

## **BOARD OF TRUSTEES**

### **Regular Meeting**

Friday, August 12, 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, August 12, 2005, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

##### **Board of Trustees Present:**

Wilfred P. Leon Guerrero, Acting Chairman  
James J. Taylor, Secretary  
Katherine T.E. Taitano, Treasurer  
Gerard A. Cruz, Trustee

##### **Board of Trustees Absent:**

Joe T. San Agustin, Chairman (*Off-Island Conf*)  
Anthony C. Blaz, Trustee  
George A. Santos, Trustee (*Off-Island*)

##### **Staff Present:**

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

#### **II. REVIEW AND APPROVAL OF BOARD MINUTES**

##### **A. July 8, 2005 Regular Meeting**

Acting Chairman Wilfred Leon Guerrero stated that there are some grammatical errors in the July 8, 2005 Minutes. Secretary James Taylor stated that he will review the grammatical errors as noted by Acting Chairman Leon Guerrero and will work with the Recording Secretary to make the corrections.

**On motion of Secretary James Taylor, seconded by Trustee Gerard Cruz, and without objection, the Minutes of July 8, 2005 Regular Meeting were approved, subject to corrections as noted by Acting Chairman Leon Guerrero. Motion passed.**

### **III. CORRESPONDENCE**

None

### **IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY**

***Proposed Bills*** - Acting Director Paula Blas reported to the Board that several proposed bills were sent to the Legislature. Acting Director Blas stated that copies were provided to the Board at prior Board meetings.

***Public Law 28-38*** - Acting Director Blas stated that the August 2005 payment was made by the General Fund on the interest payment for both the Guam Memorial Hospital Authority (GMHA) and the Guam Public School System (GPSS). Acting Chairman Leon Guerrero asked if GMHA is behind in their current payments. Acting Director Blas replied "yes." Acting Chairman Leon Guerrero asked if GMHA is in violation of any law if payment is not made. Acting Director Blas stated that the U.S. Department of Labor is short-staffed. Acting Director Blas stated that the Retirement Fund is in contact with the U.S. Department of Labor. Acting Chairman Leon Guerrero asked if there is any implication for the Fund. Acting Chairman Leon Guerrero asked what is the Board of Trustees' obligation. Vince Camacho, Great West Retirement Services, stated that the Fund is doing everything necessary as far as giving notice of the delinquencies. Acting Chairman Leon Guerrero asked if the Fund's Legal Counsel has anything on this issue saying that the Fund is doing everything it is suppose to be doing. Acting Chairman Leon Guerrero requested that Management get a statement from the Fund's Legal Counsel clarifying the Fund's position on seeking payment.

***Actuarial Services*** - Acting Director Blas stated that Milliman quoted \$6,000.00 for the additional work for the Department of Administration (DOA). Acting Director Blas stated that DOA is asking for the Fund to pay for the services. Trustee Gerard Cruz stated that DOA should pay for the services. Acting Director Blas stated that the Fund has always provided the service as part of the Fund's contract with the actuary. Rosalia Bordallo, Accountant III, stated that the Fund could do an indirect cost billing to everyone next year. Trustee Cruz asked who is going to pay for the services if the Fund does not pay for it.

**Secretary James Taylor, seconded by Treasurer Katherine Taitano, moved to have the Retirement Fund pay for the services for this year and then have the Department of Administration pay for next year and subsequent years. With one nay vote by Trustee Gerard Cruz, the motion did not pass.**

***First Hawaiian Bank Lease of Parking Stalls*** - Acting Director Blas stated that the study will be presented at the next meeting.

**Director's Position** - Acting Director Blas stated that the director's position announcement will take place in October 2005. Acting Director Blas stated that Section 8140 gives the Board full hiring authority. Acting Director Blas stated that the director will serve at the pleasure of the Board. Trustee Cruz asked if the Governor will appoint the director. Acting Director Blas replied, "no."

**Contributions** - Acting Director Blas reported that all agencies are current with their contributions except Guam Memorial Hospital Authority (GMHA) which is behind.

**Financial Statements** - Acting Director Blas reported that the June and July 2005 books were closed. Acting Director Blas stated that she will have Controller Pete Tajalle submit the financial statements to Treasurer Katherine Taitano.

**FY2005 Supplemental** - Acting Director Blas stated that the Department of Administration (DOA) is up to date with the supplemental payments.

**2004 Actuarial Valuation** - Acting Director Blas stated that certain corrections were made. Acting Director Blas stated that the final version should be forthcoming, showing the 26% mandatory requirement. Acting Director Blas stated that the draft report was sent to the Legislature. Acting Director Blas stated that the Legislature is not likely to approve the 26%. Acting Director Blas stated that the Legislature would probably keep the rate at 20.81%. Secretary Taylor recommended for Management to write to the Legislature noting the 26% requirement. Acting Chairman Leon Guerrero suggested giving notice to the Legislature that the Fund may not be retiring people. Acting Director Blas stated that it is detrimental to the Fund. Acting Chairman Leon Guerrero further suggested that Management prepare a position paper in favor of the 26% before the public hearing for the Board's review. Acting Chairman Leon Guerrero recommended setting up a working session with the Board regarding the position paper. Treasurer Taitano asked if there will be any benefit on meeting with the Senators.

## **V. TREASURER'S REPORT OF FINANCIAL STATUS**

Treasurer Katherine Taitano stated that she does not have a formal report at this time.

## **VI. STANDING COMMITTEE REPORTS**

### **A. Members and Benefits Committee**

Treasurer Taitano reported to the Board of Trustees on the Members and Benefits Committee's July 2005 end of the month report.

**Treasurer Katherine Taitano, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee on Page 4, Section IV, Items A – C, based on the Committee's review and findings during their meeting of July 15, 2005 and continuation meetings pertaining thereto (see Appendix A). Without objection, the motion passed.**

**Treasurer Katherine Taitano, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 – 5, Section IV, Item D, based on the Committee's review and findings during their meeting of July 15, 2005 and**

continuation meetings pertaining thereto (see Appendix A). Without objection, the motion passed.

**Treasurer Katherine Taitano, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee on Page 5, Section V, Item A1, based on the Committee's review and findings during their meeting of July 15, 2005 and continuation meetings pertaining thereto (see Appendix A). Without objection, the motion passed.**

## **B. Investment Committee**

Secretary Taylor made a report to the Board of the Investment Committee's August 5, 2005 meeting. Secretary Taylor stated that the approval of the minutes of the May 6, 2005 Investment Committee Meeting was postponed until the next Investment Committee meeting.

Secretary Taylor stated that the Defined Contribution Plan and 457 reports were made. Government of Guam agencies were up to date with their contributions except as follows: 1) Port Authority – incompatible disk; 2) Guam Memorial Hospital Authority (GMHA) – still significantly behind. In addition, it was reported that GMHA was having significant problems with their payroll application. Secretary Taylor stated that Management was asked to closely track the GMHA payroll problem. If it continues, Management is to inform the Board immediately. Vince Camacho, Great West Retirement Services, stated that he received the hard copy data. Mr. Camacho stated that he now has a cash problem.

Secretary Taylor stated that Great West was asked to return to the Investment Committee with a list of recommended new funds to replace the two under-performing funds on their current list.

Secretary Taylor stated that it was noted that Great West and the Board need to review the changes that need to be made to the Retirement Plan restatement because of changes in the federal law. This brings up the conflict of interest issue. Great West lawyers are reviewing whether to resolve the conflict of interest issue by hiring a different lawyer. Great West will report back on their action within the week. Secretary Taylor asked Mr. Camacho if Great West needs an attorney. Mr. Camacho stated that Great West will be terminating contract with Carlsmith by next week. Secretary Taylor stated that he would like to schedule a working session with the Board of Trustees regarding the Plan restatement.

Secretary Taylor stated that the issue of what to do about the large number of dollars in the Stable Value Fund was discussed in the Investment Committee Meeting. Great West was asked to provide more history about the use of the Stable Value Fund, its performance, and the impact of the choice of the Stable Value Fund on a person's retirement plans.

Secretary Taylor stated that the Investment Committee also discussed the current legislation on investments: 1) Bill to amend Section 8122. This deals with how the Retirement Fund is to handle administrative errors: a) errors in records; b) errors in the amount of contributions; and c) errors in the computation of benefits. The Board needs to determine its position on this bill. Secretary Taylor stated that Section 8122 is at the Investment Committee level.

**Secretary James Taylor, seconded by Trustee Gerard Cruz, moved to approve to amend Section 8122. Without objection, the motion passed.**

2) Bill to amend Section 8158. This is the bill that increases the amount that may be invested in mutual funds. The increase is to 30% from 10%. There was unanimous agreement on the part of the Investment Committee and the Board Chairman that this bill should be supported. Action on this bill is necessary to move forward the implementation of the investment policy. In addition, it was agreed between the Board Chair and the members of the Investment Committee, that this bill should be clarified with the intent that investment managers may invest a certain amount of their stock portfolios directly in stocks that did not pay dividends. The purpose is to broaden the universe of stocks that would be available to the Fund's managers. Management was asked to develop the language to add to the bill to make this happen.

**Secretary James Taylor, seconded by Trustee Gerard Cruz, moved to support the bill regarding Section 8158 including the change of the bill to include clarification on investing stocks that do not pay dividends. Without objection, the motion passed.**

Secretary Taylor stated that the Custodial Bank Request for Proposals (RFP) was discussed in the Investment Committee meeting. Management was asked to ask the Fund's Legal Counsel whether they would be able to assist in drafting this document. Acting Director Blas stated that the law firm of Carlsmith Ball does not have the expertise to do a RFP for an RFP for custodial accounts and that Carlsmith Ball will charge on an hourly rate and ask for assistant on writing the RFP. Acting Chairman Leon Guerrero stated that this will get the Fund out of the RFP process. Secretary Taylor recommended getting a statement from Carlsmith Ball on the costs.

Secretary Taylor stated that the Defined Contribution Plan and the 457 Plan have been combined together into one RFP that re-bids the management of both plans. The Retirement Fund's Legal Counsel is reviewing the draft RFP. Action by Great West to obtain separate lawyers will help in removing issues related to conflict of interest. Some discussion was had about elements that needed to be incorporated into the RFP. The RFP is to be reviewed by the Investment Committee after Legal Counsel's review.

Secretary Taylor stated that Management is currently implementing the plan recommended by the Mercer Consultant. This deals with the changes in the investment managers for the bond portfolio. Secretary Taylor stated that the new proposed international manager contracts are approved and are ready for signature of the Board Chair, based on approved Board actions taken in the past. However, the Board Chair has expressed some concerns about the process and has asked for a process review. Mercer has provided a letter reviewing the process and the rationale for the process. Trustee Cruz stated that it provides diversity of the entire portfolio. Trustee Cruz stated that the Fund followed Mercer's recommendation. Trustee Cruz stated that Chairman San Agustin brought up his concern. Trustee Cruz stated that he is not opposing Chairman San Agustin's request for review but that the Board needs to move forward with this matter. Trustee Cruz stated that the hold up is with Chairman San Agustin regarding the international investing. Acting Chairman Leon Guerrero stated that if this was approved earlier, the Board should go ahead and approve it. Acting Chairman Leon Guerrero stated that Chairman San Agustin is concerned about the risk. Acting Chairman Leon Guerrero suggested deferring further discussion on this matter until Chairman San Agustin's return. Acting Chairman Leon Guerrero asked Deputy Director Blas to present pros and cons and recommended suspending this matter until the August 23, 2005 meeting.

Secretary Taylor stated that Public Law 28-38 was briefly reviewed at the Investment Committee Meeting. This law provides guidance about how to apply interest in certain situations. The Fund's Controller has drawn up an interpretation of certain sections of the new law. The Fund's Legal Counsel has approved this interpretation. Management was asked to have the Fund's Legal Counsel provide a written statement or legal opinion to that effect.

**C. Audit Committee**

No report was given at this time.

**D. Governmental Liaison**  
**a. §8140. Director of Fund**

Acting Chairman Leon Guerrero stated that Item VI D was discussed in the Director's report.

**VII. TRAVEL REPORT**

**A. George A. Santos, Trustee: June 21-24, 2005 – Brookfield, Wisconsin**

Acting Chairman Leon Guerrero stated that Trustee George Santos has submitted his travel report for the Board's information.

**VIII. OLD BUSINESS**

**A. Organic Act Proposed Draft Amendments**

Acting Director Blas stated that the Organic Act proposed draft amendments is with Congresswoman Madeleine Bordallo.

**B. Investment Mandates Amendments (Mercer)**

Acting Director Blas stated that legislation on Section 8158 was transmitted to the Legislature.

**C. Status of Draft RFP – Custodial Bank Services**

Acting Director Blas stated that the Custodial Bank Services draft RFP will be going back to Legal Counsel regarding costs.

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

Acting Director Blas stated that the firm of Lujan, Unpingco, Aguigui & Perez, and Calvo & Clark would like to meet with the Board regarding the type of work the firm will be doing. Acting Chairman Leon Guerrero suggesting having a working session with the firm. Secretary Taylor stated that the Board needs to know who is in charge and also clarification of deliverables. Acting Director Blas stated that the Board could sit down with the firm and go over costs. Secretary Taylor stated no. Rosalie Bordallo stated that she and Controller Tajalle met with the firm and the firm does not know what they are looking for. Acting Chairman Leon Guerrero suggested that the Board meet with the firm. Secretary Taylor asked who will manage the contract and for that particular person to be in the meeting with the Board.

**E. Status of International Manager Search**

Item VIII E tabled.

**F. Status of Trust Agreement**

Item VIII F tabled. Acting Director Blas stated that Item F is tied in with Item A (Organic Act Proposed Draft Amendments).

**G. Status of Request to Lease Rear Parking Lot**

Acting Chairman Leon Guerrero stated that Item VIII G was discussed in the Director's Report.

**IX. NEW BUSINESS**

**A. Custodial Bank Report as of June 30, 2005**

Item IX A tabled.

**X. OPEN DISCUSSION / GENERAL PUBLIC INPUT**

None

**XI. ANNOUNCEMENTS**

None

**XII. RECESS**

**Trustee Gerard Cruz, seconded by Secretary James Taylor, moved to recess, and without objection, the meeting recessed at 1:35 p.m. August 12, 2005 and will reconvene on Tuesday, August 23, 2005 at 12:00 Noon in the Retirement Fund Conference Room.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of August 12, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 10, 2005.**

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**James J. Taylor, Board Secretary**

**RECORDING SECRETARY:**

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**Jackie Blas**