

BOARD OF TRUSTEES
Regular Meeting
Friday, September 14, 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 12:25 p.m. Friday, September 14, 2007, 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
Gerard A. Cruz, Treasurer
James J. Taylor, Secretary (*12:35 p.m.*)
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee
Antolina S. Leon Guerrero, Trustee

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Jackie Blas, Recording Secretary

Public Present:

Mark Heath, Metropolitan West Capital Management

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. August 10, 2007 Regular Meeting

On motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the Minutes of August 10, 2007 Regular Meeting were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

A. August 28, 2007 Email from Winton Young Regarding Capital International, Inc. Account

Chairman San Agustin stated that he received an email from Winton Young stating that the Capital International Emerging Markets Growth Fund is an open-end interval investment company commingled fund registered with the SEC. Mr. Young further stated in his email that it is not a mutual fund nor is it a publicly traded security. Its operations and structure are similar to that of a mutual fund. Chairman San Agustin stated that he met with representatives from Capital International, Inc. (Capital) in Singapore. Chairman San Agustin stated that Capital has been providing a report but they will be providing more details of the transactions. Capital will improve their report by separating the accounts. Chairman San Agustin stated that he is concerned of the national requirements. Chairman San Agustin stated that there is a new requirement on terrorist. Treasurer Gerard Cruz stated that the contract may need to be amended to reflect the new requirement or change the Investment Policy Statement (IPS) regarding anti-terrorism funding. Vice-Chairman Wilfred Leon Guerrero stated that the Retirement Fund does not engage in illegal transactions. Chairman San Agustin suggested revisiting all contracts.

B. September 7, 2007 Letter from David J. Burger, Burger & Comer, P.C. Regarding Receivable from the Guam Memorial Hospital Authority (GMHA)

Chairman San Agustin stated that the Board of Trustees received a letter from Mr. David Burger regarding the issue of the reserve that was created many years ago to offset the note receivable from the Guam Memorial Hospital Authority (GMHA). Mr. Burger's letter states that although collections have been coming in over the past few years (as GMHA employees retire), the financial condition of GMHA must still be considered. Mr. Burger's letter further states that he thinks it would not be prudent to remove the reserve at this time.

IV. INFORMATIONAL ITEMS

None

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 Paula Blas stated that the Governor's Office filed a Motion for Dismissal of the lawsuit and argued their motion on July 11, 2007 before Judge Michael Bordallo. Both parties are still waiting for a Decision and Order from Judge Bordallo.

2. ***Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)*** – Director Blas stated that in accordance with the Judgment issued on November 21, 2006, relative to the COLA case, COLA payments were made to all living retirees and surviving spouses on August 29, 2007 and September 12, 2007. Director Blas stated that Public Law 29-04 (Bill 149), as amended, authorizes \$10 Million in promissory notes from the Guam Telephone Authority (GTA) sale to pay for the COLA judgment award and also amended the Priority of Payments for the COLA awards. The beneficiaries for the deceased retirees and/or survivors are being determined and notification to beneficiaries should be made within the next forty-five (45) days. Vice-Chairman Leon Guerrero asked Director Blas to elaborate on the survivors. Director Blas stated that it is the living survivors. There is no longer a dispute on the link of beneficiary.

Director Blas stated that Justice Richard Benson and Justice Dumapan Manglona were appointed to serve on the Taxpayer's lawsuit regarding the distribution of COLA. A third Justice is to be appointed by Justice Benson.

3. ***Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (GMHA) (Case No. SP0231-02)*** – Director Blas stated that the hearing that was scheduled for September 10, 2007 before Judge Arthur Barcinas was taken off the calendar due to a conflict of interest with some of the GMHA Trustees. A new judge will be assigned and a new hearing date will be scheduled. The Retirement Fund's Legal Counsel has sent a memo on the matter. Chairman San Agustin asked whether the Retirement Fund could seek a Writ of Mandate as in his opinion it is a non-discretionary duty. Director Blas stated that both the motion and the opposition were filed. Chairman San Agustin stated that the judgment was issued five years ago. Vice-Chairman Leon Guerrero asked whether any action is needed. Director Blas replied, "No."

4. ***Organic Act / Trust Agreement*** – Director Blas stated that this is pending Secretary James Taylor's comments and recommendations on the revisions by the Retirement Fund's Legal Counsel.

5. ***Request for Proposal (RFP): Custodial Bank Services*** – Director Blas stated that the Retirement Fund is pending the Regulatory and Licensing Division of the Department of Revenue and Taxation's (Revenue and Taxation) ruling on the licensing requirements for banks, bank trusts and bank trust departments. Chairman San Agustin stated that they should be licensed on Guam. When someone provides services for Guam they would have to pay Gross Receipt Tax (GRT). Secretary Taylor asked what it would take to move the matter forward. Chairman San Agustin stated that he spoke to Mr. John Carlos from Revenue and Taxation and Mr. Carlos stated that Revenue and Taxation wants the Attorney General (AG) to make a ruling. Chairman San Agustin asked for a list of financial advisors doing business in Guam.

6. ***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 asked whether this item should be kept in the list. Treasurer Cruz replied, "Yes." This item will be discussed in the Investment Committee Report.

7. ***Request for Proposal (RFP): U.S. Domestic Small Capitalization Core Equity*** – Director Blas stated that evaluations are ongoing. The Selection Panel will consist of the following: James J. Taylor, Gerard A. Cruz, and Rosalia L. Bordallo. Secretary Taylor stated that he should have something by next week.

8. **Request for Proposal (RFP): Legal Services** – Director Blas stated that the Selection Panel will consist of the following: Katherine T.E. Taitano, James J. Taylor, and George A. Santos. Chairman San Agustin stated that he is not sure whether the Retirement Fund should continue with this. Treasurer Cruz stated that the Retirement Fund should continue and hire a conflict attorney. Vice-Chairman Leon Guerrero stated that the Retirement Fund should have two counsels. Trustee Katherine Taitano stated that six proposals were received. Trustee Taitano stated that she would schedule a meeting to proceed with the RFP.

9. **Request for Proposal (RFP): U.S. Domestic Core Fixed Income** – Director Blas stated that this RFP is pending Mercer’s managers’ analysis and evaluations, which is due on September 28, 2007. The Selection Panel will consist of the following: Gerard A. Cruz, Wilfred P. Leon Guerrero, and Rosalia L. Bordallo.

10. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Growth Equity** – Director Blas stated this RFP is pending Mercer’s managers’ analysis and evaluations, which is due on September 28, 2007. The Selection Panel will consist of the following: James J. Taylor, George A. Santos, and Diana T. Bernardo.

11. **Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity** – Director Blas stated that this RFP is pending Mercer’s managers’ analysis and evaluations, which is due on September 28, 2007. The Selection Panel will consist of the following: Gerard A. Cruz, Antolina S. Leon Guerrero, and Rosalia L. Bordallo.

12. **Public Law 28-38** – Director Blas stated that the monthly interest payments for the Guam Public School System (GPSS) and the Guam Memorial Hospital Authority (GMHA) were due on September 10, 2007. The Retirement Fund continues to process applications for retirement for GMHA and GPSS eligible employees. Vice-Chairman Leon Guerrero asked what is the interest rate. Director Blas stated that it is 7.5%. Director Blas stated that the term of payments changed from five years to ten years.

Financial Report

1. **Contributions** – Director Blas stated that, as of September 12, 2007, all agencies are current with their Fiscal Year 2007 employee and employer contributions.

2. **Financial Statements** – Director Blas stated that the books for the month ending August 2007 were closed on September 12, 2007.

3. **Fiscal Year 2007 Retirees’ Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of August 2007 were paid. The General Fund funds these benefits.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2007 monthly allotments and payments are processed accordingly. Trustee Leon Guerrero asked why retirees are being reimbursed. Rosalia Bordallo, General Accounting Supervisor, stated that the retirees must be enrolled in a Guam Health Plan in order to be reimbursed for Medicare. Chairman San Agustin stated that he is trying to have the law changed so that retirees

are not required to enroll in a GovGuam Health Plan. Director Blas stated that there are 3,500 retirees eligible for Medicare. Director Blas stated that the Medicare tax deduction from employees was effective since April 1, 1986.

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 Retirement Fund.

Richard Saville – Director Blas stated that a notification was filed in court that Mr. Saville has passed away. This litigation is on hold for the next three months, during which time Mr. Saville's estate must determine whether or not to pursue this litigation, which would require opening a probate action. If the three months elapse without the Estate making an appearance in the case, the case may be dismissed.

Ralph Gutierrez – Director Blas stated that Mr. Gutierrez is off-island for medical reasons. Both parties have filed motions for summary judgment, which are not currently scheduled for hearing. The Retirement Fund's Legal Counsel is trying to work out a settlement.

Joseph Guthrie – Director Blas stated that this case is closed. Mr. Guthrie was reimbursed for his filing costs.

Carl Gutierrez – Director Blas stated that this case is closed. Mr. Gutierrez was reinstated with enhancement.

Guam Memorial Hospital Authority (GMHA) – Director Blas stated that Judge Arthur Barcinas has a conflict with some of the GMHA Board members. When a new judge is assigned, he or she will consider GMHA's pending motion to amend its previous motion seeking to vacate the Final Judgment entered in this case to release the old GMHA Board members from the Judgment. Chairman San Agustin stated that a Writ of Mandate should be to an individual person.

James MacIntyre – Director Blas stated that this case was filed in court in 2002. The issue of the case is on the date of when disability commenced. This matter has been referred to the Members and Benefits Committee. Director Blas stated that Mr. MacIntyre has passed away. There is no lawyer representing him.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Cruz stated that the September 2007 report is on target with the existing approval. Treasurer Cruz stated that he is budgeting to drawdown \$3.7 Million. Treasurer Cruz stated that the Retirement Fund may only need to drawdown \$1 Million. Secretary Taylor stated that he is concerned because rebalancing should take place no more than quarterly. Mrs. Bordallo stated that the bonds should be liquidated. Chairman San Agustin asked whether balancing reached the target. Vice-Chairman Leon Guerrero replied, "No." Vice-Chairman Leon Guerrero stated that the weakest managers are the bond managers.

Treasurer Cruz stated that the Retirement Fund's Fiscal Year 2008 Proposed Budget will be acted on during next week's reconvened meeting. Treasurer Cruz stated that there is no significant difference in the proposed budget. There is an increase in the Defined Contribution Plan equipment and personnel.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's August 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, along with attachments and supporting documents, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of August 15, 2007 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

Vice-Chairman Leon Guerrero reported that the Investment Committee meeting was held on August 31, 2007. The Investment Committee reviewed and approved the Investment Committee Minutes of July 27, 2007.

Vice-Chairman Leon Guerrero stated that the Investment Committee scheduled the September 30, 2007 Quarterly Performance Meeting with Mercer Investment Consulting, Inc. and the Annual Review of Domestic Equity Managers for November 14 and 15, 2007. Chairman San Agustin asked how many managers are involved. Controller Diana Bernardo replied, "Six for equity." Chairman San Agustin requested to get the reports before the meeting. Vice-Chairman Leon Guerrero stated that the managers are fairly new. Chairman San Agustin asked when the Retirement Fund is expected to get Mercer Investment Consulting, Inc.'s (Mercer's) evaluation. Director Blas replied, "November." Chairman San Agustin stated that there is some downgrading of certain stocks. Treasurer Cruz stated that it is residential.

Vice-Chairman Leon Guerrero stated that the Draft Request for Proposal (RFP) for Proxy Voting is still pending completion.

C. Audit Committee

No report was made at this time.

D. Governmental Liaison

No report was made at this time

IX. TRAVEL REPORT

None

X. OLD BUSINESS

None

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. RECESS

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to recess, and without objection, the Board of Trustees meeting for the Defined Benefits Plan recessed at 1:50 p.m. on Friday, September 14, 2007 and will reconvene on Friday, September 21, 2007, at 12:00 Noon in the Retirement Fund Conference Room.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of September 14, 2007 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 16, 2007.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas