

**BOARD OF TRUSTEES**  
**Regular Meeting**  
Friday, November 16, 2007, 12:00 p.m.  
Retirement Fund Conference Room

**MINUTES**

<b>DEFINED BENEFITS</b>
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**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 12:10 p.m. Friday, November 16, 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  
Antolina S. Leon Guerrero, Trustee

**Board of Trustees Absent:**

Katherine T.E. Taitano, 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  
Clint Ridgell, KUAM

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

### **A. September 14, 2007 Regular Meeting, September 21, 2007 Reconvened Meeting and October 5, 2007 Regular Meeting**

**On motion of Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, and without objection, the Minutes of September 14, 2007 Regular Meeting, September 21, 2007 Reconvened Meeting and October 5, 2007 Regular Meeting were approved, subject to corrections. Motion passed.**

## **III. CORRESPONDENCE**

### **A. Mercer Investment Consulting, Inc. Monthly Report for October 2007**

Chairman San Agustin provided a copy, at this meeting, of the Market Index Returns for the month of October 2007 prepared by Mercer Investment Consulting, Inc. (Mercer).

### **B. November 5, 2007 Letter from George P. Macris, M.D. Regarding Edwardo Justo Cruz, M.D.**

Chairman San Agustin stated that he received a letter from Dr. George Macris regarding Dr. Edwardo Cruz. Dr. Macris stated in his letter that if the matter is found to be true, it would not only be a violation of the law but would unfairly burden the Government of Guam taxpayer by miscalculating retirement benefits, salary, cost of living allowance payments, and time-in-government service. Dr. Macris further stated in his letter that this could amount to tens of thousands of dollars of "ill gotten gains" paid at taxpayer's expense. Chairman San Agustin stated that he received a letter from the Retirement Fund's Legal Counsel stating that the matter appears to be a licensing and employment issue for which the Retirement Fund has no authority to address. Chairman San Agustin mentioned that Dr. Cruz was a member of the Government of Guam Retirement Fund even before he became a doctor. Chairman San Agustin stated that this matter does not require Board action. Director Paula Blas asked whether she would need to respond to Dr. Macris' letter. Chairman San Agustin stated that the Retirement Fund should just acknowledge receipt of Dr. Macris' letter.

## **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 Blas stated that Judge Michael Bordallo granted the Motion for Dismissal. Director Blas stated that she will provide copies to the Board.

**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 \$5.1 Million has been distributed to living retirees and surviving spouses as of September 12, 2007. Beneficiaries of deceased retirees are being audited and COLA award letters are in the process of being sent to the beneficiaries. The remaining \$2.9 Million will be distributed when the beneficiaries are identified. Distribution of the COLA awards for living beneficiaries should be completed by the end of this

month. A list of retirees without a named beneficiary or living beneficiary will be published in the newspaper in early December 2007. Distribution of the COLA awards for these individuals will be made to their estates. Public Law 29-18 mandated the Department of Administration (DOA) to issue certificates of claim to COLA Awardees. DOA is currently pending an Attorney General's opinion regarding this matter. \$14 Million from the bond proceeds are earmarked for COLA distribution and the methodology of how distribution will be made will be determined by the Governor. Director Blas stated that in regards to the Taxpayer's lawsuit, a decision is still pending from the Supreme Court.

Chairman San Agustin stated that when the bond was issued, the use of the proceeds was not identified. It was lumped into one whole amount. The money is still in an interest bearing account. Chairman San Agustin stated that the cost for the issuance of the bond is \$5 Million. Director Blas stated that DOA is asking for the Attorney General's (AG's) opinion on the certificates.

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

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

**5. *Request for Proposal (RFP): Custodial Bank Services*** – Director Blas stated that the Retirement Fund is pending information from Northern Trust. Chairman San Agustin stated that the Retirement Fund needs to move on with the RFP.

**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.

**7. *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. Secretary Taylor stated that he would provide Director Blas with his analysis.

**8. *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.

**9. *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. Treasurer Gerard Cruz stated that the Selection Panel will meet next week Tuesday, November 20, 2007, at 9:00 a.m.

**10. *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. Secretary Taylor stated that the Selection Panel will meet sometime during the week of November 26, 2007.

**11. Request for Proposal (RFP): U.S. Domestic Large Capitalization Value Equity** – Director Blas stated that evaluations are ongoing. The Selection Panel consists of the following: Gerard A. Cruz, Antolina S. Leon Guerrero, and Rosalia L. Bordallo. Treasurer Cruz stated that the Selection Panel will meet next week Tuesday, November 20, 2007, at 10:00 a.m.

**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 due on November 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 as of November 13, 2007, all agencies are current with their Fiscal Year 2008 employee and employer contributions.

**2. Financial Statements** – Director Blas stated that the books for the month of September 2007 were closed on November 9, 2007. The Fiscal Year ending September 30, 2007 books were closed on November 13, 2007.

**3. Fiscal Year 2007 Retirees' Supplemental Benefits** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of October 2007 were paid.

**4. Medicare Reimbursements** – Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2008 monthly allotments and payments are processed accordingly.

**5. Fiscal Year 2008 COLA** – Director Blas stated that the annual COLA for Fiscal Year 2008 will be disbursed on November 30, 2007.

Vice-Chairman Wilfred Leon Guerrero complimented Director Blas and her staff on sending out notices to retirees regarding the Government of Guam Group Health Insurance.

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

No report was made at this time.

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

Treasurer Cruz provided, at this meeting, a copy of the Retirement Fund's Statement of Plan Assets (unaudited) for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the year ended September 30, 2007. Treasurer Cruz also provided, at this meeting, a copy of the Retirement Fund's Cash Flow Statement from April 2007 through March 2008.

Treasurer Cruz stated that the total assets as of September 30, 2007 was \$1.7 Billion. Treasurer Cruz stated that there were normal losses with the exception of one exposure. The net assets held in trust for pension benefits were \$124,612,427 for the DB Plan which is net of withdrawals. Chairman San Agustin pointed out that the receivables decreased. Treasurer Cruz stated that it was reduced by \$11 Million. Controller Diana Bernardo stated that there is an increase in collections. Chairman San Agustin stated that the net growth should be shown. Chairman San Agustin stated that the net

investment income increased in 2007 by \$100,422,360. Treasurer Cruz stated that the assets increased in the DC Plan.

Treasurer Cruz reported that the audit will commence in two weeks. Controller Bernardo stated that the draft audit should be completed in early February 2008.

**Trustee George Santos, seconded by Trustee Antolina Leon Guerrero, moved to accept the Treasurer's Report. 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 October 2007 end of the month report. Chairman San Agustin stated that the Members and Benefits Committee Summary Sheet, provided at this meeting, shows an improvement on the pending cases that were acted on.

**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 20, Sections IV and V, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of October 17, 2007 and subsequent meetings thereafter. Without objection, the motion passed.**

### **B. Investment Committee**

Vice-Chairman Leon Guerrero stated that he would like to compliment Controller Bernardo and her staff on having the Investment Committee report ready for today's meeting. The Investment Committee meeting was held on November 15, 2007. Chairman San Agustin asked whether the Retirement Fund received Capital International Inc.'s (Capital's) revised report. Chairman San Agustin stated that Capital was supposed to have a more detailed report of transactions. Controller Bernardo stated that she will follow up with Capital.

Vice-Chairman Leon Guerrero stated that there are two action items:

**1) *Capital International Inc.*** – Vice-Chairman Leon Guerrero stated that during 2007, Capital was directed to inform the Retirement Fund if future capital gains distributions are to be made so that cash-flow requirements can be assessed, and the Retirement Fund can determine whether all or a portion of the distributions should be paid to the Retirement Fund or reinvested. Vice-Chairman Leon Guerrero stated that the Investment Committee recommends that 100% of the capital gains distributions be reinvested.

**Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, moved to approve the Investment Committee's recommendation that 100% of the capital gains distributions be reinvested on both long and short term capital gains. Without objection, the motion passed.**

**2) *Proxy Voting Services – Request for Proposal (RFP)*** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed and approved the Draft Proxy Voting Services RFP and recommends approval by the Board for issuance of the RFP. Trustee Leon Guerrero asked what is the

proxy voting for. Vice-Chairman Leon Guerrero stated that it is to assist the Retirement Fund in looking at the managers' background, proxy analysis, and proxy voting recommendations.

**Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation to issue the Request for Proposal for Proxy Voting Services. Without objection, the motion passed.**

**Informational Items** – Vice-Chairman Leon Guerrero reported that the Investment Committee reviewed and approved the Investment Committee Minutes of September 28, 2007. The Investment Committee also discussed the status of the following Request for Proposals that are pending: 1) Custodial Bank Services, 2) Real Estate Investment Trusts (REITS), 3) U.S. Domestic Small Cap Core Equity, 4) U.S. Domestic Core Fixed Income, 5) U.S. Domestic Large Cap Growth Equity, and 6) U.S. Domestic Large Cap Value Equity. Vice-Chairman Leon Guerrero further reported that on November 14 and 15, 2007, the Investment Committee met with representatives of the following investment management firms to discuss their performance for the past year: 1) Metropolitan West Capital Management, 2) Davis Hamilton Jackson & Associates, 3) RCM, 4) Atlanta Sosnoff, and 5) Oppenheimer Capital.

Vice-Chairman Leon Guerrero reported that during the annual review with the domestic equity managers, the Board met with five managers. A report was made for the period ended September 30, 2007. Vice-Chairman Leon Guerrero stated that additional changes did happen after September 30, 2007, especially the identification of the sub prime situation. Vice-Chairman Leon Guerrero stated that he asked the managers to submit a report on any losses related to the use of the sub prime situation. Treasurer Cruz stated that it is successful because domestic names have large exposures. Treasurer Cruz stated that Oppenheimer Capital is the most exposed to the sub prime problem. Secretary Taylor stated that Metropolitan West Capital Management, Davis Hamilton Jackson & Associates, RCM and Atlanta Sosnoff are above their target indices. Oppenheimer Capital has not met its target. Secretary Taylor stated that this has him thinking whether Oppenheimer Capital is the right kind of manager for the Retirement Fund.

Vice-Chairman Leon Guerrero mentioned that Mr. Terry Dennison made a presentation at the IFEBP 53rd Annual Conference in Anaheim, California. Treasurer Cruz stated that all five managers had positions in Apple. Treasurer Cruz asked whether the custodian could inform the Retirement Fund of the percentage of stocks invested in Apple. Chairman San Agustin noted he was concerned about several institutional managers purchasing the same stock (similar to what happened during Enron) and requested the development of a mechanism to make this less likely. Chairman San Agustin asked whether Mercer attended the Annual Review. Controller Bernardo replied, "No." Controller Bernardo stated that Mercer had a conflict with their client schedule. Mercer wanted to change the date of the Annual Review. Vice-Chairman Leon Guerrero stated that other issues will be discussed at the next meeting.

**Exchange Traded Funds** - Chairman San Agustin stated that the Retirement Fund's Legal Counsel drafted a bill regarding the Exchange Traded Funds. The draft bill is being referred to the Investment Committee for review.

**Mercer Defined Benefit Performance Flash Report** – Director Blas stated that a copy of Mercer's Fourth Fiscal Quarter 2007 report is provided, at this meeting, for the Board's information. Treasurer

Cruz stated that the bonds brought the Fund down. Chairman San Agustin stated that Mercer should have been here to present this report. Trustee Santos stated that the Investment Committee should be commended. Chairman San Agustin agreed.

**C. Audit Committee**

Treasurer Cruz reported that the audit will commence in two weeks.

**D. Governmental Liaison**

Chairman San Agustin stated that a draft bill relative to the exchange traded funds was just referred to the Investment Committee for review.

**IX. TRAVEL REPORT**

**A. Paula M. Blas: Asia Pacific Association for Fiduciary Studies (APAFS) 7th Annual Pacific Region Investment Conference, October 18-19, 2007, Manila**

Chairman San Agustin stated that Director Blas has submitted her travel report for the APAFS 7th Annual Pacific Region Investment Conference she attended on October 18-19, 2007 in Manila.

**B. George A. Santos: APAFS 7th Annual Pacific Region Investment Conference, October 18-19, 2007, Manila**

Chairman San Agustin stated that Trustee Santos has submitted his travel report for the APAFS 7th Annual Pacific Region Investment Conference he attended on October 18-19, 2007 in Manila.

**C. Wilfred P. Leon Guerrero: BLB&G Institutional Investor Forum, October 11-12, 2007, New York City and IFEBP 53rd Annual Employee Benefits Conference, November 4-7, 2007, Anaheim, California**

Chairman San Agustin stated that Vice-Chairman Leon Guerrero has submitted his travel report for the BLB&G Institutional Investor Forum he attended on October 11-12, 2007 in New York City and the IFEBP 53rd Annual Employee Benefits Conference on November 4-7, 2007 in Anaheim, California.

**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 1:28 p.m. Motion passed.**

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

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**James J. Taylor, Board Secretary**

**RECORDING SECRETARY:**

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**Jackie Blas**