

BOARD OF TRUSTEES
Reconvened Regular Meeting
Friday, September 15, 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 reconvened at 12:15 p.m. Friday September 15, 2006, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

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

Board of Trustees Absent:

Joe T. San Agustin, Chairman,
(Off-Island)

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Jackie Blas, Recording Secretary

Acting Chairman Wilfred Leon Guerrero stated that today's reconvened meeting is on the following items of the September 8, 2006 meeting agenda:

- Investment Committee Report
- Government of Guam Retirement Fund Fiscal Year 2007 Budget

II. INVESTMENT COMMITTEE REPORT

Secretary James Taylor reported that the Investment Committee meeting was held on September 1, 8, and 13, 2006. The following items were discussed and approved by the Investment Committee for Board action.

A. *Atalanta Sosnoff Capital Corporation (Atalanta)* – Secretary Taylor stated that during the August 11, 2006 Board meeting, the Board authorized Chairman Joe San Agustin to advise the Investment Managers of the relaxation of the provisions of Section 8157 as a result of the passage of Public Law 28-136. As such, the Fund sent a letter to the Managers indicating the following: “With the written petition and subsequent written approval of the Trustees, a minimum of 75% of investments in Common Stock must meet the requirements of Guam Code Annotated (GCA) Title 4, Chapter 8, Article 1, Section 8157.” In response to the letter from the Fund, the Fund received a petition letter from Atalanta on September 7, 2006 requesting that they be allowed to purchase Common Stocks listed in the letter in accordance with Public Law 28-136. Since the Fund’s current Investment Policy states that a Manager should hold no more than 5% in cash, Atalanta also requested that they be allowed 30 to 60 days to fully invest funds to be transferred from Invesco.

Secretary Taylor stated that the Investment Committee recommends that the Board grant Atalanta’s petition to invest a minimum of 75% of investments in Common Stock in compliance with the requirements of GCA Title 4, Chapter 8, Article 1 and the Fund’s Investment Policy Statement as previously communicated to Atalanta. However, the Fund makes no judgment relative to the stocks specifically mentioned in Atalanta’s letter. Secretary Taylor stated that the Investment Committee also recommends that the Board grant Atalanta’s request to hold cash in excess of 5% for 60 days. This waiver of the 5% requirement is only temporary and will expire in 60 days.

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to adopt the Investment Committee’s recommendation to allow Atalanta Sosnoff Capital Corporation (Atalanta) to invest a minimum of 75% of investments in Common Stock and to hold cash in excess of 5% for 60 days. Without objection, the motion passed.

B. *Request for Proposal (RFP): Transition Manager* – Secretary Taylor stated that the Investment Committee recommends that the Board authorize Management to issue an RFP for a Transition Manager. Treasurer Gerard Cruz asked who will write the RFP. Director Paula Blas stated that it would be prepared in-house.

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to adopt the Investment Committee’s recommendation to authorize Management to issue a Request for Proposal for a Transition Manager. Without objection, the motion passed.

C. *Request for Proposal (RFP): Real Estate Feasibility Study* – Secretary Taylor stated that the Investment Committee recommends that the Board authorize Management to issue an RFP for a Real Estate Feasibility Study. Treasurer Cruz asked whether this is something that the Guam Economic Development Authority (GEDA) or the Guam Housing and Urban Renewal Authority (GHURA) could do or have information on. Director Blas stated that she would check with GEDA and GHURA.

Secretary James Taylor, seconded by Treasurer Gerard Cruz, moved to adopt the Investment Committee's recommendation to authorize Management to issue a Request for Proposal for a Real Estate Feasibility Study. Without objection, the motion passed.

D. Other Information – Secretary Taylor stated that the following items were also reviewed and discussed by the Investment Committee and are pending revisions by Management:

- Watch List Policy
- Request for Proposal (RFP) for Real Estate Investment Trust (REITs)
- Request for Proposal (RFP) for Domestic Small Cap

Secretary Taylor stated that the Investment Committee's recommendation is to have the RFP set up so that both items are handled in the same RFP. Controller Bernardo stated that with regards to the RFP for Domestic Small Cap, she is waiting to see if the Fund could get on to Mercer's data base.

Secretary Taylor inquired about the letter dated September 15, 2006 from David Burger regarding the accounting for investment transactions. Secretary Taylor asked how this would be placed on the books. Secretary Taylor also asked what dollar values are involved. If assets were transferred from Invesco to Atalanta, is it transferred at the value they have on Invesco's books or transferred at the value they have at the time of the transfer. Secretary Taylor stated that if assets were transferred, those assets are transferred at that cost that existed at that time. If assets are sold, the gain is recorded. Acting Chairman Leon Guerrero inquired about Mr. Burger's conclusion that "the recording of realized gains can only occur when a sale occurs. **If a manager is replaced, no sale has occurred.**" Treasurer Cruz stated that the conclusion is based under the scenario. Acting Chairman Leon Guerrero stated that it will distort the performance of the new managers. Treasurer Cruz stated that it will not. It will reflect management style. The cost basis will remain the same. Trustee George Santos stated that, on cost basis, it would be dollar to dollar. Secretary Taylor stated that his interpretation is that it takes an actual sale to create a realized gain or loss. Secretary Taylor stated that the Investment Committee has the information that allows Management to move forward with this transaction. This has already happened. There is no need to hold this up.

III. NEW BUSINESS

A. Government of Guam Retirement Fund Fiscal Year 2007 Budget

Treasurer Cruz provided the Board, at this meeting, with a copy of the Retirement Fund's proposed budget for Fiscal Year 2007. Treasurer Cruz stated that there are minor changes from the existing budget in the area of personnel and an increase in asset acquisition. Treasurer Cruz stated that he is recommending approval of the Fiscal Year 2007 budget with the following amendments: Page 8 under Asset Acquisition Budget (AS400 Equipment) – the total amount of \$50,000 is being changed to \$95,000. Director Blas stated that this is for the Fund's operating system upgrade for the AS400. Acting Chairman Leon Guerrero asked how the budget would improve the support for the Investment Committee. Director Blas stated that there is a proposed piece of legislation allowing the Fund to create additional positions that are not currently in the staffing pattern. Acting Chairman Leon Guerrero asked whether the budget would need to be changed under operations due to the administrative changes. Director Blas replied, "no." Director Blas stated that the Law Firm of Bernstein, Litowitz, Berger & Grossmann (BLB&G) will be on board which will try to oversee the securities litigations portfolio monitoring.

Director Blas stated that, with the passage of the proposed legislation, she may be able to create a Chief Investment Officer position. Acting Chairman Leon Guerrero asked whether it will be a Civil Service Commission position. Director Blas stated that she is proposing that it not be a Civil Service Commission position, but a Board appointed position. Trustee Anthony Blaz thanked Director Blas and Controller Bernardo for including the internal and external audit in the budget. Treasurer Cruz asked whether there is a provision within the budget that allows the Director to transfer from different accounts. Director Blas replied, "yes." Acting Chairman Leon Guerrero asked what is in the proposed bill that would benefit the Fund. Director Blas stated that it will give the Fund the flexibility to create unclassified positions. Director Blas stated that the amendment to Section 4105 exempts the Fund from being a part of the Department of Administration purview and also allows the Fund to create positions that are designated. Director Blas stated that the amendment to Section 5030 is the procurement statute. This will give the Fund full procurement authority. Trustee Katherine Taitano asked whether the amendment to Section 4105 would give the Fund some level of autonomy. Director Blas replied, "yes."

Acting Chairman Leon Guerrero reiterated that the proposed bill will allow recruitment of unclassified positions that would not be under the Civil Service Commission purview. Acting Chairman Leon Guerrero asked whether the Fund needs to come up with a Personnel Rules and Regulations for these unclassified positions. Director Blas replied, "yes." Director Blas stated that the proposed bill would allow the Fund to create any unclassified position. Acting Chairman Leon Guerrero inquired about the status of the proposed bill. Director Blas stated that the proposed bills have been transmitted to the Legislature. Secretary Taylor stated that the Fund needs to add a Procurement Officer to the list of positions to be created. Director Blas stated the Fund currently has a Buyer position in the budget. Director Blas stated that the Procurement Officer could be a classified position. Treasurer Cruz asked whether the Procurement Officer position needs to be included in the budget. Director Blas stated that the Procurement Officer position could be substituted with the Buyer position.

Treasurer Gerard Cruz, seconded by Trustee Anthony Blaz, moved to approve the Retirement Fund's Fiscal Year 2007 Budget, as amended. Without objection, the motion passed.

IV. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Anthony Blaz, seconded by Trustee George Santos, and without objection, the meeting was adjourned at 1:00 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of September 15, 2006 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 9, 2007.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas