

BOARD OF TRUSTEES
Regular Meeting
Friday, July 13, 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 2:05 p.m. Friday, July 13, 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
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee
Antolina S. Leon Guerrero, Trustee

Board of Trustees Absent:

James J. Taylor, Secretary (*Off-Island Conference*)

Staff Present:

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

Public Present:

Terry Dennison & Ashish Shrestha, Mercer Investment Consulting Inc.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. May 4, 2007 and June 8, 2007 Regular Meetings

Vice-Chairman Wilfred Leon Guerrero made a clarification on item IV A (Termination of Invesco Stable Value Fund) on Page 2 of 4 of the Minutes of June 8, 2007. Vice-Chairman Leon Guerrero pointed out that he was quoted as saying that Galliard Stable Value Fund did not submit a bid on the Request for Proposal (RFP). Vice-Chairman Leon Guerrero stated that he made the assumption that the listing he was looking at came from an RFP. The list came from Great West Retirement Services. Vice-Chairman Leon Guerrero stated that it was a mistake on his part and that he has since been educated.

On motion of Trustee George Santos, seconded by Trustee Katherine Taitano, and without objection, the Minutes of May 4, 2007 and June 8, 2007 Regular Meetings were approved, as clarified by Vice-Chairman Wilfred Leon Guerrero, subject to corrections. Motion passed.

III. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. Request for Proposal (RFP): Third Party Administrator – Director Paula Blas stated that the Selection Panel did the evaluations and had ranked offeror #1 who is Great West Retirement Services (Great West) as the best qualified offeror at the time. Director Blas stated that the Selection Panel proceeded with negotiations with Great West based on pricing that was recommended by the Selection Panel as well as pricing ascertained from other offerors that were reasonable. The Selection Panel was not able to reach a successful negotiation with Great West. Director Blas stated that the Selection Panel terminated negotiations with Great West. Great West appealed the decision. Director Blas stated that the Selection Panel responded back to Great West denying their appeal based on the facts presented to the Selection Panel. Director Blas stated that Great West went to the next level and appealed to the Office of the Public Auditor (OPA). Trustee Antolina Leon Guerrero asked whether this is with the current plan administrator. Director Blas replied, “Yes.” Chairman San Agustin stated that there is a conflict of interest with the OPA. Chairman San Agustin stated that, by law, the OPA is designated to be the Administrative Judge on all procurement issues.

2. Great West Retirement Services (Great West) Annual Plan Review - Director Blas stated that Great West had requested that the Annual Plan Review for the 401(a) and 457 Plans that was scheduled for June 26, 2007 be postponed until further notice. Chairman San Agustin asked whether there is a requirement to conduct the plan review. Director Blas stated that it is an annual review. Chairman San Agustin asked Director Blas to schedule a date for the Annual Plan Review. Director Blas mentioned that Mike Perez, Great West Retirement Services, is currently off-island. Rosalia Bordallo, General Accounting Supervisor, stated that failure to conduct the Annual Plan Review is a cause for termination. Director Blas stated that it may have to do with the timing of the appeal. Mrs. Bordallo stated that the timing of the appeal should not be an issue. Director Blas stated that she will schedule the Annual Plan Review for August 9, 2007 at 8:30 a.m.

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 June 2007 closed on July 11, 2007.

IV. INVESTMENT COMMITTEE REPORT

Vice-Chairman Leon Guerrero stated that the Investment Committee meeting was held on June 29, 2007. The Investment Committee reviewed and approved the Investment Committee Minutes of May 25, 2007.

Vice-Chairman Leon Guerrero asked Ashish Shrestha, Mercer Investment Consulting Inc. (Mercer), to report on the 401(a) and 457(b) Plans. Mr. Shrestha stated that the 401(a) Plan assets, as of March 31, 2007, totaled \$155.6 Million, increasing \$5.1 Million from \$150.5 Million at December 31, 2006. The 457(b) Plan assets, as of March 31, 2007, were \$9.7 Million, increasing \$0.7 Million from \$9.0 Million at December 31, 2006. Mr. Shrestha stated that the majority of the plan investment options have met their investment objectives over the three and five years. This shows that the funds have outperformed their index and peer universe median. Mr. Shrestha stated that Mercer does not have any major issues with the majority of the investment options except for the following three: 1) Invesco Stable Value - due to recent personnel departures, Mercer recommended that this fund be terminated; 2) BlackRock Aurora Investment Mutual Fund has not met their investment objectives for three and five years. This fund is a large asset base and is usually a lack of style consistency; 3) Thornburg International Value has not met their investment objectives for three and five years. This fund has weak results and concerns regarding investment process and the organization. Mr. Shrestha stated that these funds in particular are being closely monitored. Chairman San Agustin asked what is the percentile. Mr. Shrestha stated that the BlackRock Aurora, for three and five years, the fund is underperforming both its index and its universe median. The percentile ranking for three years is 82 and 84 for five years.

Chairman San Agustin asked whether this is the first report of the year. Vice-Chairman Leon Guerrero replied, "Yes." Treasurer Gerard Cruz stated that during the due diligence report, the Investment Committee goes through a pass/fail exercise and this is the first time he heard anyone failed. Director Blas stated that Templeton had been replaced by Thornburg. Chairman San Agustin asked whether these results could be shared with the administrator of the plans. Vice-Chairman Leon Guerrero stated that the Investment Committee plans on pointing this out at the quarterly review scheduled in August 2007.

Chairman San Agustin asked whether Mercer's report show any information on costs. Mr. Shrestha stated that it is shown on the Investment Expense Analysis. The analysis shows the average institutional expense ratio for their particular peer group. Most of the funds' expense ratios are competitive except for the smaller cap funds and the international equity funds. Mr. Shrestha stated that the following funds have a higher expense ratio than the average institutional expense ratio: Baron Small Cap, BlackRock Aurora Investment, Thornburg International Value and Pioneer Emerging Markets. Chairman San Agustin asked about the Lifecycle funds that are not applicable for comparison. Mr. Shrestha stated that Mercer does not have averages for those Lifecycle components because it is difficult to find a peer group for them. Chairman San Agustin asked about the percentage listed in the Fund Expense Ratio column. Mr. Shrestha stated that it is the percentage of asset. Terry Dennison, Mercer Investment Consulting Inc., stated that all of the performance reports are net of fees. Mr. Dennison stated that an issue to bear in mind, in addition to the management cost that the investment manager of the mutual fund is getting, is revenue sharing. This is where you would elect a share class which provides a revenue flow to the record keeper to offset the cost of providing the participant level accounting recordkeeping communication. Mr. Dennison stated that the costs that

Great West fees are based on the number of participants and their revenue is based on the balances in the participants' account. Mr. Shrestha stated that Great West provided a list of four funds that have share classes available. Chairman San Agustin asked whether the share classes report provided to the participants. Mr. Shrestha stated that he believes that Great West does provide the share classes report to the participants. Mr. Dennison stated that Great West would only provide the total expense ratio for the share class that is used in the fund. Chairman San Agustin asked where we would get information on revenue sharing classes. Mr. Dennison stated to ask the Third Party Administrator (TPA) what share classes are available on their platform and what share classes would they require the Retirement Fund to use in order to make the revenue equation work. Director Blas stated that, in the proposal, the Retirement Fund did ask that investment options be provided and what it would collate in relationship to the 12B1 Revenue Sharing Income. This basically ties in to what their costs proposal would be. Treasurer Cruz stated that the Retirement Fund does not want their price to be dictated by the share the Retirement Fund chose. Mr. Dennison stated that the Retirement Fund needs to monitor whether it is in the right share class. Mrs. Bordallo asked whether Treasurer Cruz is only referring to the TPA fees and not the mutual fund fees. Treasurer Cruz stated that he is referring to what the TPA would be compensated. Mr. Dennison stated that if the Retirement Fund is allowing the TPA candidates to provide a list of funds that they recommend, it might be worthwhile for Mercer to review the list.

Vice-Chairman Leon Guerrero stated that the Investment Committee has resolved the INVESCO issue. As directed by the Board at its May 2007 meeting and in consultation and recommendation of the Investment Consultant, the Investment Committee approved a motion that the Investment Committee initiates the termination of INVESCO and designates the Gillard Capital Management Stable Value Fund. Treasurer Cruz asked whether Management would direct Great West to prepare the letter to INVESCO and Gillard. Director Blas replied, "Yes."

V. OLD BUSINESS

A. Contribution Report – June 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 June 2007.

Mr. Perez's report shows that the Defined Contribution Plan (DC) has 6,260 participants with a total contribution amount of \$761,455.76. The Deferred Compensation Plan has 757 participants with a total contribution amount of \$92,413.07.

VI. NEW BUSINESS

None

VII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

VIII. ANNOUNCEMENTS

None

IX. ADJOURNMENT

There being no further business before the Board for the Defined Contribution Plan, on motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 2:50 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of July 13, 2007 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on August 10, 2007.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas