



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 26, 2016, 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 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 12:20 p.m. Friday, February 26, 2016, 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	Katherine T.E. Taitano, Trustee
Albert H. Santos, Trustee	

Staff Present:

Paula Blas, Director	Diana Bernardo, Controller
Jackie Blas, Recording Secretary	Jackie Sablan, Benefit Specialist II
Lena Sanchez, Benefit Specialist II	
Alice Tajeron, Director, Client Relations & Plan Counseling, Empower Retirement	

Investment Consultant Present:

Maggie Ralbovsky, Wilshire Associates

Legal Counsel Present:

Elyze M. Iriarte, Carlsmith Ball LLP (1:45 p.m.)

Public Present:

Dave Burger, Burger & Comer	Janela Carrera, PNC News
Isa Baza, KUAM	John O'Connor, Guam Daily Post
George Castro, Certified Court Reporter (1:45 p.m.)	

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 29, 2016 Regular Meeting

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Minutes of the January 29, 2016 Regular Meeting, subject to technical corrections. Without objection, the motion 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)* - 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 22, 2016 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.

- MF Global
- Invacare Corporation

Financial Report

1. *Contributions* - Director Blas stated that as of February 23, 2016, all agencies are current with their Fiscal Year 2016 employee and employer contributions with the exception of the Guam Memorial Hospital Authority (GMHA).

2. *Financial Statements* - Director Paula Blas stated that the books for the month ended December 31, 2015 were closed on February 10, 2016 and the books for the month ended January 31, 2016 is scheduled to close by March 4, 2016.

3. *Fiscal Year 2016 Retirees' Supplemental Benefits* - Director Blas stated that supplemental benefits for retirees and survivors for the month of February 2016 were paid.

4. *Fiscal Year 2016 Medicare Reimbursements* - Director Blas stated that the Retirement Fund received the February 2016 allotment from the General Fund and reimbursements were processed accordingly.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

A. Fiscal Year 2015 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 period September 30, 2015 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.

Treasurer Cruz opened the floor to Dave Burger of Burger & Comer. Mr. Burger stated that the performance for 2015 was negative 0.83%. The Retirement Fund closed Fiscal Year 2015 with a \$54.2 Million decrease in net position for the DB Plan, and a \$10.8 Million increase in net position for the DC Plan. Treasurer Cruz stated that the biggest impact was \$9.54 Million in 2014. Chairman San Agustin stated that it dropped in 2014. Treasurer Cruz stated that it is 9.2% down. Chairman San Agustin stated that there was a decrease in return. Treasurer Cruz stated that there was an increase in withdrawal in 2015. Trustee David O'Brien stated that there was no decrease in assets. Controller Diana Bernardo stated that the Cash Flow Statement reflects the drop in contributions from \$157 Million in 2014 to \$150 Million in 2015. Prior year contributions included implementation of the Hay Study and retroactive payments for law enforcement personnel. Chairman San Agustin stated that the drawdown increased by \$10 Million. Treasurer Cruz stated that the returns in 2014 was \$150 Million and \$9 Million in 2015. Chairman San Agustin asked which manager contributed to the loss. Vice Chairman Wilfred Leon Guerrero stated that the loss was due to the market. Trustee O'Brien stated that the net assets is \$2.031 Billion. Chairman San Agustin inquired about the net asset in 2014. Mr. Burger stated that it was \$1.68 Billion. Chairman San Agustin stated that there is an impact due to GMHA's non-payment of contributions. Controller Bernardo stated that GMHA was not an issue as of September 30, 2015.

Mr. Burger stated that he will assist in the implementation of the General Accounting Standards Board (GASB) 68 which puts the liability on the balance sheet. This will be reflected in the 2015 Financial Statement. Trustee O'Brien asked whether there will be an impact. Mr. Burger stated that there will be an impact in the future. Mr. Burger stated that the \$3.7 Million liability will go down by 2031.

Vice Chairman Leon Guerrero inquired about the \$38 Million for the supplemental and COLA. Mr. Burger stated that it goes back to 1999. The General Fund forced the Retirement Fund to pay. Mr. Burger stated that it is amortized \$1.2 Million over 2031. It will be gone in 16 years.

Mr. Burger stated that there are no findings. It is an unqualified audit. Trustee O'Brien asked whether there are any weaknesses. Mr. Burger replied, "No." Mr. Burger pointed out that the files these days are organized.

Treasurer Gerard Cruz, seconded by Trustee David O'Brien, moved to approve the Retirement Fund's Fiscal Year 2015 Audit Report as presented by the Independent Auditors of Burger, Comer & Magliari. Without objection, the motion passed.

Treasurer Cruz stated that the Treasurer's Report is provided at this meeting. It covers the Retirement Fund's Statement of Fiduciary Net Position for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended December 31, 2015.

RECESS: 1:25 P.M. (Recessed DB Meeting to go into the DC Meeting)
RECONVENED: 1:40 P.M. (DB Meeting)

VIII. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Leon Guerrero reported that the Quarterly Performance Meeting for the Quarter Ended December 31, 2015 was held on February 24 and 25, 2016. The Investment Committee Meeting was also held on February 25, 2016. The Committee reviewed and approved the Investment Committee Meeting Minutes of December 11, 2015.

Vice Chairman Leon Guerrero stated that Maggie Ralbovsky of Wilshire Associates provided an overview of the Investment Performance noting that for the Quarter Ended December 31, 2015, the Retirement Fund portfolio underperformed its benchmark index ranking at the 54th percentile of Wilshire's peer group universe for the quarter. The Retirement Fund's Return was 2.58% and the Benchmark Return was 3.12%.

Vice Chairman Leon Guerrero stated that during the performance meetings, Ms. Ralbovsky discussed the Investment Manager performance and the rebalancing of the Investment Portfolio. Ms. Ralbovsky stated that annual reviews were conducted for the following Investment Managers: Capital International, Dimensional Fund Advisers, Fisher Investments, and Earnest Partners. Ms. Ralbovsky stated that Capital International is on the Watch List for underperforming since inception. Fisher is doing better in Emerging Markets. Three managers were given satisfactory reports. Chairman San Agustin asked whether the managers were operating under the benchmark. Ms. Ralbovsky stated that International Emerging underperformed for a short period, based on the developed market benchmark. Ms. Ralbovsky stated that this quarter was very tough - 7% down. The total fund suffered. Ms. Ralbovsky stated that she does a monthly flash report. Ms. Ralbovsky stated that last year was positive up until June 2015. Most of the negative impact on performance happened during the quarter ended September 30, 2015. With China being unstable and the market withdrawal, and the drop in crude oil price, it put a strain on the financial market. Ms. Ralbovsky stated that the U.S. market was down 10%. Chairman inquired about the 10% drop. Controller Bernardo stated that Page 17 of the Audit has that information in the report.

Vice Chairman Leon Guerrero stated that Wilshire recommends the following:

1. Keep Capital International on Watch

Ms. Ralbovsky stated that the recommendation is to keep Capital International on the Watch List. Capital has been underperforming since inception.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept Wilshire's recommendation to keep Capital International on the Watch List. Without objection, the motion passed.

2. Rebalancing of the Investment Portfolio

Ms. Ralbovsky stated that the recommendation is to rebalance the Investment Portfolio based on the rebalancing spreadsheet provided by funding the following Risk Parity Managers, upon signing of their contracts: a) Invesco Advisers, Inc., and b) PanAgora Asset Management, Inc. Ms. Ralbovsky stated that the rebalancing worksheet shows the recommended transfers. Treasurer Cruz asked whether one (1) contract will be signed before the other. Ms. Ralbovsky replied, "Yes." Trustee O'Brien inquired about the implementation of Risk Parity at this time. Citing a recent regarding Risk Parity, Ms. Ralbovsky stated that it is the right time for Risk Parity. It will lever up the entire portfolio. Treasurer Cruz stated that the risk portfolio manager looks at the entire portfolio. Trustee O'Brien asked whether leveraging is based on the assets of the managers. Treasurer Cruz stated that it is within the Fund's portfolio. Ms. Ralbovsky stated that there is a 10% target portfolio with a 50-50 allocation between the two managers. Ms. Ralbovsky stated that this will improve the Fund's quarterly performance against the benchmark.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept Wilshire's recommendation to rebalance the Investment Portfolio as presented. Without objection, the motion passed.

3. Master Limited Partnerships (MLP)

Ms. Ralbovsky stated that the recommendation is to: a) allocate 3% of the Portfolio for Investment in MLPs, and b) issue a Request for Proposal (RFP) for an MLP Manager. Ms. Ralbovsky stated that public affiliated companies in energy exploitation and refining engage in transportation in gas lines have long term revenue. There is a 50% drop in pricing due to market and oil producers not expecting to survive. The recommended 3% allocation could improve returns from 7.15 to 7.35%. Vice Chairman Leon Guerrero asked whether it is a good market. Ms. Ralbovsky stated that it's good on open market. It's a component for growth. Trustee O'Brien asked what happens if you take the growth component out. Ms. Ralbovsky stated that we can expect 10%. Yield is 7%. Trustee O'Brien inquired about the MLP model. Ms. Ralbovsky stated that the MLP requires partnership. The entire model does not have to pay taxes. Trustee O'Brien asked whether the model will change. Ms. Ralbovsky stated that it is premature to say the model will break. Chairman San Agustin asked whether there is any security. Ms. Ralbovsky stated that it is U.S. stocks.

Vice Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to accept Wilshire's recommendation to allocate 3% of the Portfolio for Investment in Master Limited Partnerships, and for the Issuance of a Request for Proposal for a Master Limited Partnerships Manager. Without objection, the motion passed.

Investment Consultant - Vice Chairman Leon Guerrero stated that the Investment Committee recommends that an RFP be issued for an Investment Consultant for the DB Plan. The term of the 5-year contract for DB investment consultant services will be up in June 2016

Vice Chairman Wilfred Leon Guerrero, seconded by Trustee Katherine Taitano, moved to approve the issuance of a Request for Proposal for an Investment Consultant for the Defined Benefit Plan, based on the current 5 Year contract. Without objection, the motion passed.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is scheduled for May 25, and 26, 2016.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to accept the Investment Committee Report. Without objection, the motion passed.

B. Members and Benefits Committee

Trustee Katherine Taitano presented the Committee's February 2016 report to the Board of Trustees.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 12, including the attached Annuity Worksheets and relevant documents, based on the Committee's review and findings during their meeting of February 17, 2016. Without objection, the motion passed.

DISABILITY CASE NO. 15-008

Secretary Leon Guerrero stated that Disability Case No. 15-008 was tabled at the last meeting.

Secretary Leon Guerrero stated that the applicant is a 52 year old Crane Leader with the Port Authority of Guam with 24 years of service. The applicant picked up an application for disability on February 25, 2015. The application was submitted to the Retirement Fund on April 30, 2015. The applicant was examined by Dr. Patrick Santos on November 5, 2015, and Dr. Vincent Duenas on December 3, 2015. Dr. Santos gave a rating of 60% whole-person impairment and indicated that the impairment is permanent and precludes the applicant from gainful work. Dr. Duenas gave a rating of 46% whole-person impairment and indicated that the impairment is not permanent, but it does preclude the applicant from gainful work. The Retirement Fund's Medical Consultant finds that the applicant is impaired by both acute and chronic general medical diagnoses, with multiple associated symptoms, all of which are being treated. Based on review of the applicant's records and pursuant to the reports from the two (2) Independent Medical Examiners (IMEs) in the context of criteria based upon the American Medical Association's Sixth Edition of Guides to the Evaluation of Permanent Impairment (2008), and with contemporaneous reference to this writer's FEWPIR of 23%, the average of the two IMEs FEWPIRs being 53%, a disability pension is not appropriate for 15-008 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 and asked the applicant to please state his name for the record.

The applicant stated that his name is Peter S.N. Tenorio. Mr. Tenorio stated that he carries an oxygen tank around 24-7. Mr. Tenorio stated that he can't perform his duties as a Crane Leader. Mr. Tenorio stated that he has been on leave without pay for five (5) months. Secretary Leon Guerrero asked Mr. Tenorio what his day is like. Mr. Tenorio stated that because of his problem, he lies in bed at home. Mr. Tenorio stated that he drives himself around with his oxygen. The Port won't let him perform light duties. There is no place to put him because of his position. Mr. Tenorio stated that he is not allowed at the operations site because his oxygen tank is considered a hazard. Mr. Tenorio stated that he is still looking at what else to do. He has been a Crane Operator for 15 years. He was also a Stevedore Leader. Chairman San Agustin asked how many employees are under him. Mr. Tenorio stated that there are 11 employees under him. Trustee O'Brien asked whether there is somewhere he could perform light duties. Mr. Tenorio stated that he does not know. Vice Chairman Leon Guerrero asked whether Mr. Tenorio operates the crane. Mr. Tenorio stated that he does operate the crane if he is short of staff. Vice Chairman Leon Guerrero asked what he does if all his employees are at work. Mr. Tenorio stated that he does office work at the operations area.

Chairman San Agustin asked what alternative is available if Mr. Tenorio can't be put on light duties. Trustee O'Brien stated that Mr. Tenorio is in a dilemma. He needs compensation and he can't return to work. Trustee O'Brien stated that the Retirement Fund's Medical Consultant does not recommend approval. Trustee O'Brien stated that he is concerned that the applicant has no compensation. Secretary Leon Guerrero stated that is the challenge before the Board. The applicant's impairment is permanent but it is not clear that he is unable to work. Trustee Taitano suggested asking the Port what they plan to do. Trustee Albert Santos stated that the employer has an obligation to find other duties for Mr. Tenorio. Trustee O'Brien recommended to defer decision and have Management communicate with the Port Authority.

Trustee David O'Brien, seconded by Trustee Katherine Taitano, moved to table Disability Case No. 15-008 so that Management could communicate with the Port Authority of Guam. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Treasurer Gerard Cruz, Vice Chairman Wilfred Leon Guerrero, Trustee Albert Santos, Trustee Katherine Taitano, and Chairman Joe San Agustin. With seven (7) "Yes" votes, the motion unanimously passed.

DISABILITY CASE NO. 15-009

Secretary Leon Guerrero stated that the applicant is a 59 year old Teacher with the Department of Education with 12 years and 5 months of service. The applicant picked up an application for disability on September 25, 2015. The application was submitted to the Retirement Fund on October 26, 2015. The applicant was examined by Dr. Patrick Santos on November 6, 2015, and Dr. Fred Schroeder on November 13, 2015. Dr. Santos gave a rating of 85% whole-person impairment and indicated that the impairment is permanent and precludes the applicant from gainful work; and Dr. Schroeder gave a rating of 70% whole-person impairment and indicated that the impairment is permanent but it does not preclude the applicant from gainful work. The Retirement Fund's Medical Consultant finds that the

applicant is impaired by both acute and chronic general medical diagnoses. Pursuant to the reports from the two (2) Independent Medical Examiners (IMEs), in the context of criteria based upon the American Medical Association's Sixth Edition of Guides to the Evaluation of Permanent Impairment (2008), and with contemporaneous reference to this writer's Final Estimated Whole-Person Impairment Rating (FEWPIR) of 30% and the Primary Care Physician's FEWPIR of 75%; and the average of the two IMEs FEWPIR being 77.5%, a full disability pension is appropriate for 15-009 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 Treasurer Gerard Cruz, moved to accept the Retirement Fund's Medical Consultant's findings that a full disability pension is appropriate at this time and to approve disability pension for Disability Case No. 15-009. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Treasurer Gerard Cruz, Vice Chairman Wilfred Leon Guerrero, Trustee Albert Santos, Trustee Katherine Taitano, and Chairman Joe San Agustin. With seven (7) "Yes" votes, the motion unanimously passed.

Treasurer Gerard Cruz was excused from the meeting at this time (2:45 p.m.)

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 a potential litigation against the Guam Memorial Hospital Authority (GMHA). 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 accept the Retirement Fund's Legal Counsel's recommendation that the Board of Trustees go into Executive Session. Without objection, the motion passed.

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

**EXECUTIVE SESSION: 2:50 P.M.
RECONVENED: 3:35 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 a potential litigation. Legal Counsel Iriarte stated that she will be signing a declaration to that effect. Said declaration will be made a part of the record.

Legal Counsel Iriarte stated that there are two (2) recommendations: 1) to file a Writ of Mandamus against GMHA, which will require GMHA to remit payments in the future; and 2) for the Retirement Fund to authorize its Legal Counsel to file a Declaratory Relief Action based on Judge Alberto Lamorena's Order halting retirement for GMHA employees.

Trustee David O'Brien, seconded by Trustee Albert Santos, moved to accept the recommendation of the Retirement Fund's Legal Counsel to file a Writ of Mandamus against the Guam Memorial Hospital Authority, as discussed during the Executive Session. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Vice Chairman Wilfred Leon Guerrero, Trustee Albert Santos, Trustee Katherine Taitano, and Chairman Joe San Agustin. With six (6) "Yes" votes, the motion passed. Treasurer Gerard Cruz was absent.

Trustee David O'Brien, seconded by Trustee Katherine Taitano, moved to accept the recommendation of the Retirement Fund's Legal Counsel to file a Declaratory Relief Action based on Judge Alberto Lamorena's Order, as discussed during the Executive Session. Votes as follows: Yes Votes – Secretary Antolina Leon Guerrero, Trustee David O'Brien, Vice Chairman Wilfred Leon Guerrero, Trustee Albert Santos, Trustee Katherine Taitano, and Chairman Joe San Agustin. With six (6) "Yes" votes, the motion passed. Treasurer Gerard Cruz was absent.

X. OLD BUSINESS

A. Request for Proposal (RFP): Policy and Strategy Consulting

Trustee O'Brien stated that in December 2015 he provided the Board with a draft of the Policy and Strategy Consultant scope of work for the Board's review and comments on the highlighted portions of the RFP. Trustee O'Brien stated that the consultant will report to the Board on a quarterly basis on any issues or changes pertinent to the Board in their role as trustees for the Retirement Fund. The consultant will not be providing any investment advice. Chairman San Agustin asked whether the consultant will be tied to any committee. Trustee O'Brien stated that the consultant will be for the Board as a whole.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to approve the issuance of a Request for Proposal for a Policy and Strategy Consultant, subject to any technical adjustments. Without objection, the motion passed.

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 Secretary Antolina Leon Guerrero, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 3:45 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 26, 2016 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 18, 2016.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas