



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

Katherine T.E. Taitano
 Trustee

Anthony C. Blaz
 Trustee

David M. O'Brien
 Trustee

BOARD OF TRUSTEES

Regular Meeting

Friday, August 29, 2014, 12:30 p.m.

Retirement Fund Conference Room

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 1:15 p.m. Friday, August 29, 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
 David M. O'Brien, Trustee
 Anthony C. Blaz, Trustee

Board of Trustees Absent:

Gerard A. Cruz, Treasurer (*Excused*)
 Katherine T.E. Taitano, Trustee (*Excused*)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controllor
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary
 Alice Taijeron, Director, Client Relations & Plan Counseling, Great-West Financial

Legal Counsel Present:

Vince Camacho, Carlsmith Ball LLP
 Elyze M. Iriarte, Carlsmith Ball LLP

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. July 25, 2014 Regular Meeting

Secretary Antolina Leon Guerrero, seconded by Trustee Anthony Blaz, moved to approve the Minutes of the July 25, 2014 Regular Meeting, subject to technical corrections. Without objection, the 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 August 19, 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**
- **MF Global**
- **Invacare Corporation**

3. *Request for Proposal (RFP): Transition Management Services* – Director Blas stated that evaluations will commence. The Selection Panel consists of Gerard Cruz, Anthony Blaz, and Antolina Leon Guerrero. Director Blas stated that she will meet with the individual panels to schedule their meetings.

4. *RFP: Active High Yield Bonds* – Director Blas stated that evaluations will commence. The Selection Panel consists of Anthony Blaz, Wilfred Leon Guerrero, and David O'Brien.

5. *RFP: Global Real Estate Securities* – Director Blas stated that evaluations will commence. The Selection Panel consists of Wilfred Leon Guerrero, Gerard Cruz, and Diana Bernardo.

6. *Legislative Bills*

- **Bill No. 346-32 – Relative to Creating a Separate Board of Trustees for Members of the Defined Contribution Retirement Plan**

Director Blas stated that she requested for the Retirement Fund's Legal Counsel to be present at this meeting because there is a Public Hearing on Bill 346-32 tentatively scheduled for September 8, 2014 and that the Board needs to develop its position paper. Legal Counsel Vince Camacho stated that upon review of the bill, issues were found surrounding the bill as it is written. Legal Counsel stated that no one from the Retirement Fund Board or Management was consulted or requested to provide any

comments or input before the bill was even drafted. The bill is very misguided. The writer of the bill failed to address underlying issues and instead makes an ultimate conclusion that to change the composition of the Board will solve the underlying issues. Legal Counsel stated that the bill will also create more problems than it will solve because it reflects a fundamental misunderstanding of its underlying purpose for the funding structure and the risk burdens associated with the Defined Benefit (DB) Plan, the Defined Contribution (DC) Plan, and the Deferred Compensation Plan. The assumption here is that the Board has a lot of power over the Plans. In reality, the DB Plan is a creature of the Legislature and the Legislature has the power to make an amendment, which the Board has to implement and administer. The underlying assumption that the Board has the ultimate power of how the Plan is to be managed is an erroneous assumption. Legal Counsel stated that the bill failed to recognize that the Board oversees four (4) retirement plans, not just two (2) plans. The bill also failed to consider who is going to manage the other plans. The purpose and function of the non-voting ex officio member is not clear. The bill also requires the Director of the Retirement Fund to be a tie-breaker.

Chairman San Agustin stated that he does not want this Board to appear defensive. Legal Counsel stated that this is just an observation of the bill and he is just outlining what the bill failed to say. The intent of the bill implies that this Board has done nothing, which may provide a cause of action against the Board. Legal Counsel stated that the public hearing is scheduled for September 8, 2014 and he has asked Senator Michael Limtiaco to extend the date to give the Board a chance to thoroughly address the provisions of the bill.

Vice Chairman Wilfred Leon Guerrero stated that the Board's position should be just a one sentence statement. Legal Counsel stated that the bill tells you when to conduct a meeting. Legal Counsel stated that there is substantial evidence that the Board has done what it needed to do. Legal Counsel stated that the author of the bill failed to realize that the DC Plan is run by a Plan Document that is separate from the DB Plan. In the DC Plan, the Plan Document is the law. Secretary Antolina Leon Guerrero asked whether the Plan Document stipulates what the Board's responsibility is with regards to managing and overseeing the DC Plan. Legal Counsel stated that it gives the authority to the Plan Administrator who the Board hires. Trustee David O'Brien stated that a few members of the Board were approached individually, but not officially. Legal Counsel stated that evidence shows that the Board has separate meetings and agendas for each plan. The plans are monitored the same way, although one Plan is governed by statute and the other Plan is governed by a Plan Document. Legal Counsel stated that for the DC Plan the Board could change the Plan Document without going to the Legislature, but for the DB Plan, the Board can not make any changes without going to the Legislature. Trustee O'Brien stated that the DC monitoring is different from the DB monitoring. Legal Counsel stated that both plans have the investment options and performance monitored by the Board although the DB has the Fund Managers for the different mandates. Legal Counsel stated that the DC members are encouraged to enroll in the 457 Plan and now there is the implementation of Secure Foundation, so there is an active movement in the DC Plan.

Legal Counsel stated that Bill 346-32 would not provide any new Board with greater powers than what the current Board already has. Legal Counsel stated that the current appointed Board members have certain requirements, but with this bill, there is no requirement for the new Board. Trustee O'Brien asked whether this bill does away with the appointed Board members. Secretary Leon Guerrero stated that in the bill four members are elected and one is appointed. Legal Counsel stated that the new Board will not demonstrate a solution, improved level of care, or due diligence in making these

structural changes. Chairman San Agustin stated that Legal Counsel should appear at the Public Hearing and the Board will also be there. Director Blas stated that Legal Counsel will be there. Legal Counsel suggested that the implementation of the Hybrid Plan would do away with the issues raised in the bill. The Hybrid Plan will be introduced next week Tuesday and we should include this in the Board's position statement. Legal Counsel stated that the bill is interpreted to say that the Board has no authority over contributions. The author of the bill failed to consider the funding mechanism and structures. Trustee O'Brien stated that the bill is saying that the issue is not so much that the Board has not done their job and everything is not addressed. It is saying that the financial protection of the DB Plan is the primary objective of the Board and everything else is secondary. Legal Counsel stated that the bill is saying that the Board is failing to address the DC members. Legal Counsel stated that his interpretation of the bill is that the Board failed to do their job and here is the solution. Secretary Leon Guerrero stated that the author of the bill failed to recognize that there is a Plan Document. Legal Counsel stated that if there is something wrong, the bill should address the entire structure. Trustee O'Brien asked whether the bill has any co-sponsors. Legal Counsel replied, "No."

Legal Counsel stated that there is a meeting with Vice Speaker B.J. Cruz on Tuesday regarding the Hybrid Plan. Legal Counsel stated that he called Senator Limtiaco to meet regarding this bill. Director Blas stated that she is hoping that Senator Limtiaco pulls back the bill. Director Blas stated that Legal Counsel will prepare the Board's position statement and will also testify on the bill during the Public Hearing on September 8, 2014.

- **Bill 269-32 – Relative to Making Appropriations for the Executive, Legislative, and Judicial Branches of the Government of Guam for Fiscal Year 2015**

Director Blas stated that Bill 269-32 was passed by the Legislature on August 25, 2014 and has been transmitted to the Governor.

Financial Report

1. **Contributions** - Director Blas stated that as of August 26, 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 July 2014 were closed on August 19, 2014.
3. **Fiscal Year 2014 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of August 2014 were paid.
4. **Fiscal Year 2014 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the August 2014 allotment from the General Fund and reimbursements were processed accordingly.

VI. LEGAL COUNSEL'S REPORT

Legal Counsel will recommend that the Board go into Executive Session to discuss legal issues related to litigation involving the Retirement Fund.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Controller Diana Bernardo stated that the Treasurer's Report is provided at this meeting. It covers the Retirement Fund's Statement of Plan Net Position and Statement of Changes in Plan Net Position (unaudited) and Prior Year Receivables for both the DB Plan and the DC Plan for the month ended July 31, 2014.

Controller Bernardo stated that the drawdown schedule is still within its existing authority of \$3.5 Million up to September 2014. Controller Bernardo reported that the total drawdown for 2014 is \$4 Million less than last year. There is a \$10 Million increase in contributions received due to the Hay Pay and the uniformed personnel compensation.

Chairman San Agustin inquired about Northern Trust. Controller Bernardo stated that the investment accounts were reconciled to the monthly Northern Trust Statements. Chairman San Agustin asked what is being held in trust. Controller Bernardo stated that we get the interest and dividends. Chairman San Agustin inquired about remittance. Director Blas stated that it is pulled in when needed. Chairman San Agustin stated that he is concerned about it being idle. Rosalia Bordallo, General Accounting Supervisor, stated that as for the interest and dividends, what was earned by the individual managers goes into the Retirement Fund's administrative account. Ms. Bordallo stated that we are not liquidating on a monthly basis. Trustee O'Brien asked whether we could use liquidated money to fund. Ms. Bordallo stated that we could liquidate every month. Trustee O'Brien asked whether there are any short term investments. Ms. Bordallo replied, "Not at this time." Controller Bernardo stated that it is a timing issue. Trustee O'Brien inquired about interest on contributions. Ms. Bordallo stated that 4.5% is paid to employees and it is booked as an expense. Trustee O'Brien inquired about the interest income of \$23,194,843 for July 2013. Controller Bernardo stated that it has to do with the DC Plan. Controller Bernardo stated that she does not have the breakdown at this time, but it may have to do with the size of the assets.

VIII. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Leon Guerrero reported that the Regular Investment Committee Meeting was held on August 15, 2014. The Committee reviewed and approved the Investment Committee Minutes of July 24, 2014. Vice Chairman Leon Guerrero stated that the size of the Retirement Fund's portfolio as of August 12, 2014 is \$1.623 Billion. Vice Chairman Leon Guerrero stated that it has been steady at \$1.6 Billion for the last two months.

Bernstein Litowitz Berger and Grossmann (BLBG) August 3, 2014 Email Re: Omnicare, Inc. – Vice Chairman Leon Guerrero reported that the Investment Committee reviewed and discussed BLBG's August 3, 2014 email which indicated that:

- BLBG requests the Board's support in the filing of an amicus brief with the U.S. Supreme Court on "Omnicare, Inc. v. Laborers District Council Construction Industry Pension Fund."
- The case pertains to standards investors must meet in order to assert claims based on untrue statements of "opinion" contained in registration statements for IPOs and other public securities offerings.

- The court will decide whether investors may continue to plead that a statement of opinion in an IPO registration statement was “untrue.”
- The deadline for filing is September 2, 2014.

Vice Chairman Leon Guerrero stated that since it was determined that there is no harm to the Retirement Fund to participate, the Committee recommends supporting BLBG’s effort to file the amicus brief.

Vice Chairman Wilfred Leon Guerrero, seconded by Trustee Anthony Blaz, moved to accept the Investment Committee’s recommendation to support BLBG’s effort to file the Amicus Brief. Without objection, the motion unanimously passed.

Chairman San Agustin inquired about the return on investment. Vice Chairman Leon Guerrero stated that the market went down by 2%. Director Blas stated that as of June 30, 2014 it was 4% for the quarter. Chairman San Agustin stated that the market has been going up and down. Vice Chairman Leon Guerrero stated that it went down slightly in June then it climbed up in July 2014. Director Blas stated that it was 8.34% from October 2013 to March 31, 2014. Chairman San Agustin inquired about the actuarial funding rate. Director Blas stated that it is 7% annually.

Chairman San Agustin inquired about the allocation. Vice Chairman Leon Guerrero stated that the Investment Committee is waiting for Maggie Ralbovsky of Wilshire Associates to revise the asset allocation. Secretary Antolina Leon Guerrero stated that rebalancing will take place by November.

Secretary Leon Guerrero inquired about the Board’s fiduciary responsibility with BLBG. What is the Board’s role? Chairman San Agustin stated that if the Retirement Fund is a party in a lawsuit and money is involved, then the Board could discuss the matter.

Vice Chairman Leon Guerrero stated that with regards to vendors’ review and the encouragement of professional development and training, he asked Director Blas to identify where in the policy of the Board the review of vendors and the professional development and training should be placed. Vice Chairman Leon Guerrero stated that he wants the policy statement to state that the review is conducted periodically. Chairman San Agustin stated that it is a standard practice. Director Blas stated that she is working on placing both the review of vendors and the professional development and training in the policy. Chairman San Agustin and Director Blas so noted Vice Chairman Leon Guerrero’s request to place the vendors’ review and the professional development and training in the policy.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is scheduled for September 24, and 25, 2014.

Vice Chairman Wilfred Leon Guerrero, seconded by Trustee Anthony Blaz, moved to accept the Investment Committee Report. Without objection, the motion unanimously passed.

B. Members and Benefits Committee

Secretary Leon Guerrero presented the Committee's August 2014 report to the Board of Trustees.

Secretary Antolina Leon Guerrero, seconded by Trustee David O'Brien, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 15, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of August 20, 2014 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

DISABILITY CASE NO. 14-002

Secretary Leon Guerrero stated that the applicant is a 51 year old Assistant Professor at the Guam Community College with approximately 27 years of service. The applicant applied for disability on April 8, 2014. The reason for application is End Stage Renal Disease. Secretary Leon Guerrero stated that the applicant was examined by Dr. Patrick Santos on May 22, 2014, and Dr. Fred Schroeder on June 27, 2014. Dr. Santos gave a rating of 100% whole-person impairment and Dr. Schroeder gave a rating of 83% whole-person impairment and 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 the applicant is medically impaired by a number of diagnoses and symptoms and considers a full disability pension is appropriate for 14-002 at this time. Vice Chairman Leon Guerrero inquired about the Medical Consultant's recommendation to continue general medical treatment. Secretary Leon Guerrero stated that the Medical Consultant is recommending that the applicant continue with his/her treatment.

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 David O'Brien, moved to accept the Retirement Fund's Medical Consultant's findings and recommendation that a full disability pension is appropriate at this time and to approve a full disability pension for Disability Case No. 14-002. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Vice Chairman Wilfred Leon Guerrero, Trustee Anthony Blaz, and Chairman Joe San Agustin. With five (5) "Yes" votes, the motion unanimously passed. Treasurer Gerard Cruz and Trustee Katherine Taitano were absent.

APPLICATION FOR DISABLED ADULT SURVIVOR BENEFITS – JESSICA MARIE S. SABLAN

Secretary Leon Guerrero stated that Mrs. Barbara S. Sablan is applying for Disabled Adult Survivor Benefits on behalf of her daughter, Jessica Marie S. Sablan. Jessica Marie S. Sablan is the biological child of deceased retiree Jose C. Sablan who passed away on May 7, 2014.

Secretary Antolina Leon Guerrero, seconded by Trustee David O'Brien, moved to approve the Application for Disabled Adult Survivor Benefits for Jessica Marie S. Sablan, contained on Page 17, based on the Committee's review and findings during their meeting of August 20, 2014 and subsequent meetings thereafter. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Vice Chairman Wilfred Leon Guerrero, Trustee Anthony Blaz, and Chairman Joe San Agustin. With five (5) "Yes" votes, the motion unanimously passed. Treasurer Gerard Cruz and Trustee Katherine Taitano were absent.

Trustee O'Brien stated that, based on the Disability Status Sheet provided, it shows that the M&B Committee and Retirement Fund staff are doing very well in acting on the disability applications.

IX. EXECUTIVE SESSION

Legal Counsel Elyze Iriarte stated that she is the Attorney for the Board of Trustees of the Government of Guam Retirement Fund and as such, she is recommending that the Board of Trustees conduct an Executive Session to discuss legal issues related to the active litigation involving the *Odilia Bautista and Joseph A. Guthrie v. Gerald S.A. Perez* case. Legal Counsel Iriarte stated that the Retirement Fund received a settlement offer in the pending litigation. Legal Counsel Iriarte stated that based on the Open Government Law, the transcript of the Executive Session will remain sealed for six (6) months; and that no voting will take place during the Executive Session.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to approve that the Board of Trustees go into Executive Session. Without objection, the motion unanimously passed.

George Castro, Certified Court Reporter, is present to take a verbatim transcription of the Executive Session.

**EXECUTIVE SESSION: 2:30 P.M.
RECONVENED: 2:45 P.M.**

At this time Chairman San Agustin announced that the Board of Trustees has returned to its regular meeting. Legal Counsel Iriarte certified that the only matters discussed during the Executive Session were related to the Retirement Fund's participation in the *Bautista and Guthrie v. Perez* case. Legal Counsel Iriarte stated that she will be signing a declaration to that effect. Said declaration will be made a part of the record.

Trustee Anthony Blaz, seconded by Secretary Antolina Leon Guerrero, moved to accept the recommendation of the Retirement Fund's Legal Counsel to reject the settlement offer made on the *Odilia Bautista and Joseph A. Guthrie v. Gerald S.A. Perez* case and to allow Legal Counsel to prepare the Retirement Fund's response brief, which is due on September 11, 2014. Without objection, the motion unanimously passed. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Vice Chairman Wilfred Leon Guerrero, Trustee Anthony Blaz, and Chairman Joe San Agustin. With five (5) "Yes" votes, the motion unanimously passed. Treasurer Gerard Cruz and Trustee Katherine Taitano were absent.

X. OLD BUSINESS

None

XI. NEW BUSINESS

None

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

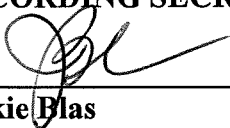
There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Anthony Blaz, seconded by Trustee David O'Brien, and without objection, the meeting was adjourned at 2:47 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of August 29, 2014 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on September 26, 2014.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas