

BOARD OF TRUSTEES
Regular Meeting
Friday, July 14, 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 was called to order at 12:30 p.m. Friday, July 14, 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
Gerard A. Cruz, Treasurer
James J. Taylor, Secretary
Anthony C. Blaz, Trustee
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee

Staff Present:

Diana Bernardo, Acting Director
Rosalia Bordallo, General Accounting Supervisor
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 24, 2006 and March 10, 2006 Regular Meetings, March 24, 2006 Special Meeting and April 12, 2006 Emergency Meeting

On motion of Trustee George Santos, seconded by Trustee Katherine Taitano, and without objection, the Minutes of February 24, 2006 and March 10, 2006 Regular Meetings, March 24, 2006 Special Meeting and April 12, 2006 Emergency Meeting were approved, subject to corrections. Motion passed.

B. April 21, 2006, May 12, 2006 and June 9, 2006 Regular Meetings (Pending)

Trustee George Santos, seconded by Trustee Katherine Taitano, moved to defer approval of the Minutes of April 21, 2006, May 12, 2006 and June 9, 2006 Regular Meetings. Without objection, the motion passed.

Chairman San Agustin suggested updating the website to include the approved minutes. Chairman San Agustin also suggested that the Fund's financial data should be included in the website. Acting Director Diana Bernardo stated that the Fund is required to post quarterly financials.

III. CORRESPONDENCE

A. June 12, 2006 Letter from Juan L. Afleje Regarding Request for Credit of Military Service

Chairman San Agustin stated that the June 12, 2006 letter from Juan L. Afleje regarding request for credit of military service is being referred to the Members and Benefits Committee.

B. July 10, 2006 Letter from Shannon Taitano, Governor's Legal Counsel, Regarding Pay Adjustments

Chairman San Agustin stated that Item III B should be placed under New Business. Chairman San Agustin stated that the July 10, 2006 letter from Shannon Taitano is relative to a claim of salary adjustment due to the previous Director of the Retirement Fund. Chairman San Agustin stated that the previous Board of Trustees approved to change the salary for the Director and Deputy Director. Chairman San Agustin stated that the present Board confirmed this action. Chairman San Agustin stated that the salary adjustment was approved by the Civil Service Commission (CSC) but it was not approved by the Legislature. Chairman San Agustin further stated that the CSC had approved a salary adjustment for the Director of the Department of Administration and the Director of the Department of Revenue and Taxation without Legislative approval.

Chairman San Agustin stated that the previous Director's GG1 was signed by the Governor without a date after the previous Director moved to Guam Memorial Hospital Authority (GMHA). Trustee Katherine Taitano stated that Shannon Taitano informed her that the Governor has the right and is within his purview. Treasurer Gerard Cruz asked whether the effective date shows on the GG1. Chairman San Agustin stated that Management should request for a copy of the GG1. Trustee Taitano stated that the previous Director served the period of the salary adjustment.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to refer the July 10, 2006 letter from Shannon Taitano, Governor's Legal Counsel, Regarding the Pay Adjustments for the previous Director to Trustee Katherine Taitano to review and to make a recommendation to the Board of Trustees for finalization. Without objection, the motion passed.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. *William Don Parkinson vs. Government of Guam, Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS)* – Acting Director Bernardo stated that this case remains status quo since the June 9, 2006 Board meeting. Chairman San Agustin stated that Mr. Parkinson wants to get paid at a percentage of 5%. Chairman San Agustin stated that the Fund was asked to join in the Parkinson Lawsuit. Chairman San Agustin stated that, on the advice of Legal Counsel, there was no need for the Fund to participate in the lawsuit since the matter is already addressed by special legislation which provides for the interest payment monthly, and the principle payment to be repaid if and when the Government issues bonds.

2. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-98)* – Acting Director Bernardo stated that the Governor's Office filed for reconsideration of the judge's decision. The government is objected to the fact that the Retirement Fund is tasked with the formula and calculation of the rate of inflation since this is a function of the Executive Branch. General Fund (taxpayers) monies will be used and the Executive Branch should be providing the rates to the Fund to use in the calculation of the COLA for the individual retirees. The hearing has been set for July 26, 2006 at 9:00 a.m.

3. *Investment Mandate Amendments: Section 8157 and Section 8158* – Acting Director Bernardo stated that Bill Nos. 295 (Section 8158) and 296 (Section 8157) were passed and signed into law on July 11, 2006. They are Public Law 28-135 and Public Law 28-136 respectively.

4. *Organic Act / Trust Agreement* – Acting Director Bernardo stated that the recommended changes received by Secretary James Taylor were incorporated into the draft Trust Agreement. A second draft of the proposed Trust Agreement is included in the Board packets for full review by the Board. Management is requesting that Board action be taken at the August 11, 2006 Board Meeting. Chairman San Agustin stated that Speaker Mark Forbes is waiting to see a copy of the draft Trust Agreement.

5. *Request for Proposal (RFP): Custodial Bank Services* – Acting Director Bernardo stated that a second draft of the RFP was forwarded to Secretary Taylor for his review. Secretary Taylor stated that this is still under review.

6. *Request for Proposal (RFP): Medical Consultant Services* – Acting Director Bernardo stated that a draft RFP for professional services was submitted to the Members and Benefits Committee on November 9, 2005 for their review and comments. Trustee George Santos stated that this is still under review.

7. *Request for Proposal (RFP): Legal Services for Investment Portfolio Monitoring Services* – Acting Director Bernardo stated that the evaluations are ongoing. Chairman San Agustin stated that there were 18 proposals submitted and the number was narrowed down to 5.

Chairman San Agustin stated that 3 firms will be interviewed. Chairman San Agustin stated that 1 of the 3 firms has local ties.

8. **Public Law 28-38** – Acting Director Bernardo stated that the Fund is continuing to process applications for retirement for Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS) eligible employees. Acting Director Bernardo stated that the monthly interest payments for GPSS and GMHA are current.

9. **Public Law 28-66** – Acting Director Bernardo stated that Public Law 28-66 appropriated \$1.4 Million from the General Fund to the Government of Guam Retirement Fund (GGRF) as follows:

- \$660,000 for Guam Memorial Hospital Authority (GMHA) past due contributions for FY2005; and
- \$800,000 for outstanding retirement contributions for GMHA employees waiting to retire, who have filed notices of intent to retire with GGRF.

Acting Director Bernardo stated that \$660,000 was paid by GMHA. Acting Director Bernardo further stated that \$300,000 from the outstanding retirement contributions were received by the Fund on May 4, 2006. No additional funds have been received.

10. **Personal Legal Representation** – Acting Director Bernardo stated that as a result of Resolution No. 2006-004, contracts with three attorneys representing the Director and Trustees in the John Rios matter were signed. Acting Director Bernardo stated that no additional Board action is necessary at this time. Chairman San Agustin stated that the Board of Trustees have their own attorneys.

Financial Report

1. **Contributions** – Acting Director Bernardo stated that as of today's date, all agencies are current with their Fiscal Year 2006 employee and employer contributions.

2. **Financial Statements** – Acting Director Bernardo stated that the books for the month ending June 2006 are closed.

3. **Fiscal Year 2006 Retirees' Supplemental Benefits** – Acting Director Bernardo stated that the supplemental benefits for retirees and survivors for the month of June 2006 were paid. These benefits are funded by the General Fund.

4. **Medicare Reimbursements** – Acting Director Bernardo stated that the Fiscal Year 2005 appropriation for the Medicare Reimbursements funded by the General Fund and administered by the Retirement Fund resulted in a shortage of funding for the fiscal year. Acting Director Bernardo stated that a letter was sent to the Legislature for the additional funding needed for the Fiscal Year 2005 and Fiscal Year 2006 Medicare reimbursements. Chairman San Agustin stated that the Fiscal Year 2005, Fiscal Year 2006, and Fiscal Year 2007 figures should be submitted to the Legislature to be included in their budget.

V. LEGAL COUNSEL'S REPORT

A. COLA Case Update – June 15, 2006 Letter from Attorney David Dooley

Chairman San Agustin stated that Attorney David Dooley has provided the Board with an update on the COLA case. Chairman San Agustin reiterated the Board's position, which is having a ministerial duty to implement the law.

VI. TREASURER'S REPORT OF FINANCIAL STATUS

A. Cash Flow

Chairman San Agustin stated that the Treasurer's Report is provided to the Board of Trustees. Treasurer Cruz reported that, based on his review of the June 30, 2006 financial Statements, summarized financial information for the Defined Benefit Plan are as follows:

- Investments totaled approximately \$1,239,000,000 representing an increase of approximately \$5.6 Million since May 31, 2006.
- There were no other significant changes in asset or liability balances since May 31, 2006. Total assets were approximately \$1.4 Million as of June 30, 2006.
- Net Assets decreased by approximately \$1.5 Million due largely to stock market fluctuations.

Chairman San Agustin stated that the ADR versus the direct stock is almost the same.

B. Investment Fee Schedule

Chairman San Agustin stated that the Investment Fee Schedule was updated as of June 30, 2006. Chairman San Agustin asked if the bond interest is monthly. Chairman San Agustin stated that there is no income on the bond for June 2006. Rosalia Bordallo, General Accounting Supervisor, stated that there was not bond income for June 2006 because the Fund did not need to bring the bond interest back because the Fund received the Guam Telephone Authority (GTA) proceeds. The bond interest is not pulled until the money is needed. Chairman San Agustin suggested for the Fund to watch out for fees and income.

VII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's June 2006 end of the month report.

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 12, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of June 17, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee contained on Page13 for a conditional approval of Frank B. Bamba's request subject to a 30-day demand payment notice, based on the Committee's review and findings during their meeting of June 17, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee contained on Page14 for a conditional approval of Manuel Q. Cruz's request subject to a 30-day demand payment notice, based on the Committee's review and findings during their meeting of June 17, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

Chairman San Agustin suggested noting the principal plus interest on the promissory note. Vice-Chairman Wilfred Leon Guerrero asked what is being done to prevent this from happening again. Trustee Santos stated that staff are taking steps to put this to a closure by exercising a demand notice.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee contained on Page15 for DISAPPROVAL of Juan L. Afleje's request for military service credit, based on the Committee's review and findings during their meeting of June 17, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

Chairman San Agustin stated that the February 14, 2006 notice to Benigno Camacho was never received by Mr. Camacho. Trustee Santos stated that there was a problem with mail delivery. Chairman San Agustin suggested documenting the efforts made by the Fund.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Page16 for revocation of Benigno Camacho's entitlements pursuant to PL 25-72, PL 25-74, and PL 25-90 and Benigno Camacho forfeits his rights to any future claims in this regard, based on the Committee's review and findings during their meeting of June 17, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

Trustee Santos stated that Item VIII on Page 17 will be reported out on the Defined Contribution portion of the meeting.

B. Investment Committee

Vice-Chairman Leon Guerrero reported to the Board that the Investment Committee held its meeting on July 7, 2006. The following items were discussed and approved by the Investment Committee for Board action:

1. Contract with Grantham, Mayo, Van Otterloo & Co. LLC (GMO) – Vice-Chairman Leon Guerrero stated that although the Retirement Fund has a contract with GMO for funding of the following investment mandates, the following have not yet been funded:

- Foreign Equity Large Cap – Segregated Fund
- Foreign Equity Large Cap – Mutual Fund
- Small Cap – Mutual Fund

Vice-Chairman Leon Guerrero stated that the Investment Committee discussed issues relating to the delayed funding of the aforementioned mandates. The Investment Committee also reviewed an email from Legal Counsel Joanne Grimes. In her email, Legal Counsel Grimes indicated that, “to resolve GMO’s perceived ambiguities between the main contract and Appendix A to GMO’s satisfaction probably would require an amendment to the contract, which would require full signatures including the Governor.”

According to Legal Counsel Grimes:

- If the Board decides not to fund GMO, no contract amendments are needed.
- And unless there is a really good reason to terminate for convenience, leaving the contract in place without funding gives the Retirement Fund more flexibility should it need to revisit the relationship with GMO.

Vice-Chairman Leon Guerrero stated that, in order to avoid further delays in the funding of the Retirement Fund’s investment policy mandates, the Investment Committee recommends that the Board not fund GMO at this time and instead consider other funding alternatives.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee’s recommendation that the Board of Trustees not fund Grantham, Mayo, Van Otterloo & Co. LLC (GMO). Without objection, the motion passed.

2. Funding Alternatives:

a. For the Foreign Equity Large Cap – Segregated

Vice-Chairman Leon Guerrero stated that the Retirement Fund has an existing contract with Fischer Investments for its International Equity Investments, which has been funded. According to Legal Counsel Joanne Grimes, no contract amendments are required to increase the funding amount and there are no procurement issues arising from the additional funding. Vice-Chairman Leon Guerrero stated that the Investment Committee recommends that the Board of Trustees approve an increase in funding of approximately \$39 Million for Fisher Investments’ International Equity Investments.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee’s recommendation that the Board of Trustees approve an increase in funding of approximately \$39 Million for Fisher Investment’s International Equity Investment. Without objection, the motion passed.

b. For the Foreign Equity Large Cap – Mutual Fund

Vice-Chairman Leon Guerrero stated that the Retirement Fund has an existing contract with AXA Rosenberg Investment Management LLC (AXA) for its Small Cap Core: Laudus Rosenberg International Small Cap Fund, which has been funded. Vice-Chairman Leon Guerrero stated that the Board of Trustees did not approve the hiring of AXA for its Large Cap Core: Laudus Rosenberg International Equity Fund.

According to Legal Counsel Joanne Grimes, if the Board decides to hire AXA for its Large Cap Core: Laudus Rosenberg International Equity Fund, the Retirement Fund will need to notify Bill Ricks, AXA's Chief Executive Officer, that Appendix A of the contract will be revised and a draft will be provided for his review. Legal Counsel Grimes also indicated that there are no procurement issues related to the revision of Appendix A so long as the additional investments are in international equities.

Vice-Chairman Leon Guerrero stated that the Investment Committee recommends the following:

- The Board of Trustees approve the hiring of AXA Rosenberg Investment Management LLC for the Large Cap Core: Laudus Rosenberg International Equity Fund.
- The Board of Trustees approve funding of approximately \$36.5 Million for AXA Rosenberg Investment Management LLC's Large Cap Core: Laudus Rosenberg International Equity Fund.
- The Board of Trustees approve an amendment to Appendix A of the existing contract with AXA Rosenberg Investment Management LLC relative to the two items above.

Treasurer Cruz stated that he is concerned of the authority do this. There may be a procurement problem. Treasurer Cruz further stated that he is concerned with the Request for Proposal process. Acting Director Bernardo stated that she received an email from Legal Counsel Joanne Grimes stating that there is no procurement issues related to the revision of Appendix A so long as the additional investments are in international equities. Chairman San Agustin stated that he is concerned in setting precedence and inquired what AXA's performance is to date. Treasurer Cruz stated that the product that AXA is offering is an A3 rated product by Mercer.

Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, moved to approve the Investment Committee's recommendation that the Board of Trustees approve the hiring of AXA Rosenberg Investment Management LLC for the Large Cap Core: Laudus Rosenberg International Equity Fund and to also approve the funding of approximately \$36.5 Million for AXA Rosenberg Investment Management LLC's Large Cap Core: Laudus Rosenberg International Equity Fund. Without objection, the motion passed.

c. For the Small Cap – Mutual Fund

Vice-Chairman Leon Guerrero stated that the Retirement Fund has an existing contract with Dimensional Fund Advisors, Inc. (DFA) for its International Small Company Portfolio. The Retirement Fund also has an existing contract with AXA Rosenberg Investment Management LLC (AXA) for its Small Cap Core: Laudus Rosenberg International Small Cap Fund. Vice-Chairman Leon Guerrero stated that both contracts have been funded.

Vice-Chairman Leon Guerrero stated that, according to Legal Counsel Joanne Grimes, no contract amendments are required to increase the funding amounts for DFA or AXA, and that there are no procurement issues arising from the additional funding. Vice-Chairman Leon Guerrero stated that the Investment Committee recommends that the Board of Trustees approve an increase in funding of approximately \$17 Million for Dimensional Fund Advisors, Inc.'s International Small Company Portfolio.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Investment Committee's recommendation that the Board of Trustees approve an increase in funding of approximately \$17 Million for Dimensional Fund Advisors, Inc.'s International Small Company Portfolio. Without objection, the motion passed.

3. Capital International Inc. – Vice-Chairman Leon Guerrero stated that the Retirement Fund has a contract with Capital International Inc. for its Emerging Markets Equity Style, which has not yet been funded. Vice-Chairman Leon Guerrero stated that, as a result of the passage of Bill 295, which is now Public Law 28-135, the Investment Committee recommends that the Board of Trustees approve funding of approximately \$36.5 Million for Capital International Inc.'s Emerging Markets Equity Style.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve funding of approximately \$36.5 Million for Capital International Inc.'s Emerging Markets Equity Style. Without objection, the motion passed.

4. Informational Items:

a. Investment Committee Meeting Minutes

Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed and approved the Investment Committee Meeting Minutes of May 5, 2006.

b. Watch List Policy

Vice-Chairman Leon Guerrero stated that a revised draft Watch List Policy was provided to the Investment Committee members for their review and discussion at the next committee meeting.

c. Mercer's Quarterly Meetings

Vice-Chairman Leon Guerrero stated that Mercer's Performance Review is scheduled for August 9 and 10, 2006.

d. Annual Manager Reviews

Vice-Chairman Leon Guerrero stated that the Annual Manager Reviews is scheduled for the week of November 13, 2006.

Trustee Anthony Blaz asked to be excused from the meeting at this time (2:10 p.m.)

C. Audit Committee

No report was made at this time.

D. Governmental Liaison

1. Status of Bill Nos. 293, 295, and 296

Chairman San Agustin stated for the record that Bill Nos. 295 and 296 were signed into law. Bill No. 293 has not been signed yet. Chairman San Agustin stated that Bill 293 is before the Governor's Legislative Review Committee. Chairman San Agustin stated that Bill 293 will have some fundamental changes. Village Mayors could continue to double dip and join the Defined Contribution (DC) Plan. Legislative employees who are Defined Benefit (DB) retirees are not allowed to join the DC Plan. All others must suspend their annuity and join the DC Plan. Secretary Taylor requested that the Board of Trustees be provided with a copy of the public laws.

VIII. TRAVEL REPORT

A. Joe T. San Agustin, Chairman: National Investment Relations Institute (NIRI) 2006 Annual Conference – June 11-14, 2006, San Diego, California

Chairman San Agustin stated that he has submitted his travel report on the National Investment Relations Institute (NIRI) 2006 Annual Conference he attended on June 11-14, 2006 in San Diego, California.

B. Wilfred P. Leon Guerrero, Vice-Chairman: International Foundation Trustees and Administrators Institutes Conference – June 26-28, 2006, Chicago, Illinois

Chairman San Agustin stated that Vice-Chairman Leon Guerrero has submitted his travel report on the International Foundation Trustees and Administrators Institutes Conference he attended on June 26-28, 2006 in Chicago, Illinois.

IX. OLD BUSINESS

A. Reaffirm Restatement and Adoption of Defined Contribution Retirement System Plan Document

Vince Camacho, Great West Retirement Services, requested to table Item IX A since Bill 293 has not yet been signed into law.

B. Status of Director /CEO Position

Treasurer Cruz stated that he is waiting for the proposed employment contract from Legal Counsel Joanne Grimes.

C. Trust Agreement

Chairman San Agustin stated that this item was covered earlier under the Director's Report. Chairman San Agustin stated that the Trust Agreement should be reviewed and ready to be acted on at the next regularly scheduled Board meeting on August 11, 2006. Vice-Chairman Leon Guerrero stated that he would like to review the Trust Agreement.

- X. NEW BUSINESS**
- A. New Trustees Institute Conference Recommendations**
- 1. Legal Counsel Be Present At All Board Meetings**

Chairman San Agustin stated that Vice-Chairman Leon Guerrero had made a recommendation from the conference he attended. Vice-Chairman Leon Guerrero stated that there should not be a Board meeting without Legal Counsel being present. Chairman San Agustin stated that he agrees on having Legal Counsel actively involved in the meetings. Chairman San Agustin stated that the Fund will be opening the position of a Staff Attorney.

- 2. Trustees Obtain Recourse Insurance**

Vice-Chairman Leon Guerrero requested to have this item passed on file.

- XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT**

None

- XII. ANNOUNCEMENTS**

- A. November 2006 and December 2006 Board Meeting Dates**

Chairman San Agustin informed the Board that the November 10, 2006 Regular Board Meeting has been moved to November 17, 2006. Chairman San Agustin stated that the change is due to the APAFS 6th Annual Pacific Region Investment Conference being held on November 9-10, 2006 in the Philippines.

Chairman San Agustin also informed the Board that the December 8, 2006 Regular Board Meeting has been moved to December 15, 2006. Chairman San Agustin stated that December 8, 2006 is a holiday.

- XIII. ADJOURNMENT**

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 2:30 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of July 14, 2006 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on December 15, 2006.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas