

BOARD OF TRUSTEES

Regular Meeting

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

Retirement Fund Conference Room

MINUTES

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 12:17 p.m. Friday, March 11, 2005, 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
Anthony C. Blaz, Trustee
George A. Santos, Trustee

Board of Trustees Absent:

Katherine T.E. Taitano, Treasurer
Gerard A. Cruz, Trustee (Off-Island)

Staff Present:

Wilfred G. Aflague, Director
Paula M. Blas, Deputy 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:

Oyaol Ngirairikl, Pacific Daily News
Mark Heath, Metropolitan West Capital Management

Chairman Joe T. San Agustin stated that at the previous meeting Vice-Chairman Wilfred Leon Guerrero mentioned that he had combined the Defined Benefits and the Defined Contributions meeting. Vice-Chairman Leon Guerrero stated that he was referring to the Investment Committee Meeting.

Chairman San Agustin informed the Board of Trustees that there will be a Special Board Meeting next week Friday in which the Board will go into Executive Session with the proper public notification.

Chairman San Agustin stated that he would like to proceed with the Defined Contributions portion of the agenda and then the Defined Benefits will follow. Without objection, Chairman San Agustin proceeded with the Defined Contributions meeting.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 11, 2005 Regular Meeting

On motion of Trustee Anthony Blaz, seconded by Trustee George Santos, and without objection, the Minutes of February 11, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

III. OLD BUSINESS

A. Contribution Report – February 2005

Mr. Vince Camacho, Great West Retirement Services, reported to the Board of Trustees that GMHA is up to date through January 8, 2005. Mr. Camacho stated that the General Fund, DOE and the Superior Court payments have been received subsequent to the date of this report.

Due Diligence Meeting

Chairman San Agustin asked Mr. Camacho if he is required by law to report investment results. Mr. Camacho stated that a report is made on a quarterly basis. Mr. Camacho stated that a report was made to the Investment Committee as of December 31, 2004 figures. Mr. Camacho stated that he will provide the report to the Board of Trustees. Mr. Camacho stated that an Administrative Report will be coming out which is the due diligence. Chairman San Agustin asked Mr. Camacho who provides the due diligence for Great West. Mr. Camacho stated that Great West does the due diligence and then it's reported to the Board of Trustees.

Mr. Camacho stated that the rates of returns are provided to the Investment Committee monthly. Chairman San Agustin asked Vice-Chairman Leon Guerrero if the report differentiates between the two plans. Vice-Chairman Leon Guerrero stated that there is a need for a due diligence meeting for the DC Plan. Vice-Chairman Leon Guerrero stated that this item shows in the meeting agenda under the DB Plan, which should be under the DC Plan agenda. Controller Pete Tajalle stated that the due diligence meeting is mentioned under Item II (e) of the Investment Committee Report. Controller Tajalle stated that the due diligence meeting is anticipated for mid April 2005. Chairman San Agustin stated that the due diligence meeting portion should be taken out from DB and put under the DC portion of the agenda.

Secretary James Taylor asked if Management has checked with Mercer about providing assistance in due diligence for the DC Plan. Controller Tajalle stated that Mercer will assist. Controller Tajalle stated that the initial RFP is specific for the Defined Benefit Plan services. Controller Tajalle stated that another

RFP would have to be done unless there is a clause in the original RFP that would allow for a change order. Secretary Taylor stated that if there is a clause in the contract which allows for a change order, the Fund should make use of it. Chairman San Agustin asked if there is an Investment Policy Statement (IPS) in existence on the DC Plan. Mr. Camacho replied, "yes." Chairman San Agustin asked who approves the IPS. Mr. Camacho replied, "the Board." Chairman San Agustin asked if there is a financial report. Mr. Camacho stated that all the reports are provided to the Investment Committee but he will provide the financial report to the Board. Vice-Chairman Leon Guerrero stated that the Investment Committee has been focusing on the DB Plan.

Vice-Chairman Leon Guerrero stated that Mercer advised the Investment Committee to conduct a due diligence meeting. Vice-Chairman Leon Guerrero stated that in the Investment Committee meeting, the decision was to ask management to check whether Mercer could assist in the due diligence meeting. Mr. Camacho stated that the asset listing was provided to the Investment Committee. Mr. Camacho stated that, for the last quarter, the DC Plan went up \$8 Million in value. Mr. Camacho stated that the actual cash balance was \$108 Million for the fourth quarter. Vice-Chairman Leon Guerrero informed Mr. Camacho that Mercer advised the Fund that the Board of Trustees has an obligation to insure that, if the Fund were advertising that a bond was high risk or low risk that the Fund is in fact investing that way.

Mr. Camacho stated that the mutual fund managers make the decisions. Mr. Camacho stated that Great West will answer all these questions in the due diligence meeting. Controller Tajalle stated that, at the next Investment Committee meeting, he will have a more detailed approach in discussing the reports. Mr. Camacho stated that the information has also been provided to the Members and Benefits Committee. Mr. Camacho stated that the total number of contributing participants as of the last pay period is on the last column on the bottom of the report. Mr. Camacho stated that Great West is currently managing about 8,000 accounts. Mr. Camacho stated that 5,374 are active accounts. Trustee Anthony Blaz asked if GMHA is still outstanding. Mr. Camacho stated that GMHA is outstanding for the current fiscal year. Trustee Blaz stated that if the potential loss could be calculated, GMHA employees could also be informed of the delinquency. Mr. Camacho stated that it is hard to calculate it now until the money is received. Mr. Camacho stated that in the DOE case, in 2000 when it was calculated, it turned out to be a 2% gain for the participants. Mr. Camacho stated that GMHA is three pay periods behind. Chairman San Agustin asked at what point the member determines what kinds of bonds to choose. Mr. Camacho replied, "upon application." Mr. Camacho stated that at the point of application, a personal risk analysis is done. Mr. Camacho stated that the members are informed that, if they are not sure at this point where they would want to put their money, then based upon their risk profile, Great West will recommend where they will put it. Controller Tajalle asked Mr. Camacho about the fund make-up. Mr. Camacho stated that the Board, in the beginning, wanted one fund per asset type. Chairman San Agustin asked if the members get statements on a quarterly basis. Mr. Camacho replied, "yes." Trustee Blaz asked if the statement shows that GMHA is behind. Mr. Camacho stated that the report will show, per pay period, what was received. Trustee Blaz stated that at the previous meeting, it was requested that letters be sent to the employees. Chairman San Agustin stated that the Fund will wait for the due diligence meeting. Mr. Camacho stated that he will get the requested information to Chairman San Agustin.

IV. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Mr. Vince Camacho reported to the Board of Trustees that he has been working with the Legal Counsel on the restatement of the Plan Document. Mr. Camacho stated that the Plan Document is the governing document. Vice-Chairman Leon Guerrero asked to which Legal Counsel is Mr. Camacho referring. Mr.

Camacho replied, "Joanne Grimes." Vice-Chairman Leon Guerrero asked if there is a conflict. Deputy Director Paula Blas stated that there is no conflict. Deputy Director Blas stated that the Plan Document is the Retirement Fund's DC Plan Document not Great West's Plan Document. Mr. Camacho stated that the Plan Document has never been restated since 1995. Mr. Camacho stated that the tax code changes have to be incorporated into the Plan Document. Deputy Director Blas stated that it maintains the qualification of the Plan. Mr. Camacho stated that the needed changes do not affect the investments at all.

Director Wilfred Aflague mentioned that when a request for hardship that has been denied by Mr. Camacho, the Government of Guam employee will come and see him. Director Aflague stated that he can't deviate from the Plan Document. Director Aflague stated that employees often think that the Director could override Mr. Camacho's decision.

Director Aflague stated that he will work with Controller Tajalle on sending Mr. Camacho a letter alerting him to the second quarter reports for the Board meeting and also a list of questions to prepare for the due diligence meeting.

Director Aflague stated that the DB Plan members could transfer membership to the DC Plan from March 1, 2005 through May 31, 2005. Director Aflague stated that this is only for members with less than twenty (20) years of service. Chairman San Agustin asked if this is only a transfer of employees' share. Director Aflague replied, "yes." Vice-Chairman Leon Guerrero asked if adequate education and counseling is provided to the members transferring plans. Director Aflague replied, "yes."

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 George Santos, and without objection, the meeting was adjourned at 12:50 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 11, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on May 13, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas

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 12:50 p.m. Friday, March 11, 2005, 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
Anthony C. Blaz, Trustee
George A. Santos, Trustee

Board of Trustees Absent:

Katherine T.E. Taitano, Treasurer
Gerard A. Cruz, Trustee (Off-Island)

Staff Present:

Wilfred G. Aflague, Director
Paula M. Blas, Deputy 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:

Oyaol Ngirairikl, Pacific Daily News
Mark Heath, Metropolitan West Capital Management

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 11, 2005 Regular Meeting

Secretary Taylor stated that he has reviewed the February 11, 2005 minutes and has made corrections, which the Recording Secretary has incorporated.

On motion of Trustee Anthony Blaz, seconded by Trustee George Santos, and without objection, the Minutes of February 11, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

III. CORRESPONDENCE

A. March 10, 2005 Letter to Chairman Joe T. San Agustin from Senator Edward Calvo Regarding Request for FY 2005 and FY 2006 Budget Documents

Chairman San Agustin stated that he received a letter from Senator Edward Calvo requesting for the Fund's FY 2005 and FY 2006 budget. Chairman San Agustin stated that Senator Calvo would like to incorporate the cost of administering the Fund through the Fund's budget. Chairman San Agustin stated that the cost for the government is included in the contribution and is spread out to all the agencies.

Trustee Blaz stated that there are outstanding contributions. Secretary Taylor stated that this would cause double accounting. Secretary Taylor suggested explaining this to Senator Calvo. Chairman San Agustin stated that the Fund's budget is irrelevant to Senator Calvo. Trustee Blaz stated that the response to Senator Calvo should be as comprehensive as possible. Chairman San Agustin recommended that Director Aflague respond to Senator Calvo's letter.

Chairman San Agustin stated that Senator Calvo will then add the entire budget and make it into one big cost. Trustee Blaz stated that while the Senators are engaged in the budget process, the Fund should remind them of the liability they have to the Retirement Fund. Controller Tajalle stated that the cost of the government doing business with the Retirement Fund is in the actuarial report.

B. March 10, 2005 Letter to Lou Perez, Director, Department of Administration, from Director Wilfred Aflague Regarding Request for Payment of \$600,000.00

Director Aflague stated that his letter to Ms. Lou Perez is in response to paying contribution refunds. Director Aflague stated that the \$1.2 Million appropriation was not only to retire four (4) GMHA employees but to refund contributions for resignations and refunds. Director Aflague stated that he met with Mr. Quitugua requesting the balance of his refund. Director Aflague stated that Mr. Quitugua met with Mr. McMillan the day before. Mr. McMillan told Mr. Quitugua that the Retirement Fund would not entertain payments for an individual basis after resigning and that the Fund wanted the total amount or nothing. Director Aflague stated that his understanding is that \$600,000.00 of the \$1.2 Million has already been released by BBMR. Director Aflague stated that BBMR's rule is that they won't release the allotment unless there is cash available. Director Aflague stated that this is what generated the letter to Ms. Perez. Chairman San Agustin stated that the Fund will refund anyone when it has the money to refund. However, it can't refund GMHA employees because of GMHA's unfunded liability. Director Aflague stated that DOA is playing games with people's life. Director Aflague stated that he will follow up with DOA.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

International Manager Search - Deputy Director Blas stated that all the contacts for the five (5) managers have come back to her. Deputy Director Blas stated that only one (1) manager has requested for a special consideration regarding the Fund's investment statute. Deputy Director Blas stated that she has responded back saying that they can't deviate from the investment mandates and that the investment managers will have to adhere to it. Vice-Chairman Leon Guerrero asked what kind of deviation they were asking for. Deputy Director Blas stated they wanted to change a provision in the statute. Deputy Director Blas stated that she will provide Vice-Chairman Leon Guerrero with the requested changes.

Actuarial Study - Director Aflague reported to the Board of Trustees that the draft actuarial study for fiscal year ended September 30, 2003 has been completed. Chairman San Agustin stated that the final draft of the actuarial study reflects the changes identified at the February 4, 2005 actuarial review meeting. Chairman San Agustin stated that he is concerned about the unfunded liability that is the result of the GTA sale. Director Aflague stated that the Fund has sent letters requesting payment of the unfunded liability in the amount of \$11.7 Million. Chairman San Agustin asked when payment is expected to be received. Director Aflague stated that the letter was sent on February 10, 2005 to Mr. Larry Perez as Executive Secretary of the Interim Transition Coordinating Office and a follow up letter was sent on March 7, 2005.

Chairman San Agustin asked if the General Fund has received any money from the GTA sale. Director Aflague replied, "yes, \$10 Million" which was used to pay off GTA employees who withdrew their contributions from the DB Plan and then became employees of the New GTA.

Chairman San Agustin stated that GTA retirees will have their annuity discontinued due to the unfunded liability. Vice-Chairman Leon Guerrero stated that he is under the impression that GovGuam received the money from the GTA sale. Director Aflague stated that the General Fund is absorbing the unfunded liability. Vice-Chairman Leon Guerrero stated that this issue was brought up in the meeting with Speaker Forbes. Director Aflague stated that the law states that the unfunded liability will be an obligation of the General Fund. Chairman San Agustin stated that the subsequent law states that the proceeds will pay the unfunded liability. Trustee Blaz stated that Mr. Larry Perez has not acknowledged, by return letter, the request for payment. Director Aflague stated that Mr. Perez told him that there's no law stating that the \$11.7 Million should go to the Retirement Fund. Chairman San Agustin stated that the request should be channeled to Ms. Lou Perez, Director of DOA, because Mr. Larry Perez is not authorized to disburse funds.

Contributions - Director Aflague reported that all agencies are current with their FY 2005 employee and employer contributions with the exception of GMHA which is behind in their contributions for both the DB Plan and the DC Plan.

Supplemental - Director Aflague reported that the supplemental payments from the General Fund are up to date.

Director Aflague reported to the Board of Trustees that he was called as a witness by the Attorney General regarding GEDCA and Select Care. Director Aflague stated that the Attorney General is trying to void the contract between GEDCA and Select Care. Director Aflague stated that Judge Barcinas asked him of what he thinks if GEDCA or other agencies were allowed to contract on their own. Director Aflague stated that if GEDCA or other agencies were allowed to contract for active employees as well as retirees and survivors, there will be no problem.

Director Aflague reported that he has a meeting scheduled for 9:00 a.m. on Wednesday, March 16, 2005 with the Investigator for the U.S. Department of Labor on Guam to follow up on non remittance of contributions or late remittance of contributions. He will ask what can the Board, in its fiduciary capacity, do to initiate an investigation. Director Aflague stated that he will be meeting with Mr. Patrick Candoleta from Guam's U.S. Department of Labor. Trustee Blaz asked if the U.S. Department of Labor will be able to entertain complaints from adversely affected employees.

RFP - Legal Services - Trustee Blaz reported that the RFP for legal services is to recapture of all investment losses including Enron. Secretary Taylor asked for a brief review. Trustee Blaz stated that Enron was one of the investment losses but the proposed legal services are to investigate if there are other investment managers that have losses in other stocks. Secretary Taylor stated that he is concerned that the RFP might end up being too open-ended and the lawyers may end up demanding monies even if they didn't argue the case. Trustee Blaz stated that the Committee has not begun the interview process. Chairman San Agustin stated that his understanding is that the RFP is strictly on a contingency basis.

Legal Counsel Sayre stated that the attorney will have to have an engagement letter that will spell out in detail what needs to be done. Deputy Director Blas stated that the RFP requires the attorney to have the Fund's permission to pursue any specific situation. Trustee Blas stated that the Fund will have the assistance of the Legal Counsel to go through this process.

RFP - Custodial Bank Services - Controller Tajalle stated that the RFP for custodial bank services is still being prepared. Controller Tajalle stated that staff is currently working with Mr. Terry Dennison to identify scope guidelines for the preparation of the RFP. Chairman San Agustin mentioned that the DC Plan also uses a custodial bank.

V. TREASURER'S REPORT OF FINANCIAL STATUS

Chairman San Agustin noted that Treasurer Katherine Taitano is absent from today's meeting. Controller Tajalle reported to the Board that all the financial statements up to January 2005 have been provided to Treasurer Taitano for her review. Controller Tajalle stated that he'll be closing the month of February today.

VI. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Vice-Chairman Leon Guerrero inquired about the findings on Page 5. Trustee Santos stated that the Fund had not given Mr. Gagarin a due process notification that he was in violation of his redeposit request and in giving him conditional approval, the Fund is acknowledging the fact that the Fund has not applied the due process practice. Vice-Chairman Leon Guerrero asked Trustee Santos to explain the process. Mr. Ken Dunstan, Acting Benefit Program Administrator, stated that when a member executes a promissory note, there is a dual responsibility. Both the Fund and the member need to ensure that the payments are remitted to the Fund. Mr. Dunstan stated that both parties have their share of the responsibility. Mr. Dunstan stated that the situation was an oversight. Vice-Chairman Leon Guerrero asked why wasn't the promissory note set up in such a way that payment would be automatically deducted. Mr. Dunstan stated that in the Rules and Regulations about service credit and payroll arrangements, there is a provision that requires that the Fund conduct periodic reviews. This the Fund failed to do. Chairman San Agustin asked if this is costing the Fund money. Director Aflague replied, "no." Chairman San Agustin asked if this would be a basis for a complaint.

Director Aflague stated that the Fund did not provide due process and the Fund is now providing due process. The full payment must be made within thirty (30) days. Legal Counsel Sayre stated that this is the legal way of doing it. Chairman San Agustin asked if Mr. Gagarin has agreed to this. Director Aflague stated that the Fund will send a letter to Mr. Gagarin. Vice-Chairman Leon Guerrero stated that he does not agree with the "due process" language. Chairman San Agustin asked Trustee Santos to rewrite the language in the findings.

Trustee Santos yields to the amendment based on the Legal Counsel's advice.

Trustee Santos, seconded by Secretary Taylor, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 and 5, based on the Committee's review and findings during their meeting of February 18, 2005 and continuation meetings pertaining thereto, and the amendment based on the Legal Counsel's advice. Without objection, the motion passed.

B. Investment Committee

Chairman San Agustin stated that the Investment Committee will report out the Investment Policy Statement (IPS) under New Business Item IX – C.

Vice-Chairman Leon Guerrero mentioned that the analysis of the cash drawdown plan is anticipated and that management will update the plan. Chairman San Agustin stated that the Board's goal is to reduce the number of drawdowns by recapturing the earnings. Controller Tajalle stated that a more detailed report on the cash drawdown will be provided in the next Investment Committee Meeting. Controller Tajalle stated that a quarterly review will also take place at the next Investment Committee Meeting.

C. Audit Committee

Chairman San Agustin stated that Trustee Blaz made a report under Item IV on the RFP for legal services.

D. Governmental Liaison

1) Proposed Legislation for Organic Act

Chairman San Agustin stated that the Organic Act proposed draft amendments will be discussed under Item VII-A.

2) Investment Mandates Amendments (Mercer)

Chairman San Agustin stated that the draft will be given to the Legal Counsel for review.

VII. TRAVEL REPORT

A. Chairman Joe T. San Agustin – February 6-13, 2005, Washington, D.C.

United Health Insurance Meeting - Chairman San Agustin stated that he distributed a report showing what the United Health Care is offering and what they are not offering. Chairman San Agustin stated that AARP benefits for groups 50-64 years of age are not available on Guam. Director Aflague stated that the next scheduled Health Committee meeting is on April 2, 2005. Director Aflague stated that he will submit a report to the Board.

Pension Benefit Guarantee Corporation - Deputy Director Blas stated that the Fund sent an acknowledgement letter back to PBGC letting them know that the Fund would still like to have the PBGC follow up on the Fund's request for technical assistance.

Organic Act Amendment - Chairman San Agustin stated that he has provided a copy of the Organic Act amendment in draft stage. Deputy Director Blas stated that there are several versions of the amendment by the Fund's Legal Counsel, Mercer and Congress. Secretary Taylor stated that he has composed a draft Trust Agreement created for the Fund for the Board's review. The document was distributed.

VIII. OLD BUSINESS

A. Director/Deputy Director Salaries

Chairman San Agustin stated that there is a chronologic sequence of events regarding the request for an increase on the Director and Deputy Director salaries. Chairman San Agustin stated that the previous Board of Trustees had approved the proposed pay increase on August 13, 2003. This was to be retroactive to the date of appointment of January 9, 2003. Chairman San Agustin stated that a request was submitted to the Governor for approval on the recommended pay increases on August 29, 2003. Chairman San Agustin further stated that copies of the request were submitted to the Civil Service Commission on September 9, 2003. Chairman San Agustin stated that during a meeting with the Governor on December 6, 2004, the Governor stated that he will have the recommended pay increases approved by January 2005.

Chairman San Agustin stated that Director Aflague, who has been on board since January 2003, has performed well and that the previous Board had recommended the pay increase. The present Board ratified that action. Chairman San Agustin stated that the present Board, which is now eight months into its new term, is satisfied with the Director's performance. Chairman San Agustin stated that the duties and responsibilities of the Director have increased over the years. Chairman San Agustin stated that the salary for the Director of the Department of Revenue and Taxation and the Director of the Department of Administration were adjusted for 2003 and 2004 based on comparison with other directors. Chairman San Agustin further stated that the GMHA Administrator's salary was also increased.

Trustee Blaz stated that this Board wants to reward performance. Trustee Blaz stated that Director Aflague and Deputy Director Blas have demonstrated their competence. Chairman San Agustin stated that the Fund's investment returns have increased. Chairman San Agustin stated that the Fund's cash drawdown has been reduced. Chairman San Agustin stated that the real point of the discussion is that the Board wants to exercise its authority to approve and effectuate the salary increase.

Vice-Chairman Leon Guerrero mentioned that there is a Board resolution on this matter on the meeting agenda under New Business. Chairman San Agustin asked the Board to address this resolution. Chairman San Agustin stated that in accordance with the duties and responsibilities, the Board of Trustees desires to remain responsible for determining whether personnel and travel costs related to the management of the Retirement Fund are prudent under the circumstances. The Board does not need BBMR approval for personnel and travel costs using the Request for Travel Authorization form and Request for Personnel Action form (GG1) respectively. Chairman San Agustin stated that the current directive only applies to agencies funded by the General Fund. Vice-Chairman Leon Guerrero asked if the resolution includes personnel actions. Chairman San Agustin replied, "yes." Vice-Chairman Leon Guerrero asked Director Aflague if he is comfortable with the implementation of the salary increase. Director Aflague replied, "yes."

Secretary Taylor stated that this resolution states that the Board of Trustees adopt the Government of Guam Travel Policy and the Department of Administration's Personnel Rules and Regulations. Secretary Taylor stated that the travel policy and the rules and regulations requires the Fund to go back to BBMR. Chairman San Agustin replied, "no." Secretary Taylor asked if the resolution states that. Deputy Director Blas stated that the directive is from the Governor. Chairman San Agustin stated that in the travel policy, wherever it shows "Department of Administration," it should be replaced with "Government of Guam

Retirement Fund.” Secretary Taylor suggested adding a phrase to that effect. Trustee Blaz stated that this should be with the understanding that Secretary Taylor’s concerns are addressed. Vice-Chairman Leon Guerrero suggested that the resolution should read that it is the desire of the Board of Trustees to adopt its own Travel Policy and Personnel Rules and Regulations modeled by DOA.

Vice-Chairman Leon Guerrero, seconded by Trustee Santos, move to approve the adoption of Resolution No. 2005-004, as amended. Without objection, the motion passed.

Trustee Santos, seconded by Trustee Blaz, moved to approve the salary adjustment for the Director and the Deputy Director, to be effective to the date of appointment. Without objection, the motion passed.

[Trustee Anthony Blaz was excused from the meeting at this time (1:44 p.m.)]

B. By-Laws of Government of Guam Retirement Fund

Vice-Chairman Leon Guerrero stated that the major purpose of the by-laws is to describe the role of the Director. In the proposed by-laws, there is no mention of the Director. Further it suggests that the Chairman of the Board is the Chief Executive Officer and this is incorrect. Vice-Chairman Leon Guerrero stated that this needs to be addressed. Chairman San Agustin stated that the statute calls for what is the role of the Director. Vice-Chairman Leon Guerrero stated that the Board should hire the Director. Chairman San Agustin stated that the Retirement Fund Law outlines the function of the Director. Chairman San Agustin stated that the Chief Executive Officer should be the Director. Vice-Chairman Leon Guerrero stated that the Director should be the Chief Executive Officer and the Recording Secretary of the Board. Vice-Chairman Leon Guerrero stated that in regards to the Investment Committee, there is a difference in what the Investment Committee does and what is being proposed. Controller Tajalle stated that this was discussed at the Investment Committee Meeting.

Chairman San Agustin recommended tabling Item VII B for further review and comments and for the Board of Trustees to direct their input to Deputy Director Blas. Chairman San Agustin asked that that Director of the Retirement Fund be incorporated in the by-laws, citing the statute.

C. Status Report: The Hiring of a Staff Attorney

Deputy Director Blas stated this item was covered by Resolution No. 2005-004.

D. Status of Legal Cases

Chairman San Agustin asked Legal Counsel Sayre for an update on the status of the Fund’s pending legal cases. Legal Counsel Sayre stated that she did not bring a prepared report. Director Aflague stated that there are three major litigations on going. Director Aflague mentioned the case of the former governor. Director Aflague stated that the Public Auditor asked for a copy of the Attorney General’s memorandum to the Fund requesting that the Fund hold back on any administrative action until such time that the case is completed in Court. Director Aflague stated that the Public Auditor pointed out that restitution will be a major part of this case. Director Aflague stated that Attorney William Bischoff has been in and out of the Fund almost on a daily basis reviewing the file.

Director Aflague next described the case of the disability annuitant who had received compensation while working for the Governor's Office. This was Mr. Ralph Gutierrez. The Fund discovered upon investigation that he also had a contract with GEDCA for \$60,000 to provide services that had not been revealed to the Fund. Director Aflague stated that Legal Counsel Pat Mason has the documentation and Mr. Mason asked if the Fund would like to collect on that amount of money. Director Aflague told him yes. Director Aflague stated that Controller Tajalle has provided an analysis of the amount due to the Fund. That amounts to \$25,000.00. Director Aflague stated that Mr. Gutierrez's deposition is being obtained by the Fund's Legal Counsel in the present of Mr. Gutierrez's attorney. Director Aflague stated that Mr. Gutierrez's attorney filed for a motion to dismiss which the Judge denied.

Director Aflague next described the case involving a disability applicant, Mr. Lubofsky. The Fund's Legal Counsel advised the Members and Benefits Committee to handle the case separately from the court situation. Director Aflague stated that Mr. Lubofsky is currently off-island and that the Fund's Legal Counsel has been in contact with Mr. Lubofsky's attorney.

IX. NEW BUSINESS

A. Actuarial Valuation as of September 30, 2003

Controller Tajalle stated that he received the second draft of the Actuarial Valuation as of September 30, 2003. It was dated February 15, 2005 and it was provided to the Board of Trustees for review. Controller Tajalle stated that there is a significant change on the contribution requirement. Chairman San Agustin asked if the report is in the final format. Controller Tajalle replied, "yes." Controller Tajalle stated that the contribution rate went from 19% to 24.89%. Director Aflague asked Chairman San Agustin if he wanted to send the report to the Legislature to determine the contribution rate in the 2006 budget. Deputy Director Blas stated that the contribution rate is currently 20.81% for 2002. Secretary Taylor asked if all the points previously discussed were taken into consideration. Controller Tajalle replied, "yes." Secretary Taylor asked if the Board should send the 2003 report or wait for the 2004 report. Controller Tajalle stated that the 2004 actuarial report will be less. Director Aflague asked Controller Tajalle if the 2004 actuarial report will be higher or lower. Controller Tajalle stated that it will be lower. Deputy Director Blas suggested sending the 2003 report to the Legislature. Director Aflague asked if Controller Tajalle has the figure as of September 30, 2003.

Controller Tajalle stated that the required contribution rate is 24.89% for September 30, 2003. Vice-Chairman Leon Guerrero asked if it is necessary to do this because GovGuam is considering the budget for FY2006. Controller Tajalle replied, "yes." Director Aflague stated that GovGuam is factoring 20.81%. Secretary Taylor stated that the 20.81% is not the required contribution rate based on the actuarial study. Director Aflague stated that if the Board approves the rate of 24.89%, he will draft a letter to the Legislature to factor in the contribution rate of 24.89% in the 2006 budget. Director Aflague stated that it is important to transmit this officially to the Legislature. Vice-Chairman Leon Guerrero stated that since the Board just received the report, he is not sure if the Board is ready to accept the full report. Secretary Taylor asked if the Fund could submit just the figures. Deputy Director Blas stated that all the senators will get a copy of the approved report.

Chairman San Agustin stated that the breakdown of the normal cost does not cover the unfunded liability. Chairman San Agustin stated that if the GTA payment of \$11 Million was received, the rate would go down. Secretary Taylor stated that 20.81% is not the required contribution rate. Trustee Santos stated that the contribution rate now is 24.89%.

Trustee Santos, seconded by Secretary Taylor, moved to approve the second draft of the Actuarial Valuation as of September 30, 2003, dated February 15, 2005 and to communicate with the Legislature on the 24.89% required contribution rate. Without objection, the motion passed.

B. Board Resolution Regarding BBMR and Governor's Office Approvals

Chairman San Agustin stated that this was discussed under Item VIII-A.

C. Investment Policy Statement

Chairman San Agustin asked if the changes were incorporated in the Investment Policy Statement. Chairman San Agustin stated that he provided a table showing the total cash received. Chairman San Agustin stated that \$19.5 Million of cash was collected in 2004. Chairman San Agustin stated that if you divide that amount into the asset, you get a 1.3% rate of return. Chairman San Agustin stated that the actual transaction fees should also be reported. Chairman San Agustin stated that none of the brokerage fees show in the IPS. Chairman San Agustin stated that the Board is fully cognizant on the changes and what the impact would be. Controller Tajalle stated that the average per share transaction is 2¢.

Chairman San Agustin mentioned that the custodial banks stated that they only keep records for one year and everything else after that is in microfilm. Chairman San Agustin stated that the Fund needs data that reflects the last two or three years.

Vice-Chairman Leon Guerrero stated that once the Investment Policy Statement is approved it will be sent to the appropriate people. Vice-Chairman Leon Guerrero suggested that in the letter accompanying the IPS, it should be emphasized that there is a reporting requirement.

Vice-Chairman Leon Guerrero, seconded by Secretary Taylor, moved to approve the adoption of the Investment Policy Statement. Without objection, the motion passed.

D. Organic Act Proposed Draft Amendments

Chairman San Agustin stated that the Organic Act proposed draft amendments were discussed under Item VII-A.

E. Mercer's Recommendation for Amendment to GGRF Investment Law

Chairman San Agustin stated that the draft will be given to the Legal Counsel for review.

X. EXECUTIVE SESSION

A. Consider Legal Matters Pertaining to the Protest Regarding the DC Plan Procurement

The Board of Trustees did not go into Executive Session due to improper public notification.

Chairman San Agustin stated that a Special Board Meeting and Executive Session to consider legal matters pertaining to threatened litigation regarding procurement is scheduled for next week Friday,

March 18, 2005, at 1:00 p.m. Chairman San Agustin stated that based on the Legal Counsel's advice, public notification of the Executive Session must take place five (5) working days prior to the meeting.

Legal Counsel Sayre stated that Executive Session minutes must be sealed. The Legal Counsel further stated that a recommendation is made and reported out at open session. Deputy Director Blas stated that the Legal Counsel that will be present at the Executive Session is Debra Rivera from the Attorney General's office. She also said a certified court reporter will be present at the Executive Session.

Chairman San Agustin asked Legal Counsel Sayre why there would be a conflict of interest. Legal Counsel Sayre stated that the law firm of Carlsmith Ball represents both the Fund and Great West. Legal Counsel Sayre stated that their firm will recuse themselves from this matter. Chairman San Agustin stated that the current situation needs to be clarified. Legal Counsel Sayre stated that she will take this up with Legal Counsel Grimes. Legal Counsel Sayre stated that their firm refrained from participating. Secretary Taylor stated that that is not true. Secretary Taylor stated that the Fund was depending on the Legal Counsel's advice from Hawaii prior to ever knowing that the firm was involved with Great West. Chairman San Agustin stated that this is something that should be discussed further.

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Secretary James Taylor, and without objection, the meeting was adjourned at 2:46 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 11, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on May 13, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas