

BOARD OF TRUSTEES

Regular Meeting

Friday, February 11, 2005, 12:00 p.m.

Retirement Fund Conference Room

MINUTES

DEFINED BENEFITS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan was called to order at 12:05 p.m. Friday, February 11, 2005, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

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

Board of Trustees Absent:

Joe T. San Agustin, Chairman
(Off-Island Conference -Excused)

Staff Present:

Wilfred G. Aflague, Director
Pete Tajalle, Controller
Ken Dunstan, Acting Benefit Program Administrator
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

Legal Counsel Present: Meredith Sayre

Public Present:

Marilyn Megofna, Bank of Hawaii
Mark Heath, Metropolitan West Capital Management
Frederick J. Horecky, Horecky & Associates

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 14, 2005 Regular Meeting

On motion of Trustee George Santos, seconded by Trustee Anthony Blaz, and without objection, the Minutes of January 14, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

Director Wilfred Aflague reported to the Board of Trustees that there is additional correspondence to be included in today's meeting. Director Aflague stated that the January 21, 2005 and February 10, 2005 protest letters regarding RFP No. 001-FY04 from Mr. Vince Camacho, Great West Retirement Services, will be included in the "Correspondence" section of the meeting agenda.

A. January 3, 2005 Letter to American Medical Association from Chairman Joe T. San Agustin

Director Aflague stated that Chairman San Agustin sent an introductory letter to the American Medical Association (AMA). Director Aflague stated that Chairman San Agustin also inquired regarding the *Guide to the Evaluation of Permanent Impairment* and the professional requirements by the Medical Physicians in the applications of said Guide. Secretary James Taylor asked if the letter deals with an issue raised in the Members and Benefits Committee. Trustee George Santos replied, "no" but, it does relate to disability retirement applications.

B. January 17, 2005 Letter to Hazel Broadnax, Pension Benefits Guarantee Corporation from Chairman Joe T. San Agustin

Director Aflague stated that Chairman San Agustin sent a letter to the Pension Benefits Guarantee Corporation (PBGC) requesting for PBGC to provide technical assistance to review the internal operations of the Retirement Fund.

C. January 25, 2005 Letter to Chairman Joe T. San Agustin, from Governor Felix Camacho / February 1, 2005 Letter to Governor Felix Camacho from Vice-Chairman Wilfred Leon Guerrero and Chairman Joe T. San Agustin

Director Aflague stated that Chairman San Agustin received a letter from Governor Camacho requesting for the Board's consideration of investing in the island through reallocating Fund assets in accordance with the maximum amount allowed by law to be invested on-island. Director Aflague stated that this matter has already been discussed in the Investment Committee meeting. Director Aflague stated that a response has been submitted to Governor Camacho.

D. January 21, 2005 and February 10, 2005 Protest Letters from Great West Retirement Services Regarding Bid Protest on RFP No. 001-FY04.

Acting Chairman Leon Guerrero stated that this matter was brought to his attention by Director Aflague. Acting Chairman Leon Guerrero stated that he suggested that this be discussed in Executive Session. Acting Chairman Leon Guerrero asked Legal Counsel Meredith Sayre for her opinion on

calling for an Executive Session. The Legal Counsel asked if the Executive Session is an agenda item and if it was announced. Director Aflague replied, "no." Director Aflague stated that the protest letter was part of the "Correspondence." The Legal Counsel stated that her reaction would be that the Board cannot go into Executive Session unless it's announced specifically for this matter. The Legal Counsel stated that that would be her cautious interpretation. Director Aflague asked how much notice is required. The Legal Counsel stated 24 hours. The Legal Counsel stated, as a clarification for the Board, that her firm has a conflict of interest in this matter. Acting Chairman Leon Guerrero stated that the first issue here today is the Executive Session. Acting Chairman Leon Guerrero asked the Legal Counsel if her firm could provide guidelines. The Legal Counsel stated that she could provide proper guidelines regarding going into an Executive Session. Acting Chairman Leon Guerrero stated that the other issue is that the Fund needs a Legal Counsel to represent the Fund in this matter. Legal Counsel Sayre stated that this matter was referred to the Attorney General's office.

Acting Chairman Leon Guerrero stated that today's meeting agenda has "Executive Session" under Section IX. Trustee Blaz asked the Legal Counsel if she would recommend, in announcing the Executive Session, that a specific reason has to be announced. The Legal Counsel stated that her recollection is that there has to be some bases for the Executive Session. Treasurer Katherine Taitano stated that she reviewed the Guam Code Annotated on the "Open Government Law" regarding "Executive Sessions" and stated that ongoing litigation or pending litigations may be discussed in Executive Sessions, but in order to go into Executive Session, first there must be a written recommendation from the Legal Counsel. Treasurer Taitano further stated that the Executive Session must be recorded by an authorized court reporter.

Director Aflague asked the Legal Counsel how soon she could provide proper guidelines on calling for an Executive Session to handle the protest. Legal Counsel Sayre stated that she could provide the guidelines by Monday, February 14, 2005. Acting Chairman Leon Guerrero stated that the Board will wait for the Legal Counsel to provide the appropriate guidelines.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

International Manager Search - Director Aflague reported to the Board of Trustees that the International Manager search is running behind what the Fund had anticipated. Director Aflague stated that the Legal Counsel has posed questions and the prospective managers have referred it to their legal counsel.

Actuarial Study - Director Aflague reported that Mr. Richard Wright, Milliman, USA, presented the draft actuarial study for the fiscal year ended September 30, 2003 to the Board of Trustees on February 4, 2005.

Request for Proposal: Custodial Bank Services - Director Aflague reported that Controller Tajalle and Ms. Rosalia Bordallo met with Mercer Investment Consulting staff in Tokyo, Japan, regarding the Fund's search for custodial bank services. Director Aflague stated that as a result of the meeting, Fund staff is recommending that the Fund seek assistance in this process due to the lack of staff expertise required in this area. Director Aflague stated that Fund staff is recommending that the Fund enter into an RFP process to seek assistance in the search for custodial bank services. Controller Tajalle stated that Mercer provided a quote as to what it would cost to initiate the process. Trustee Cruz asked if the Fund is going to do an RFP for an RFP. Controller Tajalle replied, "yes."

Trustee Cruz stated that it's his understanding that a decision was made on this during the manager review. Controller Tajalle stated that Mercer had quoted a price for assistance in the RFP process. Trustee Cruz asked if the Fund will be saving money on the custodial account relationship. Controller Tajalle stated that it's not so much a cost saving; it's to insure that the custodial banker selected would meet all the criteria for international investments. Trustee Cruz stated that the Fund is waiting too long on whether to go out for an RFP for an RFP or whether the Fund is going to do an amendment. Acting Chairman Leon Guerrero stated that he recalls Mr. Rich Nuzum saying that Mercer could do it or the Fund could get someone else to do it. Secretary Taylor stated that he recalls the report from the Tokyo meeting stated that staff talked with Mercer and the Fund decided it wasn't necessary to get help. What was needed could be done with informal conduct with Mercer. Controller Tajalle stated that he will push the process. Secretary Taylor stated that there needs to be a clear recommendation from management. Treasurer Taitano stated that if the Fund needs to go through an RFP for an RFP, then do so. Director Aflague stated that he will forward the necessary information to the Investment Committee for its disposition.

Trustee Blaz stated that this was discussed in previous meetings and it appeared that everyone agreed upon it. Trustee Blaz asked what changed from when it was discussed in the Investment Committee meetings. Controller Tajalle stated that he believes that there can be a lot of pit falls. Controller Tajalle stated that the Fund is ready to start the RFP process to solicit services. Director Aflague stated that the Fund wants to be sure that the right and proper questions are asked in the RFP. Acting Chairman Leon Guerrero asked if management needs a directive from the Board for the RFP. Trustee Blaz asked if the Fund knows what to put in the RFP for an RFP. Controller Tajalle stated that he recalls that there were discussions of how much Mercer was going to charge for this service. Controller Tajalle stated that he would like for the Board to direct management to direct staff to begin the process of soliciting qualified firms in the assistance of developing an RFP for custodial bank services and to assist in the process of evaluation of the prospective bidders.

Trustee Cruz asked who is going to rank the applicants. Controller Tajalle stated that ranking will be done by the service provider. Secretary Taylor stated that the RFP for an RFP will take 60 days. Trustee Cruz asked why is the Fund going out for a new RFP for custodial bank services. Trustee Cruz asked if the Fund is dissatisfied with their services. Acting Chairman Leon Guerrero stated that the purpose for a new RFP was to see what is out there. Trustee Cruz stated that the Fund's current custodian does take on relationships with international managers. Acting Chairman Leon Guerrero stated that every once in a while the Fund needs to review its relationship with the contractors. Acting Chairman Leon Guerrero stated that there was no discussion of satisfactory or unsatisfactory performance.

Trustee Blaz stated that the Fund should conduct a review of all its contracts. Acting Chairman Leon Guerrero stated that the initial directive was the review of the contract and to check what's out there and if it need be, the Fund will get an RFP. Trustee Blaz asked if an addendum could be done to the existing contract. Controller Tajalle stated that it's a possibility that he would have to discuss with the Deputy Director and consult with Legal Counsel if it's amendable in that fashion. Acting Chairman Leon Guerrero stated that it will be more efficient if Mercer would do it. Secretary Taylor asked what Mercer's price was. Director Aflague replied, "\$35,000.00." Secretary Taylor stated that it didn't make sense that the Fund is going to delay this for another \$60,000.00 in the chance that the Fund may be able to reduce the cost by \$10,000.00. Secretary Taylor stated that if there is a way to go with Mercer, the Fund should go with Mercer, if not, then go with an RFP for an RFP. Secretary Taylor

asked whether management came up with a recommendation. Director Aflague replied, "yes." Director Aflague stated that Secretary Taylor's approach is to explore all possibilities if the Fund could go with Mercer, in conformance of the procurement rules and regulations, and if not, then the Fund will put out an RFP for an RFP for custodial bank services.

Trustee Cruz, seconded by Trustee Blaz, moved to approve to explore all possibilities if the Fund could go with Mercer, in conformance of the procurement rules and regulations, and if not, then the Fund will put out an RFP for an RFP for custodial bank services. Without objection, the motion passed.

Request for Proposal: Legal Services (Re-capture of Investment Losses) - Director Aflague reported that the process is ongoing. Director Aflague stated that 9 packets were picked up. Acting Chairman Leon Guerrero asked if the Fund has heard from the Attorney General's office on this issue. Director Aflague replied, "no."

Investment Manager Due Diligence Review - Director Aflague reported that the investment manager due diligence reviews for the remaining managers are scheduled for February 21-25, 2005. The meeting schedule is attached.

Organizational Matters: Operational - Director Aflague reported to the Board that he received a copy of the Supreme Court decision on the Guam International Airport Authority (GIAA) vs. Attorney General on the matter of the GIAA hiring its own legal counsel. Trustee Blaz asked the Fund's Legal Counsel "What extend does that appeal affect the Fund?" The Legal Counsel stated that this is a positive guidance for the Fund on hiring its own staff attorney. The Legal Counsel stated that this is very helpful for the Board. Director Aflague stated that the Fund has announced the classified position for an Attorney IV.

Training - Director Aflague reported that five (5) accounting and investment staff attended training sponsored by the Association of Government Accountants (AGA) on February 7-8, 2005. Controller Tajalle stated that the subjects discussed were "Government Financial Management and Control," "Have Ethics Changed," and "Application and Implementation of Internal Control." Controller Tajalle stated that it was a very informative training.

Contributions - Director Aflague reported to the Board that as of today's date, all agencies are current with their fiscal year 2005 employee and employer contributions with the exception of GMHA which is outstanding for both the Defined Benefit Plan and the Defined Contribution Plan for the pay periods ended January 8, 2005 and January 22, 2005. Director Aflague stated that delinquency notices have been sent to GMHA's Administrator. Director Aflague stated that DOE is current with their contributions.

Financial Statements - Director Aflague reported that the Fund has closed the fiscal year ended September 30, 2004. Director Aflague stated that this has been sent to Treasurer Taitano for review.

FY 2003 Supplemental - Director Aflague reported to the Board that the supplemental payments were made to General Fund funded retirees.

FY 2005 Supplemental - Director Aflague stated that FY 2005 supplemental payments for both autonomous and line agencies are current as of January 2005.

2004 Financial Audit - Director Aflague stated that the 2004 financial audit is ongoing. The first draft is due on March 31, 2005. Finalization is scheduled for April 15, 2005. Director Aflague stated that this will meet the mandated dateline of June 2005.

V. TREASURER'S REPORT OF FINANCIAL STATUS

There was no discussion on Item V.

VI. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Trustee Santos, seconded by Secretary Taylor, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 through 6 and the listing of retirees to be finalized, based on the Committee's review during their meeting of January 17, 2005 and continuation meetings pertaining thereto. Without objection, the motion passed.

B. Investment Committee

a) Manager Due Diligence Meeting - Acting Chairman Leon Guerrero stated that the Manager Due Diligence meeting schedule has been finalized. The Due Diligence Meeting is scheduled for February 21 through February 25, 2005. Controller Tajalle stated that the meeting schedule is included in the Director's Executive Summary. Acting Chairman Leon Guerrero stated that the Strategic Meeting is scheduled for Friday, February 25, 2005, but it's not a part of the Investment Committee's agenda.

b) Mercer Investment Alternatives "White Paper" - Controller Tajalle stated that Mercer will be forwarding a draft copy of the "White Paper" by February 16, 2005 for the Board's review. Controller Tajalle stated that the "White Paper" was originally scheduled to be forwarded on February 14th.

c) Letter to Governor - Controller Tajalle stated that a letter was sent to Governor Felix Camacho indicating support for local investment opportunities.

d) Investment Committee Meeting Minutes - Controller Tajalle stated that the Investment Committee Meeting Minutes for October 1, 2004, October 22, 2004 and January 7, 2005 are still under review by the Committee.

C. Audit and Operations Committee

Trustee Blaz stated that the RFP is still ongoing. Trustee Blaz stated that as soon as the RFP is closed, the Audit Committee will meet to begin the process of evaluation of the proposals for legal services to recapture investment losses. Trustee Blaz stated that the Audit Committee is also in the process of formulating an RFP for the procurement of the internal audit services.

D. Governmental Liaison

Trustee Cruz stated that he does not have anything to report at this time.

Director Aflague stated that Senator Rory Respicio has introduced a bill to raise the government contribution rate to 26% to be effective April 1, 2005. Director Aflague stated that, in the Board's discussions with the Fund's actuary, this contribution rate was looked at already by the Board of Trustees. Director Aflague stated that when the Fund gets the recommendation from the actuary and when the Board approves it and submits it to the Legislature, they will see the true picture as it is. Trustee Blaz stated that the Fund should try to inform the Legislature as soon as possible so they could coincide it with the public hearing on Senator Respicio's bill.

Secretary Taylor asked about the actuarial study date. Controller Tajalle stated that it would be sometime in February for 2003 and 2004 will be sometime in June. Controller Tajalle stated that it will be in time for the budget process.

VII. OLD BUSINESS

Secretary Taylor asked about the status of the Ralph Gutierrez case. Director Aflague stated that the case is ongoing. Director Aflague stated that Legal Counsel has obtained information on the case. Director Aflague stated that Mr. Pat Mason has obtained a declaration from Mr. Ken Dunstan, Acting Benefit Program Administrator. Director Aflague stated that the Fund is waiting for a response from Mr. Gutierrez which is due by Monday. Secretary Taylor asked if by Monday or thereabout, the Fund will then have the information that will lead the Fund to the next step. Director Aflague replied, "yes."

VIII. NEW BUSINESS

None

IX. EXECUTIVE SESSION

The Board of Trustees did not go into Executive Session.

X. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Acting Chairman Leon Guerrero recognized Attorney Fred Horecky and Ms. Marilyn Megofna.

Attorney Horecky stated that he is present at today's meeting regarding the medical disability application of Christy Foley. Attorney Horecky stated that he is requesting for a copy of the Board's disposition of the application. Director Aflague stated that the Board's action will be communicated. Acting Chairman Leon Guerrero stated that the disability request was approved by the Board of Trustees.

Ms. Marilyn Megofna stated that she is present at today's meeting to find out the status of the DC RFP and would like to request for a copy of the protest. Director Aflague stated that notice has been duly sent out. Director Aflague stated that the matter is on hold until the protest is resolved by the Board of Trustees.

XI. ANNOUNCEMENTS - None

XII. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Anthony Blaz, seconded by Trustee George Santos, and without objection, the meeting was adjourned at 1:01 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 11, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 11, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas

DEFINED CONTRIBUTIONS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contributions Plan was called to order at 1:01 p.m. Friday, February 11, 2005, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

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

Board Absent:

Joe T. San Agustin, Chairman
(Off-Island Conference – Excused)

Staff Present:

Wilfred G. Aflague, Director
Pete Tajalle, Controller
Ken Dunstan, Acting Benefit Program Administrator
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

Legal Counsel Present: Meredith Sayre

Public Present:

Mark Heath, Metropolitan West Capital Management

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 14, 2005 Regular Meeting

On motion of Trustee Anthony Blaz, seconded by Trustee George Santos, and without objection, the Minutes of January 14, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

III. OLD BUSINESS

A. Contribution Report - January 2005

Mr. Vince Camacho stated that GMHA is in arrears back to November 2004 for the DC Plan. Mr. Camacho stated that there is a payment discrepancy on pay period ended November 13, 2004. Data has not been provided on pay periods ended December 11 and December 25, 2004. Mr. Camacho stated that Marilyn from GMHA told him that GMHA is too busy to submit the data. Mr. Camacho stated that the Fund did receive the payments for the two pay periods in December. Mr. Camacho further stated that nothing was submitted for pay periods ended January 8, 2005 and January 22, 2005.

Acting Chairman Leon Guerrero asked what the procedure for non-payment is. Mr. Camacho stated that it goes to the Retirement Fund. Director Aflague stated that notices have been sent out. Acting Chairman Leon Guerrero asked what rules are applied. Mr. Camacho stated that copies of the delinquency notices are sent to the U.S. Department of Labor. Trustee Blaz asked if the employees of GMHA are aware of this delinquency. Mr. Camacho stated that the employees are aware now because a lot of GMHA employees have been resigning and Great West has not been able to refund them their contributions. Mr. Camacho stated that GMHA has in the past remitted negative contributions. Legal Counsel stated that this is the same on the DB side. Employees need to go to the local Department of Labor to file action. Legal Counsel stated that she spoke to Chairman San Agustin about DOE to see what the union wants. Legal Counsel stated that Chairman San Agustin did speak to Mr. Matt Rector, but Mr. Rector was not interested. Mr. Camacho stated that in the past, letters were sent to all DOE employees informing them that DOE is behind in their contribution payments for six (6) pay periods.

Trustee Blaz suggested that maybe Legal Counsel could prepare language to add to the letters to both GMHA and DOE employees informing them about their rights and what they could do. Mr. Camacho stated that, since Great West is holding the distributions for about five GMHA employees, the members have been informed of the delinquency. Mr. Camacho stated that, in trying to help the employees, he wants a certification from GMHA that there are no negative contributions for the individuals whose contributions are being held. Director Aflague stated that this is one of the items in the proposed agreement between the Governor's office and the Speaker's office to make this a criminal violation. Director Aflague stated that there is a proposed bill but it was amended, and Chairman San Agustin does not agree with the amendment. Director Aflague stated that he will meet with Controller Tajalle and Mr. Camacho and he'll get a letter out to GMHA's Administrator with a copy to the employees of GMHA. Director Aflague stated that he has sent copies of the letters to the U.S. Department of Labor. Director Aflague stated that he will follow-up with the U.S. Department of Labor to see if the copies are being received.

In conclusion, Mr. Camacho stated that he has provided a copy of the 2004 Asset Summary Report for the Defined Contribution Plan and the 457 Plan for the Board's information.

IV. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

V. ANNOUNCEMENTS

None

VI. ADJOURNMENT

There being no further business before the Board for the Defined Contributions Plan, on motion of Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, and without objection, the meeting was adjourned at 1:14 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 11, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 11, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas