stated that of the three Fixed Income Managers, Franklin Templeton is the only one that buys TBAs, the other two managers interpret TBAs as derivatives and do not buy them. Ms. Ralbovsky stated that the Investment Committee recommends instructing Franklin Templeton to discontinue purchases of TBAs.

Vice Chairman Leon Guerrero stated that the problem has been taken care of by our Legal Counsel and our Investment Consultant. The Board should take action to affirm what Legal Counsel informed Franklin Templeton. Chairman San Agustin inquired about the holdings. Ms. Ralbovsky stated that the last holding took place on February 19, 2014. Chairman San Agustin asked what the risk is. Ms. Ralbovsky stated that there is no leverage applied to that holding. There is no harm to the Retirement Fund. Chairman San Agustin asked if we are unduly exposed. Ms. Ralbovsky stated that there was no risk. There was no exposure. Chairman San Agustin asked why the Board is doing this and not the Investment Committee. Vice Chairman Leon Guerrero stated that the Committee is a subsidiary of the Board. Chairman San Agustin inquired about the time frame and asked what happens if we need to take action right away. Vice Chairman Leon Guerrero stated that Legal Counsel responded right away. Director Blas stated that the Retirement Fund was informed in December 2013 and there was a verbal communication to Franklin Templeton. We just need to make it formal now. Chairman San Agustin stated that the Committee could act then reaffirm it at the Board meeting. Ms. Ralbovsky stated that the issue was that it was not clear at the time whether purchasing TBAs was in violation of the Investment Statutes. Treasurer Cruz stated that it is better if it starts at the Committee level and then have the Board's confirmation. Trustee James Duenas stated that there was still a gray area so the Committee wanted for the Board to be in agreement. Ms. Ralbovsky stated that she agrees that if there is harm to the Retirement Fund, the Committee should take action right away.

Vice Chairman Wilfred Leon Guerrero, seconded by Trustee James Duenas, moved to have Management send a letter to Franklin Templeton to discontinue the purchases of TBAs. Without objection, the motion unanimously passed.

Investment Performance – Ms. Ralbovsky provided an overview of the Plan’s Investment Performance noting that for the Quarter Ended December 31, 2013, the Retirement Fund’s portfolio outperformed its benchmark index by 117 basis points, ranking at the 18th percentile of Wilshire’s peer group universe for the quarter. The Retirement Fund’s return was at 5.90% and the benchmark return was at 4.73%.

Watch List – Ms. Ralbovsky stated that she recommends keeping Eaton Vance and Franklin Templeton on the Watch List due to performance.

Annual Reviews – Ms. Ralbovsky stated that annual reviews were conducted for the following Investment Managers:

- a. Capital International, Inc.
- b. Dimensional Fund Advisers
- c. Fisher Investments
- d. Earnest Partners

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is tentatively scheduled for May 28, and 29, 2014.

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

B. Members and Benefits Committee

Trustee Taitano presented the Committee’s February 2014 report to the Board of Trustees.

Trustee Katherine Taitano, seconded by Trustee David O’Brien, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 14, including the attached Annuity Worksheets, based on the Committee’s review and findings during their meeting of February 19, 2014 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

DISABILITY CASE NO. 13-024

Secretary Leon Guerrero stated that the applicant is a 43 year old Control Operator with the Guam Power Authority with 22+ years of service. The applicant applied for disability on November 27, 2013. The reason for application is Cirrhosis of the Liver. Secretary Leon Guerrero stated that the applicant was examined by Dr. Patrick Santos on December 27, 2013 and Dr. Fred Schroeder on January 24, 2014. Dr. Santos gave a rating of 100% whole-person impairment. Dr. Schroeder gave a rating of 79% whole-person impairment. Both physicians found that the applicant’s impairment is permanent in nature and precludes the applicant from work. Secretary Leon Guerrero stated that the

Retirement Fund's Medical Consultant finds that a full disability pension is appropriate for 13-024 as quickly as possible because the life expectancy of 13-024 has been estimated at 12 months or less.

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 recognized the applicant's wife and asked her to please state her name for the record. The applicant's wife stated that her name is Cynthia Cepeda. Ms. Cepeda stated that her husband is challenged in many different ways and is always willing to work, but now he is in no condition to work. His health is deteriorating, he has memory loss, hearing loss, and his mobility is poor.

Secretary Antolina Leon Guerrero, seconded by Trustee David O'Brien, 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. 13-024. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Treasurer Gerard Cruz, Trustee James Duenas, Vice Chairman Wilfred Leon Guerrero, Trustee Katherine Taitano, Chairman Joe San Agustin. With seven "Yes" votes, the motion unanimously passed.

X. OLD BUSINESS

A. Director's Position and Salary

Chairman San Agustin stated that the director's contract expires on May 26, 2014. Chairman San Agustin recommended renewing the director's contract for another three years.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to approve to renew the Retirement Fund Director's Employment Agreement for an additional three years from May 26, 2014, which will then expire on May 26, 2017. Without objection, the motion unanimously passed.

Chairman San Agustin suggested making an adjustment to the director's salary. Chairman San Agustin stated that he made a restriction in the law that the director does not make more than the Governor. Vice Chairman Leon Guerrero suggested having the law changed between now and May 2014. Chairman San Agustin stated that the Governor's salary has increased. Vice Chairman Leon Guerrero suggested looking at the salaries of directors from the Virgin Islands and Puerto Rico. Trustee O'Brien stated that once we have the data on salaries, then we have the defense and guidance in place to make a decision. Trustee O'Brien suggested getting some data about comparable salaries on Guam. Director Blas stated that she has 2012 data from Ms. Ralbovsky based on the retirement industries. Ms. Ralbovsky stated that the 2013 data will be out later this year. Treasurer Cruz suggested getting a consensus from the Board online. Treasurer Cruz asked Director Blas to send him the data and he will head an Executive Committee to review the data of salaries of directors. Treasurer Cruz stated that the Committee will consist of Chairman San Agustin, Vice Chairman Leon Guerrero, and himself.

XI. NEW BUSINESS

None

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

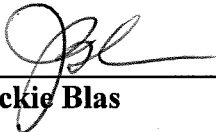
There being no further business before the Board for the Defined Benefits Plan, on motion of Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 2:54 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 28, 2014 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 28, 2014.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas