



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY • SECURITY • REWARDS

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

BOARD OF TRUSTEES
Regular Meeting
 Friday, February 24, 2017, 12:00 Noon
 Retirement Fund Conference Room

MINUTES

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

David M. O'Brien
 Trustee

Albert H. Santos
 Trustee

DEFINED BENEFIT

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefit Plan was called to order at 12:36 p.m. Friday, February 24, 2017, 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

Board of Trustees Absent:

Albert H. Santos, Trustee (*Excused*)
 Katherine T.E. Taitano, Trustee (*Excused*)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Jackie Blas, Recording Secretary
 Alice Taijeron, Director, Client Relations & Plan Counseling, Empower Retirement

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

Public Present:

Dave Burger, Burger & Comer
 Llewelyn Terlaje & Thomas Battung, Office of Public Accountability

Chairman San Agustin recommended suspending the order of business and proceed with the Fiscal Year 2016 Audit under the Treasurer's Report. The Board indicated they have no objection to changing the order of business.

II. FISCAL YEAR 2016 AUDIT

Dave Burger of Burger & Comer stated that a copy of the Retirement Fund's Financial Statements, Independent Auditor's Report and Management's Discussion and Analysis (MDA) for the period September 30, 2016 is 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.

Mr. Burger stated that they started the audit in December 2016. They tested transactions, calculations on annuities, bank accounts, and checked salaries and increments. The amount on the financial statements can be off by \$5.7 Million and it not going to change anything. Mr. Burger stated that it creates an individually significant item which will be \$1.9 Million. Trustee David O'Brien asked how you get to the \$1.9 Million. Mr. Burger stated that it is 1/3 of tolerable misstatement. Mr. Burger stated that they held a couple of meetings with the Office of Public Accountability (OPA) and they looked at the draft and questions were raised and answered. There is no internal control on compliance findings. Mr. Burger stated that we are now seeing the start of the shift in the liability. We saw the drop in the required contribution rate. Mr. Burger stated that it was a good year.

Vice Chairman Wilfred Leon Guerrero asked whether there are any reoccurring findings. Mr. Burger stated that a concern about the unfunded liability will remain until there is no longer an unfunded liability. Mr. Burger stated that another issue may be the impact, if any, of the implementation of the new plan. Chairman San Agustin stated that there is no finding in the audit regarding the implementation of the new plan. Mr. Burger stated that there will be some kind of implementation and there will be a financial impact. Secretary Antolina Leon Guerrero stated that it is an observation of subsequent events. Mr. Burger stated that there is a footnote in the audit on when things will become effective and whether an analysis on the impact was done. Trustee O'Brien stated that the MDA is very literate. Trustee O'Brien asked what could be done to align the two reports - the prior year actuarial valuation is always being used. Mr. Burger stated that the prior year actuarial valuation is being used to do the calculations of pensions and allocations. Controller Diana Bernardo stated that it used to be a two (2) year gap where valuations were done every two years. Director Paula Blas stated that we have not received the valuation for 2016. Controller Bernardo stated that the actuarial valuation will be finalized in March, but we could try to have it finished earlier; but for the financials and the statutory rate, there's always going be a one year gap. Mr. Burger stated that it is pretty routine.

Trustee O'Brien inquired about the gap in the "due to brokers, due from brokers." on Page 14. Mr. Burger stated that it was completely a matter of timing. Maggie Ralbovsky of Wilshire Associates stated that it has nothing to do with the managers. Vice Chairman Leon Guerrero asked Controller Bernardo how to justify the use of Defined Benefit (DB) money for the new plan. Vice Chairman Leon Guerrero stated that expenditures will take place beginning in April. Mr. Burger stated that there are going to be costs to implement the new plan and according to Chairman San Agustin, there is no legislative appropriation. Trustee O'Brien stated that the plan is to seek legislation to secure funding for the implementation of the new plan. Vice Chairman Leon Guerrero asked when legislation will be

transmitted to the Legislature. Secretary Leon Guerrero stated that the Retirement Fund's Legal Counsel is drafting the legislation.

Trustee O'Brien pointed out an error on Page 16 on the allocation, it should be 1.60% negative. Controller Bernardo noted the error. Trustee O'Brien inquired about the first sentence on Page 20 of the MDA – "The 9.53% return for 2016 and the 2015 return of .83% highlight the long-term proven success of strategic asset allocation and diversification in mitigating market volatility." Mr. Burger stated that it's as it relates to the benchmark. Trustee O'Brien suggested deleting that sentence. Controller Bernardo stated that she will delete that sentence.

Trustee O'Brien also pointed out an error on Page 45 under GASB 67 – it should read "TPL." Trustee O'Brien inquired about the "subsequent events" on Page 59. Subsequent events is up to what period. Mr. Burger stated that it's through the date of the report. Trustee O'Brien inquired about the retirement contribution on Page 64. The contributions are three times higher than the prior year. Mr. Burger stated that it is not the salary times the statutory rate. It's the GASB pension expense. Trustee O'Brien asked why it is 3 times higher. Mr. Burger stated that it is due to the amortization, which includes changes in demographics and experiences. It is highly complicated and comprehensive. Trustee O'Brien asked whether Mr. Burger is confident in the calculations. Mr. Burger replied, "Yes." Treasurer Gerard Cruz asked what the primary driver for the big changes was. Ms. Ralbovsky stated that last year it was 0.8% and this year it's above the 7% rate. Mr. Burger stated that it's the amortization. Trustee O'Brien stated that he just wanted to make sure since the difference is huge. Mr. Burger stated that he will make the changes based on the discussions.

Vice Chairman Wilfred Leon Guerrero, seconded by Secretary Antolina Leon Guerrero, moved to accept the Retirement Fund's Fiscal Year 2016 Audit Report as presented by the Independent Auditors of Burger, Comer & Magliari; with the changes discussed. Without objection, the motion passed.

III. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 27, 2017 Regular Meeting

Secretary Antolina Leon Guerrero, seconded by Trustee David O'Brien, moved to approve the Minutes of the January 27, 2017 Regular Meeting, subject to technical corrections. Without objection, the motion 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)* - 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)*** - BLBG's Litigation Status Report dated February 21, 2017 on the following lawsuits is provided for the Board's information. These cases are highly confidential and BLBG asked that the cases not be discussed in a public forum.

- **Apollo Education Group, Inc.**
- **MF Global**

3. ***Request for Proposals (RFPs):***

- a. **RFP No. 003-16: Investment Management Services Specifically for Master Limited Partnerships (MLPs)**

Trustee O'Brien asked how are MLPs doing. Maggie Ralbovsky of Wilshire Associates stated that MLP is 87% cheaper compared to REITs. Trustee O'Brien asked when was MLP first discussed. Ms. Ralbovsky stated that it was first discussed when MLPs dropped by 40%. Treasurer Cruz stated that it was in October 2016.

Financial Report

1. ***Contributions*** - Director Blas stated that as of February 21, 2017, all agencies are current with their Fiscal Year 2017 employee and employer contributions.

2. ***Financial Statements*** - Director Blas stated that the books for the month ended January 31, 2017 is expected to close today.

3. ***Fiscal Year 2017 Retirees' Supplemental Benefits*** - Director Blas stated that supplemental benefits for retirees and survivors for the month of February 2017 will be paid at the end of the month.

4. ***Fiscal Year 2017 Medicare Reimbursements*** - Director Blas stated that the Retirement Fund received the February 2017 allotment from the General Fund and reimbursements were processed accordingly.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Cruz stated that the Retirement Fund is still operating within its current drawdown authority which continues through March 2017.

VIII. LEGAL COUNSEL'S REPORT

No report was made at this time.

IX. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended December 31, 2016 was held on February 22 and 23, 2017. The Investment Committee Meeting was also held on February 23, 2017. The Committee reviewed and approved the Investment Committee Meeting Minutes of January 26, 2017 and the August 24, and 25, 2016 Due Diligence Meeting Minutes for the Quarter Ended June 30, 2016.

Vice Chairman Leon Guerrero stated that Ms. Ralbovsky provided an overview of the DB Plan's Investment Performance noting that for the quarter ended December 31, 2016, the Retirement Fund's portfolio outperformed its benchmark index, ranking at the 49th percentile of Wilshire's Total Fund public peer group universe for the quarter. The Retirement Fund's return was 0.99% for the quarter, outperforming the Benchmark Return of 0.60% for the same period. Ms. Ralbovsky pointed out that the Total Fund Composite was 7.62% since inception on December 31, 1992 and 9.44% for the last five (5) years and the benchmark is 8.95%.

Ms. Ralbovsky stated that annual reviews were conducted for the following active managers: Dimensional Fund Advisers and Fisher Investments. Both reports were satisfactory and there are no recommendations for Board action. Chairman San Agustin asked whether there are any noticeable accomplishments within the year. Ms. Ralbovsky replied, "Yes, Dimensional has had very consistent returns and majority of the years they have outperformed." Fisher is not as consistent, but they have outperformed since inception.

"Friend of the Court Brief" - Vice Chairman Leon Guerrero stated that Bernstein Litowitz Berger and Grossmann's (BLBG's) email requesting the Retirement Fund's support for a "friend of the court" brief to be filed with the U.S. Supreme Court was discussed with Ms. Ralbovsky. Vice Chairman Leon Guerrero stated that the Committee recommends that the board support the brief.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept the Investment Committee's recommendation that the Board support the "Friend of the Court" Brief to be filed with the U.S. Supreme Court. Without objection, the motion passed.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is scheduled for May 24, and 25, 2017. Ms. Ralbovsky stated that during the May 2017 Due Diligence Meeting she will revisit the asset allocation, discuss the shifting from the deflation and growth.

Vice Chairman Leon Guerrero informed the Board of Wilshire's 35th Annual Client Conference scheduled for April 30-May 2, 2017. Vice Chairman Leon Guerrero pointed out that our Board meeting is around the same time.

Treasurer Gerard Cruz, seconded by Trustee David O'Brien, moved to accept the Investment Committee Report. Without objection, the motion passed.

B. Members and Benefits Committee

Secretary Leon Guerrero presented the Committee's February 2017 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 13, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of February 20, 2017. Without objection, the motion passed.

X. OLD BUSINESS

None

XI. NEW BUSINESS

None

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. RECESS

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to recess the Defined Benefit Plan meeting, and without objection, the Board of Trustees meeting for the Defined Benefit Plan recessed at 1:40 p.m. on Friday, February 24, 2017, and will reconvene on Monday, February 27, 2017, at 1:00 p.m. in the Retirement Fund Conference Room. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 24, 2017 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 24, 2017.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas