

BOARD OF TRUSTEES
Reconvened Regular Meeting
Tuesday, August 23, 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 reconvened at 1:35 p.m. Tuesday, August 23, 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
James J. Taylor, Secretary
Katherine T.E. Taitano, Treasurer
Gerard A. Cruz, Trustee

Board of Trustees Absent:

Anthony C. Blaz, 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

Chairman Joe T. San Agustin recommended amending the Board of Trustees meeting agenda to include the following under “**CORRESPONDENCE.**”

II. CORRESPONDENCE

A. August 12, 2005 Memorandum from Joanne Grimes Regarding Filing of Amicus Curiae Brief in People of Guam v. Gutierrez & Rios

Chairman San Agustin stated that the Board of Trustees needs to make a decision on Joanne Grimes’ recommendation to file an amicus curiae brief. Chairman San Agustin also stated that the Board needs to have the Attorney General agree to have the Fund’s Legal Counsel be the Fund’s Legal Counsel in court.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Gerard Cruz, moved to accept Legal Counsel Joanne Grimes' recommendation to proceed as recommended preparing the brief. Without objection, the motion passed.

B. August 18, 2005 Letter from Attorney Michael Phillips Regarding People of Guam v. John Rios et al and

C. August 23, 2005 Letter from Attorney Michael Phillips Regarding Indemnification/Attorneys Fee

Chairman San Agustin recommended sending a letter to the Insurance Broker to see if the Fund is covered. Trustee Cruz asked if claims were made in the policy. Acting Director Blas replied, "yes." Acting Director Blas asked whether or not to have indemnification as a policy. Acting Director Blas stated that she should get a response from the underwriter within four to six weeks. Chairman San Agustin recommended waiting to hear from the Insurance Broker.

III. OLD BUSINESS

A. Status of International Manager Search

Chairman San Agustin stated that circumstances on international investing have changed. Secretary James Taylor asked Chairman San Agustin if he is concerned only about emerging markets or all international investing. Chairman San Agustin stated that he is concerned about purchasing international foreign stocks. Secretary Taylor asked Chairman San Agustin if he wanted access to the complete market. Chairman San Agustin stated that he is concerned about the risks. Chairman San Agustin stated that Mercer Investment Consulting never mentioned risks. Chairman San Agustin stated that he provided his analysis on emerging markets (*see Appendix A*). Chairman San Agustin in his analysis noted the following: 1) Investing in emerging markets simply means buying foreign stocks – international funding; 2) What are the attractions? Better returns but, of course, high risk; provide diversification; 3) High returns and diversification, but with the threat of high losses; 4) Buying foreign stocks – effectively buying the foreign currency that the stocks is denominated; 5) Foreign stocks returns is a combination of two things: (a) the performance of the stock itself and (b) the performance of the country's currency versus the U.S. dollar while a foreign stock itself rises about 10%, but the country's currency may fall 15% against the U.S. dollar. As the Retirement Fund being a U.S. Investor, you lose money on that investment, even though the stock price itself rose by 10%, the country's currency value has declined. To minimize this impact, Investment Managers do so by hedging its country's currency, i.e. trading in the county's currencies for U.S. Dollars; 6) According to the Investor Daily dated April 12, 2005, emerging market attraction might fade as U.S. Interest Rates climb at least twenty-five basis points every quarter since the beginning of 2005; 7) As U.S. Interest Rates increases, the attractiveness for riskier ventures declined, especially when the yields spread between Treasuries narrows, i.e. in August 1998, the spreads were 1,524 basis points, and in February 2005, the differences were a multiyear low of 343 basis points; and 8) In terms of risk investments, during the due diligence review of one of the Investment Managers dealing with "ADR," it was stated that the returns are not significant between the foreign stocks (emerging markets) versus ADR returns and with ADR, the risk is lower than investing directly in foreign stocks.

Chairman San Agustin noted that during the last Board meeting, it was reported that the investment contracts sent to the preselected International Investment Managers were somewhat reluctant towards signing the contracts. The instruction given to Management was to notify these Investment Managers that the Investment Contract offered is a Board decision, and no changes will be entertained. Chairman San Agustin stated that he understood that when these International Managers were notified of the Board's reaction, the Contracts were being signed. However, in view of the U.S. dollar position in the International markets, and the insignificant returns differential between "direct ownership" of foreign stocks versus ADR, the whole concept of "emerging markets" investments should be revisited; and in the meantime, ADR investment-approach should continue.

Vice-Chairman Wilfred Leon Guerrero stated that he is aware of the currency situation from the discussions with Mercer. Vice-Chairman Leon Guerrero asked if the ADR approach may have a negative impact.

Chairman San Agustin stated that he conducted a research on the prior Board minutes and that there is nothing to justify going into emerging markets. Chairman San Agustin stated that discussions need to be documented. Secretary Taylor stated that he recalls discussion on the matter with the consultant. Chairman San Agustin asked if it was documented. Vice-Chairman Leon Guerrero asked if Chairman San Agustin wants to go on record on what is to be done. Chairman San Agustin replied, "yes."

Trustee Gerard Cruz discussed the issue of risk first. Trustee Cruz stated further that it reduced risk diversify markets. Trustee Cruz stated that Mercer did make a recommendation. Trustee Cruz explained the prior Board's discussions of emerging markets and all international investing. Trustee Cruz stated that Grantham Mayo Van Otterloo (GMO) and Fisher are new managers. Chairman San Agustin stated that Mercer needs to document all discussions. Chairman San Agustin stated that the Board needs documents for the record. Secretary Taylor noted reference to *Mercer Investment Consulting March 2004 Government of Guam Retirement Fund "EAFE Equity, EAFE Small Cap Equity, Emerging Markets Equity, and Manager Search Reports."*

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Gerard Cruz, moved to approve Fisher and Grantham Mayo Van Otterloo (GMO) as replacing ADR. Without objection, the motion carried.

Secretary Taylor stated that there are five new contracts related to international investing. Rosalia Bordallo, Accountant III, stated that the Fund would remove two managers in this change. Trustee Cruz stated that Aberdeen and Lazard will be eliminated. Chairman San Agustin stated that based on the Board's decision, the managers will be notified on the time frame to get out. Vice-Chairman Leon Guerrero recommended putting a mechanism in place before removing the managers. Chairman San Agustin stated that Mercer should be advised that the Board needs to be updated on these issues.

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

Vice-Chairman Leon Guerrero stated that he thought this was on a contingency type basis. Acting Director Blas stated that at the August 12, 2005 Board meeting, then Acting Chairman Leon Guerrero recommended that Chairman San Agustin, Secretary Taylor and Trustee Cruz meet with the firms of Calvo & Clark and Lujan, Unpingco, Aguigui & Perez.

IV. ANNOUNCEMENTS

A. Second Quarter Review

Controller Pete Tajalle stated that he would like to get a time frame from the Board of Trustees on conducting the second quarter review on September 6-7, 2005. The Board agreed to schedule the second quarter review from 11:30 a.m. to 3:00 p.m. on September 6 and September 7, 2005.

Trustee Cruz asked if Great West Retirement Services has released the firm of Carlsmith Ball as their Legal Counsel. Chairman San Agustin replied, "not yet," Great West is waiting to complete the Plan Document.

V. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Gerard Cruz, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 2:31 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of August 23, 2005 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 10, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas