

BOARD OF TRUSTEES
Regular Meeting
Friday, October 14, 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 12:40 p.m. Friday, October 14, 2005, in the Retirement Fund Conference Room. Chairman Joe T. San Agustin officiated.

Board of Trustees Present:

Joe T. San Agustin, Chairman
James J. Taylor, Secretary
Katherine T.E. Taitano, Treasurer
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee
George A. Santos, Trustee

Board of Trustees Absent:

Wilfred P. Leon Guerrero, Vice-Chairman

Staff Present:

Paula M. Blas, Acting Director
Pete Tajalle, Controller
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary
Rosalia Bordallo, General Accounting Supervisor

Public Present:

Marcella Taijeron & Anthony Taijeron

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. August 12, 2005 Regular Meeting, August 23, 2005 (Continuation of August 12, 2005) and September 28, 2005 Special Board Meeting [September 9, 2005 Regular Meeting Minutes – Draft for Review only]

Chairman Joe T. San Agustin pointed out that on the minutes of August 23, 2005 on Pages 2 and 3 that he would like a more detailed record of what was discussed. Chairman San Agustin stated that documents are needed for the record. Secretary James Taylor stated that the requested information were included for the record. Attachments to Agenda Section VIII E of the Board of Trustees Regular Meeting of August 12, 2005 and Agenda Section III A of the Board of Trustees Reconvened Regular Meeting of August 23, 2005 are on file with the Board Secretary.

Trustee Gerard Cruz, seconded by Secretary Taylor, moved to table approval of the Minutes of August 12, 2005 and August 23, 2005 so that, as requested by Chairman Joe San Agustin, the references could be made a part of the specific record. Without objection, the motion passed.

Chairman San Agustin stated that the September 28, 2005 Special Board Meeting Minutes should include the introduction of the Amicus Curiae Brief. Chairman San Agustin stated that the Board would need to make a decision about the filing of the brief.

Secretary James Taylor, seconded by Trustee George Santos, moved to adopt and approve filing of the Amicus Curiae Brief. Without objection, the motion passed.

On motion of Trustee Gerard Cruz, seconded by Trustee George Santos, and without objection, the Minutes of September 28, 2005 Special Board Meeting were approved, as amended to incorporate the introduction of the Amicus Curiae Brief in the minutes rather than as an appendix. Without objection, the motion passed.

Secretary Taylor stated that the September 9, 2005 Board Meeting Minutes will be tabled. Secretary Taylor stated that he is asking the Recording Secretary to get the draft of the meeting minutes completed within a week.

III. CORRESPONDENCE

A. September 9, 2005 Letter from Doris F. Brooks, Office of the Public Auditor, Regarding Requirement of the Retirement Board to Conduct Semi-Annual Performance Evaluations of the Director of the Retirement Fund

Chairman San Agustin stated that he received a letter from the Office of the Public Auditor (OPA) advising the Fund of the requirement to conduct semi-annual performance evaluations of the Director of the Fund six months after appointment, pursuant to 5 G.C.A. §43292. Treasurer Katherine Taitano stated that the OPA had sent letters to all Boards and Commissions. Secretary Taylor stated that the OPA is pointing out the law that was established under Public Law 27-20. Chairman San Agustin stated that the OPA's letter is noted by the Board.

B. September 13, 2005 Memorandum from Lt. Joseph R. Alvarez, Airport Police, Regarding Retirement Official Documents

Chairman San Agustin stated that the September 13, 2005 memorandum from Lieutenant Joseph R. Alvarez is being referred to the Members and Benefits Committee.

At this time, Chairman San Agustin brought up the subject of "Member Friendly." Chairman San Agustin stated that he is concerned with the requests for medical deduction cancellations. Chairman San Agustin stated that he would like to inform Management to cancel deductions upon a retiree's request. Treasurer Katherine Taitano stated that she has a different opinion on how to resolve the issue. Trustee Gerard Cruz asked if Management has the authority to stop payroll deductions. Acting Director Paula Blas replied, "no." Acting Director Blas stated that the members themselves have the authority to stop payroll deductions. Trustee Cruz suggested checking if the contract allows for it. Chairman San Agustin stated to have the members sign a waiver of cancellation. Controller Pete Tajalle stated that there may be a risk in allowing the cancellation of health insurance deductions. Chairman San Agustin stated that Management should allow the retirees to cancel deductions. Treasurer Taitano recommended for the Fund's Legal Counsel to review this issue. Secretary Taylor pointed out that Management had stated it did not have authority to stop the deductions and that the issue should have been addressed in negotiations with the Department of Administration.

C. September 14, 2005 Letter from Ennis Knupp & Associates Regarding Consulting Services

Chairman San Agustin stated that he received a letter from Nancy Williams, who used to work for Mercer, regarding evaluation of public funds. Chairman San Agustin stated that he is communicating with the Actuary to contract on evaluation of the Fund. Trustee Cruz asked if Ms. Williams is requesting for consulting services. Acting Director Blas stated that the Fund would need to do a Request for Proposal (RFP). Trustee Cruz stated that it's a good idea to take the offer for services via an RFP.

Trustee George Santos asked if the Fund is pursuing an evaluation with Mercer. Chairman San Agustin asked what is Mercer's role. Acting Director Blas stated that Mercer does not do performance evaluations. Chairman San Agustin stated he thought that Mercer should be more pro-active. Chairman San Agustin stated that he thinks that Mercer doesn't monitor investment managers' performance against the law.

D. September 20, 2005 Letter from Joseph T. Flores Regarding Reinstatement of Defined Benefit Retirement

Chairman San Agustin stated that the September 20, 2005 letter from Joseph T. Flores is being forwarded to the Members and Benefits Committee.

E. The 2006 National Public Employee's Retirement Funds Summit

Chairman San Agustin stated that the 2006 National Public Employee's Retirement Funds Summit is scheduled for April 2006 in Florida.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

Public Law 28-38 - Acting Director Blas stated that pursuant to Public Law 28-38, interest payments for Guam Public School Systems (GPSS) and Guam Memorial Hospital Authority (GMHA) for the month of October 2005 have been paid. Acting Director Blas stated that the first payment was made in July 2005. Acting Director Blas stated that the Fund has been processing applications for retirement for GPSS and GMHA eligible employees. Trustee Cruz asked about the cost recovery issue. Controller Tajalle stated that it is not a recovery issue. Controller Tajalle stated that the \$383,000 income is not related. Acting Director Blas stated that the interest payment is on top of the promissory note. Chairman San Agustin stated that there were three conditions in the law. Chairman San Agustin stated that the law does not address repayment of the outstanding balance.

Chairman San Agustin stated that a breakdown is needed on the outstanding promissory notes. Trustee Cruz asked what was the legislative compromise on getting the interest payment. Chairman San Agustin stated that it was to relief GPSS and GMHA. Acting Director Blas stated that after five years the loan will be paid off by the bond. It was pointed out that this was not so stated in the law. Treasurer Taitano asked if the Department of Administration is up to date with the current year principal payments for GPSS and GMHA. Chairman San Agustin reiterated that it was to assist the two agencies. Chairman San Agustin asked about the liability. Controller Tajalle stated that it is about \$5.7 Million. Chairman San Agustin requested for a breakdown of the outstanding promissory note balance.

Actuarial Services - Acting Director Blas stated that the Memorandum of Understanding between the Department of Administration and the Retirement Fund has been voided. Acting Director Blas stated that DOA selected to seek the services elsewhere.

Century 21, Realty Management Company, Inc. (Parking Stalls) - Acting Director Blas stated that a letter has been sent to Century 21, property managers for the First Hawaiian Bank building, communicating the Board's consideration to lease parking stalls based on the independent appraisal by The Captain Company. Acting Director Blas stated that she is waiting for a response from Century 21.

Director's Position - Acting Director Blas stated that the Director's position was approved by the Legislature. Acting Director Blas stated that the new Director will not be appointed by the Governor nor will it require legislative confirmation. Acting Director Blas stated that the Board of Trustees will appoint the Director and Deputy Director of the Fund. Chairman San Agustin stated that this will circumvent the Civil Service Commission. Acting Director Blas stated that the Director's position will be advertised in the Pacific Daily News for up to thirty (30) days and will also be circulated throughout the government agencies. Chairman San Agustin stated that Board Secretary James Taylor will be the recipient of all applications for the Director's position. Chairman San Agustin stated that he would propose an evaluation process to the Board. Acting Director Blas stated that the acceptance of applications will close at 5:00 p.m. on November 18, 2005.

Contributions - Acting Director Blas stated that all agencies are current with their fiscal year 2005 employee and employer contributions.

Financial Statements - Acting Director Blas stated that the financial statements for the month ended August 2005 were submitted to Treasurer Katherine Taitano for her review. Treasurer Taitano asked Chairman San Agustin if the Board could recess today's meeting and reconvene next week Wednesday, October 19, 2005, for budget purposes.

