

BOARD OF TRUSTEES
Regular Meeting
Friday, January 13, 2006, 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, January 13, 2006, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Acting Chairman
Katherine T.E. Taitano, Treasurer
James J. Taylor, Secretary
Anthony C. Blaz, Trustee
George A. Santos, Trustee

Board of Trustees Absent:

Joe T. San Agustin, Chairman (Off-
Island Conference)
Gerard A. Cruz, Trustee

Staff Present:

Paula Blas, Acting Director
Pete Tajalle, Controller
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

II. PRESENTATION OF A TRUST AGREEMENT

Secretary James Taylor made a presentation of a Trust Agreement. Secretary Taylor stated that the current situation is that he has been a member of the Retirement Fund Board for a year and a half and has not seen any real fundamental changes in how the Retirement Fund works. Secretary Taylor stated that he is concerned because it does not appear to him that there is any guarantee that the fundamental problem is being solved. Secretary Taylor stated that the Fund has a very serious problem in the Defined Benefits Plan. The Fund has \$1.2 Billion worth of assets and the Fund needs \$2.5 Billion worth of assets. Secretary Taylor stated that 50% of the people that need to be served by these monies are still working. The Fund is not putting any money away for the current workers. All dividends are going to the current retirees. All interest earned on the \$1.2 Billion is going to the current retirees. All money contributed by the government is going to the current retirees. All money contributed by the current workers is going to the current retirees. The Fund is taking \$70 Million a year out. The Fund needs a 7% return a year just to stand still.

Secretary Taylor stated that one of the causes of the problem is that the Legislature won't appropriate the "actuarially determined rate." Another cause is the Retirement Fund Board Investment Policy as set up by the current GovGuam law. Secretary Taylor stated that the Trust concept can solve the first problem and by solving the first problem you would also solve the second problem. Secretary Taylor stated that the proposal to resolve the problem is a Contract / Trust Law which is based upon Robert Moses and New York State Law. Secretary Taylor stated that an authority is a non government entity set up by a trust law or a contract law. The purpose of an authority is to remove a part of the governmental operations from political interference. Secretary Taylor referred to the Dartmouth College Case. In the Dartmouth College Case, the Legislature in that state can not pass a law that changes a contract. Secretary Taylor stated that if the Fund sets up a GovGuam Employees Retirement Trust made up of retirees and current employees, it would be set up by the Legislature and the Governor to include a clause requiring GovGuam to pay at an actuarially sound rate. Secretary Taylor stated that this is no different than a bond authority which exists on Guam. This would set up the independence of the Board and the Retirement Fund and it would provide a legal basis to require the government to pay at an actuarially sound rate. Secretary Taylor stated that the advantage of this is it gets the Retirement Fund Board out of politics and if it is set up correctly it guarantees that the Retirement Fund is going to be adequately funded. Secretary Taylor stated that the problem is that Legal Counsel Joanne Grimes is pessimistic about the government taking that kind of step. Secretary Taylor stated that Legal Counsel Grimes recommends changing the Organic Act.

Secretary Taylor asked if there is enough interest from the Board in trying to do something about it. Trustee Anthony Blaz stated that the Board needs to be persistent and needs to go to the Legislature. Secretary Taylor asked if when the Fund talks to the Legislature, is the Board going to include a request for the Fund to become a Trust. Secretary Taylor stated that the Fund could either go down the Congresswoman path or down the Trust path. Secretary Taylor stated that the Trust could be done without the Congresswoman. Trustee Blaz asked if the Fund would need to recommend changing the Organic Act. Trustee Blaz stated that the Organic Act needs to be done as a congressional federal mandate. Secretary Taylor stated that if Congresswoman Bordallo is not willing to do it then it is not ever going to happen. Secretary Taylor stated that the Trust Agreement only needs a law passed by the Legislature and signed by the Governor. Secretary Taylor stated that once the law is passed and the Trust document is signed it then falls under contract law. Trustee Blaz stated that the best way is to amend the Organic Act to get a Trust happen. Secretary Taylor stated that it goes back to the basic

problem that the Fund needs \$2.5 Billion. Secretary Taylor stated that the Fund is \$1.3 Billion short. Secretary Taylor stated that he wants to Board to pull together to do something to resolve the problem.

Acting Chairman Leon Guerrero had a question regarding the actuarial rate. Acting Chairman Leon Guerrero stated that actual amount on money the Fund is getting is more than 21.81%. Secretary Taylor stated that the amount determined necessary is taken and divided across the whole Government of Guam. Trustee Blaz asked what is the actuarial rate. Acting Director Paula Blas stated that 21.81% was the actuarial rate passed by the Legislature. Acting Director Blas stated that the rate was based on an assumption. Acting Chairman Leon Guerrero stated that he is concerned that the Government of Guam is not paying the actuarial rate. Acting Chairman Leon Guerrero asked where does the 16% show up. Secretary Taylor stated that the 16% is brought over and is being paid out immediately to the current retirees. Controller Tajalle stated that the 16% shows up as unfunded contributions. Secretary Taylor stated that he will sit with Acting Chairman Leon Guerrero and work through the real figures out of the actuarial study.

Secretary Taylor stated that he would like to go through a decision process. Acting Chairman Leon Guerrero stated that the Board should unanimously all go to the Legislature. Secretary Taylor stated that he hears Trustee Blaz saying to do this through an Organic Act change. Secretary Taylor stated that this could be done without touching the Organic Act. Trustee Blaz stated that the best approach would be to recommend changing the Organic Act. Trustee Blaz suggested doing one step at a time to change the Organic Act. Secretary Taylor stated that if the Fund operates under a contract, the Fund is independent of the government. Secretary Taylor stated that the Fund is starting to fall apart. Trustee Blaz stated that he has a problem going with the Dartmouth. Acting Chairman Leon Guerrero stated that the concept of entering into a contract is that one party can not change the contract. Trustee Blaz suggested getting the Legislature and the Governor to approve the Trust Agreement through the amending the Organic Act. Trustee Blaz stated that everyone has to agree on changing the Organic Act. Secretary Taylor stated that he has proposed two routes both dealing with creating a Trust. Acting Chairman Leon Guerrero stated that he senses that the Board is not opposed to the Trust, but stated that there are issues that needs to be addressed.

III. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 9, 2005 Regular Meeting

Acting Chairman Leon Guerrero stated that the December 9, 2005 Board Meeting Minutes is being reviewed by Secretary Taylor.

IV. CORRESPONDENCE

A. December 12, 2005 Letter from Elnora Sicad Regarding Disability Appeal

Acting Director Blas stated that the December 12, 2005 letter from Elnora Sicad regarding disability appeal is being referred to the Members and Benefits Committee.

B. December 13, 2005 Memorandum from Joe R. San Agustin, Agency for Human Resources Development, Regarding Disability Retirement of Elnora Sicad

Acting Director Blas stated that the December 13, 2005 memorandum from Joe R. San Agustin regarding disability retirement of Elnora Sicad is being referred to the Members and Benefits Committee.

C. December 30, 2005 Memorandum from Richard Skipper Regarding Credit for Military Service

Acting Director Blas stated that the December 30, 2005 memorandum from Richard Skipper regarding credit for military services is being referred to the Members and Benefits Committee.

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

William Don Parkinson vs. Government of Guam, Guam Memorial Hospital Authority and Guam Public School System - Acting Director Blas stated that the Attorney General's office is actively investigating and pursuing Mr. Don Parkinson's lawsuit. Acting Director Blas stated that the Attorney General is separately addressing the Guam Memorial Hospital Authority.

Candelaria Rios, et al. vs. Joseph Ada, et al (Special Proceeding Case No. SP206-98) - Acting Director Blas stated that on October 27, 1993 a petition was filed to fully implement the Retirement Fund Cost of Living Allowance. The case has been dormant all these years and a new "Notice of Motion" has been filed by the Plaintiff on December 5, 2005. Acting Director Blas stated that copies of the proceeding and Attorney David Dooley's response are provided for the Board's information.

Director's Position - Acting Director Blas stated that negotiations with the applicant for the Director's position is currently ongoing. Acting Chairman Leon Guerrero stated that three Board members were tasked with negotiating with Mr. Vince Camacho on the Director's position. Acting Chairman Leon Guerrero stated that the Committee found out that there was nothing to negotiate. Acting Chairman Leon Guerrero stated that the Board of Trustees is not in a position to negotiate. Acting Chairman Leon Guerrero stated that that triggered the Committee going to the Legislature to have the law amended. Acting Chairman Leon Guerrero stated that he spoke to Speaker Mark Forbes and it became evident that the Speaker is gun-shy about changing the law without a public hearing. Acting Chairman Leon Guerrero stated that he has asked Acting Director Blas to prepare a resolution to take to the Legislature to address a number of issues to be included in the Retirement bill that will be introduced. Acting Chairman Leon Guerrero pointed out that the on-going negotiation triggered taking this matter to the Speaker's office.

Investment Mandate Amendments - Section 8157 and Section 8158 - Acting Director Blas stated that draft legislation for Section 8157 is currently with the Investment Committee for their review. The draft legislation for Section 8158 is currently at the Legislature. Acting Director Blas stated that a public hearing has not been scheduled. Acting Blas stated that Section 8158 will be in the omnibus legislation. Acting Chairman Leon Guerrero stated that asked Acting Director Blas not to include Section 8157 since the Fund has not received a corrected version of Section 8157. Secretary Taylor stated that he is concerned that there is no real ability to change. It is critical. Acting Chairman Leon Guerrero suggested going with what the Fund has. Controller Tajalle stated he has not received anything from Mercer as of today's date. Acting Chairman Leon Guerrero stated that the omnibus legislation includes Section 8158, the Defined Contribution Plan Document Restatement, and the amendments to Section 8140.

Organic Act / Trust Agreement - Acting Director Blas stated that Secretary Taylor made a presentation of the Trust Agreement which will be discussed later.

Request for Proposal - Custodial Bank Services - Acting Director Blas stated that the supplemental agreement with Mercer has been signed by both parties and Management has instructed Mercer to proceed with the RFP for a Custodial Bank.

Request for Proposal - Medical Consultant Services - Acting Director Blas stated that the draft RFP for professional services has been submitted to the Members and Benefits Committee for their review and comments.

Request for Proposal - Defined Contribution Plan Investment Consultant Services - Acting Director Blas stated that the draft RFP for DC Investment Consultant Services has been submitted to the Investment Committee which is pending their review and comments.

Request for Proposal - Investment Portfolio Monitoring Services - Acting Director Blas stated that a draft RFP for investment portfolio monitoring services will be submitted to the Investment Committee by February 3, 2006.

Public Law 28-94: Guam Telephone Authority Sale Proceeds - Acting Director Blas stated that \$4.2 Million from the GTA sale proceeds as mandated by Public Law 28-94 has been received by the Fund. Acting Director Blas stated that the remainder of \$7.7 Million should be remitted by May 10, 2006.

Don Parkinson's Letters Regarding COLA Provision - Acting Director Blas stated that she checked with Legal Counsel on whether the Fund should file an injunction to halt the COLA payments authorized under Public Law 28-94. Acting Director Blas stated that Legal Counsel Joanne Grimes' recommendation is not to seek injunctive relief.

People of Guam vs. John Rios and Carl T.C. Gutierrez - Acting Director Blas stated that this case has been referred to the Members and Benefits Committee for their recommendation regarding the annuity calculations for Mr. Gutierrez. Trustee George Santos stated that this will be calendared this month.

Public Law 28-28 - Acting Director Blas stated that the Fund is processing applications for retirement for Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) eligible employees. Acting Director Blas stated that interest payments for GPSS and GMHA for the month of January 2006 are due on January 10, 2006.

Public Law 28-66 - Acting Director Blas stated that money has not been received as appropriated. Acting Director Blas stated that Management is consistently sending notice to the Department of Administration for monies due to the Fund.

Century 21, Realty Management Company, Inc. – Parking Lot Lease - Acting Director Blas stated that a copy of the Parking Lot Use Agreement is provided for the Board's review.

John Rios' Request for Indemnification - Acting Director Blas stated that the documents requested by the Directors and Officers underwriter's attorneys have been forwarded to them. This included the

transcripts from the Grand Jury, Attorney Michael Phillips statement of fees and the Office of the Public Auditor's report for 2000-2001. Acting Director Blas stated that the investigation/interview conducted by Attorney Pat Mason was returned back to Mr. Mason requesting for an expanded investigation. Acting Director Blas stated that this investigation has not been completed.

Contributions - Acting Director Blas stated that all agencies are current with the fiscal year 2006 employee and employer contributions.

Financial Statements / FY2005 Audit - Acting Director Blas stated that the books for the month ending December 2005 are closed and the Fiscal Year 2005 audit is ongoing. Acting Director Blas stated that a meeting was held this morning with the Public Auditor. Acting Director Blas stated the draft audit is due on March 31, 2006 and the final audit is due on April 30, 2006.

FY2006 Retirees' Supplement and COLA - Acting Director Blas stated that the supplemental benefits for retirees and survivors for the month of December were paid. In addition, a COLA of up to \$1,100.00 for all retirees were also paid out on January 5, 2006. Trustee Blas asked about retirees receiving their COLA after the December 15, 2005 cut-off date. Acting Director Blas stated that the Fund is compiling a list of retirees as of December 15, 2005.

VI. LEGAL COUNSEL'S REPORT

Acting Chairman Leon Guerrero stated that a copy of the status of the Fund's pending litigations is provided to the Board of Trustees for information purposes.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Katherine Taitano stated that the Financial Statement has been completed. Controller Tajalle stated that there are no significant changes. Treasurer Taitano stated that there was difficulty in getting the information needed for the reports. Treasurer Taitano stated that she will get timely reports. Controller Tajalle stated that a system has been generated to get the information needed.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's December 2005 end of the month report.

Trustee George Santos, seconded by Treasurer Katherine Taitano, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 8, Item IV A through C, based on the Committee's review and findings during their meeting of December 14, 2005 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

Controller Tajalle stated that there are no action items requested by the Investment Committee.

1. Informational Items

- a) **The Investment Committee Meeting Minutes for October 12, 2005 has been Approved and is Provided for Record**

Controller Tajalle stated that the October 12, 2005 Investment Committee Meeting Minutes was approved. Controller Tajalle stated that the December 2, 2005 Investment Committee Meeting Minutes is still under review.

- b) **The Defined Contribution Plan Contribution Report for the Month of December 2005 is Provided for Record**

Controller Tajalle stated that all agencies are current with their fiscal year contributions.

- c) **Cash Inflow/Outflow Comparison – Management, with the Assistance of Mercer, was Instructed to Prepare a Comprehensive Cash Drawdown Plan Indicating Areas of Liquidation Covering the Rest of Fiscal Year 2006 for Presentation to the Committee at their Next Scheduled Meeting**

Controller Tajalle stated that Management is recommending approval.

2. Open Items

- a) **December 29, 2005 Email from Jonathan Goll from Grantham, Mayo, Van Otterloo (GMO) on Treatment of Investment. Management was Instructed to Contact Mercer and GMO Regarding the Management of the Individual Managed Account.**

Controller Tajalle stated that Management sent an email to Mr. Jonathan Goll and Mercer on January 12, 2006. Controller Tajalle stated that Mr. Dennison contacted Mr. Goll on January 12, 2006 and Mr. Goll is going to have his “understanding of the details of the GMO mandate approved by their compliance department sent to” the Fund for review.

3. Open Discussion

- a) **Status of Current Proposed Legislation Regarding Investments – Management has Forwarded Board Approved Draft Legislation Amending Section 8158 to the Fund’s Senate Oversight Chairman for Further Action. Management Expects Public Hearings to be Scheduled Before the end of the Month of January 2006. Management has Received Draft Legislation for the Proposed Language for Amendment to Section 8157 for Submission to the Investment Committee for its Review and Discussion. Terry Dennison of Mercer stated that the Original Mercer Report on Potential Returns Based on Amending Section 8157 Needs Revision and he will Provide his Revised Analysis to the Investment Committee upon Completion**

Controller Tajalle stated that Acting Director Blas covered this item in her Director’s Report.

- b) **Status of International Manager Contracts – All Contracts have been Signed. Management is Working with First Hawaiian Bank and Mercer for the Transition. Issues Needing Resolution have been Identified:**
 - i) **Selection of New manager for the Emerging Markets are Based on the Custodial Issue Regarding Assets to be Managed by Capital International (Emerging Markets). Mercer has been Tasked with Rate vs. Risk Analysis on Allocating the Assets Among the Other Markets (International Large Cap and International Small Cap) for the Investment Committee’s Review**

Controller Tajalle stated that the contract has been signed. Controller Tajalle stated that there is still an issue with Capital. Controller Tajalle stated that Mercer has been tasked to come up with other solutions with rate vs. risk analysis. Controller Tajalle stated that the transition continues. The mutual fund to be managed by Axa Rosenberg has been purchased (\$2 Million). Controller Tajalle stated that the complete transfer of assets from Aberdeen to Fisher is complete (\$47.5 Million).

4. Announcements

- a) **Fixed Income Manager Due Diligence Reviews have been Scheduled for February 20-24, 2006. The Proposed Agenda will be Forwarded upon Completion.**

Controller Tajalle stated that the finalized schedule for the Fixed Income Manager Due Diligence Reviews is February 20-24, 2006.

C. Audit Committee

Controller Tajalle stated that Acting Director Blas covered this item in her Director’s Report. Controller Tajalle stated that the Fund is looking at the final issuance of the audit report by May 1, 2006. Controller Tajalle stated that a presentation will be made to the Board.

D. Governmental Liaison

No report was made at this time.

IX. OLD BUSINESS

None

X. NEW BUSINESS

- A. **Government of Guam Retirement Fund Resolution No. 2006-001**

XI. RECESS

Trustee George Santos, seconded by Secretary James Taylor, moved to recess, and without objection, the meeting recessed at 1:45 p.m. January 13, 2006 and will reconvene on Friday, January 20, 2006 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 January 13, 2006 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 24, 2006.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas