

BOARD OF TRUSTEES

Regular Meeting

Thursday, June 2, 2005, 12:00 p.m.

Retirement Fund Conference Room

MINUTES

DEFINED BENEFITS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan was called to order at 12:35 p.m. Thursday, June 2, 2005, in the Retirement Fund Conference Room. Acting Chairman James J. Taylor officiated.

Board of Trustees Present:

James J. Taylor, Acting Chairman
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)
Wilfred P. Leon Guerrero, Vice-Chairman (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

Public Present:

Mark Heath, Metropolitan West Capital Management

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. May 13, 2005 Regular Meeting

Acting Chairman James Taylor stated that he has not reviewed the minutes of May 13, 2005 and is requesting to postpone approval of the minutes.

Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, moved to suspend the approval of the May 13, 2005 Regular Meeting Minutes until the next regularly scheduled meeting. Without objection, the motion passed.

Acting Chairman Taylor announced that he will be taking a new position at the University of Guam as an Associate Professor of Finance and Economics effective August 15, 2005.

III. CORRESPONDENCE

A. November 29, 2004 and April 28, 2005 Letters from Chris Felix, Realty Management, Regarding Leasing the Rear Parking Lot of the Retirement Fund Building, Maite

Director Wilfred Aflague stated that he received a letter from Mr. Chris Felix who is the managing agent for the First Hawaiian Bank in Maite. Director Aflague stated that Mr. Felix is exploring the possibility of leasing the rear parking lot of the Retirement Fund complex for extra parking for the First Hawaiian Bank building employees and tenant employees. Acting Chairman Taylor stated that if this were being referred to the Investment Committee, the Investment Committee would need an independent review. Acting Chairman Taylor stated that the independent review should not cost more than \$1,000.00.

Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, moved to refer the November 29, 2004 and April 28, 2005 letters from Mr. Chris Felix to the Investment Committee for action. Without objection, the motion passed.

B. June 1, 2005 Memorandum from Lou Perez, Director, Department of Administration (DOA) Regarding Request for Actuarial Assistance

Director Aflague stated that the Department of Administration (DOA) is preparing to release the RFP for the upcoming Life Insurance Negotiations. Director Aflague stated that DOA is asking to utilize the Fund's Actuary to review the cost proposals at no cost to DOA. Director Aflague stated that his recommendation to Acting Chairman Taylor is to refer this matter to Management to request of the new Actuary of what additional charges will be incurred by the Fund. Deputy Director Paula Blas stated that the urgency for DOA is to get an answer from the Board of Trustees whether or not to allow DOA to utilize the Fund's actuary because of the RFP being scheduled for release in June 2005. Deputy Director Blas stated that, in the past, the Fund's previous Actuary, Mr. Jay Lingo, took the costs of the proposals that came in and just told the Fund whether or not the charges or the premiums offered were reasonable. Deputy Director Blas stated that Mr. Lingo had not been part of the evaluations or the analysis.

Trustee Blaz asked if DOA is requesting for assistance from the Fund's Actuary in the negotiations to ascertain life insurance costs. Trustee Blaz stated that the question would be to what extent can the Fund's Actuary assist in this process. Director Aflague stated that in DOA's request, DOA is asking that they do not bear the cost. Treasurer Katherine Taitano asked if Mr. Lingo charged for his assistance. Deputy Director Blas stated that she could not find any charges from Mr. Lingo. Trustee Blaz stated that since the Actuary's contract is general enough to include items like this request for assistance, this could be part of the costs of the services the Actuary provides. Controller Pete Tajalle stated that the Fund's contract with the Actuary has a cap of \$80,000.00 per annum. Controller Tajalle stated that the real issue would be the relevance to the Fund of such work.

Trustee Anthony Blaz, seconded by Trustee George Santos, moved to have Management ascertain if there will be any costs to be incurred as a result of the assistance the Retirement Fund's Actuary would provide the Department of Administration. Without objection, the motion passed.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

Bill 118 - Director Aflague stated that Governor Felix Camacho had just signed Bill 118 into law. Bill 118, which is now Public Law 28-38, will allow for the retirement processing of members from the Guam Memorial Hospital Authority and the Department of Education with certain provisions about ongoing interest and penalty payments and the requirement that DOE and GMHA be up to date on payment in the current year.

Accountant III Travel Report - Director Aflague stated that Ms. Rosalia Bordallo has successfully completed a course entitled "International Foundation of Employee Benefit Plans: Portfolio Concepts and Management Program" which was held at the Wharton School of the University of Pennsylvania on May 10-13, 2005. Director Aflague stated that Ms. Bordallo's trip report is included in the Board packet.

Contributions - Director Aflague stated that all agencies are current with their fiscal year 2005 employee and employer contributions. The one exception is GMHA, which is outstanding for the pay periods ended February 5, 2005, February 19, 2005, March 5, 2005, March 19, 2005 and April 2, 2005. Director Aflague stated that delinquency notices have been sent to GMHA's administrator. Director Aflague stated that per his conversation with Mr. PeterJohn Camacho, payment should be received by today or tomorrow.

Financial Statements - Controller Tajalle stated that Management has submitted financial statements for the month ended March 2005 to Treasurer Taitano for review. Controller Tajalle stated that the financial statements for the month ended April 2005 should be completed shortly. Controller Tajalle stated that he would work with Treasurer Taitano on scheduling a meeting for sometime next week to discuss the financial statements for March and April 2005. Controller Tajalle stated that, at this point, there are no significant deviations from the budget.

FY 2005 Supplemental - Director Aflague stated that the supplemental checks were mailed out last week for the month of May 2005.

2004 Financial Audit - Director Aflague stated that the target date for the draft completion is June 10, 2005. Finalization is targeted for June 17, 2005. Controller Tajalle stated that he would contact Trustee Blaz to schedule an Audit Committee meeting sometime between June 10 and June 17, 2005 to review the compliance report and the audit report.

Status of Legal Issues - Acting Chairman Taylor asked about the Fund's pending legal cases. Director Aflague stated that jury selection on the case of the former governor and former director of the Fund is scheduled for June 20, 2005. Director Aflague stated that the Fund's Director and the Benefits Program Administrator have been subpoenaed and that the Controller would probably be subpoenaed.

Director Aflague stated that there are two cases against Mr. Ralph Gutierrez: 1) salary earned as an employee of the Governor's Office after having taken retirement and 2) a contract with GEDCA after having taken retirement. Director Aflague stated that Mr. Gutierrez had filed a motion to dismiss the first case. The Judge did not grant the motion. Director Aflague further stated that Mr. Gutierrez has also filed a motion to dismiss the second case. Director Aflague stated that he does not know what the Judge's decision is on the second case. Acting Chairman Taylor asked if the Fund's Legal Counsel is in the process of responding to the motions filed. Director Aflague replied, "yes."

Director Aflague stated that there is a case filed by Mr. Lubofsky regarding a violation of his civil rights. Director Aflague stated that the Fund's Legal Counsel is holding off on the deposition of Mr. Lubofsky until Mr. Lubofsky's appeal to the Members and Benefits Committee on his disability retirement is completed. This should be in July 2005.

Status of Staff Attorney - Acting Chairman Taylor asked about the status of the Fund's Staff Attorney. Deputy Director Blas stated that the Fund would be issuing an RFP for the Staff Attorney. Deputy Director Blas stated that the Fund cannot hire a Staff Attorney but it can contract for an attorney.

Acting Chairman Taylor acknowledged Director Aflague's contributions to the Retirement Fund. Trustee Blaz stated that he echoes the sentiments of Acting Chairman Taylor and commends Director Aflague. Trustee Blaz stated that he enjoyed the good working relationship he had. Director Aflague stated that when he first came on board in January 2003, the outgoing Board of Trustees said that the Fund has a shelf life of nine or ten years. Director Aflague stated that with the audit findings, with the return of investments, in Fiscal Year 2002, the Fund had \$1.18 Billion in assets and currently has an asset of \$1.4 Billion.

Trustee Anthony Blaz, seconded by Trustee George Santos, moved to proceed to Section VII of the meeting agenda under "Old Business."

V. TREASURER'S REPORT OF FINANCIAL STATUS

Acting Chairman Taylor stated that the Treasurer's Report would be reviewed in a subsequent meeting. See Item IV above on "Financial Statements."

VI. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 through 6, based on the Committee's review and findings during their meeting of May 20, 2005 and continuation meetings pertaining thereto. Without objection, the motion passed.

B. Investment Committee

No report was made by the Investment Committee.

C. Audit Committee

Acting Chairman Taylor stated that the Audit Committee Report was covered under the Director's Executive Summary. See Item IV above on "2004 Financial Audit."

D. Governmental Liaison

Acting Chairman Taylor stated that the Government Liaison Report was covered under the Director's Executive Summary. See Item IV above on "Bill 118."

VII. OLD BUSINESS

A. Draft Contract - Legal Services to Recapture Investment Losses

Trustee Blaz stated that Management received a response from the law firms of Calvo & Clark and Lujan, Unpingco, Aguigui & Perez in response to a directive made by the Board of Trustees. Director Aflague stated that the two law firms submitted their revised proposed contract for Legal Services for the Board's consideration. Director Aflague stated that the Board's proposal was a fifty-fifty cost-sharing, clarification of attorney in charge, and the deliverables of plan. Deputy Director Blas stated that based on the response from Lujan & Clark and Lujan, Unpingco, Aguigui & Perez, the two firms agreed to the Board's proposal except for the proposal that the costs of pre-litigation services by the firms be split fifty-fifty. Trustee Blaz stated that the letter explains that the firms are ethically constrained from entering into such an agreement.

Acting Chairman Taylor stated that he is concerned that Chairman Joe T. San Agustin and Vice-Chairman Wilfred Leon Guerrero are not present at today's meeting. Acting Chairman Taylor stated that he would like to get the input from both Chairman San Agustin and Vice-Chairman Leon Guerrero. Acting Chairman Taylor stated that he is also concerned about the costs. Acting Chairman Taylor asked how much loss was incurred in the Enron case. Controller Tajalle replied, "\$4 Million."

Trustee Blaz stated that the Board needs to address this issue expeditiously. Trustee Gerard Cruz stated that he agrees there is a need to resolve this issue but he also agrees with Acting Chairman Taylor on deferring the matter until the Board Chairman's return. Trustee Cruz stated that he has a question on the maximum annual dollar amount. Trustee Cruz asked if the maximum is \$300,000.00 without going to the Board. Deputy Director Blas replied, "yes." Trustee Cruz stated that he is not opposed to the pre-litigation work. Trustee Cruz asked if the Fund could get a cost estimate prior to engaging in the pre-litigation work. Deputy Director Blas stated that the Fund could establish a ceiling that would be comfortable for the Board. Treasurer Taitano stated that she would be comfortable with a lower figure level. Acting Chairman Taylor recommended that the annual maximum limit be \$100,000.00. Trustee Cruz stated that the \$100,000.00 works out to be five hundred billable hours. Deputy Director Blas stated that the rates being proposed are the rates for the law firm. Acting Chairman Taylor stated that the Fund should set the limit and review the maximum of \$100,000.00.

Acting Chairman Taylor asked if it is the Board's understanding that this is only to be focused on Enron. Trustee Blaz stated that it is for all investment losses. Acting Chairman Taylor recommended deferring this matter until Chairman San Agustin's return. The Board agreed to defer the matter until the return of the Board Chairman.

At this time, Controller Tajalle informed the Board of Trustees that the Performance Review is scheduled for June 27-28, 2005.

[Treasurer Katherine Taitano was excused from the meeting at this time (1:20 p.m.)]

B. Draft RFP - Custodial Bank Services

Trustee Cruz asked about the draft RFP for Custodial Bank Services. Controller Tajalle stated that he is currently working on the draft RFP. Controller Tajalle stated that Chairman San Agustin was able to compile samples of RFPs which the Controller would be reviewing in order to come up with a working RFP.

Trustee Cruz stated that a motion was passed at the previous Board meeting to get an RFP for an RFP providing support on drafting the RFP for Custodial Bank Service. Director Aflague stated that the Fund does have such a draft RFP. Management was directed to complete the "RFP for the RFP" and present it to the Board.

C. Status of International Manager Search

Trustee Cruz asked if all the contracts for international managers have been signed. Deputy Director Blas stated that she is waiting for Grantham Mayo Van Otterloo (GMO) to sign the contract.

D. Status of Trust Agreement

Deputy Director Blas stated that she has informed the Fund's Legal Counsel that Acting Chairman Taylor will be working with her on the Trust Agreement. Deputy Director Blas was asked to have the Fund's Legal Counsel contact Acting Chairman Taylor.

VIII. NEW BUSINESS

A. Custodial Bank Activity Report as of April 30, 2005

No report was made on the Custodial Bank Activity Report as of April 30, 2005.

IX. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

X. ANNOUNCEMENTS

None

XI. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, and without objection, the meeting was adjourned at 1:25 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of June 2, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 8, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas