

## **BOARD OF TRUSTEES**

### **Regular Meeting**

Friday, March 9, 2007, 12:00 p.m.  
Retirement Fund Conference Room

## **MINUTES**

### **DEFINED CONTRIBUTIONS**

#### **I. ATTENDANCE, QUORUM, AND CALL TO ORDER**

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contribution Plan was called to order at 12:44 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.  
Michelle Diego, Administrative Services Corporation (ASC)  
Winton Young, First Hawaiian Bank

## **II. REVIEW AND APPROVAL OF BOARD MINUTES**

### **A. October 20, 2006 and February 9, 2007 Regular Meetings**

**On motion of Secretary James Taylor, seconded by Trustee George Santos, and without objection, the Minutes of October 20, 2006 and February 9, 2007 Regular Meetings were approved, subject to corrections. Motion passed.**

## **III. DIRECTOR'S REPORT - EXECUTIVE SUMMARY**

**1. Request for Proposal (RFP): Third Party Administrator** – Director Paula Blas stated that evaluations are ongoing and it should be completed by next week.

### **Financial Report**

**1. Contributions** – Director Blas stated that all agencies are current with their Fiscal Year 2007 Defined Contribution employee and employer contributions except for the Guam Public School System (GPSS). Director Blas stated that GPSS is behind for two pay periods. Director Blas stated that Guam Housing Corporation (GHC) and Guam Election Commission (GEC), as of earlier this week, were also behind. Rosalia Bordallo, General Accounting Supervisor, stated that payments were received for GHC and GEC. Trustee Katherine Taitano asked how late the payments were from GHC and GEC. Mrs. Bordallo replied, “three days.”

**2. Financial Statements / 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 copy of a draft of the Fiscal Year 2006 audit was provided to the Office of the Public Auditor (OPA) and the Retirement 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 further discussion on the Audit report is being deferred until March 16, 2007 at which time the Board will reconvene.

## **IV. OLD BUSINESS**

### **A. Contribution Report – February 2007**

Director Blas stated that Mike Perez, Great West Retirement Services, submitted, at this meeting, a copy of the Defined Contribution and Deferred Compensation report for the month of February 2007.

Mr. Perez reported that all agencies are current with their employee and employer contributions except for the Guam Public School System (GPSS). Mr. Perez stated that GPSS is behind for the January 20, 2007 pay period. Treasurer Gerard Cruz asked whether the Retirement Fund has the responsibility to inform the employees of GPSS that the Retirement Fund has not received their contributions. Mr. Perez stated that in the past, once the agencies are behind for three pay periods, the Retirement Fund would send notices to the participants. Mrs. Bordallo stated that the Retirement Fund currently sends a letter to the Director of the agency involved, the Governor, the Attorney General, the Department of Labor, and the Legislature as soon as an agency is late. Treasurer Cruz asked Director Blas to check whether the Retirement Fund is operating accordingly as far as informing participants that contributions are not being submitted timely.

Mr. Perez further reported that the Defined Contribution Plan (DC) has 6,235 participants with a total contribution amount of \$780,320.22. Mr. Perez further reported that the Deferred Compensation Plan has 753 participants with a total contribution amount of \$97,916.45.

## **V. MERCER PRESENTATION**

Acting Chairman Leon Guerrero recognized Terry Dennison and Ashish Shrestha from Mercer Investment Consulting Inc. Mr. Dennison and Mr. Shrestha will be making a presentation to the Board of Trustees on the Defined Contribution Performance Evaluation for the First Fiscal Quarter 2007. A copy of the report was provided, at this meeting, to the Board.

Mr. Shrestha reported on the Management Summary on the Asset Allocation for the 401(a) Defined Contribution Plan and the 457 Deferred Compensation Plan (Pages 14-15). Mr. Shrestha stated that the Invesco Stable Value has the largest asset with 28.3% of the Plan followed by the Moderate Profile with an asset of 10.4% and the Moderate Aggressive Profile with an asset of 9.1%. Mr. Shrestha stated that the Vanguard U.S. Growth and the Templeton Foreign A has been terminated from the Plan. Acting Chairman Leon Guerrero asked why there is still money in Vanguard U.S. Growth. Mr. Perez stated that Management brought this matter to his attention and that he will check on this and will inform the Board.

Mr. Shrestha reported on the Manager Summary on the Compliance Table for the periods ending December 31, 2006 (Pages 16-17). This shows whether the funds are outperforming their benchmark or underperforming their benchmark. Mr. Shrestha stated that the important columns to look at are the 3 and 5 years column. There are a lot of green check marks (√) in those periods. The (√) means that the funds are outperforming their benchmark and the red x marks (x) means that the funds are underperforming their benchmark. The (√) across the board means that the funds are outperforming their index and also outperforming their universe median. Mr. Shrestha stated that the Retirement Fund underperformed in the recent quarter. Treasurer Cruz stated that Standish Mellon International Fixed Income (Standish) has more (x) than (√). Mr. Dennison stated that the Standish fund under the 3 years Column (Page 18) shows that the performance of the fund was 4.6% and the index was 4.7%. It missed it by 10 basis points. Mr. Dennison stated that it is okay for now but the Retirement Fund may want to revisit this. Mr. Shrestha stated that the Vanguard Windsor II similarly has not performed as well. Vanguard Windsor II came to the 74th percentile in the Universe. Acting Chairman Leon Guerrero inquired about the “% of All Plans.” Mr. Dennison stated that it represents the assets of both the 401(a) and 457 Plans combined.

Mr. Shrestha stated that the American Funds Amcap came to 34 percentile in the Universe in the 3 years column and came to 14 percentile in the Universe in the 5 years column. This is a large fund, holding about 15.4% of its assets in cash. Franklin Small-Mid Cap Growth (Franklin), Baron Small Cap (Baron) and BlackRock Aurora (BlackRock) all started out as small cap funds and have grown in size. Treasurer Cruz asked whether there are any other funds in the line up instead of Franklin. Mr. Shrestha stated that there are some available but there are not many. Treasurer Cruz stated that the Retirement Fund should be more efficient and make decisions quicker. Mr. Dennison stated that he will check whether there are any other options. Treasurer Cruz stated that the Retirement Fund is looking for a small cap domestic in the mutual fund. Mr. Dennison stated that the mutual fund market is little tighter than the separate account market. Treasurer Cruz stated that the Retirement Fund could go through the exercise and then the Retirement Fund could say that they looked and that it did not

make sense to switch. Mr. Shrestha stated that the Baron fund had a 46 percentile in the 3 years column and a 37 percentile in the 5 years column and it is outperforming its benchmark. BlackRock shows that it had a good first quarter with a 27 percentile, but struggled all of the three years.

Mr. Shrestha stated that Thornburg International Value (Thornburg) fund is a deep value international equity fund. Mr. Shrestha mentioned that Thornburg's Chief Compliance Officer was recently investigated by the FCC and charges were filed and has since resigned from Thornburg. Mr. Shrestha stated that Pioneer Emerging Markets (Pioneer) is available only in the 457 Plan. Treasurer Cruz asked why it is not available in the 401(a) Plan. Director Blas stated that she is not sure. Secretary Taylor stated that it is a logistic problem. Mr. Dennison stated that the issue might be that all the assets in one of the plans are in an Omnibus account. Mr. Dennison stated that Great West may need to open a second Omnibus account for the holdings in the 401(a) Plan and there might have been a system restriction that precluded that. Director Blas stated that you can not combine both plans. Secretary James Taylor stated that the only option was to record this manually and the Retirement Fund felt that was not acceptable. Director Blas asked Mr. Perez to check on this.

Secretary Taylor asked whether the report had information on cost of each of the funds. Mr. Dennison replied, "Yes." Mr. Dennison stated that the Investment Expense Analysis (Page 51), provided at this meeting, showed the expenses. The cost of record keeping is largely proportional to the number of participant accounts. The revenue is based on percentage of assets. The record keeping revenue for many corporate plans on the mainland has risen to an excessive level. Mr. Dennison reviewed the costs related to the expense ratio that the participants are being charged. The expense ratio is directly passed on the participants return. Mr. Shrestha stated that most of the funds are below the average. There is a handful that are above average. The most significant ones are International Equity at a 1.45% expense ratio and the Emerging Markets Equity at a 2.25%. Mr. Dennison stated that the expense ratio gets larger from the top to the bottom of the page. It is much more expensive to do research in small cap, international and emerging market.

Mrs. Bordallo asked whether the Retirement Fund is paying the fund expense or is the Retirement Fund paying the institutional expense ratio. Mr. Dennison stated that the participants are paying the fund expenses. Mr. Dennison stated that the comparison shows the average of institutional mutual funds to give a sense of whether it is high or low relative to the average fund. Acting Chairman Leon Guerrero stated that the expense ratio for Pioneer Emerging Markets is 2.15% and the average institutional expense ratio is 1.38% which then shows a 0.77% net expense difference. Mr. Dennison stated that it is 77 basis points more expensive. Acting Chairman Leon Guerrero asked when does a fund get a red flag. Mr. Dennison stated that it is when the fund is into the high end of the average which is usually when it gets over 40-50 basis points. Mr. Dennison stated that if the fund performance is negative, this will add to the Retirement Fund's losses. If the fund goes up it detracts from the Retirement Fund's gain. If the fund goes down, it adds to the Retirement Fund's losses.

Controller Diana Bernardo asked whether the fees are paid by the participants on other public pensions funds which offer the Defined Contribution Plan. Mr. Dennison stated that it is a mixture. There is a mechanism where the participants are paying costs. Mr. Dennison stated that the fund is subsidizing the salaries of the internal staff who work on the fund. The recordkeeping revenue is sufficient to actually subsidize the salaries of the internal staff of the plan sponsor. Controller Bernardo asked what happens if the recordkeeping revenue is not sufficient. Mr. Dennison stated that the Retirement Fund would be informed that there is not enough money. Controller Bernardo stated that the Retirement

Fund's participants are paying a flat fee annually. In addition to that, there is a fee paid by the Retirement Fund itself. Secretary Taylor asked whether Mr. Dennison looked at the details of the funding of the plan. Mr. Dennison replied, "No." Secretary Taylor asked whether this could be expected in the future. Mr. Dennison replied, "Yes." Mr. Dennison stated that this is the first report and also a work in process. Mrs. Bordallo asked what is the impact of rebates that are not being rebated back to participants. Mr. Dennison stated that expense ratio is not all going to Great West. There are two parts to the expense ratio. One is for running the fund. There is also a part of the total expense ratio that is paid to the record keeper which is called the 12B1 Fees. Secretary Taylor asked that if Mercer works with the Retirement Fund's staff, would Mercer be able to get a break out of what funds make up their different profiles. Secretary Taylor stated that he would like to see an analysis on whether the amounts contributed and the related earnings are going to generate for the average employee some kind of reasonable retirement. Mr. Dennison stated that there are three factors that determine how much money you have in your retirement. It's when you start saving, how much you put in savings, and your investment choices. Treasurer Cruz stated that the Retirement Fund needs to find a method to strengthen the message to the participants to invest properly.

**VI. NEW BUSINESS**

None

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

None

**VIII. ANNOUNCEMENTS**

None

**IX. RECESS**

**The Board of Trustees meeting for the Defined Contribution Plan recessed at 1:44 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**