FY 2006 Retirees' Supplemental and COLA - Acting Director Blas stated that there is a provision in the FY 2006 Executive Budget to continue supplemental benefits for retirees. Acting Director Blas stated that the eligibility remains the same, and annuitants eligible for supplemental benefits will continue to receive the supplemental once a month.

Acting Director Blas further stated that there is a COLA provision of up to \$1,100.00 for all retirees that is subject to lapses from fiscal year 2005 and availability of funds from fiscal year 2006. Acting Director Blas stated that these benefits will be funded by the General Fund and there has been no specific date identified when or if the COLA will be distributed.

V. TREASURER'S REPORT OF FINANCIAL STATUS

Chairman San Agustin suggested that the Board review the financial statement. Chairman San Agustin asked why is the Fund carrying over the \$6 Million. Controller Pete Tajalle stated that the money is collectable.

VI. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on the Members and Benefits Committee's September 2005 end of the month report.

Trustee George Santos, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 - 10, Section IV, Items A – B, Section A 8123, and Section V 1 & 2, based on the Committee's review and findings during their meeting of September 14, 2005 and continuation meetings pertaining thereto (see Appendix A). With only Trustee Anthony Blaz objecting on Section 8123A, the motion passed.

At this point and time of the meeting, Trustee Anthony Blaz was excused from the meeting (2:00 p.m.).

B. Investment Committee

Action Items - Secretary James Taylor gave a brief summary of the October 12, 2005 Investment Committee meeting. Secretary Taylor stated that the action was taken on the request from Deutsche Asset Management for waiver of guidelines related to the General Motors Acceptance Corp (GMAC) Bonds. Secretary Taylor stated that an opinion was received from Legal Counsel Joanne Grimes.

Secretary James Taylor, seconded by Trustee Gerard Cruz, moved to approve the request for waiver of guidelines by Deutsche Asset Management, based on Legal Counsel Joanne Grimes' letter dated September 19, 2005. Without objection, the motion passed.

Open Items - Secretary Taylor stated that several items remain open at the Investment Committee level. Secretary Taylor stated that the Management was instructed to obtain Mercer's comment on the Allianz Global Investors change of management and potential impact of the change. Secretary Taylor stated that a response was received from Mercer stating that there is no impact on the Fund.

Secretary Taylor stated that Management was instructed to direct Mr. Vince Camacho of Great West Retirement Services to have their investment advisor review and comment on the DC Pioneer Emerging Markets Fund change of management. Secretary Taylor stated that no recommendation was made by Great West for the replacement noted; however, recommendation was made to place this Fund on a "Watch List." Secretary Taylor stated that Management was directed to formulate a draft "Watch Policy" for submission to the Investment Committee and approval by the Board.

Informational Items - Secretary Taylor stated that the September 2, 2005 Investment Committee Minutes were approved.

Secretary Taylor stated that Management was asked to amend the "cash inflow/outflow" comparison report to include beginning and ending bank balances. Chairman San Agustin asked about the cash flow. Controller Tajalle stated that he will provide a detailed listing. Controller Tajalle stated that September 2005 has not been posted. Controller Tajalle stated that there was a \$16,000,000.00 drawdown last year. Controller Tajalle further stated that the bond interest and dividend (Section 1112 – transfer dividend/transfer interest) was \$2.6 Million for the first quarter and \$4.7 Million for the fourth quarter without September figures.

At this point and time of the meeting, Treasurer Katherine Taitano was excused from the meeting (2:10 p.m.).

Open Discussion - Secretary Taylor stated that Management has forwarded the Board approved draft legislation amending Section 8158 to the Retirement Fund's Oversight Chairman for further action. Secretary Taylor stated that Management expects public hearings to be scheduled before the end of the October 2005. Secretary Taylor further stated that Management is awaiting draft for the language for amendment to Section 8157 for submission to the Investment Committee for its review and discussion.

Secretary Taylor stated that issues were reviewed regarding Section 8157 and Section 8158. Chairman San Agustin asked if Section 8157 is without dividends. Acting Director Blas stated that A is domestic and B is foreign. Acting Director Blas stated that A and B are not consistent. Chairman San Agustin stated that foreign stocks were not available before. Secretary Taylor asked if it would be difficult to incorporate Section 8157 as a separate bill. Acting Director Blas stated that Legal Counsel Joanne Grimes has prepared the language for Section 8157. Secretary Taylor asked if the intention is to allow investment managers to purchase stocks which don't pay dividends. Acting Director Blas stated that she will obtain the language from Legal Counsel Grimes. Chairman San Agustin recommended finding out what are Legal Counsel Grimes' concerns. Trustee Gerard Cruz requested for Legal Counsel's review. Chairman San Agustin stated that the Fund should get Section 8158 out of the way first. Secretary Taylor suggested obtaining the language for both Section 8157 and Section 8158 from Legal Counsel.

Secretary Taylor stated that all contracts (International Manager) have been signed. Secretary Taylor stated that Management is working with First Hawaiian Bank and Mercer for the transition. Secretary Taylor stated that issues needing resolution have been identified: 1) potential custodial issue regarding

assets to be managed by Capital International (Emerging Markets); 2) treatment of dividends and capital gains (Mercer's recommendation is re-investment). Secretary Taylor stated that Management will provide a status report on the progress of the transition.

Chairman San Agustin asked if there is anything in writing from Mercer. Controller Tajalle stated that 10% on international equity is in mutual funds. Trustee Cruz stated that First Hawaiian Bank acts as the custodian to purchase shares. Trustee Cruz stated that mutual funds have their own custodian.

Secretary Taylor stated that the Investment Committee is waiting for clarification from Legal Counsel on the custody issue. Controller Tajalle stated that it is included in the response from Mercer which is different from Winton Young's point of view. Controller Tajalle stated that the Capital Group approach is unusual according to Winton Young. Trustee Cruz stated that the Fund can not sub this out to JP Morgan. Controller Tajalle stated that the Fund's capital allocation is \$37 Million. Chairman San Agustin stated that he would like to see the spreadsheet on allocations. Controller Tajalle stated that he and Mercer will be putting the material so as to compare bases.

Announcements - Secretary Taylor requested for the Board to be present at the Equity Manager Due Diligence Review scheduled for November 7-9, 2005 from 11:00 a.m. to 3:00 p.m. Secretary Taylor stated that he announced the meeting to his students so they could attend the presentation by the different managers.

Controller Tajalle stated that the Fund is a party to three class action suits (Bristol-Myers Squibb Company, Enron Corporation Securities, and Worldcom, Inc.). Controller Tajalle stated that he should have additional information at the next Investment Committee meeting. Chairman San Agustin asked if the Fund is involved in any other class action suits. Controller Tajalle stated that the Fund will be automatically a party to the class action suits unless the Fund decides to opt out. Chairman San Agustin mentioned that during the year 2000, there was an unsolicited proposal by Milberg Weiss at no cost to the Fund.

C. Audit Committee

Controller Tajalle stated that the proposed timeline for the audit is mid November 2005. Controller Tajalle stated that the first draft should be ready by March 31, 2006 which is way ahead of the June 30 mandate. Trustee Cruz asked about the findings. Controller Tajalle stated that the annuity calculation is in place. Trustee Cruz asked what is the deadline for the Plan restatement. Vince Camacho, Great West Retirement Services, stated that the effective date will be retro back to October 1, 2005.

Controller Tajalle stated that he will get in touch with Trustee Blaz regarding scheduling an Audit Committee meeting.

D. Governmental Liaison

No report was made at this time.

VII. TRAVEL REPORT

A. Wilfred Leon Guerrero, Vice-Chairman: September 17-21, 2005 – Miami, Florida

Chairman San Agustin stated that Vice-Chairman Leon Guerrero has submitted his travel report for the Board's information. Chairman San Agustin stated that Vice-Chairman Leon Guerrero attended the 2005 National Association of Government Defined Contribution Administrators, Inc. (NAGDCA) Conference.

B. Paula M. Blas, Acting Director: September 17-21, 2005 – Miami, Florida

Chairman San Agustin stated that Acting Director Blas has submitted her travel report for the Board's information.

VIII. OLD BUSINESS

A. Status of Organic Act Proposed Draft Amendments / Trust Agreement

Chairman San Agustin stated that the proposed draft amendments have not been done yet.

B. Memorandum of Understanding Between the Department of Administration and the Government of Guam Retirement Fund

Chairman San Agustin stated that the Memorandum of Understanding between the Department of Administration and the Retirement Fund has been voided.

C. Investment Mandates Amendments (Mercer) Section 8158 and Section 8157

Chairman San Agustin stated that Section VIII C was discussed under the Section VI B above.

D. Status of Draft RFP – Custodial Bank Services

Trustee Gerard Cruz asked if the fee for the Request for Proposal (RFP) could be broken down per phase. Acting Director Blas stated that she needs to know what the Board wants to do. Acting Director Blas asked if it is to write the RFP and also do the evaluation. Chairman San Agustin stated that there may be a conflict of interest. Trustee Cruz requested for a breakdown on the costs of the RFP and a breakdown of the costs of evaluation.

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

Chairman San Agustin pointed out a procedural error in that the revised proposed legal services agreement should have gone to the three Special Committee members (Chairman Joe T. San Agustin, Secretary James J. Taylor and Trustee Gerard A. Cruz) for their review. Chairman San Agustin stated that the Special Committee will review the revised proposal and then make a recommendation to the Board. Acting Director Blas stated that the revised proposal will be reverted back to the Special Committee.

F. Status of International Manager Search

Chairman San Agustin stated that this has been completed and should be taken off under “Old Business.”

G. Status of Request to Lease Rear Parking Lot

Acting Director Blas stated that she is waiting for a response from Century 21.

H. Status of Filing of Amicus Curiae Brief in People of Guam vs. Rios & Gutierrez

Chairman San Agustin stated that the filing of the Amicus Curiae brief has been completed and should be taken off under “Old Business.”

IX. NEW BUSINESS

A. Public Law No. 28-66 (Appropriation of \$1,460,000.00 from the General Fund to the Government of Guam Retirement Fund)

Acting Director Blas stated that Public Law 28-66 is to assist the Guam Memorial Hospital Authority (GMHA) in paying off their past due obligations. Acting Director Blas stated that the Fund will be collecting on the \$1.4 Million appropriation. Chairman San Agustin asked what is the outstanding balance for GMHA. Controller Tajalle stated \$2 Million. Controller Tajalle stated that this will make the FY 2005 complete. Secretary Taylor asked if Management could send a letter on what has been done and what needs to be done. Controller Tajalle stated that the General Fund owes \$600,000 from the previous year. Acting Director Blas stated that the lapses were carried forward.

Controller Tajalle mentioned the sale of GTA proceeds. Controller Tajalle stated that the Fund should ask for a share certificate. Trustee Cruz asked if the government has received anything from the proceeds from GTA. Acting Director Blas stated that the Fund did receive some money from the proceeds.

B. Carlsmith Ball Legal Fees (September 30, 2005 Letter from Joanne Grimes)

Chairman San Agustin stated that the firm of Carlsmith Ball is requesting for an increase in fees from \$100,000 to \$150,000.00 and an increase in the hourly rates.

Trustee Gerard Cruz, seconded by Trustee George Santos, moved to approve the increase in fees from \$100,000 to \$150,000.00 for the firm of Carlsmith Ball. Without objection, the motion passed.

X. OPEN DISCUSSION / GENERAL PUBLIC INPUT

5th Annual Pacific Region Investment Conference - Trustee Cruz reminded the Board of the 5th Annual Pacific Region Investment Conference scheduled for November 3-4, 2005 in Saipan. Trustee Cruz stated that Chairman San Agustin will be making a presentation at the conference.

Contribution Rate - Secretary Taylor stated that positive action is needed on the contribution rate of 21.87%. Secretary Taylor stated that the Legislature may say it's a liability. Chairman San Agustin asked how it affects the Fund. Chairman San Agustin stated that he is concerned about the level of the contributions. Secretary Taylor requested for Management to have Legal Counsel review this matter and to also send a letter to the members of the Legislature informing them of the responsibility toward the Fund.

David J. Lubofsky - Acting Director Blas stated that the Fund was served with a Summons and Complaint from the Law Offices of Gorman & Gavras, Attorneys for David J. Lubofsky. Acting Director Blas stated that this will be referred to the Fund's Legal Counsel.

John Rios' Request for Indemnification - Acting Director Blas stated that Legal Counsel Joanne Grimes has drafted a letter to Attorney Michael Phillips in response to his client's request for indemnification of his legal defense costs. Acting Director Blas stated that Legal Counsel will proceed with internal investigation of Attorney Phillips' client. Acting Director Blas asked the Board if it is okay to send out the letter. The Board of Trustees agreed. Acting Director stated that the letter will be transmitted to Attorney Phillips next week.

XI. ANNOUNCEMENTS

None

XII. RECESS

Trustee Gerard Cruz, seconded by Trustee George Santos, moved to recess, and without objection, the meeting recessed at 3:20 p.m. October 14, 2005 and will reconvene on Wednesday, October 19, 2005 at 12:00 Noon in the Retirement Fund Conference Room. Without objection, the motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of October 14, 2005 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