

BOARD OF TRUSTEES
Regular Meeting
Friday, March 9, 2007, 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 12:15 p.m. Friday, March 9, 2007, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Acting Chairman
Gerard A. Cruz, Treasurer
James J. Taylor, Secretary
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee

Board of Trustees Absent:

Joe T. San Agustin, Chairman

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:

Terry Dennison & Ashish Shrestha, Mercer Investment Consulting Inc.
Winton Young, First Hawaiian Bank
Michelle Diego, Administrative Services Corporation (ASC)

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. October 10, 2006 and October 17, 2006 Special Meetings; October 20, 2006 and February 9, 2007 Regular Meetings

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of October 10, 2006 and October 17, 2006 Special Meetings; October 20, 2006 and February 9, 2007 Regular Meetings were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

A. February 21, 2007 Letter from Rosita S. Lizama Regarding Appeal: Waiver of Adjustments

Director Paula Blas stated that the February 21, 2007 letter from Rosita S. Lizama regarding the waiver of adjustments is being referred to the Members and Benefits Committee.

B. February 22, 2007 Letter from Giri Bogavelli, Oppenheimer Capital, Regarding Responsibility of Servicing the Fund's Account

Director Blas stated that the February 22, 2007 letter from Giri Bogavelli of Oppenheimer Capital is being referred to the Investment Committee.

C. February 23, 2007 Letter from Burger & Comer, P.C. Regarding Supplemental Benefits for Retirees

Director Blas stated that the February 23, 2007 letter from Burger & Comer is their response regarding the supplemental benefits receivable. This concerns whether to book this as a receivable on the Fund's financials. This is being referred to the Audit Committee. Treasurer Gerard Cruz asked whether Public Auditor Doris Brooks has a copy of the response. Director Blas stated that the original letter was sent the Public Auditor and a copy was sent to the Fund. Treasurer Cruz asked whether the Public Auditor has commented on the response. Controller Diana Bernardo stated that the Public Auditor has verbally indicated that she is in agreement with Dave Burger's comment.

IV. INFORMATIONAL ITEMS

A. Request for Proposal Selection Panels

Director Blas stated that a slight modification is being made to the panels responsible for reviewing the following Request for Proposal (RFP):

RFP GGRF-003-07: Investment Management Services specifically in U.S. Domestic Publicly Traded Real Estate Investment Trusts (REITS)

Selection Panel: Treasurer Gerard Cruz, Trustee George Santos and Trustee Katherine Taitano

RFP GGRF-004-07: Investment Management Services specifically in U.S. Domestic Small Capitalization Core Equity
Selection Panel: Secretary James Taylor, Treasurer Gerard Cruz and General Accounting Supervisor Rosalia Bordallo

RFP GGRF-005-07: Investment Transition Management Services
Selection Panel: Vice-Chairman Wilfred Leon Guerrero, Trustee Katherine Taitano and Controller Diana Bernardo

RFP GGRF-007-07: Global Custodian and Securities Lending Services
Selection Panel: Chairman Joe San Agustin, Treasurer Gerard Cruz and Trustee George Santos (General Accounting Supervisor Rosalia Bordallo will be staffing the selection panel)

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

- 1. *William Don Parkinson vs. Government of Guam, Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS)*** – Director Blas stated that Mr. Parkinson requested for a status report on the outstanding contributions that were due on behalf of the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA). Director Blas stated that Mr. Parkinson has not filed anything new with the courts.
- 2. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-98)*** – Director Blas stated that the Legislature passed Resolution No. 04. Director Blas stated that Legislative Resolution No. 04 authorizes the Line of Credit of \$10 Million for the purpose of making partial payment to the COLA class. Secretary James Taylor stated that the Pacific Daily News (PDN) has reported the money is no longer available. Director Blas stated that \$6 Million was sought to pay for the Guam Public School System (GPSS) payroll.
- 3. *Joseph A. Guthrie vs. Government of Guam Retirement Fund (GGRF) (Superior Court Case No. CV-0183-07)*** – Director Blas stated that discussion on this matter is being deferred until March 16, 2007 at which time the Board will reconvene in Executive Session to review this case.
- 4. *Government of Guam Retirement Fund Board Resolution No. 2007-001*** – Director Blas stated that Board Resolution No. 2007-001 (relative to the processing of individual retirement applications of employees whose employer agencies have not made contributions at the statutory contribution rate) was tabled at the February 9, 2007 Board meeting. Management is waiting on Board action.
- 5. *Organic Act / Trust Agreement*** – Director Blas stated that the revisions to the Trust Agreement are pending Secretary James Taylor's review. Director Blas stated that Secretary Taylor will be making his recommendations to the Board.
- 6. *Request for Proposal (RFP): Custodial Bank Services*** – Director Blas stated that the proposals were sent to Mercer for their analysis. The Fund should be receiving a report from Mercer by the week of March 12-16, 2007. The RFP Selection Panel consists of the following: Chairman Joe San Agustin, Treasurer Gerard Cruz and Trustee George Santos.

7. ***Request for Proposal (RFP): Real Estate Investment Trusts (REITS)*** – Director Blas stated that the proposals were sent to Mercer for their initial analysis and review. The RFP Selection Panel consists of the following: Treasurer Gerard Cruz, Trustee George Santos and Trustee Katherine Taitano.
8. ***Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity*** – Director Blas stated the proposals were sent to Mercer for their initial analysis and review. The RFP Selection Panel consists of the following: Secretary James Taylor, Treasurer Gerard Cruz and Rosalia Bordallo, General Accounting Supervisor.
9. ***Request for Proposal (RFP): Transition Management Services*** – Director Blas stated that the proposals were sent to Mercer for their initial analysis and review. The RFP Selection Panel consists of the following: Vice-Chairman Wilfred Leon Guerrero, Trustee Katherine Taitano and Controller Diana Bernardo.
10. ***Request for Proposal (RFP): Study Related to Alternative Options for Investing in Real Estate in Guam*** – Director Blas stated that evaluations are with the Investment Committee.
11. ***Request for Proposal (RFP): Medical Consultant Services*** – Director Blas stated that the RFP for professional services will be reported out by the Members and Benefits Committee in an upcoming Board meeting.
12. ***Request for Proposal (RFP): Legal Services*** – Director Blas stated that the RFP for Legal Services will be issued on March 16, 2007.
13. ***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) are current. The Fund continues to process applications for retirement for GMHA eligible employees. Director Blas stated that the Fund is not accepting applications for retirement for GPSS eligible employees until the current contributions are paid.
14. ***Bernstein, Litowitz, Berger and Grossmann (BLB&G) Portfolio Monitoring 2006: Fourth Quarter 2006*** – Director Blas stated that a copy of the BLB&G report was provided to the Board at the February 9, 2007 Board meeting. Director Blas stated that Blair Nicholas, BLB&G Attorney, is asking to meet with the Board during the week of May 14-18, 2007 or during the week of May 28-June 1, 2007, to review the report with the Board.
15. ***Century 21, Realty Management Company, Inc.: Parking Lot Use Agreement*** – Director Blas stated that First Hawaiian Bank (FHB) has rescinded their request to lease parking stalls effective March 1, 2007. Director Blas stated that FHB found an alternative parking space for their employees and tenants. An invoice totaling \$14,934.50 was billed to FHB for the use of the parking stalls from October 1, 2005 to February 28, 2007.
16. ***Public Law 28-150, Section 53: Extended Hours*** – Director Blas stated that, in compliance with Section 53 of Public Law 28-150, the Fund has extended office hours from 7:00 a.m. to 6:00 p.m., Mondays to Fridays, with the exception of holidays. Director Blas stated that daily flex schedules are in place with existing staff to accommodate the new hours of operation.

Financial Report

- 1. Contributions** – Director Blas stated that all agencies are current with their Fiscal Year 2007 Defined Benefit employee and employer contributions except for the General Fund and the Guam Public School System (GPSS). GPSS is behind for two pay periods on both employee and employer contributions. Secretary Taylor asked whether it is time to think about legal recourse. Director Blas stated that a notice was sent to both GPSS and the General Fund with regards to the last two pay periods. Director Blas stated that she would not recommend legal recourse at this point. Director Blas stated that the Fund will wait for another pay period before pursuing any type of legal action. Trustee George Santos asked whether the General Fund contributions being behind a result of the controversial difference of the actuarial rate. Director Blas replied, “Yes.” Mr. Terry Dennison, Mercer Consulting Inc., stated that it is a very serious matter when some agencies are not remitting their employees’ contributions. The employers are misappropriating the participants’ money.
- 2. Financial Statement / Fiscal Year 2006 Audit** – Director Blas stated that the books for the month ending February 2007 will be closed today, March 9, 2007. Director Blas stated that a draft of the Fiscal Year 2006 audit was provided to the Office of the Public Auditor (OPA) and the Fund’s Audit Committee. The report is currently being reviewed by the OPA. A final draft including the audit opinion and the Management Discussion and Analysis (MDA) is being presented to the Board at this meeting. Director Blas stated that discussion on the audit report is being deferred until March 16, 2007 at which time the Board will reconvene.
- 3. Actuarial Valuation as of September 30, 2006** – Director Blas stated that the draft of the 2006 actuarial valuation will be provided to the Fund by the week of March 12-16, 2007. A presentation will be made at the next Board meeting.
- 4. Fiscal Year 2007 Retirees’ Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of February 2007 were paid.
- 5. Medicare Reimbursements** – Director Blas stated that the Fiscal Year 2007 budget provided for an appropriation for the shortage in the Fiscal Year 2006 Medicare appropriation. The Fund is still pending receipt of the Fiscal Year 2006 appropriation for Medicare; however, allotments for Fiscal Year 2007 continue to be received monthly and are processed accordingly.

VI. LEGAL COUNSEL’S REPORT

No report was made at this time.

VII. TREASURER’S REPORT OF FINANCIAL STATUS

Treasurer Cruz stated that the Treasurer’s report is being deferred until March 16, 2007 at which time the Board will reconvene.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Trustee George Santos, seconded by Treasurer Gerard Cruz, 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 21, 2007 and subsequent meetings thereafter. Trustee Katherine Taitano had a "No" vote and without further objection, the motion passed.

B. Investment Committee

Secretary Taylor reported that the Investment Committee meeting was held on February 23, 2007.

Investment Committee Minutes - The Investment Committee reviewed and approved the minutes for the January 26, 2007 Committee Meeting.

Mercer's Quarterly Meetings and Annual Manager Reviews – Secretary Taylor stated that the Investment Committee met with Mr. Terry Dennison and Mr. Ashish Shrestha from Mercer Investment Consulting Inc., the Fund's Investment Consultant, to discuss investment manager performances for the first quarter of Fiscal Year 2007. Secretary Taylor further stated that the Investment Committee held its Quarterly Meeting and its Annual Review on March 7 and 8, 2007 with the following Investment Managers:

- Capital International, Inc.
- Dimensional Fund Advisors, Inc.
- Fisher Investments Institutional Group
- AXA Rosenberg Investment Management LLC
- Fiduciary
- Aberdeen

Secretary Taylor stated that the Investment Committee is recommending that the Board of Trustees accept the recommendation of the Retirement Fund's Investment Consultant, Mercer Investment Consulting, to retain the following eight (8) Investment Managers at this time based on the first quarter report:

1. Atalanta/Sosnoff Capital Corporation
2. Metropolitan West
3. Fisher Investments
4. AXA Rosenberg (for International Large Cap)
5. AXA Rosenberg (for International Small Cap)
6. Dimensional Fund Advisors
7. Aberdeen Asset Management
8. Capital International

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to accept Mercer Investment Consulting's recommendation to retain the following eight Investment Managers: Atalanta/Sosnoff Capital Corporation, Metropolitan West, Fisher Investments, AXA Rosenberg (for International Large Cap), AXA Rosenberg (for International Small Cap), Dimensional Fund Advisors, Aberdeen Asset Management and Capital International. Without objection, the motion passed.

Secretary Taylor stated that the Investment Committee is recommending that the Board of Trustees accept the recommendation of the Retirement Fund's Investment Consultant, Mercer Investment Consulting, to retain, for the present, the following four (4) Investment Managers:

1. Davis Hamilton Jackson & Associates
2. RCM Capital Management
3. Allianz Dresdner Asset Management (Oppenheimer)
4. Franklin Templeton

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to accept Mercer Investment Consulting's recommendation to retain the following four (4) Investment Managers: Davis Hamilton Jackson & Associates, RCM Capital Management, Allianz Dresdner Asset Management (Oppenheimer) and Franklin Templeton. Without objection, the motion passed.

Treasurer Cruz inquired about the discussion during the Investment Committee meeting of moving some money. Secretary Taylor deferred this matter to Mr. Terry Dennison, Mercer Investment Consulting Inc., for a brief explanation of why they decided to hold off on moving some money. Mr. Dennison stated that it was proposed that \$40 Million will be moved from Fisher Investments (Fisher) to AXA Rosenberg (AXA) in the Large Cap International mandate area. Mr. Dennison stated that it is a separate account and that we will be liquidating individual securities. Mr. Dennison stated that due to a perception of sensitivity about transition issues and pending the identification of a transition manager, the sense was that it might be better to defer it. Mr. Dennison further stated that the issue with Fisher is not an acute one, it is really a sense that in the long term we would be better off equalizing the allocation between Fisher and AXA. "We are not deferring an immediate issue, we are deferring for a brief period of time until we have a transition manager in place."

At this time, Acting Chairman Leon Guerrero asked that Mr. Dennison to brief the Board on the manager reviews that was conducted on March 7 and 8, 2007. Mr. Dennison stated that they spent two days going over the structure and performance of the Fund. The Fund's managers are overall doing well. The Fund achieved a rate of return well except from the actuarial assumption for the calendar year 2006 and has been significantly above the actuarial assumption on cumulative basis for the last three to five years. Performance has been good relative to the actuarial assumption and to the internal bench mark. Due to the conservatism of the asset allocation, the Fund has not performed as well as other public funds that are operating in an environment where there is a more aggressive posture and more return is being actively sought. Mr. Dennison stated that, in his judgment and his firm's judgment, the portfolio is actually doing well given the limitations imposed by law. Acting Chairman Leon Guerrero stated that the Fund hit \$1.3 Billion as of January 2007.

C. Audit Committee

Director Blas stated that the Audit Committee report is being deferred until March 16, 2007 at which time the Board will reconvene.

D. Governmental Liaison

No report was made at this time.

IX. OLD BUSINESS

None

X. NEW BUSINESS

A. Bernstein Litowitz Berger & Grossmann LLP (BLB&G): Tellabs Amicus Brief on Behalf of Pension Funds

Director Blas stated that this is for a reaffirmation of the Board's vote to approve to participate in the Amicus Brief filed on behalf of Pension Funds that will be filed by BLB&G.

Trustee George Santos, seconded by Trustee Katherine Taitano, moved to approve to reaffirm the poll conducted by Director Paula Blas of the Board's approval to participate in the Amicus Brief on behalf of Pension Funds that will be filed by Bernstein Litowitz Berger & Grossmann. Without objection, the motion passed.

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Acting Chairman Leon Guerrero recognized Mr. Winton Young from First Hawaiian Bank (FHB). Mr. Young stated that for January and February 2007, the securities lending income totaled \$66,700.00. The Business Cash Manager Sweep Program was approved during his last visit. Mr. Young stated that the Cash Checking Account Earnings in January 2007 were \$13,000.00. Interest in February 2007 was \$14,900.00.

Acting Chairman Leon Guerrero inquired about the rent payment for the parking space usage. Mr. Young stated that FHB has been invoiced and that payment is being processed.

XII. ANNOUNCEMENTS

None

XIII. RECESS

The Board of Trustees meeting for the Defined Benefits Plan recessed at 12:44 p.m. and will reconvene at 12:00 Noon on Friday, March 16, 2007.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 9, 2007 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on June 8, 2007.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas