

BOARD OF TRUSTEES
Reconvened Regular Meeting
Friday, May 26, 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 12:45 p.m. Friday, May 26, 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
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee

Board of Trustees Absent:

Katherine T.E. Taitano, Treasurer (*Off-
Island - Excused*)
George A. Santos, Trustee

Staff Present:

Paula Blas, Acting Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Mike Perez, Great West Retirement Services
Jackie Blas, Recording Secretary

Acting Director Paula Blas recommended amending the May 12, 2006 meeting agenda for the Defined Benefits to include the following:

- Under Correspondence: May 15, 2006 Letter from the Law Offices of Cunliffe & Cook regarding Appeal of Adjustment of Estimated Annuity and Response for Board approval;
- Under Standing Committee Reports – Investment Committee: Funding of Grantham, Mayo, Van Otterloo & Co. LLC (GMO) - Revisions to Appendix A of Contract; and
- Under Standing Committee Reports – Audit Committee: 2005 Management Letter with Responses for Board of Trustees' Information.

Acting Director Blas also recommended amending the May 12, 2006 meeting agenda for the Defined Contributions to include the following:

- Under New Business: May 17, 2006 Letter from Carlsmith Ball regarding Government of Guam Retirement Fund Request for Services.

Chairman San Agustin stated that the Board will also entertain the Selection Committee Report which is under New Business of the meeting agenda.

II. CORRESPONDENCE

A. May 15, 2006 Letter from Attorney F. Randall Cunliffe Regarding Appeal of Adjustment of Estimated Annuity on Behalf of Mr. Carl T.C. Gutierrez

Chairman San Agustin stated that the correspondence from Attorney Randall Cunliffe would normally be referred to the Members and Benefits (M&B) Committee but that his understanding from the Chairman of the M&B Committee is that this matter has gone before the Board of Trustees for action. Acting Director Blas stated that the Board had instructed Management to send Mr. Gutierrez the notification of the miscalculation of his benefit and the underpayment of the contributions that were owed on his behalf. Acting Director Blas stated that the appeal from Attorney Cunliffe cited two sections. Acting Director Blas stated that one section was regarding the contribution rate which is tailored to Legislative senators and the other section was the recovering and adjustment clause. Acting Director Blas stated that both sections were not relevant. Acting Director Blas stated that if Mr. Gutierrez was going to get the three highest salaries based on the Governor's salary, he will be contributing based on the Governor's salary. Acting Director Blas stated that the Fund is not recovering on overpayment of benefits. Acting Director Blas stated that the Fund is only asking for Mr. Gutierrez to pay for contributions that were not paid yet.

Vice-Chairman Wilfred Leon Guerrero asked whether the third line on the third paragraph of the draft response a typographical error. Acting Director Blas replied, "yes." Acting Director Blas stated that it should read "by your client." Vice-Chairman Leon Guerrero inquired about the statement on the seventh line down on the third paragraph: "your client was on notice of the incorrect benefit long before May 5, 2006..." Vice-Chairman Leon Guerrero asked what does the Fund have that suggests that. Acting Director Blas stated that it was not a notification from the Fund directly but it was through the audit report and the Attorney General. Vice-Chairman Leon Guerrero suggested citing the audit report. Trustee Gerard Cruz made a comment that he was not sure whether the audit report could be cited. Chairman San Agustin asked whether being informed of an audit finding a sufficient notification. Acting Director Blas stated that Mr. Gutierrez could not be notified during this whole time because the Fund was asked not to take any action. Secretary James Taylor stated that he is concerned that the Fund does not mention something specific.

Chairman San Agustin suggested eliminating the statement – “your client was on notice of the incorrect benefit long before May 5, 2006....” Vice-Chairman Leon Guerrero asked whether the Fund’s Legal Counsel has reviewed the draft response. Acting Director Blas replied, “yes.” Secretary Taylor suggested removing the whole sentence. Trustee Cruz agreed with Secretary Taylor to remove the whole sentence. Trustee Cruz stated that it may be a problem that the Board is editing a draft and the edits are being made public for public record. Chairman San Agustin recommended referring this matter back to Management for revision based on the Board’s discussion.

Vice-Chairman Leon Guerrero inquired about the first paragraph on page two. Acting Director Blas stated that the Fund’s Legal Counsel had added this paragraph. Secretary Taylor asked whether the Fund needs to prepare a formal response to Attorney Cunliffe’s letter. Chairman San Agustin replied, “yes.” Chairman San Agustin stated that a formal response is needed because of the appeal. Acting Director Blas stated that the Fund should have a record that the Board did respond. Vice-Chairman Leon Guerrero stated to respond that the Board will not entertain the appeal. Acting Director Blas stated that she could prepare the letter to say that the Board decided to deny the appeal. Vice-Chairman Leon Guerrero recommended using what Secretary Taylor had suggested which was to notify Attorney Cunliffe that the Board had denied his appeal and that he has thirty (30) days from the date of this letter denying his client’s appeal to seek judicial review of the Fund’s decision from the Superior Court of Guam. Secretary Taylor stated that the Board has reviewed the appeal and that the Board stands by its original position. Chairman San Agustin stated that the annuity will be suspended because payment is not made.

