

BOARD OF TRUSTEES
Regular Meeting
Friday, January 11, 2008, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

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, January 11, 2008, 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
James J. Taylor, Secretary
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee
Antolina S. Leon Guerrero, Trustee

Board of Trustees Absent:

Gerard A. Cruz, Treasurer (*Excused*)

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Jackie Blas, Recording Secretary
Mike Perez, Great West Retirement Services

Public Present:

John Davis, KUAM

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 14, 2007 Regular Meeting

Trustee Antolina Leon Guerrero pointed out a correction to be made on Page 6, Section VIII, Item A, Paragraph 4. Trustee Leon Guerrero stated that the word “preceding” should be changed to “following.” Recording Secretary Jackie Blas noted the correction made by Trustee Leon Guerrero.

On motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the Minutes of December 14, 2007 Regular Meeting were approved, as corrected and subject to further corrections. Motion passed.

III. CORRESPONDENCE

None

IV. INFORMATIONAL ITEMS

Chairman San Agustin stated that there is a report provided by Winton Young from First Hawaiian Bank showing at least five managers in the same stock. The information is now available regarding the concentration of one particular stock. Chairman San Agustin stated that Mercer Investment Consulting, Inc. (Mercer) should look at what the Retirement Fund’s risk of managers investing in one particular stock.

V. DIRECTOR’S REPORT - EXECUTIVE SUMMARY

I. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)* – Director Paula Blas stated that the COLA Award disbursements for the \$8 Million and \$14 Million proceeds would be an ongoing process. There are approximately 1,900 deceased COLA Awardees, of which, not all Awardees have named a beneficiary or a beneficiary who is currently living. Once beneficiaries of deceased retirees are identified and verified, COLA award notification letters and affidavits are sent to these beneficiaries. COLA disbursements are made upon receipt of the appropriate documents from the beneficiary.

Director Blas stated that the process of compiling a list of deceased COLA Awardees who did not name a beneficiary or whose beneficiary is deceased is taking longer than anticipated. A complete list of deceased COLA Awardees and beneficiaries should be completed by April 2008 and these names would be published in the newspaper by May 2008. COLA award disbursements for these individuals would be made to their respective estates.

Director Blas stated that Public Law 29-18 mandated the Department of Administration (DOA) to issue certificates of claim to COLA Awardees. The Attorney General (AG) issued the AG opinion to DOA in December 2007, instructing them to proceed with issuing these certificates. A meeting with the Governor’s Office and all the departments involved in carrying out this directive was held on January 9, 2008. The AG will meet again on January 15, 2008.

Director Blas stated that the lead counsel for the dialogue between the government and the Guam Telephone Authority (GTA) will be Attorney David Lujan and the AG. Chairman San Agustin asked how Attorney Lujan became involved. Director Blas stated that the actual assignment is with GTA. Attorney Lujan is appearing on behalf of GTA. Chairman San Agustin stated that the promissory note

was entered into by GTA and the Government of Guam. Director Blas stated that the promissory note was issued to the COLA Class which is not a government entity.

Trustee Leon Guerrero asked whether the Retirement Fund is involved. Director Blas replied, "Yes." The Retirement Fund will receive the proceeds from the note. Vice-Chairman Wilfred Leon Guerrero asked what the amount of the note is. Director Blas replied, "\$10 Million." The note is expected to be discounted. Director Blas stated that there may be as much as a 20% discount level. Director Blas stated that the floor is \$8 Million. Vice-Chairman Leon Guerrero inquired about the certificates. Director Blas stated that the COLA certificates will be issued with the subtraction of the GTA promissory note proceeds. Vice-Chairman Leon Guerrero asked whether there are indications that the banks are interested in purchasing the certificates. Director Blas stated that it is up to the banks to use the certificates as collateral. The banks would have to check and see whether such financial instruments are in line with their regulations. Vice-Chairman Leon Guerrero stated that there is indication that the banks would not be interested in purchasing the certificates. Director Blas stated that it is more complicated than just issuing a certificate. Chairman San Agustin asked what the value of the certificate would be. Could it be used to offset debts? Chairman San Agustin mentioned that there is a law in existence that an individual could offset taxes owed to the government with amounts owed by the government.

Director Blas stated that the discount is on the GTA Promissory Note. Secretary James Taylor asked whether there is anyone willing to issue certificates on a 20% discount. It appears there will be little interest in such financing mechanisms. Chairman San Agustin then asked whether Attorney Michael Phillips is handling the promissory note. Director Blas replied, "Yes."

2. *Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA)* (Case No. SP0231-02) – Director Blas stated that Judge Michael Bordallo has been assigned to this case. A new hearing date is being scheduled. Director Blas mentioned that Attorney John Unpingco has been retained by GMHA as their legal counsel. Attorney Unpingco is expected to file a new motion to dismiss or vacate the judgment on March 7, 2008.

3. *Organic Act / Trust Agreement* – Director Blas stated that this is pending Secretary Taylor's comments and recommendations on the revisions by Legal Counsel. Chairman San Agustin stated that a letter was sent to Delegate Madeleine Bordallo asking to issue an amendment to the Organic Act of Guam to make this possible. Delegate Bordallo has not replied to this request in writing. Chairman San Agustin asked Director Blas to make a follow up on this matter. Director Blas stated that Delegate Bordallo's concern is that any amendment to the Organic Act should be supported by the Legislature and the Governor. Chairman San Agustin stated that Delegate Bordallo should put her concern in writing.

4. *Request for Proposal (RFP): Custodial Bank Services* – Director Blas stated that the administrative process is ongoing. Director Blas stated that she is waiting for a response from The Northern Trust Company. Chairman San Agustin asked whether there is letter from The Northern Trust Company stating that they are exempted from registering to conduct business in Guam. Chairman San Agustin stated that The Northern Trust Company should request for a formal ruling from the Department of Revenue and Taxation. Chairman San Agustin mentioned that the Board's approval was subject to The Northern Trust Company meeting the requirement to do business in Guam.

5. **Request for Proposal (RFP): Real Estate Investment Trusts (REITS)** – Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: Gerard A. Cruz, George A. Santos, and Katherine T.E. Taitano. Director Blas stated that a meeting would be held in February.
6. **Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity** – Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: James J. Taylor, Gerard A. Cruz, and Rosalia L. Bordallo. Director Blas stated that the Selection Panel will meet on January 16, 2008.
7. **Request for Proposal (RFP): Legal Services** - Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: Katherine T.E. Taitano, James J. Taylor, and George A. Santos.
8. **Request for Proposal (RFP): U.S. Domestic Core Fixed Income** – Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: Gerard A. Cruz, Wilfred P. Leon Guerrero, and Rosalia L. Bordallo. Director Blas stated that the Selection Panel will be meeting with the offerors sometime next week.
9. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity** – Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: James J. Taylor, George A. Santos, and Diana T. Bernardo. Director Blas stated that the Selection Panel will be meeting sometime next week.
10. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity** – Director Blas stated that negotiations and the administrative process are ongoing.
11. **Request for Proposal (RFP): Proxy Voting Services** – Director Blas stated that the RFP for Proxy Voting Services will close on January 28, 2008.
12. **Public Law 28-38** - Director Blas stated that the monthly interest payments for the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) were paid on January 10, 2008. The Retirement Fund continues to process applications for retirement for GPSS and GMHA eligible employees.

Financial Report

1. **Contributions** – Director Blas stated that as of January 8, 2008, all agencies are current with their Fiscal Year 2008 employee and employer contributions.
2. **Financial Statements / Fiscal Year 2007 Audit** – Director Blas stated that the books for the month ending December 2007 were closed on January 9, 2008. The Fiscal Year ended September 30, 2007. The audit is ongoing and is expected to be issued by February 2008.
3. **Fiscal Year 2008 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors were paid in December 2007.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2008 monthly allotments and payments are processed accordingly. Trustee Leon Guerrero asked whether reimbursements are for employees who did not get deducted for Medicare. Director Blas stated that reimbursements are for retirees or survivors who are enrolled in a Government of Guam Group Health Plan and are paying Medicare Part B. This is subject to appropriation. Director Blas stated that retirees who are eligible have the option to enroll in Medicare or in a GovGuam Group Health Plan.

VI. LEGAL COUNSEL'S REPORT

Director Blas stated that the Retirement Fund's Legal Counsel provided, at this meeting, an update on the status of current litigation involving the Government of Guam Retirement Fund.

Richard Saville – Director Blas stated that Mr. Saville's estate has appointed an administrator to pursue his case against the Retirement Fund. The Retirement Fund filed a motion for summary judgment, which is currently pending before the Court. The hearing for this case is scheduled for March 20, 2008.

Ralph Gutierrez – Director Blas stated that both parties have filed motions for summary judgment, which are scheduled to be heard this week. Director Blas stated that Mr. Gutierrez's counsel has sent a settlement offer for both cases for the total amount of \$25,633.62. The total amount that Mr. Gutierrez owes the Retirement Fund is approximately \$85,000. Director Blas stated that the Retirement Fund could accept the settlement offer or make a counteroffer. Director Blas stated that she suggests that the Board make a counteroffer. Chairman San Agustin asked how much has been incurred in attorney fees. Director Blas stated that she would need to calculate the amount. Trustee Leon Guerrero suggested 50% plus attorney's fees. Director Blas suggested offering a 70% settlement. Director Blas stated that their settlement offer is too low. Secretary Taylor stated that the defendant should acknowledge that he was in error. Chairman San Agustin stated that Mr. Gutierrez is arguing that there is no binding contract requiring him to return his benefits if he takes on gainful employment. Director Blas stated that there is a form filled out by disability retirees regarding gainful employment.

Vice-Chairman Leon Guerrero asked how much it would cost to have the Retirement Fund's Legal Counsel attend the Board meetings. Director Blas stated that it would cost \$175.00 per hour. Vice-Chairman Leon Guerrero stated that he would like to have Legal Counsel attend the Board meetings. Chairman San Agustin asked Director Blas to follow up with Legal Counsel regarding meeting with the Board of Trustees on this matter. Trustee Leon Guerrero stated that this case should be put to a close - settle the case plus attorney's fees. Chairman San Agustin asked whether the Board would like to make a counteroffer. Vice-Chairman Leon Guerrero stated that he would like to get Legal Counsel's reaction regarding this matter. Chairman San Agustin stated that today's meeting would be recessed until next week at which time the Board would go into Executive Session with the Retirement Fund's Legal Counsel present.

Guam Memorial Hospital Authority (GMHA) – Director Blas stated that Judge Michael Bordallo has been assigned to this case. A hearing date is being scheduled.

James MacIntyre - Director Blas stated that a Motion to Dismiss has been filed in this case because the time for Mr. MacIntyre's estate to file a motion for substitution of parties has expired. The motion is pending before the Court.

Great West Retirement Services (Great West) – Director Blas stated that a preliminary hearing with regard to Great West's motion to unseal confidential documents is scheduled for this week. The formal hearing is scheduled for January 21, 2008.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Director Blas stated that the Treasurer's Report is provided, at this meeting. It covers the Retirement Fund's Statement of Plan Assets (unaudited) for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended November 30, 2007.

Controller Diana Bernardo stated that the books were closed on January 9, 2008 for month ending December 2007. A report would be provided at the next Board meeting. Controller Bernardo stated that as of November 2007, there was a net decrease in assets of about \$18 Million. A preliminary review of the December financials shows that the net decrease would be about \$26 Million as of December 31, 2007.

Controller Bernardo provided, at this meeting, a copy of the Cash Flow Statement from April 2007 through March 2008. Controller Bernardo stated that there were no principal drawdowns in October 2007. There was a principal drawdown of \$2 Million in November 2007. There were no principal drawdowns in December 2007 due largely to the dividends from Capital International which were received in December in the amount of \$1.8 Million. The anticipated principal drawdown in January 2008 is \$1.5 Million. The interest and dividend in January 2008 of \$4.5 Million includes dividends from AXA Rosenberg Investment Management and DFA Investment Dimensions. Chairman San Agustin stated that the Retirement Fund is drawing down more than is needed. Rosalia Bordallo, General Accounting Supervisor, stated that if there is no need for a drawdown, there will be no drawdown. Director Blas stated that the Retirement Fund may not even need to drawdown the anticipated \$1.5 Million in January.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's December 2007 end of the month report.

Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 17, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of December 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

Vice-Chairman Leon Guerrero stated that the Investment Committee did not meet in December 2007. No report will be made at this time.

C. Audit Committee

Controller Bernardo stated that the auditors from Burger & Comer are currently conducting an audit of the Retirement Fund.

D. Governmental Liaison

Chairman San Agustin stated that there are two pieces of pending legislations. Chairman San Agustin asked whether the Retirement Fund is in receipt of Mercer's report. Director Blas stated that Mercer is still working on it. Chairman San Agustin stated that the other legislation covers disability. Director Blas stated that an examination is required for each of the first five years and then for every three years after that. Director Blas stated that the change would be to delete the three year period. Director Blas stated that Legal Counsel would have something ready by next week.

IX. OLD BUSINESS

None

Trustee George Santos asked to be excused from the meeting at this time (1:14 p.m.).

X. NEW BUSINESS

A. Retirement Fund Statistical Information

Chairman San Agustin stated that several months in the term of the newly elected and appointed Board of Trustees, he perceived a strong need for the maintenance, compilation, and reporting of basic statistical information on a timely basis. Chairman San Agustin stated that even when both former Director Wilfred Aflague and former Controller Pete Tajalle were still with the Retirement Fund he repeatedly requested for a regular report of statistical information on the Retirement Fund. Chairman San Agustin stated that he strongly feels that the Retirement Fund needs to have an organizational unit within the Office of the Director, a Statistical and Information Section, adequately staffed to provide various statistical information on a regular and timely basis. Chairman San Agustin stated that a trend analysis is needed.

Chairman San Agustin stated that he is recommending that this unit should be established by the Board and would be headed by either the unfilled Deputy Director or an Administrative Assistant recruited primarily to monitor, compile, develop, analyze, or report on a regular basis basic retirement matters. Vice-Chairman Leon Guerrero stated that he agrees with Chairman San Agustin. Vice-Chairman Leon Guerrero asked why the Deputy Director's position is left unfilled. Director Blas stated that, at that time there was no need to fill the position; the Retirement Fund had adequate management based on what was needed at the time. Director Blas stated that right now the COLA matter is time consuming. Director Blas stated that the Retirement Fund could absorb the Chairman's request once the COLA matter is completed. Chairman San Agustin stated that statistics are compiled upon a regular basis.

Chairman San Agustin stated that the unit would be concern with the collection, analysis, interpretation, and presentation of quantitative information dealing with Retirement Fund issues, and all maters affecting the general welfare of the Retirement Fund membership. The unit should process and analyze the data in context, looking for patterns to help make decisions, provide advice and recommend strategy. The unit should also be responsible for the preparation and development of the Retirement Fund Annual Report, provide statistical information relating to proposed legislation, and other policy changes affecting the Retirement Fund. Chairman San Agustin stated that typical activities would include forecasting trends for pension providers, and the evaluation of the impact of government policy and reporting to the Retirement Fund constituencies.

Chairman San Agustin stated that Mercer is not providing trend analysis. Chairman San Agustin stated that he is not pleased with Mercer. Vice-Chairman Leon Guerrero stated that he agrees with Chairman San Agustin that Mercer is not doing a good job in terms of reviewing the managers. Secretary Taylor stated that he was not pleased that Mercer did not show up at the last meeting. Secretary Taylor stated that much of Mercer's trend analysis is provided in their quarterly report. However, their quarterly report does not link the various reports together. Trustee Leon Guerrero stated that what is expected to be accomplished should be clearly defined to Management. Chairman San Agustin stated that a report should be compiled and made monthly or quarterly at the Board meeting on a timely basis. Director Blas asked Chairman San Agustin to defer this matter and she will meet with Management and report back to the Board on how Chairman San Agustin's proposal would be addressed. Chairman San Agustin stated that he'll wait until the next Board meeting for Director Blas' report on this matter. Secretary Taylor stated that the Board should assist Management on understanding the Board's expectation. Secretary Taylor stated that there is a need to generate data on a regular basis.

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. RECESS

Trustee Katherine Taitano, seconded by Trustee Antolina Leon Guerrero, moved to recess, and without objection, the Board of Trustees meeting for the Defined Benefits Plan recessed at 1:39 p.m. on Friday, January 11, 2008 and will reconvene on Monday, January 14, 2008, at 3:00 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 January 11, 2008 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 8, 2008.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas