

**BOARD OF TRUSTEES**

**Regular Meeting**

Friday, October 5, 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 12:35 p.m. Friday, October 5, 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  
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

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

### **A. September 14, 2007 Regular Meeting and September 21, 2007 Reconvened Meeting (Pending)**

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to defer approval of the Minutes of September 14, 2007 Regular Meeting and September 21, 2007 Reconvened Meeting. Without objection, the motion passed.

## **III. CORRESPONDENCE**

### **A. September 18, 2007 Letter from Terry Dennison, Mercer Investment Consulting, Inc. (Mercer) Regarding Securities Lending in Current Market Conditions**

Chairman San Agustin stated that Mercer provided, in their letter of September 18, 2007, their view and potential actions regarding securities lending in the current market conditions. Mercer's letter states that the current market conditions provide a rich opportunity set for lending activity and, therefore, the potential for increased revenue although Mercer believes that the risks are also higher than under "normal" market conditions. Chairman San Agustin stated that the money depends on the category. Chairman San Agustin stated that it is a good source of extra revenue. Chairman San Agustin stated that Mr. Dennison presented a cautious response.

### **B. Mercer Investment Consulting, Inc. (Mercer) Market Index Returns for the Month of September 2007 (Report Date: October 3, 2007)**

Chairman San Agustin stated that Mercer provided information on the indexes uses.

### **C. NASRA News Clips – October 2, 2007**

Chairman San Agustin stated that the NASRA News Clips is for informational purposes.

## **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 this case remains status quo. The parties are still waiting for Judge Michael Bordallo's Decision and Order.

**2. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)*** – Director Blas stated that the total judgment in the COLA case is approximately \$123 Million. \$8 Million has been identified from the General Fund and approximately \$4.5 Million has been distributed to living retirees and surviving spouses as of September 12, 2007. Beneficiaries of deceased retirees are being determined and distribution for these beneficiaries should be completed by the end of October 2007. Public Law 29-04 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. Public Law 29-19 authorizes the bond borrowing of up to

\$205 Million of which \$108 Million will be earmarked to fund payments to COLA class awardees. Director Blas stated that a third Justice is to be appointed by Justice Richard Benson regarding the Taxpayer's lawsuit on the distribution of COLA.

Chairman San Agustin stated that the Board of Trustees received a letter dated October 4, 2007 from Attorney David Dooley regarding the Supreme Court's issuance of an "Alternative Writ of Prohibition." Chairman San Agustin stated that Attorney Dooley's letter provided three options:

- 1) Do nothing. The money which is at issue belongs to the General Fund. Thus, the Retirement Fund does not have a stake in the litigation. The Retirement Fund can simply sit back and allow the Petitioners, the COLA Class and the Government of Guam argue this issue since it is those people that will be affected by the decision;
- 2) The Retirement Fund could allow the Petitioners to first brief the issue. The first brief is due on October 12, 2007. The Retirement Fund could file a response on October 22, 2007 depending upon what is said by the Petitioners and the COLA Class in their submissions on October 12, 2007;
- 3) The Retirement Fund could attempt to immediately brief the issue which was raised by the Supreme Court and file a memorandum on or before October 12, 2007. And, the Retirement Fund could also file a reply by October 22, 2007.

Chairman San Agustin stated that Attorney Dooley recommends the first option and to wait for the process outcome of October 12, 2007. Secretary Taylor inquired about the Board of Trustees named as "Real Parties in Interest." Director Blas stated that it is because the calculations are from the Retirement Fund. The Retirement Fund administers the data. Director Blas stated that she is suggesting for option number 2. Chairman San Agustin stated that he's okay with both options 1 and 2. Secretary Taylor stated that the Board should state that they have no opinion. Chairman San Agustin stated that the Board could state that they have no position at this time.

**Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Antolina Leon Guerrero, moved to accept the first option as recommended by Attorney David Dooley and to direct Attorney Dooley to act accordingly. Without objection, the motion passed.**

**3. *Government of Guam Retirement Fund vs. Guam Memorial Hospital Authority (Case No. SP0231-02)*** – Director Blas stated that this case remains status quo. A new judge will be assigned and a new hearing date will be scheduled.

**4. *Organic Act / Trust Agreement*** – Director Blas stated that this is pending Secretary 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 ruling on the licensing requirements for banks, bank trusts and bank trust departments. Secretary Taylor asked whether there is any progress. Chairman San Agustin stated that the Retirement Fund has not received a response.

6. **Request for Proposal (RFP): Real Estate Investment Trusts (REITS)** - Director Blas stated that evaluations are ongoing. The Selection Panel consists of Gerard A. Cruz, George A. Santos and Katherine T.E. Taitano.
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 James J. Taylor, Gerard A. Cruz and Rosalia L. Bordallo.
8. **Request for Proposal (RFP): Legal Services** - Director Blas stated that evaluations are ongoing. The Selection Panel will consist of Katherine T.E. Taitano, James J. Taylor and George A. Santos. Trustee Taitano stated that she would like to meet on October 10, 2007 at noon.
9. **Request for Proposal (RFP): U.S. Domestic Core Fixed Income** - Director Blas that this is pending Mercer’s managers’ analysis and evaluations which was due on September 28, 2007. The Selection Panel will consist of 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 is pending Mercer’s managers’ analysis and evaluations which was due on September 28, 2007. The Selection Panel will consist of 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 is pending Mercer’s managers’ analysis and evaluations which was due on September 28, 2007. The Selection Panel will consist of 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 Guam Memorial Hospital Authority (GMHA) are due on October 10, 2007. The Retirement Fund continues to process applications for retirement for GMHA and GPSS eligible employees.

### **Financial Report**

1. **Contributions** – Director Blas stated that 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 September 2007 will be closed by November 7, 2007. The Fiscal Year ending September 30, 2007 books will be closed by November 9, 2007.
3. **Fiscal Year 2007 Retirees’ Supplemental Benefits** - Director Blas stated that the supplemental benefits for retirees and survivors for the month of September 2007 were paid. The supplemental benefits for the month of October are not due until the end of the month.

**4. Medicare Reimbursements** - Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2007 monthly allotments and payments are processed accordingly. Director Blas stated that in addition to the Fiscal Year 2008 appropriation of \$684,000, a supplemental appropriation of \$23,000 for Fiscal Year 2006 and \$32,000 for Fiscal Year 2007 is authorized in the Fiscal Year 2008 Executive Budget.

## **VI. LEGAL COUNSEL'S REPORT**

No report was made at this time.

## **VII. TREASURER'S REPORT OF FINANCIAL STATUS**

Treasurer Gerard Cruz stated that the drawdown is on track. Treasurer Cruz stated that the Retirement Fund anticipates a drawdown of \$3 Million per month from October 2007 through March 2008. Treasurer Cruz stated that the contributions are coming in on time. Treasurer Cruz further stated that the Retirement Fund's net asset is \$1.6 Million as of August 31, 2007. Chairman San Agustin stated that he spoke to former Trustee Anthony Blaz and Mr. Blaz told him that the Standard & Poor's report showed a 40% security ratio. Chairman San Agustin stated that the Retirement Fund has a significant part in the credit rating.

**Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the drawdown schedule of \$3 Million per month from October 2007 through March 2008. Without objection, the motion passed.**

## **VIII. STANDING COMMITTEE REPORTS**

### **A. Members and Benefits Committee**

Trustee George Santos reported to the Board of Trustees on his Committee's September 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 17, including the attachments and the Annuity Worksheets, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that the Members and Benefits Committee found the two disability applicants, listed on Page 17, Section V, not totally and permanently disabled. The Committee recommends disapproval.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Page 17, Section V, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that Ms. Lolaine Charfauros Moniz is applying for minor child survivor benefits on behalf of Isaiah Allen Charfauros Moniz. Ms. Moniz is the biological mother of the minor child. The minor child is the natural child of deceased member Peter Paul Nartia who passed away on March 26, 2007. Trustee Santos stated that Ms. Moniz has provided the birth certificate of the minor child, the Order Appointing Guardianship and the DNA Analysis results and/or findings. Chairman San Agustin suggested having the court order the issuance of a new Birth Certificate.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Page 18, Section VI, Item No. 1, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that Ms. Heather Ann Uncangco is applying for survivor benefits on behalf of herself. The applicant is the natural child of deceased member George C. Ulloa who passed away on May 27, 1997. Ms. Uncangco has provided a birth certificate of herself and the DNA Analysis results and/or findings.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Page 19, Section VI, Item No. 2, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that the Retirement Fund's Legal Counsel recommends that a letter be sent to Mr. Syverson advising that: 1) The issue is still in litigation; (2) Patrick Civile, Esq. represented Mr. MacIntyre; and 3) the case has been dormant since its inception. Trustee Santos stated that the Members and Benefits Committee concurs with the Retirement Fund's Legal Counsel's recommendation and recommends that the Retirement Fund Director execute the required transmittals.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Page 20, Section VII, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that the Members and Benefits Committee finds that the Financial Hardship Withdrawals do play a part in meeting legitimate needs of Participants and should be allowed. However, given the purpose of the Defined Contribution (DC) Plan to provide for retirement, the Members and Benefits Committee finds that in-service withdrawals need to be limited to the greatest extent possible. The Committee recommends the following amendments that would require the Plan Document to be amended: 1) A Participant may apply for only one hardship withdrawal in any consecutive 24-month period. All hardship withdrawal applications will require the following documents: a) Tax return for the previous two years; b) check stubs from the last two pay periods; and c) a personal financial statement. 2) Reasons for Hardship Withdrawals: a) Medical Expenses – A hardship withdrawal for incurred medical expenses in any given year may be allowed and limited to allowable, incurred but unreimbursed medical expenses that in the aggregate exceed 7.5% of the Participant's average annual Adjusted Gross Income as stated on the Participant's tax returns for the previous two years; b) Foreclosure/Eviction – A hardship withdrawal to prevent an eviction or

foreclosure shall be allowed only once during a Participant's membership in the DC Plan; and c) Funeral Expenses – A hardship withdrawal for funeral expenses of the Participant's spouse, children, or dependents.

Trustee Katherine Taitano recommended soliciting comments from the participants. Chairman San Agustin stated that the participants should be given the opportunity to comment. Vice-Chairman Wilfred Leon Guerrero recommended sending out a notice of the changes. Trustee Santos suggested directing Director Blas to give a thirty-day commentary notice. Director Blas stated that the participants will be informed that in sixty days these changes will be implemented. Trustee Antolina Leon Guerrero concurred with the sixty days from when notice was sent.

**Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 21 through 23, Section VIII, Item No. 1, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Trustee Santos stated that a review of current Participant balances reveals that most Defined Contribution Plan (DC) Participant's account balances will not be sufficient to carry them through their retirement years. The increase of 2.5% will put the contribution rate closer to the Defined Benefit (DB) Plan contribution rate of 9.5% for employees. Trustee Santos stated that the Members and Benefits Committee finds that keeping the contribution rate at 5% as an incentive for DB members to transfer to the DC Plan is no longer necessary. The transfer process will continue. The Committee recommends to increase the retirement contribution employee and employer rate for the DC Plan from 5% to 7.5% and to submit necessary legislation to attain this objective.

**Trustee George Santos, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 24 through 25, Section VIII, Item No. 2, based on the Committee's review and findings during their meeting of September 19, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

Secretary Taylor congratulated the Members and Benefits Committee on its useful work.

## **B. Investment Committee**

Vice-Chairman Leon Guerrero stated that the Investment Committee meeting was held on September 28, 2007. The Investment Committee reviewed and approved the Investment Committee Minutes of August 31, 2007.

Vice-Chairman Leon Guerrero stated that the Investment Committee adopted the Draft Proxy Voting Services Request for Proposal (RFP) subject to review by the Investment Committee. Vice-Chairman Leon Guerrero stated that the Investment Committee is still reviewing the RFP.

Vice-Chairman Leon Guerrero stated that the Investment Committee discussed the status of the following Request for Proposals:

- Custodial Bank Services
- Real Estate Investment Trusts (REITS)
- U.S. Domestic Small Cap Core Equity

- U.S. Domestic Core Fixed Income
- U.S. Domestic Large Cap Growth Equity
- U.S. Domestic Large Cap Value Equity

Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed Mercer Investment Consulting, Inc.'s (Mercer's) September 26, 2007 letter regarding the "Transition Manager Functionality" and directed Management to obtain Legal Counsel's opinion relative to items 1 [Obtain an opinion from the Retirement Fund's Legal Counsel that the Board has direct investment powers under the Guam Revised Statutes and can legally direct the Retirement Fund's Custodian to settle security trades initiated at one or more Discount Brokers after passage of a Board resolution to authorize such transaction(s)]; and 2 [Obtain an opinion from the Retirement Fund's Legal Counsel that upon purchase and retention of Exchange Traded Funds (ETFs), such ETFs would be treated as securities and not as mutual funds for the provisions of Sections 8157 and 8158 of the Guam Revised Code and would be treated in Board-directed transactions in the same manner as would be the case with any other investment manager employed by the Retirement Fund] of the letter. Director Blas stated that this is still with Legal Counsel.

### **C. Audit Committee**

Treasurer Cruz stated that the Retirement Fund is between audits at this time. The audit will commence in late November. Treasurer Cruz stated that the target date for the audit is January or February 2008. There are no findings for Fiscal Year 2008. Treasurer Cruz stated that the Retirement Fund needs to address the Disaster Recovery Plan. Chairman San Agustin stated that the Retirement Fund needs to protect the records.

### **D. Governmental Liaison**

No report was made at this time.

## **IX. TRAVEL REPORT**

### **A. Joe T. San Agustin: Asian Funds Showcase Summit, September 4-5, 2007 and Investment Manager Visit (Capital International), September 6, 2007**

Chairman San Agustin stated that he submitted his travel report for the Asian Funds Showcase Summit he attended on September 4-5, 2007 and the Investment Manager Visit with Capital International (Capital) on September 6, 2007 in Singapore. Chairman San Agustin stated that he met with representatives from Capital International. Chairman San Agustin stated that Capital would be submitting more detailed reports, which would include a breakdown by countries. Treasurer Cruz stated that the emerging markets have been very strong. All international managers have been doing well and have been meeting their benchmark.

### **X. OLD BUSINESS**

None

### **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 Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the meeting was adjourned at 2:33 p.m. Motion passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of October 5, 2007 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 16, 2007.**

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**James J. Taylor, Board Secretary**

**RECORDING SECRETARY:**

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**Jackie Blas**