



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY · SECURITY · REWARDS  
**BOARD OF TRUSTEES**

**Regular Meeting**  
 Friday, February 27, 2015, 12:30 p.m.  
 Retirement Fund Conference Room

**MINUTES**

**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

**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 12:42 p.m. Friday, February 27, 2015, 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  
 David M. O'Brien, Trustee  
 Anthony C. Blaz, Trustee

**Board of Trustees Absent:**

Katherine T.E. Taitano, Trustee (*Excused*)

**Staff Present:**

Paula Blas, Director  
 Diana Bernardo, Controller  
 Jackie Blas, Recording Secretary  
 Peter Duenas, Acting Benefit Program Administrator  
 Lena Sanchez, Benefit Specialist II

**Investment Consultant Present:**

Maggie Ralbovsky, Wilshire Associates

**Legal Counsel Present:**

Elyze M. Iriarte, Carlsmith Ball LLP

**Public Present:**

Dave Burger, Burger & Comer  
 Rodalyn Gerardo, Office of Public Accountability  
 Jesse & Elizabeth Manglona

## II. REVIEW AND APPROVAL OF BOARD MINUTES

### A. January 30, 2015 Regular Meeting

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Minutes of the January 30, 2015 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 February 23, 2015 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.

- **MF Global**
- **Invacare Corporation**

3. *Government of Guam Group Health Insurance Program: Retiree Advocate* - Director Blas stated that the Government of Guam Health Insurance solicitation process will begin in March 2015. Public Law 29-80 mandates that the Retirement Fund Board appoint a retiree representative to serve on the Health Insurance Negotiations Team. Director Blas stated that Mr. Mike Carlson served on the Team for the last four (4) years and has expressed his willingness to continue to serve on the Team. The Board agreed to retain Mr. Carlson as the Retiree Advocate.

### Financial Report

1. *Contributions* - Director Blas stated that as of February 24, 2015, all agencies are current with their Fiscal Year 2015 employee and employer contributions.

2. *Financial Statements* - Director Blas stated that the books for the month ending January 2015 were closed on February 19, 2015.

3. *Fiscal Year 2014 Audit* - Director Blas stated that the audit for Fiscal Year Ending September 30, 2014 is completed. The final audit reports are scheduled to be issued by March 4, 2015.

4. *Fiscal Year 2015 Retirees' Supplemental Benefits* - Director Blas stated that supplemental benefits for retirees and survivors for the month of February 2015 were paid.

5. ***Fiscal Year 2015 Medicare Reimbursements*** - Director Blas stated that the Retirement Fund received the February 2015 allotment from the General Fund and reimbursements were processed accordingly.

## **VI. LEGAL COUNSEL'S REPORT**

Legal Counsel Elyze Iriarte provided an update on the Bautista and Guthrie vs. Perez case. Legal Counsel stated that the Supreme Court heard oral arguments on this matter on February 20, 2015. The Supreme Court had asked for supplemental briefing on the issue of sovereign immunity. Legal Counsel explained that sovereign immunity immunizes the Government from suit unless it has consented by way of law. The Supreme Court asked whether the funds which would be used to pay Mr. Guthrie's attorney's fees are funds of the sovereign, or whether the Retirement Fund would be entitled to immunity. Justice Philip Carbullido and Justice Katherine Maraman led the questioning on sovereign immunity, and seemed to lean towards finding that sovereign immunity may not apply if Defined Benefit Plan assets are not considered as public funds. Legal Counsel stated that the issue is if the Retirement Fund is liable to pay the attorney's fees. Chairman San Agustin stated that if the sovereign immunity doctrine does not apply, it is vulnerable. Trustee David O'Brien asked whether Legal Counsel is going to pursue the sovereign immunity approach. Legal Counsel stated that it has been briefed. Legal Counsel stated that it is worth exploring in the future, but on a case by case basis. Vice Chairman Wilfred Leon Guerrero inquired about the Supreme Court settling the case. Chairman San Agustin stated that the Retirement Fund has sufficient documentation. Legal Counsel stated that if the court rules in Guthrie's favor, the Retirement Fund will have to carefully look at it. Legal Counsel stated that she is confident he won't prevail. Chairman San Agustin stated that if Guthrie prevails, legislation is needed to prevent this in the future. Legal Counsel stated that the Supreme Court will render its decision three to six months from now.

## **VII. TREASURER'S REPORT OF FINANCIAL STATUS**

### **A. Fiscal Year 2014 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, 2014 and 2013 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 financial statement will be released next week. Mr. Burger stated that there are four (4) components: 1) Management's Discussion and Analysis, 2) Executive Summary, 3) Financial Statements, and 4) Supplemental Schedules.

Mr. Burger stated that the Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB 67 requires certain changes and additional disclosures to be made to the Retirement Fund's financial statements, notes, and required supplementary information. GASB 68 related to the Financial Reporting for Pensions will result in a change to the Retirement Fund's statements.

***Statement of Fiduciary Net Position*** – Mr. Burger pointed out a change on the financial statement - “Deferred Inflows of Resources.” GASB 63 and GASB 65 defines what deferred outflows and inflows are. Mr. Burger stated that the deferred inflows are revenues that are not available to meet the current obligations. Mr. Burger stated that we are now not allowed to use the word “deferred” unless it refers to deferred outflow or inflow. Trustee O’Brien asked whether it is the offset from receivables. Mr. Burger replied, “Yes.” Mr. Burger stated that Deferred Inflows is a new section in the financial statement. Secretary Antonina Leon Guerrero asked for clarification about the Deferred Inflows. Mr. Burger stated that it is individuals buying back their years of service, which is decreasing yearly. Director Blas stated that it’s also the promissory notes for redeposits, and military credits.

***Statement of Changes in Fiduciary Net Position*** - Mr. Burger stated that performance was good. It was a little less than 2013, but it follows the market. Mr. Burger pointed out that the MD&A indicates that the annuities are slightly higher than the investment returns. Mr. Burger stated that the Retirement Fund has \$2 Billion under its watch.

***Notes to Financial Statements*** - Mr. Burger pointed out that new disclosures on GASB 67 are on the Net Pension Liability of Employers shown on Pages 44-46. Director Blas stated that the details are on Page 57.

***Schedule of Changes in Net Pension Liability*** - Mr. Burger stated that this is a new disclosure intended to show 10 years of historical information. Chairman San Agustin asked whether the total pension liability is determined by the actuary. Mr. Burger replied, “Yes, and the net positions are from assets.” Chairman San Agustin asked about the significance of the net pension liability and its relation to the Fund’s unfunded liability and security ratio. Controller Bernardo stated that she will include a paragraph in the footnotes explaining the difference between the Net Pension Liability and the Unfunded Liability.

***Schedule of Net Pension Liability By Agency*** - Mr. Burger stated that the total unfunded liability is \$1.3 Billion and it has to be recognized as a liability. For the Fiscal Year 2015 audit, it will be recorded as a liability.

In conclusion, Mr. Burger stated that there are no findings. Trustee O’Brien mentioned that the last finding was 9 years ago and commended Controller Bernardo on a consistently job well done.

**Treasurer Gerard Cruz, seconded by Trustee David O’Brien, moved to approve the Retirement Fund’s Fiscal Year 2014 Audit Report with the Supplemental Schedules as presented by the Independent Auditors of Burger, Comer & Magliari. Without objection, the motion unanimously passed.**

Treasurer Cruz 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 Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended January 31, 2015.

## VIII. STANDING COMMITTEE REPORTS

### A. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended December 31, 2014 was held on February 25, and 26, 2015. The Investment Committee Meeting was also held on February 26, 2015. The Committee reviewed and approved the Investment Committee Meeting Minutes of January 29, 2015, and the November 19, and 20, 2014 Due Diligence Meeting Minutes for the Quarter Ended September 30, 2014.

Vice Chairman Leon Guerrero stated that during the performance meetings, Maggie Ralbovsky of Wilshire Associates discussed the Investment Manager performance. Ms. Ralbovsky provided an overview of the Investment Performance noting that for the Quarter Ended December 31, 2014, the Retirement Fund's portfolio outperformed its benchmark index, ranking in the 1st percentile of Wilshire's peer group universe for the quarter. The Retirement Fund's Return was 4.10% and the Benchmark Return was 3.72%.

Ms. Ralbovsky stated that Annual Reviews were conducted for the following Non-U.S. Equity Managers:

- Capital International
- Dimensional Fund Advisers
- Fisher Investments
- Earnest Partners

Ms. Ralbovsky stated that she discussed how to structure the investment portfolio using each asset class. A copy of the Summary of Investment Structure Analysis and a Rebalancing Worksheet was provided to the Board.

Ms. Ralbovsky discussed the following recommendations for the Board's consideration:

**1. *Rebalancing Amongst Current U.S. Equity Managers*** – Ms. Ralbovsky stated that Wilshire is recommending rebalancing among the current stock managers.

**Treasurer Gerard Cruz, seconded by Trustee Anthony Blaz, moved to approve, pursuant to earlier discussion and decision and at the recommendation of Wilshire, to allocate from the U.S. Equity and implement the Rebalancing Step 1 with the new funding to High Yield and Global REITS, as detailed in the Rebalancing Worksheet. Without objection, the motion unanimously passed.**

**2. *Terminating Franklin Templeton, and Performing an Interim Rebalancing Amongst the Two Other Fixed Income Managers*** - Ms. Ralbovsky stated that Wilshire is recommending terminating Franklin Templeton immediately. Ms. Ralbovsky stated that the analysis shows that it will improve the expected returns by 40 basis points. The funds will be transferred to Garcia Hamilton and Income Research Management. Chairman San Agustin asked whether we can transfer the funds before termination. Ms. Ralbovsky replied, "A termination notice will be given and Northern Trust will then cease all trading."

**Treasurer Gerard Cruz, seconded by Trustee David O'Brien, moved to approve Wilshire's recommendation to terminate Franklin Templeton and to split the allocation to Garcia Hamilton and Income Research Management. Without objection, the motion unanimously passed.**

**3. *Keeping Eaton Vance on Watch*** – Ms. Ralbovsky stated that Eaton Vance will be kept on watch until November 2015.

**4. *Placing Capital International on Watch*** - Ms. Ralbovsky stated that Capital International will be placed on watch. Capital International has been under performing since inception in 2011.

**5. *Issuance of a Request for Proposal for Risk Parity*** – Ms. Ralbovsky stated that Wilshire is recommending that the Board authorize the issuance of an RFP for Risk Parity.

**Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve Wilshire's recommendation to authorize the issuance of a Request for Proposal (RFP) for Risk Parity. Without objection, the motion unanimously passed.**

***Northern Trust: Custodial Fee Options*** - Vice Chairman Leon Guerrero stated that during the January 30, 2015 meeting, the Board approved Wilshire's recommendation to approve Option I with a Securities Lending Fee Split of 65/35 and a Flat Custody Fee of \$50,000 subject to clarification by Wilshire of the Board's concerns. Vice Chairman Leon Guerrero stated that Ms. Ralbovsky provided her analysis in her letter of February 22, 2015 for the Board's information.

***Next Quarterly Performance Meeting*** – Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is scheduled for May 27, and 28, 2015.

Vice Chairman Leon Guerrero indicated that as of February 20, 2015, the Retirement Fund's portfolio is \$1.683 Billion.

**Treasurer Gerard Cruz, 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 February 2015 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 12, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of February 11, 2015. Without objection, the motion unanimously passed.**

### **DISABILITY CASE NO. 14-003**

Secretary Leon Guerrero stated that the applicant is a 58 year old Fire Captain employed with the Guam International Airport Authority with approximately 23 years of service. The applicant applied for disability on May 20, 2014. The reason for application is Coronary Artery Disease, Osteoarthritis, Anxiety, and Panic Attack. Secretary Leon Guerrero stated that the applicant was examined by Dr.

Patrick Santos on June 5, 2014, and Dr. Fred Schroeder on June 24, 2014. Dr. Santos gave a rating of 49% whole-person impairment and Dr. Schroeder gave a rating of 62% whole-person impairment. Secretary Leon Guerrero stated that the Retirement Fund's Medical Consultant, Dr. Laura Post, gave a rating of 85% whole-person impairment and finds that the applicant is medically impaired by both acute and chronic medical diagnoses with multiple symptoms and considers a full disability pension is appropriate for 14-003 at this time.

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. 14-003. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Treasurer Gerard Cruz, Vice Chairman Wilfred Leon Guerrero, Trustee Anthony Blaz, and Chairman Joe San Agustin. With six (6) "Yes" votes, the motion unanimously passed. Trustee Katherine Taitano was absent.**

#### **DISABILITY CASE NO. 14-006**

Secretary Leon Guerrero stated that the applicant is a 51 year old Agricultural Research Technician employed with the University of Guam with approximately 26+ years of service. The applicant applied for disability on August 27, 2014. The reason for application is Spinal Stenosis, Gout, and Arthritis with Erosion to Multiple Joints, Hypertension, and Increased Back Pain. Secretary Leon Guerrero stated that the applicant was examined by Dr. Patrick Santos on September 12, 2014 and Dr. Fred Schroeder on October 20, 2014. Dr. Santos gave a rating of 57% whole-person impairment, and Dr. Schroeder gave a rating of 60% whole-person impairment. Secretary Leon Guerrero stated that the Retirement Fund's Medical Consultant, Dr. Laura Post, gave a rating of 33% whole-person impairment and finds that the applicant is medically impaired by both acute and chronic medical diagnoses with multiple symptoms and does not consider that a disability pension is appropriate for 14-006 at this time.

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.

The applicant identified himself as Jesse Manglona. Mr. Manglona stated that he can't walk for more than 15 feet without resting. Mr. Manglona's wife identified herself as Elizabeth. Ms. Manglona stated that she sees what her husband is going through and he is really suffering. Ms. Manglona stated that both physicians had indicated that her husband's impairment precludes him from working. Ms. Manglona stated that it is the Medical Consultant that is not approving it. Chairman San Agustin stated that the physicians' ratings do not meet the 75% threshold.

***Vice Chairman Wilfred Leon Guerrero recused himself from this case due to a conflict.***

Chairman San Agustin read out loud the definition of *Total and Permanent Disability*: “one which results from some impairment of body or mind which can be expected to result in death, or can be expected to last for a continuous period of not less than twelve (12) months. The impairment shall be one that substantially precludes a person from performing with reasonable regularity the substantial and material parts of any gainful work or occupation that he would be competent to perform were it not for that impairment, and if founded upon condition which render it reasonably certain that it will continue indefinitely.”

Secretary Leon Guerrero stated that this is a very difficult situation. It is clear that the applicant is suffering and that he has health conditions, but the law states that the impairment shall be total and permanent. Chairman San Agustin reiterated that none of the physicians reached the 75% threshold. Chairman San Agustin indicated that even the applicant’s primary physician gave a rating of 56%.

Mr. Manglona stated that he is out of leave; he has to find someone for leave-sharing, and he is unable to pay his mortgage. Chairman San Agustin stated that the applicant may retire on optional retirement. Director Blas stated that the applicant meets the minimum number of years to retire, but not of the age retirement of 65, which means there will be a reduction in annuity every year until the age of 65. Mr. Manglona stated that he is aware of this. Peter Duenas, Acting Benefit Program Administrator, stated that he met with the applicant and he provided the applicant with an annuity estimate.

**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 not appropriate at this time and to disapprove disability pension for Disability Case No. 14-006. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O’Brien, Treasurer Gerard Cruz, Trustee Anthony Blaz, and Chairman Joe San Agustin. With five (5) “Yes” votes, the motion passed. Vice Chairman Wilfred Leon Guerrero recused himself from the meeting and Trustee Katherine Taitano was absent.**

**IX. OLD BUSINESS**

None

**X. NEW BUSINESS**

**A. Fiduciary Responsibility of the Retirement Fund’s Investment Advisers, Investment Managers, Bank Custodians, and Actuary**

Chairman San Agustin provided a copy of Legal Counsel’s memorandum regarding Fiduciary Responsibility for the Retirement Fund’s Investment Advisers, Investment Managers, Bank Custodians, and Actuary for the Board’s information.

**XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT**

None

**XII. ANNOUNCEMENTS**

None



**XIII. ADJOURNMENT**

**There being no further business before the Board for the Defined Benefits Plan, on motion of Secretary Antolina Leon Guerrero, seconded by Trustee David O'Brien, and without objection, the meeting was adjourned at 2:31 p.m. Motion unanimously passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 27, 2015 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 27, 2015.**



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**ANTOLINA S. LEON GUERRERO, Board Secretary**

**RECORDING SECRETARY:**



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**Jackie Blas**