

BOARD OF TRUSTEES

Regular Meeting

Friday, July 8, 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 12:05 p.m. Friday, July 8, 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 [via phone conference: (415) 674-8243 – S.F.]
James J. Taylor, Secretary
Katherine T.E. Taitano, Treasurer
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee
George A. Santos, Trustee

Staff Present:

Paula M. Blas, Acting Director
Pete Tajalle, Controller
Ken Dunstan, Acting Benefit Program Administrator
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary
Rosalia Bordallo, Accountant III

Public Present:

Doris F. Brooks, Public Auditor, Office of the Public Auditor (OPA)
Yuka Cabrera, OPA
Dave Burger, Burger & Comer
Clint Ridgell, KUAM
Jesus Delgado, Office of Senator Palacios
Wilfred Aflague, Administrator, Guam Memorial Hospital Authority

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. May 13, 2005 Regular Meeting, May 17, 2005 Regular Meeting and June 2, 2005 Regular Meeting

On motion of Trustee Anthony Blaz, seconded by Secretary James Taylor, and without objection, the Minutes of May 13, 2005 Regular Meeting, May 17, 2005 Regular Meeting and June 2, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

At this time Chairman Joe San Agustin, seconded by Trustee Anthony Blaz, moved to have Item VI C of the meeting agenda moved to be the next item on the agenda.

III. Audit Committee

1. Doris Brooks, OPA, Findings and Recommendations of the Audit Report

Ms. Doris Brooks, Public Auditor, stated that the audit was conducted by Burger & Comer. Ms. Brooks reported on the 2003 and 2002 audit findings. Ms. Brooks stated that the annuity calculation is done manually.

Ms. Brooks provided a graph showing the investment income and contributions; the benefit payments and other deductions; and liquidations. Ms. Brooks stated that it is a challenge for the Board of Trustees to maintain the gap of \$216,212,705 on the investment income and contributions and \$178,702,460 from the benefit payments and other deductions.

Ms. Brooks stated that the Fund does not need the Early Retirement Incentive Program (ERIP).

Mr. Dave Burger, Burger & Comer, stated that there are four findings for 2004. Mr. Burger stated that findings of 2003, 2002, and 2001 are repeat findings. Mr. Burger mentioned difficulty in getting certain reports because of staff changes. Ms. Brooks stated that there is a need for the Board of Trustees to be sure corrective action is taken. Chairman San Agustin stated that the matter needs to be first addressed to Management. Acting Director Paula Blas stated that staff will be getting the training needed to order the reports needed. Trustee Anthony Blaz stated that it is important that this should be resolved expeditiously.

Mr. Burger stated that that the issue on credit life for the Early Retirement Incentive Program (ERIP) notes is the determination of what happens to the receivable when a participant dies. There was a lengthy discussion on who would be responsible for the note. Ms. Brooks stated that the issue is whether the Fund legally requires the promissory note be paid by the survivor. Chairman San Agustin stated that the survivor should not be penalized. Ms. Brooks stated that the Fund has over \$300,000.00 in losses. Chairman San Agustin asked what is the balance on the ERIP notes. Ms. Brooks stated that it is about \$18 Million. Trustee Gerard Cruz asked what is Management's response to this audit finding. Acting Director Blas stated that Management is going to set up a reserve account. Secretary Taylor stated that the recommendation is to work with the Fund's Legal Counsel to determine what legal remedies can be taken. Trustee Cruz asked what is the recourse on the ERIP note. Acting Director Blas stated that an adjustment could be made on the note. Ms. Brooks stated that there are two options – for the Fund to pursue repayment from the survivor or for the Fund to absorb the balance of the note. Chairman San Agustin stated that the Fund needs to address this issue.

Mr. Burger stated that the material weakness in the 2001 audit is the tracking of the contributions from the agencies. Secretary Taylor asked whether the individual accounts are being reconciled. Mr. Burger stated that reconciliation is not being made on contributions coming in. Mr. Burger stated that as a result the contributions may not be properly allocated.

Mr. Burger noted two other findings. Mr. Burger stated that documents related to annuitants are not in the files. Mr. Burger stated that the files need to be more fully organized and indexed.

Mr. Burger also stated that overpayments should be returned to the insurance company. Acting Director Blas stated that this is presently being corrected.

Chairman San Agustin asked about expenditures. Mr. Burger stated that in 2001 and 2002 the Fund had heavy litigation costs. Chairman San Agustin asked if there are any expenses that are unusually high. Mr. Burger stated that compensation decreased. Chairman San Agustin asked about the security lending process. Chairman San Agustin asked if this has been done. Chairman San Agustin stated that the custodial fee is \$185,000. Chairman San Agustin stated that there should be a custodial bank presentation before the Board of Trustees. Secretary Taylor stated that he attended a presentation made by the custodial bank and would recommend that the custodial bank be invited back to make a presentation to the whole Board.

IV. CORRESPONDENCE

A. May 10, 2005 Letter from Bruce Koepfgen, Oppenheimer Capital Regarding Investment in Enron

Chairman San Agustin stated that Vice-Chairman Wilfred Leon Guerrero received a response from Mr. Bruce Koepfgen, Chief Executive Officer of Oppenheimer Capital, regarding the circumstances surrounding Oppenheimer Capital's investment in Enron on behalf of the Retirement Fund.

B. June 20, 2005 Letter from Antonio M. Eclavea Regarding Contribution Accumulative Statement

Chairman San Agustin stated that he received a letter from Mr. Antonio Eclavea regarding two conflicting amounts on his retirement contribution. Chairman San Agustin stated that Acting Director Blas has responded to Mr. Eclavea's letter. Acting Director Blas stated in her letter that the Fund has determined that the refund that Mr. Eclavea received in the amount of \$61,075.36 is correct and represents the complete amount due to Mr. Eclavea at the time of disbursement.

C. June 24, 2005 Letter from Rich Nuzum, Mercer Investment Consulting, Regarding Recommendation to Stop Trading and Remove Funding from Citigroup Asset Management

Secretary Taylor stated that Citigroup Asset Management (Citigroup) is being purchased and Mercer Investment Consulting (Mercer) is recommending that the Board authorize Fund Management to direct Citigroup to stop trading the fixed income portfolio it manages on behalf of the Fund and inform the custodian of this instruction with a corresponding instruction to the custodian to cease accepting instructions from Citigroup. Once trading has stopped, Mercer is recommending that these assets be reallocated to the Fund's other two fixed income managers. Secretary Taylor stated that the bond monies

should be split between Fiduciary Trust International (Fiduciary Trust) and Deutsche Asset Management (Deutsche). Trustee Gerard Cruz asked what happens if you move 50% into Fiduciary Trust and Deutsche. Trustee Cruz stated that the Fund would end up changing the policy. Secretary Taylor stated he would recommend a policy change. Trustee Cruz stated that Mercer recommended removing the funds out of Citigroup.

Secretary Taylor asked how much money is in the two bonds. Chairman San Agustin suggested approving Mercer's recommendation of a 50/50 split of the Fund's fixed income assets between Fiduciary Trust and Deutsche and to cease trading. Secretary Taylor stated that in some cases as unrealized loss may become realized.

Secretary James Taylor, seconded by Trustee Gerard Cruz, moved to accept the Mercer Investment Consulting's recommendation that the Board authorize Fund Management to direct Citigroup to stop trading the fixed income portfolio, reallocate the assets to the Fund's other two fixed income managers, as per Mercer's letter of June 24, 2005. With one nay vote by Trustee Anthony Blaz, the motion passed.

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

Public Law 28-38 - Acting Director Paula Blas stated that pursuant to Public Law 28-38, a check would be remitted this afternoon. Acting Director Blas stated that the Fund has invoiced the Department of Education (DOE).

Contributions - Acting Director Blas stated that all agencies are current with their fiscal year 2005 employee and employer contributions except Guam Memorial Hospital Authority (GMHA) which is behind on contributions to both Plans. Controller Pete Tajalle stated that the outstanding amount is \$2.5 Million for both the Defined Benefits Plan and the Defined Contributions Plan. Controller Tajalle stated that GMHA is outstanding for the pay periods ended February 5, 2005, February 19, 2005, March 5, 2005, March 19, 2005, April 2, 2005, June 11, 2005 and June 25, 2005.

Financial Statements - Acting Director Blas stated that Management has submitted financial statements for the months ended April and May 2005 to Treasurer Katherine Taitano for her review.

FY 2005 Supplemental - Acting Director Blas stated that the supplemental payments for June 2005 were issued.

2004 Financial Audit - Acting Director Blas stated that the audit for the fiscal year ended September 30, 2004 has been completed.

Controller Tajalle stated that he would be closing the books for the month of June today. Controller Tajalle stated that he will have a report at the next meeting.

VI. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Katherine Taitano stated that she has the May 31, 2005 audited and unaudited reports. The reports are presented as budget vs. actual to mirror the financial statements. Treasurer Taitano stated that there are two budget adjustments and that there are no increases.

Treasurer Taitano stated that there was a discussion on what additional staff were needed and the level of qualification needed. Controller Tajalle stated that there will be a presentation of the budget by the next meeting.

VII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

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

Chairman San Agustin stated that there is a problem with disability applicants and disability retirees. Chairman San Agustin stated that the Fund has adopted the AMA Guidelines but the Fund is not yet following the degree of disability. Chairman San Agustin stated that the Fund needs legislation about the degree of disability that may be acceptable. This would be in lieu of the all or nothing approach currently used in determining disability.

Chairman San Agustin stated that it should be part of the Fund's policy to obtain income statement from disability applicants and disability retirees.

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 through 7, based on the Committee's review and findings during their meeting of June 8, 2005 and continuation meetings pertaining thereto. Without objection, the motion passed.

B. Investment Committee

C. Governmental Liaison

1. Bill 109 – Testimony Submitted

Acting Director Blas stated that testimony on Bill 109 was submitted to Senator Eddie Calvo.

2. Bill 151 (COLA / Supplemental)

Acting Director Blas stated that Bill 151 covers the reduction in supplemental annuities and the elimination of the annual cost of living adjustment for Defined Benefits Annuitants. Acting Director Blas stated that Bill 151 proposes to remove the \$40,000 restriction on the supplemental annuities.

3. Bill 133 (EC) – Testimony Submitted (separate packet)

Chairman San Agustin stated testimony on Bill 133 has been submitted to Senator Ray Tenorio. Chairman San Agustin stated that there may be a conflict of interest in the matter. Chairman San Agustin stated that the Board of Trustees opposes Bill 133 as currently drafted because it does not address legal and practical issues (including confidentiality and conflicts of interest) that have arisen and may arise in the event the Attorney General purports to concurrently represent the Retirement Fund as well as other government agencies in a particular case or matter.

VIII. OLD BUSINESS

A. Organic Act Proposed Draft Amendments

Chairman San Agustin stated the proposed draft amendments to the Organic Act are in progress.

B. Investment Mandates Amendments (Mercer)

Chairman San Agustin stated that the amendment on Section 8158 is ready to be submitted to the Legislature.

Trustee Gerard Cruz, seconded by Secretary James Taylor, moved to have Section 8158 in legislative form to be submitted to the Legislature. Without objection, the motion passed.

C. Status of Draft RFP – Custodial Bank Services

Trustee Anthony Blaz asked when the custodial bank services contract will be renewed. Trustee Blaz stated that the custodial bank services would require an RFP. Chairman San Agustin stated that the Fund does not have in-house staff to draft the RFP. Chairman San Agustin stated that the Fund needs to hire someone to draft the RFP. Acting Director Blas stated that the RFP is to hire someone to assist. Chairman San Agustin asked if this could be included with the staff attorney and make it a part of the RFP.

Chairman Joe T. San Agustin, seconded by Trustee Anthony Blaz, moved to direct this to legal services and tie it in together. Without objection, the motion passed.

D. Status of Draft Contract – Legal Services to Recapture Investment Losses

Chairman San Agustin stated that a motion was made on May 17, 2005. Trustee Blaz stated that that was completed. Chairman San Agustin asked what the firm willing to expend. Chairman San Agustin asked what is the risk. Chairman San Agustin asked if the \$100,000 is acceptable. Acting Director Blas stated that the ceiling of \$100,000 is to be bench marked against deliverables for plan. Trustee Blaz asked if the Fund expects to get something for \$100,000.00.

Trustee Anthony Blaz, seconded by Trustee George Santos, moved to approve the Legal Services Contract based on modification to be finalized. Without objection, the motion passed.

E. Status of International Manager Search

Acting Director Blas stated that the contracts are available for the Board's signature. Chairman San Agustin stated that there should be a motion recommending signing the contracts.

F. Status of Trust Agreement

Acting Director Blas stated that a copy of the Trust Agreement from the Fund's Legal Counsel has been provided for the Board's review.

IX. NEW BUSINESS

A. Custodial Bank Report as of May 31, 2005

Controller Tajalle stated that he has provided a copy of the custodial bank income summary for the Board's review. Chairman San Agustin started that he is concerned about offsetting transactions. Secretary Taylor suggested making a list of questions for the custodial bank. Chairman San Agustin stated that the custodial bank should give a status of what it is doing. Controller Tajalle stated that the custodial bank would make a presentation to the Board at the August meeting.

X. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Wilfred Aflague, Guam Memorial Hospital Authority Administrator, stated that he is asking for the Fund to assist GMHA in collecting its debts. Mr. Aflague is asking that the Fund include GMHA in its employees' clearance form under the Defined Benefits Plan.

Mr. Aflague stated that he is working on legislation to have GMHA included on clearances.

Secretary Taylor suggested directing Management to come up with a recommendation that would incorporate this suggestion.

XI. ANNOUNCEMENTS

None

XII. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Trustee Gerard Cruz, 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 July 8, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on August 12, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas