



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

INVESTMENT COMMITTEE MEETING
DEFINED BENEFIT PLAN
Monday, December 15, 2014
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 1:40 p.m. Monday, December 15, 2014, 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
Joe T. San Agustin, Ex Officio

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller

II. ACTION ITEMS

- 1. November 20, 2014 Regular Investment Committee Meeting Minutes**
- 2. September 24, and 25, 2014 Due Diligence Meeting for the Quarter Ended June 30, 2014 Minutes**
- 3. November 19, and 20, 2014 Due Diligence Meeting for the Quarter Ended September 30, 2014 Minutes**

Committee Vice Chairman Gerard Cruz, seconded by Committee Chairman Wilfred Leon Guerrero, moved to approve the Minutes of the November 20, 2014 Regular Investment Committee Meeting and the Minutes of the September 24, and 25, 2014 Due Diligence Meeting, subject to technical corrections; and to table the Minutes of the November 19, and 20, 2014 Due Diligence Meeting. Without objection, the motion unanimously passed.

III. OPEN ITEMS

None

IV. NEW BUSINESS

- 1. Bernstein Litowitz Berger and Grossmann (BLBG) Email – MF Global Deposition Notice**

Controller Diana Bernardo stated that BLBG received a Notice of Disposition. The deposition will take place in New York and will commence on January 8, 2015 until completed. BLBG is requesting for the Retirement Fund to provide the name of its designated representative for the deposition to be submitted by December 18, 2014. Director Paula Blas stated that committee Vice Chairman Gerard Cruz will be the Retirement Fund's designated representative. Committee Vice Chairman Cruz stated that the deposition should be no later than January 22, 2015. Director Blas stated that she will communicate with BLBG that it should be done by January 20, 2015. Director Blas pointed out that Schedule A of the Notice provides the definitions, instructions, and the subjects of examination. Director Blas stated that she will forward an electronic copy of the Notice to Committee Vice Chairman Cruz.

- 2. Northern Trust – Proposed Custody and Related Services Fee Options**

Controller Bernardo stated that at the last Due Diligence Meeting, Northern Trust had indicated that they are proposing an increase in their fees. Northern Trust's current annual fee is \$70,000.00 with Securities Lending split of 70/30. Northern Trust is proposing Option 1 which is \$70,000.00 and a split of 65/35 on Securities Lending. Committee Chairman Leon Guerrero asked what was Maggie Ralbovsky's response on the fee options. Controller Bernardo stated that Committee Vice Chairman Cruz indicated that he is willing to go with Option 1, but with a split of 70/30 instead of 65/35 and Ms. Ralbovsky stated that she agrees with what Committee Vice Chairman Cruz indicated.

Committee Chairman Leon Guerrero stated that he would like to see the agreement because there is something about the bank accepting some of the responsibility on this. Committee Vice Chairman Cruz stated that the current Collateral Agreement is such that they can only use as collateral U.S. Treasury's and non-cash. Committee Chairman Leon Guerrero stated that he wants to know about the liability. Is the Retirement Fund 100% liable and the bank is not taking any liability. Committee Vice Chairman

Cruz stated that the Retirement Fund is currently 100% indemnified by Northern Trust. Committee Vice Chairman Cruz stated that Northern Trust is proposing three options. Ex Officio Joe San Agustin stated that we may have to re-bid it. Ex Officio San Agustin inquired about Northern Trust's contract. Committee Vice Chairman Cruz stated that it has been five years. Ex Officio San Agustin inquired about due notice. Director Blas stated that the Retirement Fund gives a thirty-day notice and Northern Trust gives a ninety-day notice.

Committee Chairman Leon Guerrero stated that he has requested for the Director to include in the policy the review of our managers on a periodic basis.

Committee Chairman Leon Guerrero asked Committee Vice Chairman Cruz whether he is prepared to recommend Option 1. Committee Vice Chairman Cruz stated that he is going to recommend Option 1, with a counter offer of a 70/30 split instead of a 65/35 split. Committee Chairman Leon Guerrero inquired about the indemnification portion of the agreement. Director Blas stated that it is on Page 11. Committee Vice Chairman Cruz stated to keep it in the agreement and just change the collateral option. Controller Bernardo stated that it did not say it required a change in the contract. Controller Bernardo stated that if the Retirement Fund does not accept any one of the options, Northern Trust might just give the Retirement Fund a notice to terminate the contract. Director Blas stated that we could go ahead and propose to accept Option 1 with a 70/30 split and Northern Trust might say no and propose to do \$75,000.00 with a 70/30 split up to 2016 and in the meantime we could issue a Request for Proposal (RFP). Ex Officio San Agustin asked whether Northern Trust is open for negotiation on any of the three options. Committee Chairman Leon Guerrero asked whether there is a justification for this change. Committee Vice Chairman Cruz stated that there is no written justification provided. Ex Officio San Agustin inquired about the custody agreement. Controller Bernardo stated that she has a copy and she is trying to find the termination clause. Committee Vice Chairman Cruz stated that there is no change on the custody fee, and performance fee on Option 1. There is a proposed change on the fee split from 70/30 to 65/35. We want to counter offer that and keep it at 70/30. The only change would be the collateral option.

Committee Chairman Leon Guerrero stated that the original Securities Lending contract indemnifies the Retirement Fund. Now Northern Trust is proposing to increase the fees for everything. Committee Vice Chairman Cruz reiterated that there is no change on the custody fee and performance fee on Option 1. There is a change on the collateral requirement and a propose change on the fee split. Ex Officio San Agustin asked how the rebate applies to the custody. Committee Vice Chairman Cruz stated that it is an added service. Whatever brokerage commission they generate, they will rebate 10% of it to the Retirement Fund. Ex Officio San Agustin asked whether we are using them for transition. Committee Vice Chairman Cruz stated that they are part of the line up of two. Ex Officio San Agustin stated that the custody agreement was amended by a separate bid. Director Blas stated that the Retirement Fund did not amend anything. Committee Vice Chairman Cruz stated that the transition management agreement is exclusive to transition management. Committee Vice Chairman Cruz stated that there are two contracts. Committee Vice Chairman Cruz stated that if the Retirement Fund terminates custody, we will still have transition. Committee Chairman Leon Guerrero asked whether there is any procurement problem. Director Blas stated that the Retirement Fund did procurement. Director Blas stated that we are not amending their current custody agreement. There is a separate contract for transition.

Ex Officio San Agustin asked how many transition managers does the Retirement Fund have. Committee Vice Chairman Cruz stated that there are two. Ex Officio San Agustin pointed out that there is only one custodial manager. Director Blas stated that the Retirement Fund only needs one custodial manager. Ex Officio San Agustin stated that Northern Trust could be in a position of a conflict of interest. Director Blas stated that it was just to create a pool, it does not necessarily mean we are going to be using Northern Trust for the transition portion. Director Blas stated that we are using BlackRock for the transition for the two RFPs. Ex Officio San Agustin stated that Northern Trust might question why BlackRock is being used for the transition. Director Blas stated that the reason why we are using BlackRock is because their fees are lower.

Director Blas stated that the bottom portion of Northern Trust's proposal should be removed. Committee Vice Chairman Cruz stated that it is a separate issue altogether. Controller Bernardo stated that she can have Northern Trust strike that portion out. Ex Officio San Agustin asked Committee Vice Chairman Cruz whether the recommendation is to go with Option 1 and ask for a 70/30 split instead of 65/35. Committee Vice Chairman Cruz replied, "Yes." Controller Bernardo stated that she will inform Northern Trust of the Committee's recommendation.

Controller Bernardo stated that the Retirement Fund should keep in mind that Northern Trust provided a proposal and if the Retirement Fund does not select one of the options provided or make a counter offer, Northern Trust could turn around and give the Retirement Fund a ninety-day termination notice. Controller Bernardo stated that the Retirement Fund will then be without a custodian.

Controller Bernardo noted that because of the concern of Northern Trust being the custodian and also the transition manager, Controller Bernardo wanted to also point out that BlackRock was taken in as a transition manager and that we also have a BlackRock Index Fund. Controller Bernardo stated that she wanted to get a clarification, going forward, if there will be a conflict if BlackRock is used as a transition manager if the Retirement Fund has an index. Ex Officio San Agustin stated that there will be a conflict.

V. INFORMATIONAL ITEMS

1. Asset Allocation Summaries

A copy of the asset allocation summary statements was provided to the Committee for review and informational purposes. Controller Bernardo stated that as of December 9, 2014, the Retirement Fund's total market value is \$1.666 Billion.

2. Income Summary

A summary of interest and dividend income was provided to the Committee for review and informational purposes. Controller Bernardo stated that the total interest and dividend income for Fiscal Year 2014 is \$34 Million.

3. Securities Lending

A summary of securities lending earnings was provided to the Committee for review and informational purposes. Controller Bernardo stated that the Securities Lending income for Fiscal Year 2014 is \$254,472.

4. Litigation Settlements

A summary of litigation proceeds from Fiscal Year 2006 to Fiscal Year 2014 was provided to the Committee for review and informational purposes. Controller Bernardo stated that there are no new items listed. Committee Chairman Leon Guerrero pointed out that the list is pretty long. Committee Vice Chairman Cruz stated that most of the securities listed are pretty much dead like, Enron, Lehman, Merrill Lynch, and Wells Fargo. Director Blas stated that Management was asked to list it all. Committee Vice Chairman Cruz asked that it be listed either ongoing or closed. Controller Bernardo stated that it's hard to tell, since proceeds are still being received even after settlement. Ex Officio San Agustin inquired about the recovery rate. Director Blas stated that it is 16%.

5. 5-Year Plan

A copy of the 5-Year Plan was provided to the Committee for review and informational purposes. Committee Chairman Leon Guerrero mentioned that Director Blas is concerned of changing the custodial bank every five years. Director Blas stated that the intention is to consider whether to maintain it or issue an RFP. Committee Chairman Leon Guerrero stated that he wants to see what is out there. Committee Vice Chairman Cruz suggested seeking a market study. Committee Chairman Leon Guerrero recommended issuing a Request of Interest (ROI) for the custodial bank and investment advisors and then from there we could determine whether to issue an RFP. Director Blas indicated that she will issue an ROI.

Committee Chairman Leon Guerrero asked Director Blas whether the review of vendors will be placed in the Investment Policy Statement (IPS). Director Blas asked whether it is just for the review of the custodial bank and investment advisors that will be placed in the IPS. Controller Bernardo asked whether it could be in a form of a board resolution. Director Blas stated that it could be in a form of a board resolution to adopt a policy. Director Blas indicated that she will prepare a board resolution regarding this matter.

VI. OPEN DISCUSSION

None

VII. CORRESPONDENCE

None

VIII. ANNOUNCEMENTS

1. Next Due Diligence Meeting: February 25, and 26, 2015

Committee Chairman Leon Guerrero informed the Committee that the next due diligence meeting is tentatively scheduled for February 25, and 26, 2015.

IX. ADJOURNMENT

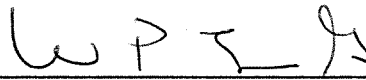
There being no further business before the Investment Committee, a motion was made by Committee Vice Chairman Gerard Cruz, seconded by Committee Chairman Wilfred Leon Guerrero, to adjourn the meeting at 2:15 p.m. Without objection, the motion unanimously passed.

Respectfully submitted,

AFFIRMED:



JACKIE M. BLAS
Recording Secretary



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