Vice-Chairman Wilfred Leon Guerrero, seconded Secretary James Taylor, moved to deny the appeal and to refer this matter back to Management. Without objection, the motion passed.

Resolution No. 2006-004 - Chairman San Agustin stated for the record that Board Resolution No. 2006-004 was passed on May 12, 2006. Chairman San Agustin stated that in compliance with Resolution No. 2006-004, he has retained his own Legal Counsel and has made documents available to his lawyer.

Chairman San Agustin stated that sufficient notification should be made to the underwriters. Acting Director Blas stated that she will send a copy of the resolution to the underwriters. Acting Director Blas stated that she has contacted all the law firms through the Guam Bar Association. Acting Director Blas stated that the Request for Proposal (RFP) for conflict counsel will come out on Wednesday, May 31, 2006.

III. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice-Chairman Leon Guerrero reported that the Board had approved funding for Grantham, Mayo, Van Otterloo & Co. LLC (GMO) in the amount of \$94 Million. Vice-Chairman Leon Guerrero stated that the Board has approved the dollar amount and that the signed contract is in percentage. Vice-Chairman Leon Guerrero stated that the Board must abide by the dollar amount. Chairman San Agustin stated that the percentage in the contract called for 38.1%, 44.0% and 17.9%. Controller Diana Bernardo stated that the Board approved \$92.8 (Million, \$39.0 Million, \$36.6 Million, \$17.2 Million), which is 42.0%, 39.5% and 18.5%.

Controller Bernardo stated that the contract states 38.1%, 44.0% and 17.9%. Chairman San Agustin asked whether this is allocated. Rosalia Bordallo, General Accounting Supervisor, stated that the Retirement Fund can not put the 44.0% into a dollar amount, it pushes it by law. Chairman San Agustin stated that the law supercedes the Investment Policy Statement (IPS). Mrs. Bordallo stated that is the problem with the IPS. Trustee Cruz stated that the Fund should follow the statute which trumps the IPS. Trustee Cruz stated that the contract states to follow the IPS and the IPS states to follow the law. Controller Bernardo stated that Mercer stated to follow the Board's approval. Vice-Chairman Leon Guerrero asked whether GMO have been informed that if they proceed, they will be violating the law. Chairman San Agustin stated that this is in anticipation of the law being changed.

Trustee Cruz asked whether the Fund could liquidate funds from Capital to GMO. Trustee Cruz stated that without funding Capital, the Fund is below 13%. Acting Director Blas stated that was one of the options considered. Chairman San Agustin stated to freeze Capital at this time. Acting Director Blas stated that the Board's prior motion was to fund both. Chairman San Agustin stated that the Fund needs to freeze one. Controller Bernardo stated that she would need authorization from the Board to allocate at the contract percentage.

Trustee Gerard Cruz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to revise the Board of Trustees previous approval of the funding of Grantham, Mayo, Van Otterloo & Co. LLC (GMO) and instead to fund GMO an aggregate of \$92.8 Million to be allocated on a basis consistent with Appendix A. This relates solely to the initial allocation with the understanding that the Board of Trustees reserves the right to make changes to the allocation. Without objection, the motion passed.

B. Audit Committee - 2005 Management Letter with Responses

Acting Director Blas stated that Mr. Dave Burger has provided a draft copy of the 2005 Management Letter with Responses for informational purposes. Chairman San Agustin stated that the Board approved the Audit Report at the May 12, 2006 Board Meeting.

RECESSED: 1:40 P.M.

RECONVENED: 1:55 P.M.

EXECUTIVE SESSION: 2:00 P.M.

IV. NEW BUSINESS

A. Interview Committee Report

Vice-Chairman Leon Guerrero provided a copy the Interview Committee's report for the position of Chief Executive Officer (CEO)/Director of the Government of Guam Retirement Fund. The report highlights strengths and weaknesses of the candidates interviewed. Vice-Chairman Leon Guerrero stated that Treasurer Katherine Taitano was replaced as a member of the Interview Committee by Trustee Anthony Blaz.

The Interview Committee consists of Vice-Chairman Wilfred Leon Guerrero, Trustee Gerard Cruz and Trustee Anthony Blaz. Vice-Chairman Leon Guerrero stated that there were six (6) applicants. Two applicants were disqualified because they did not meet the announced position requirements and then one applicant asked that his application be withdrawn. Vice-Chairman Leon Guerrero stated that the Committee interviewed three applicants.

Vice-Chairman Leon Guerrero stated that the Equal Employment Opportunity (EEO) Officer was present during the interviews. All three candidates were asked the same questions. Vice-Chairman Leon Guerrero stated that the Committee will make an individual recommendation and not a Committee recommendation.

Vice-Chairman Leon Guerrero reported to the Board on the candidates' strengths and weaknesses as follows:

Candidate No. 1 (John Boudinot, Missouri): Strengths – a) has twenty (20) years of work experience as Pension and Retirement Plan Administrator. He has worked on several different plans. His last position was Assistant Executive Director at Missouri's Public School Retirement System where he supervised eight (8) department managers; b) was forth-coming in his responses. For example, he suggested that we bring him to Guam if we were serious about hiring him; c) he believes in empowering employees through education and knowledge; d) believes in open communication between Board and CEO; e) recognizes that there will be cultural differences and that he would have to adjust to a new environment. Weaknesses – a) might not be able to adjust to Guam environment; b) is not available until end of year when he completes his dissertation; c) moving expenses seem to be of concern; d) the fact that he is pursuing a doctorate degree suggests that he is more interested in becoming a professor instead of Plan Administrator; e) might be under the impression that the Board is authorized to set the terms and conditions of his employment agreement; f) had investment knowledge, but agreed that his fund's performance was less than peer; g) reasons for leaving employment was to complete Doctorate, but if employed would still not have completed degree requirements.

Candidate No. 2 (Marc Joseph, Los Angeles): Strengths – a) fifteen (15) years of experience in the investment management business including the Chief Investment Officer for Renberg Capital Management (RCM); b) managed large accounts such as over \$10 Billion of assets at Templeton and Scudder, Stevens and Clark; c) impressive academic credentials – high honors at College of William and Mary, high honors at Harvard Law School (JD), and high honors at Harvard Business School (MBA); d) expressed interest in Western Pacific particularly Yap and Palau. Have visited islands. Weaknesses – a) was very terse in his responses, too lawyerly; b) could not determine his passions even though he was given an opportunity to do so; c) declined position of the Treasurer and Chief Officer for the University of California with assets of over \$60 Billion; d) salary and benefits might be of concern; e) Renberg Capital Management was shut down due to SEC compliance violations; f) employment history with any one company is brief. This is not characteristic in the industry.

Candidate No. 3 (Paula Blas): Strengths – a) have been with the Government of Guam Retirement Fund (GGRF) over the past ten (10) years and is familiar with issues and concerns; b) strong role model for other GGRF employees aspiring to move up in organization; c) very well organized; d) has institutional knowledge; e) appears to have support and respect of employees; f) demonstrated leadership ability in COLA and Supplemental issues as well as Guam Telephone Authority (GTA) issue.

Weaknesses – a) working experience limited to Government of Guam system; b) would need strong support in the area of Investment; c) would need help from Board to document a GGRF strategic plan for execution.

Chairman San Agustin pointed out that Candidate No. 1 is not available and Candidate No. 2 is too good to be true. Vice-Chairman Leon Guerrero stated that Candidate #2 has academic credentials. Vice-Chairman Leon Guerrero stated that his recommendation is to hire Candidate No. 3. Trustee Blaz's recommendation is Candidate No. 3, Secretary Taylor's recommendation is Candidate No. 1, Trustee Cruz's recommendation is Candidate No. 3 and Chairman San Agustin's recommendation is Candidate No. 3. Vice-Chairman Leon Guerrero reported that Candidate No. 3 has four (4) votes and Candidate No. 1 has one (1) vote. Secretary Taylor deferred to the Board to make unanimous.

Chairman San Agustin stated that he is concerned that the Fund has no annual report and the Fund needs to work on a Strategic Plan. Chairman San Agustin further stated that the Fund would need to hire a Deputy Director or an Investment Manager.

RECONVENED: 2:40 P.M.

Chairman San Agustin stated that the Board of Trustees met in Executive Session and discussed the evaluation of the Selection Committee and considered the candidates for the position of Chief Executive Officer/Director.

Trustee Anthony Blaz, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve the selection of Candidate #3 (Paula M. Blas) and that Trustee Gerard Cruz has volunteered to assist in developing a performance evaluation criteria and Strategic Plan and to get the Deputy Director position in place. Without objection, the motion passed.

V. OPEN DISCUSSION / GENERAL PUBLIC INPUT

A. Custodial Bank Request for Proposal (RFP)

Secretary Taylor stated that he was asked to review the Custodial Bank RFP. Secretary Taylor stated that there is still a lot of work to be done on the RFP.

Secretary Taylor stated that Chairman San Agustin had some concerns on the proposals being combined. Secretary Taylor stated that he did not see that it was included. Secretary Taylor asked Chairman San Agustin whether he is suggesting that it should be combined. Chairman San Agustin stated that custodial and operational are two different services. Chairman San Agustin stated that his concern is not to include the operational services on the RFP. Secretary Taylor recommended referring this matter to Management. Secretary Taylor stated that the law should be incorporated.

VI. ANNOUNCEMENTS

None

VII. ADJOURNMENT

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

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of May 26, 2006 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 17, 2006.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas