

BOARD OF TRUSTEES
Reconvened Regular Meeting
Friday, January 20, 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 reconvened at 12:50 p.m. Friday, January 20, 2006, 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
James J. Taylor, Secretary
Katherine T.E. Taitano, Treasurer
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee

Board of Trustees Absent:

George A. Santos, Trustee

Staff Present:

Paula M. Blas, Acting Director
Pete Tajalle, Controller
Jackie Blas, Recording Secretary

II. INVESTMENT COMMITTEE

A. Transfer of Asset

Controller Pete Tajalle stated that on January 18, 2006 he received indication that one of the ADRs formerly managed by Lazard is being converted by Compagnie Financiere into actual corporate shares. Controller Tajalle stated that the Fund's custodian was notified. Chairman San Agustin asked to which corporation was the transfer to be made. Controller Tajalle stated that it was proposed to be transferred to Met West.

Controller Tajalle stated that per discussions with Met West Managers Mark Health and Eric Smith, Met West will accord the Fund the ability to take the transfer and sell it for the Fund. Controller Tajalle stated that Met West will then revert the proceeds back to the custodian bank. Controller Tajalle stated that the sale is necessary because of the notification that the company was converting the ADR into an actual share of its own corporate asset. Controller Tajalle stated that the market value at the date of the asset transfer was \$1,197,549.00 with an ADR cost of \$498,844.28. Controller Tajalle stated that at the time of sale, the Fund is anticipating approximately \$698,705.00 in gain.

Controller Tajalle stated that this is being presented to the Board for affirmation and to request direction as to the disposition of those funds. Vice-Chairman Wilfred Leon Guerrero stated that since the Fund is anticipating on drawing down money for the February operational requirements, he is recommending putting the money aside for the drawdown as needed.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Gerard Cruz, moved to authorize the asset transfer and sale and to authorize use of the funds to meet the Fund's operational requirements. Without objection, the motion passed.

B. Ford Motor Credit

Controller Tajalle stated that the fund manager received correspondence from Aberdeen Asset Management. Controller Tajalle stated that two holdings under management, Ford Motor Credit corporate bond, have dropped below the investment compliance rating. Controller Tajalle stated that Aberdeen has requested that they continue holding the two assets. Controller Tajalle stated that the Fund has requested that Mercer provide input and recommendation. Controller Tajalle read out aloud Mercer's recommendation: "We recommend that the Board of Trustees grant the investment manager the authority to continue to hold the Ford Motor Credit issue maturing on January 25, 2007 for renewable one month periods with the direction to sell the issue immediately upon the occurrence of either the bond recovering its unrealized capital loss or a material negative change in the financial condition of Ford Motor Credit which increases the risk of a default between the occurrence and the maturing of the bond. We recommend that Aberdeen Asset Management be directed to provide the Government of Guam Retirement Fund Board of Trustees, the staff, and Mercer, their rationale for retention at the end of each renewable one month period for authorized retention."

Vice-Chairman Leon Guerrero asked what is the dollar amount. Controller Tajalle stated that one is \$2,093,000 and the other is \$762,000. Secretary James Taylor asked why is Mercer taking a tougher position in this particular case than the position Mercer took on the General Motors case. Chairman San Agustin stated that the fund manager was told to hang on to it. Trustee Gerard Cruz asked why a one-month review with Ford Motor Credit was necessary. Chairman San Agustin asked if the \$762,000 was the par value or the market value. Trustee Cruz stated that the \$748,261 is market value and the \$762,000 is costs along with the \$2,093,000. Chairman San Agustin asked what is the market value now. Controller Tajalle stated that it is \$2,091,828. Controller Tajalle stated that the Investment Committee is formulating the cash plan to be able to identify, on a one-year basis, which areas the Fund could be liquidated.

Trustee Gerard Cruz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve Mercer's recommendation inclusive of the monitoring requirements as recommended by Mercer. Without objection, the motion passed.

III. NEW BUSINESS

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

Chairman San Agustin stated that Resolution No. 2006-001 encompasses the omnibus bill. Chairman San Agustin stated that he is looking for a section by section analysis of what the omnibus bill entails. Vice-Chairman Leon Guerrero stated that some of the sections in the omnibus bill have already been approved by the Board. Acting Director Paula Blas stated that Chapter I and Chapter III are currently at the Legislature. Vice-Chairman Leon Guerrero stated that the urgency of the proposed legislation is with the Director's position.

Chapter II

Vice-Chairman Leon Guerrero stated that the draft omnibus bill came about when he, along with Trustee Cruz and Treasurer Katherine Taitano, were appointed to negotiate with Mr. Vince Camacho on the Director's position. Vice-Chairman Leon Guerrero stated that there is nothing to negotiate in terms of the current law. Chairman San Agustin stated that Vice-Chairman Leon Guerrero should make a report of the negotiation. Vice-Chairman Leon Guerrero stated that, because of the Director's position, he met with Speaker Mark Forbes and that Speaker Forbes is gun shy about introducing legislation without a public hearing. Vice-Chairman Leon Guerrero suggested combining this issue with the Fund's pending legislation. Acting Director Blas stated that Section 8158 and the Defined Contribution (DC) Restatement (Chapter I) have been approved by the Board. Trustee Cruz asked if the Plan Document was filed at the Department of Revenue and Taxation. Acting Director Blas stated that the statutory amendments are at the Legislature. Acting Director Blas stated that the DC Restatement bill is already at the Legislature.

Vice-Chairman Leon Guerrero stated that the Board has the authority to hire and fire, but the Board does not have the authority to set the terms and conditions of the employment. Chairman San Agustin stated that the Director shall serve at the pleasure of the Board. Chairman San Agustin stated that the Board should set the salary at a minimum of \$80,580.00 and a maximum not to exceed the base salary assigned to the Governor. Chairman San Agustin stated the Board needs a report on the results of the negotiation. Chairman San Agustin stated that the candidate has indicated that he is willing to accept the \$88,000. Treasurer Taitano asked why have further discussions on the salary when there is a cap on the salary. Trustee Anthony Blaz stated that he is concerned about further negotiations. Trustee Blaz stated that he thought that the decision was with the minimum salary.

Vice-Chairman Leon Guerrero stated that he purposes to change the language in the bill that the Director's salary and the terms and conditions of the Director's employment shall be determined by the Board. Trustee Blaz suggested leaving it at \$80,580.00. Trustee Cruz stated that the Director of the Fund should not be penalized for the failure of the Legislature to properly adjust the Governor's salary. Vice-Chairman Leon Guerrero stated that the Fund should pay competitively to what the industry is paying. Chairman San Agustin stated that the applicant, on his application, stated that he is willing to take the job at \$88,000. Secretary Taylor stated that the figure on the application is subject to negotiation as the terms and conditions of employment are better known. Chairman San Agustin stated that this candidate has knowledge of the system. Trustee Cruz stated that the Fund could do another search, but that it will be

difficult to justify a salary that is less than what a second person at another government agency within the same government is being paid. Trustee Cruz stated that it is going to be difficult to find a qualified person to do the job.

Chairman San Agustin asked if the Negotiation Committee has concluded that unless the law is changed, the candidate is not willing to take the job. Trustee Cruz stated that the Committee had nothing to negotiate. Vice-Chairman Leon Guerrero stated that the Fund could re-advertise the Director's position which would only delay the recruitment. Trustee Cruz stated that he has no problem with re-advertising. Vice-Chairman Leon Guerrero stated that it is not just the Director's position involved. Vice-Chairman Leon Guerrero stated that there are other positions such as the Chief Investment Officer and the Pensions Administrator. Chairman San Agustin stated that Milliman was asked to make a management review. Chairman San Agustin suggested that the Board wait for Milliman's report before the Board acts on this issue. Chairman San Agustin also suggested asking the Department of Administration (DOA) Director to evaluate the positions at the Fund for an upgrade. Chairman San Agustin stated that he spoke to the Deputy Director of DOA on performing a job audit. Secretary Taylor asked if the Fund is independent or not. Chairman San Agustin replied, "we're not." Chairman San Agustin stated that the Fund will be independent once the Trust Agreement is in place.

Chairman San Agustin stated that the Management Study will be available in March 2006. Secretary Taylor stated that the Fund will be without a Director for at least six months. Acting Director Blas stated that the Fund needs to get the salary cap lifted if the Board is going to negotiate any higher. Vice-Chairman Leon Guerrero stated that his idea was to take the proposed legislation to the Legislature. Secretary Taylor stated that he supports Vice-Chairman Leon Guerrero's suggestion of going to the Legislature with the proposed legislation. Chairman San Agustin stated that the Legislature should give the Fund the authority to be able to create unclassified positions.

Chairman San Agustin asked how many vacancies does the Fund have. Acting Director Blas stated that there are six positions vacant since the beginning of FY2006. Acting Director Blas stated that four positions have been announced. Acting Director Blas stated that the Investment Specialist position was not announced because the Fund is waiting for the Management Review. Trustee Cruz asked how much is the Fund paying for an Investment Specialist to manage \$1.2 Billion. Acting Director Blas stated that, according to the Civil Service Commission (CSC), the title and job task did not equate to anything higher than Pay Grade M. Acting Director Blas stated that CSC could reevaluate the Investment Specialist position at the task the Fund wants performed and upgrade the qualifications, and then the pay grade will be adjusted. Chairman San Agustin stated that the Fund needs a management study and a job classification study. Chairman San Agustin suggested asking Milliman to do a job creation study.

Vice-Chairman Leon Guerrero stated that he senses that the proposed course of action on Resolution No. 2006-001 is not going to go through with the Legislature. Vice-Chairman Leon Guerrero that the Fund may get more applicants for the Director's position if it is advertised nationally. Treasurer Taitano stated that it seems impractical that someone would come in from off-island. Trustee Cruz asked what is Management's plan to hold things together. Acting Director Blas stated that Mrs. Rosie Bordallo will be taking on the additional duties of the Controller and the Fund will announce the Controller's position. Acting Director Blas stated that, by law, the Controller position requires a Certified Public Accountant (CPA). Trustee Cruz stated that the Fund needs to re-evaluate the compensation for positions here at the Fund. Chairman San Agustin asked if Management could ask Milliman to expedite the study and to

follow up with DOA regarding the job audit. Acting Director Blas stated that the Fund will be getting a preliminary report in February. Chairman San Agustin reiterated that the Board needs to go through the process. Chairman San Agustin stated that the Board needs to get more justification.

Vice-Chairman Leon Guerrero asked if the Board would like to meet with Mr. Vince Camacho. Trustee Cruz suggested making Mr. Camacho an offer. Secretary Taylor stated that the Director's position can not be re-advertised until Mr. Camacho turns the position down. Vice-Chairman Leon Guerrero asked if the Board agrees that if the Negotiation Committee meets with Mr. Camacho and he turns the position down, to direct Management to proceed to advertise. Trustee Cruz stated that if Mr. Camacho does not accept the offer, Management is given the authority to re-advertise.

Trustee Gerard Cruz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved that if Mr. Vince Camacho does not accept the offer, then Management is given the authority to re-advertise nationally with the current salary. Without objection, the motion passed.

Chapter III: Section 8158 - Chairman San Agustin stated that Section 8158 is currently at the Legislature.

Secretary James Taylor, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to make Section 8157 made a part of Chapter III of the proposed legislation and to table Resolution No. 2006-001. Without objection, the motion passed.

Chairman San Agustin asked what is the amendment on Section 8157. Acting Director Blas stated that Section 8157 is on dividend requirements. Chairman San Agustin asked how the Fund is going to justify giving up cash income. Secretary Taylor stated that the Fund is not giving up cash income. Secretary Taylor stated that the Fund will be going to a different type of investment, which will reduce the Fund's risk and it will increase the Fund's returns. Chairman San Agustin asked if this will increase the Fund's cash flow. Secretary Taylor replied, "yes." Secretary Taylor stated that experts are telling the Fund to do this. Secretary Taylor stated that this will increase the gain on investment. Secretary Taylor stated that the signs are there that the Fund is going bankrupt. Chairman San Agustin stated that the Board knows that and that is why he asked the Controller to show the Board the cash flow. Secretary Taylor stated that the Fund is taking \$60 Million a year and will probably be taking close to \$100 Million out. Thus the Board is not acting on the facts known.

Secretary Taylor asked where, when, and what is Chairman San Agustin going to do to improve the cash flow. Chairman San Agustin asked Secretary Taylor if he is going to improve the cash flow by withholding the cash. Secretary Taylor stated that the Fund is going bankrupt following the current investment procedures. Secretary Taylor asked Chairman San Agustin how is he going to change the cash flow to improve it. Chairman San Agustin stated that reducing the cash flow is not an improvement. Secretary Taylor stated that the Fund does not have enough cash flow now and asked how is that an improvement. Secretary Taylor stated that the Fund will improve the cash flow by increasing returns. Chairman San Agustin asked Secretary Taylor to show him the money. Secretary Taylor stated that the Fund's Investment adviser is clearly showing that the Fund is getting 2% less than it could by following the rescinded policy, a policy that would be less risky than the current policy. Chairman San Agustin asked if Secretary Taylor is saying that if the Fund changes the dividend requirements the Fund will have a higher return. Secretary Taylor replied, "yes, and a higher cash flow." Chairman San Agustin asked

Secretary Taylor to put this in writing. Secretary Taylor requested that the Chairman put into writing a simple explanation of how the policy the Chairman was advocating would avoid bankruptcy.

Secretary Taylor stated that the Fund is currently taking all the cash received to pay current retirees and nothing is being set aside for the current employees. Chairman San Agustin asked Secretary Taylor if he wants to hold benefit payments for the Defined Benefit retirees because he wants to make sure that the current employees get their benefit payments when they retire. Secretary Taylor stated that the Fund needs to do something for everyone that is in the Retirement Fund. Chairman San Agustin asked Secretary Taylor to show a narrative. Secretary Taylor again asked the same of the Chairman. Vice-Chairman Leon Guerrero stated that Mercer's justification for Section 8157 will be provided by Mr. Terry Dennison who will be on island on February 20, 2006. Chairman San Agustin suggested tabling Section 8157 until Mr. Dennison's presentation on February 20, 2006.

IV. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

V. ANNOUNCEMENTS

Trustee Cruz informed the Board that he will not be on island at the next regularly scheduled Board meeting. Chairman San Agustin stated that he will also be off-island on February 10, 2006.

VI. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Katherine Taitano, and without objection, the meeting was adjourned at 2:45 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of January 20, 2006 Reconvened 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