



GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY • SECURITY • REWARDS

Eddie Baza Calvo
Governor

Ray Tenorio
Lieutenant Governor

Paula M. Blas
Director

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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
Thursday, November 20, 2014
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 2:30 p.m. Thursday, November 20, 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
Anthony C. Blaz, Member
Joe T. San Agustin, Ex Officio
David M. O'Brien, Trustee

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

II. ACTION ITEMS

1. **October 30, 2014 Regular Investment Committee Meeting Minutes**
2. **September 24, and 25, 2014 Due Diligence Meeting for the Quarter Ended June 30, 2014 Minutes**

Committee Vice Chairman Gerard Cruz, seconded by Committee Member Anthony Blaz, moved to approve the Minutes of the October 30, 2014 Regular Investment Committee Meeting, subject to technical corrections; and to table the Minutes of the September 24, and 25, 2014 Due Diligence Meetings. Without objection, the motion unanimously passed.

III. OPEN ITEMS

1. **Government of Guam Retirement Fund Optimization for Step No. 2**

Maggie Ralbovsky of Wilshire Associates stated that she ran a new optimization based on the current capital market assumptions. Ms. Ralbovsky stated that she also did some projections in regards to the funded ratio and the contribution projections.

Ms. Ralbovsky stated that she would like to introduce two new asset classes that the Retirement Fund does not currently have. The two new asset classes are Risk Parity and Liquid Alternatives. Ms. Ralbovsky stated that she will like to review the bucket list. The bucket list is a different way of separating asset classes. It is not by stocks, bonds, and real estates. It is by what the asset classes are influenced by with regards to the fundamentals of economic forces. Ms. Ralbovsky stated that stocks do well when the growth factor is strong. This is called the "Growth Bucket." Fixed Income do well in stable environments. This is called the "Stability Bucket." Certain asset classes do well when inflation is strong. This is called the "Inflation Bucket." Ms. Ralbovsky stated that these are the three major buckets. The reason why it is important to introduce the different economic forces behind the returns is because when we allocate assets we are not only allocating into the different asset classes by name, but also allocating our risk budget. When we only allocate asset classes without considering allocating risk, we tend to over weight certain factors.

Risk Parity – Ms. Ralbovsky stated that major asset classes all have the same Sharpe ratio. Sharp ratio is defined as risk divided by return. It measures how much return you are getting for every unit of risk you are taking. Since each asset class may have a similar Sharpe ratio, allocating risk budget in a balanced fashion creates a better risk allocated – higher Sharpe ratio portfolio.

Ms. Ralbovsky stated that while the Retirement Fund's policy has an 11.5% average risk over the years, the level is not managed, but rather the result of how asset classes behaved. Vice Chairman Leon Guerrero asked where did the 11.5% average risk come from. Trustee David O'Brien stated that it is from the historical performance. Ms. Ralbovsky stated that Risk Parity strategies seek to manage risk taking by increasing risks when the market risk is low and reducing risk when the market risk is high leading to a more constant risk level. Ms. Ralbovsky stated that the Retirement Fund's policy has a 10% target risk, which is an acceptable level of risk. Treasurer Gerard Cruz asked whether balancing our risk will improve returns. Ms. Ralbovsky replied, "Yes." The goal is "the same risk, higher returns." Treasurer Cruz asked what is the measuring stick. Ms. Ralbovsky stated that it is a blended benchmark

of 60/40. Vice Chairman Leon Guerrero asked Ms. Ralbovsky how did she arrive at that moving target. Ms. Ralbovsky stated that all the Retirement Fund's benchmarks are moving targets. Controller Diana Bernardo asked whether the blended benchmark is reflected in the performance report. Ms. Ralbovsky replied, "Yes." Vice Chairman Leon Guerrero asked what is the formula. Trustee O'Brien stated that it is the blended policy index times each asset classes' standard deviation. It is a weighed average standard deviation of all of our asset classes. Treasurer Cruz stated that on a quarterly basis, the way we will determine whether the Risk Parity mandate is effective is if it beats the relative benchmark which will be calculated on a quarterly basis. Ms. Ralbovsky stated that the benchmark will be pre-determined. Ms. Ralbovsky stated that the Risk Parity benchmark will be 60/40. The 60/40 benchmark has about a 10% risk in it. Our goal is to have Risk Parity managers generating better returns than a 60/40 portfolio in the long run. Ms. Ralbovsky stated that leverage is only risky if you lever up things that are illiquid. Trustee O'Brien asked whether we could co-mingle 30% with no constraint. Ms. Ralbovsky replied, "Yes." Ms. Ralbovsky stated that she provided an annualized risk/return. The Risk Parity example strategy had achieved significantly better efficiency in risk taking.

Liquid Alternatives – Ms. Ralbovsky stated that Liquid Alternatives are Mutual Fund forms of Hedge Funds. Liquid Alternatives are all 40 Act Mutual Funds. There are four categories: Equity Long/Short, Event-Driven, Macro, and Relative Value. Ms. Ralbovsky stated that Equity Long/Short is managers that buy and short stocks. Short is something you sell. The Retirement Fund's current managers are long only managers. Long is when you buy.

Ms. Ralbovsky stated that if you can identify a talented manager that can forecast stocks going up and down, it will give you the ability to short. This will be a great hedge to a long only equity stocks portfolio because we know that stocks don't go up all the time. If you have a manager that can short, you can generate some returns even when the market goes down and that is why long/short manager will be a great hedge as a portion of the stocks portfolio. Vice Chairman Cruz asked whether Ms. Ralbovsky is recommending hiring a long/short manager. Ms. Ralbovsky stated that she is recommending hiring a long/short manager and a macro manager. These two categories will add the most diversification. Ms. Ralbovsky stated that a macro manager mainly trades on macro economic deviations.

Ms. Ralbovsky stated that if the total allocation to Liquid Alternatives is higher than 6%, she will ask the Committee to consider a Relative Value. Relative Value is a Fixed Income arbitrage. A Relative Value manager can look at the capital structure and can identify the index pricing. If you long bonds and you short stocks, you will make a risk free trade.

Ms. Ralbovsky stated that if you put everything in Risk Parity, your return will be 7.75%. If it is in Equity, the return is less than 7%.

Ms. Ralbovsky stated that she provided an optimization of the portfolio. Ms. Ralbovsky noted that the contribution to asset volatility on the current policy on Equity is 88.3%. It will be 79.3% with Alternative No. 2.

Ms. Ralbovsky stated that we can not only look at returns without looking at risk. Ms. Ralbovsky stated that she prepared a chart of the present value of all future contributions. The current contribution is higher than Alternative No. 2. Ms. Ralbovsky noted that lower is better. Chairman Leon Guerrero

asked Ms. Ralbovsky to review the changes. Ms. Ralbovsky stated that the Board of Trustees approved Step No. 1 and every step will be re-reviewed based on the market conditions. Controller Bernardo stated that she thought the Board also approved certain targets like a 5% target to Risk Parity and Ms. Ralbovsky is going to an 8% target. Ms. Ralbovsky stated that the Board did not approve a 5% target to Risk Parity. The Board approved Step No. 1. Controller Bernardo stated that she thought the Board approved an allocation. Director Blas stated that the Board approved Step No. 1.

Ms. Ralbovsky stated that she is recommending that the Board consider Alternative No. 2 as a step to target.

IV. NEW BUSINESS

1. 5-Year Plan

A copy of the 5-Year Plan was provided to the Committee for review and informational purposes.

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.

2. Income Summary

A summary of interest and dividend income was provided to the Committee for review and informational purposes.

3. Securities Lending

A summary of securities lending earnings was provided to the Committee for review and informational purposes.

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.

VI. OPEN DISCUSSION

Northern Trust Services – Chairman Leon Guerrero stated that during the Due Diligence Meeting, the Committee reviewed/discussed the “Proposed Custody and Related Services Fee Options” provided by Robert Ernst of Northern Trust. Vice Chairman Cruz stated that the Committee should consider accepting Option 1, with a Fee Split on Securities Lending of 70/30 instead of the 65/35 proposed by Northern. Vice Chairman Cruz asked that Ms. Ralbovsky provide the Committee with her input for discussion and consideration by the Committee during the December 2014 meeting.

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

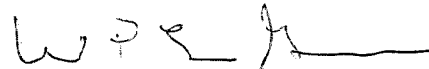
There being no further business before the Investment Committee, a motion was made by Committee Vice Chairman Gerard Cruz, seconded by Committee Member Anthony Blaz, to adjourn the meeting at 3:05 p.m. Without objection, the motion unanimously passed.

Respectfully submitted,



JACKIE M. BLAS
Recording Secretary

AFFIRMED:



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