

BOARD OF TRUSTEES
Regular Meeting
Thursday, November 10, 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 12:15 p.m. Thursday, November 10, 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
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee
George A. Santos, Trustee

Staff Present:

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

Public Present:

Clint Ridgell, KUAM
Winton Young, First Hawaiian Bank
Terry Dennison, Mercer Investment Consulting

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. August 12, 2005 (Defined Benefits), August 23, 2005 (Defined Benefits), September 9, 2005, October 14, 2005 and October 19, 2005 Regular Meetings

Chairman San Agustin pointed the quote on Page 5, first paragraph, of the August 12, 2005 minutes which stated that “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.”

Chairman San Agustin made a clarification that he had not agreed as stated. Chairman San Agustin stated that he agreed to evaluate and that he is not quite committed to it.

Trustee Gerard Cruz stated that he is concerned with agenda items left opened. Chairman San Agustin stated that Acting Director Paula Blas will be making a report of the open items on her Director’s Report. Secretary James Taylor stated that open items should be reviewed by Management. Trustee Cruz suggested establishing an action list. Acting Director Blas stated that Chairman San Agustin had asked her to move the open items to the Executive Summary to report action taken.

On motion of Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, and without objection, the Minutes of August 12, 2005 (Defined Benefits) Regular Meeting were approved, subject to corrections as noted by Chairman Joe San Agustin. Motion passed.

Chairman San Agustin stated that the August 23, 2005 minutes was modified to incorporate supporting documents submitted by him with regards to international investing.

On motion of Trustee Gerard Cruz, seconded by Treasurer Katherine Taitano, and without objection, the Minutes of August 23, 2005 (Defined Benefits) Regular Meeting were approved, as modified to incorporate supporting documents. Motion passed.

On motion of Trustee Gerard Cruz, seconded by Trustee George Santos, and without objection, the Minutes of September 9, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

On motion of Trustee George Santos, seconded by Trustee Gerard Cruz, and without objection, the Minutes of October 14, 2005 Regular Meeting were approved, subject to corrections. Motion passed.

Treasurer Katherine Taitano made a clarification on Page 3, sixth paragraph, of the October 19, 2005 minutes. Treasurer Taitano stated that the word “slots” should be replaced with the word “vacancies.”

On motion of Trustee Gerard Cruz, seconded by Trustee George Santos, and without objection, the Minutes of October 19, 2005 Regular Meeting were approved, subject to corrections as noted by Treasurer Katherine Taitano. Motion passed.

III. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

Government of Guam Group Life Insurance - Acting Director Blas stated that the open enrollment for the Government of Guam Group Life Insurance will take place from November 21, 2005 through March 21, 2006. Trustee Cruz asked if members could opt out of the Group Life Insurance. Acting Director Blas replied, "yes." Acting Director Blas stated that \$10,000.00 is automatically paid by GovGuam. Secretary Taylor asked if coverage could be increased. Acting Director Blas replied, "yes."

Public Law 28-38 - Acting Director Blas stated that the Fund is processing applications for retirement for eligible employees from the Guam Public School System (GPSS) and the Guam Memorial Hospital Authority (GMHA). Acting Director Blas stated that the Retirement Fund has not received interest payments from the Department of Administration (DOA) for GPSS and GMHA for the month of November 2005. They are due today (November 10, 2005). If payment is not received by this afternoon, the Fund will start ceasing applications for retirement from the two agencies. Treasurer Taitano asked if anyone already in the system will have processing held up. Acting Director Blas stated that anyone already in the system will continue to proceed forward. Chairman San Agustin stated that individual contributions must have been made up to date. Trustee Cruz reemphasized if the employees who have applied for retirement will continue to be processed. Acting Director replied, "yes." Secretary Taylor asked whether the General Fund has made a payment on the five-year agreement. Acting Director Blas stated that no payment was made. Secretary Taylor requested a regular update on the status of those payments.

Century 21 Realty Management Company, Inc. – Parking Lot Lease - Acting Director Blas stated that the Fund received a response from Century 21 Realty Management Company on November 7, 2005 accepting the rate of \$25.18 per parking stall per month and that the final acceptance is subject to the terms and conditions of the lease agreement. Trustee Cruz asked if the Fund has the authority to enter into a lease. Acting Director Blas stated that after Attorney Brandon Carbullido from the law firm of Carlsmith Ball looked into whether or not the Fund could enter a lease, he drafted the lease agreement. Acting Director Blas stated that Century 21 is requesting a five (5) year lease with a five (5) year option. Vice-Chairman Wilfred Leon Guerrero stated that the Board has not discussed what to do with the income generated from the lease. Acting Director Blas stated that this is something the Investment Committee should be looking at. Vice-Chairman Leon Guerrero stated that the Board should give an indication of where the money will go. Acting Director Blas stated that the money goes into the Fund's account. Chairman San Agustin asked if Vice-Chairman Leon Guerrero is talking about assigning that income to a particular expenditure. Acting Director Blas stated that the lease will be for about \$800.00 per month.

Director's Position - Acting Director Blas stated that the job announcement for the Director's position appeared three (3) times in the Pacific Daily News. Acting Director Blas stated that no applications have been submitted yet. Acting Director Blas stated that the deadline to submit applications is 5:00 p.m. on November 15, 2005.

Organic Act / Trust Agreement - Acting Director Blas stated that Secretary Taylor is still reviewing the Proposed Trust Agreement. Secretary Taylor stated that he should have it reviewed by next meeting.

Investment Mandate Amendments: Section 8157 and Section 8158 - Acting Director Blas stated that draft legislation for Section 8157 is currently with the Investment Committee for their review. The draft legislation for Section 8158 has been transmitted to the Legislature. Acting Director Blas stated that the public hearing would probably be held in mid December. Trustee Cruz asked Chairman San Agustin if the Board would unanimously support Section 8158. Chairman San Agustin replied, "I think so." Chairman San Agustin requested that the Board of Trustees attend the public hearing on Section 8158. Trustee Cruz asked if Chairman San Agustin will speak on behalf of the Fund. Chairman San Agustin stated that the Board should all be at the public hearing.

Request for Proposal: Custodian Bank Services - Acting Director Blas stated that she received a proposal from Mercer Investment Consulting regarding the search for and evaluation of a Custodial Bank. Acting Director Blas stated that she will provide the proposal to the Board for review.

Draft Contract: Legal Services to Recapture Investment Losses - Acting Director Blas stated that she has communicated with the firms of Calvo & Clark and Lujan, Unpingco, Aguigui & Perez regarding the Board's counter offer. Chairman San Agustin stated that Management sent the letter on October 21, 2005. Chairman San Agustin stated that he is concerned with the statute of limitation related to investment losses. Chairman San Agustin mentioned that he received a letter this morning that World Com and Enron are in the process of being settled.

Guam Telephone Authority (GTA): Proceeds from Sale - Acting Director Blas stated that the Fund has not received any money from the sale of GTA. Acting Director Blas stated that the proceeds from the sale of GTA allowed for \$11 Million to be paid to the Retirement Fund for the unfunded liability for GTA retirees. Trustee Cruz asked if GTA has not paid the government. Secretary Taylor asked who is the liability with – GTA or the government. Acting Director Blas stated that the liability is with the government. Chairman San Agustin stated that one solution would be for the government would be to repeal the law and transfer the unfunded liability to the General Fund. Controller Pete Tajalle stated that the unfunded liability has already been transferred. Controller Tajalle stated that GTA retirees have still not been paid. Secretary Taylor asked if the Fund should stop paying GTA retirees. Acting Director Blas stated that the Fund could look into that. Trustee Cruz asked if there is a timetable on the remittance of proceeds. Acting Director Blas stated that she will check with Legal Counsel. Chairman San Agustin asked Acting Director Blas to check with Legal Counsel and also send a letter to Speaker Mark Forbes to take care of this matter of the proceeds from the sale of GTA. Treasurer Taitano asked how many GTA retirees are there. Acting Director Blas stated that there are about 200 GTA retirees. Secretary Taylor stated that if the Fund has a legal claim on it and then by not exercising our claim, the Fund is not being responsible. Acting Director stated that she will report back to the Board on this matter and add the item to the open item file.

P.L. 28-66 - Acting Director Blas stated that Public Law 28-66 appropriated \$1.4 Million from the General Fund to the Retirement Fund as follows: \$660,000.00 for Guam Memorial Hospital Authority (GMHA) past due contributions for FY2005. These have now been brought up to date. \$800,000.00 is for outstanding retirement contributions for GMHA employees waiting to retire and have filed notices of intent to retire with the Retirement Fund. This amount is still outstanding. Acting Director Blas stated that Management is consistently sending notices to the Department of Administration (DOA) for monies due to the Retirement Fund. Trustee Cruz asked if money has been received. Acting Director Blas stated that the GMHA has made themselves current. Acting Director Blas stated that individual balances need to be paid up to date or made current.

Controller Tajalle stated that the first appropriation was \$1.2 Million for 2005 of which \$600,000 was received. Controller Tajalle stated that no money has been received on the \$1.4 Million appropriation. Controller Tajalle reiterated that GMHA paid themselves to be current for 2005. Trustee Cruz asked how much is owed. Controller Tajalle stated \$800,000 for employees waiting to retire. Acting Director Blas stated that it is a cash issue from both sides. The Board requested that the status of these payments be clarified in a written report.

Contributions - Acting Director Blas stated that all agencies are current with their FY2006 employee and employer contributions.

Financial Statements - Acting Director Blas stated that the FY2005 year-end closing of the books will take place this weekend.

FY2006 Retirees' Supplemental and COLA - Acting Director Blas stated that supplemental benefits for retirees and survivors for the month of October 2005 were paid. Acting Director Blas stated that there is a COLA provision of up to \$1,100.00 for all retirees that is to be funded by lapses from previous fiscal years. Acting Director Blas stated that these benefits will be funded by the General Fund and there has been no specific date identified for distribution. Controller Tajalle stated for clarification, that the Fund ran the supplemental checks and that the Department of Administration (DOA) is choosing which agencies to release based on non-payment or payment. Chairman San Agustin asked why the Fund is processing checks for DOA. Acting Director Blas stated that by law the Fund is required to provide the data. Acting Director Blas stated that the Fund is providing data on checks. The Fund is not disbursing or mailing the checks.

Voluntary Dismissal: John Rios and Carl Gutierrez Case - Acting Director Blas stated that a motion filed in court by both Rios and Gutierrez to try to recapture their attorney fees. This motion was denied. Acting Director Blas is asking now that the Board go ahead and refer the Carl Gutierrez annuity case to the Members and Benefits Committee so they can take action. Chairman San Agustin stated that this is no longer a court case. Vice-Chairman Leon Guerrero stated that the application of the annuity has not come to the Board. Acting Director Blas stated that Management will present the facts and the recommendations to the Members and Benefits Committee. Secretary Taylor asked about the status of the investigation. Acting Director Blas stated that Attorney Pat Mason from Carlsmith Ball has met with Mr. Rios and his attorney. A written report from the attorney is to be provided.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Gerard Cruz, moved to approve to refer the Carl Gutierrez annuity case to the Members and Benefits Committee. Without objection, the motion passed.

Actuarial Rate - Secretary Taylor asked whether there was a legal basis to sue the Government of Guam for the appropriate assessment level. Acting Director Blas stated that Legal Counsel is having her staff review this matter. Chairman San Agustin asked how is the audit for the financial statement going to reflect the difference of 26% versus the 21%. Controller Tajalle stated that the auditor does note in their management letter that because the Fund is not getting the contribution rate of 26%, the Fund is in a bad situation. Chairman San Agustin stated that someone has to account for the 5% differential. Trustee Cruz stated that the Fund should get a legal opinion.

Chairman San Agustin stated that the law says that the Government of Guam contributions must be funded at the actuarial rate. Secretary Taylor stated that it appears that the Fund has a strong legal case. Secretary Taylor stated that the Fund needs to get a clarification of this matter.

Chairman San Agustin stated that in the books, the Fund is carrying \$6 Million in reserves for bad debt. Chairman San Agustin stated that this was written-off and that it should be restored because it may be collectable. Controller Tajalle stated that because of Public Law 28-30, it may be restored. Trustee Cruz asked if the Fund has to go through an experience period. Controller Tajalle replied, "not if payment is mandated by law." Chairman San Agustin stated that he disagrees with the auditor on writing it off.

Trustee George Santos, seconded by Trustee Gerard Cruz, moved to approve to refer the issue of the write-off to the Audit Committee. Without objection, the motion passed.

IV. TREASURER'S REPORT OF FINANCIAL STATUS

Acting Director Blas stated that the Treasurer's report of financial status was included in the Director's Executive Summary.

V. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos reported to the Board of Trustees on his Committee's October 2005 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 14, based on the Committee's review and findings during their meeting of October 26, 2005 and continuation meetings pertaining thereto (see Appendix A). Without objection, the motion passed.

B. Investment Committee

1. Custodial Bank Presentation - Winton Young

Vice-Chairman Wilfred Leon Guerrero reported that the Investment Committee has had work sessions and has also had Due Diligence Reviews. Vice-Chairman Leon Guerrero stated that Mr. Winton Young from First Hawaiian Bank (FHB) will be making a custodial services presentation to the Board of Trustees (*see Appendix B*). Chairman San Agustin pointed out that the custodial bank agreement does not specify if the custodial bank is supposed to make a monthly or annual report to the Board. Chairman San Agustin also pointed out that there are three sets of fees in the agreement. One is the regular custodial fees, one is for securing lending and the other one is for foreign investment.

Introduction - Mr. Young stated that First Hawaiian Bank's Senior Vice President and Regional Manager is Mr. John Lee. Mr. Young stated that he is Vice President and Taft-Hartley Department Manager. Mr. Young stated that the Taft-Hartley Department specializes in custody for union trust funds.

First Hawaiian Bank - Mr. Young stated that the First Hawaiian Bank (FHB) was founded in 1858 and FHB is Hawaii's oldest and largest financial institution. FHB joined the Guam community in 1970 with branches in Dededo and Hagatna. FHB is subject to supervision by the FDIC and the State of Hawaii as well as periodic examination by both entities. FHB is a subsidiary of BancWest Corporation with over \$50 billion in total assets, as of December 31, 2004. FHB is fully-owned subsidiary of BNP Paribas, the third largest financial institution in the world, with over \$1.2 trillion in total assets.

First Hawaiian Bank History on Guam - Mr. Young stated that the first FHB branch in Guam opened in 1970 in Dededo and then Hagatna. In 1980, FHB introduced the on-line data communications system. In 1994, FHB opened the Maite Banking Center. In 2001, FHB acquired Union Bank of California. In 2002, FHB opened the Tamuning Branch.

Strong Credit Ratings - Mr. Young stated that FHB has strong credit ratings from Standard & Poor's, Moody's, and Fitch.

Trust Division - Mr. Young stated that the Taft-Hartley Department falls under the Trust Division which helps individuals and institutions build, protect and transfer assets. The Trust Division has \$8.9 billion total assets under administration and \$3.5 billion assets under management. Secretary Taylor asked what is the difference between administration and management. Mr. Young stated that Management is like an investment manager – have the discretion on what is bought and sold. Administration is like the GovGuam Retirement Fund – administers what is bought.

Taft-Hartley Department - Mr. Young stated that their institutional custody team is responsible for the administration and coordination of comprehensive custodial services: General oversight, daily administration, investment manager liaison, processing and recordkeeping oversight, daily processing and disbursements, account maintenance, and account research.

Securities Processing and Custody Department - Mr. Young stated that their securities processing and custody team is responsible for operations and technical support: Safekeeping and Custody, Trade Settlement, Income Collection, Corporate Action Processing, Proxy Processing, Valuation and Reporting, Statement Production, Securities Lending, Trust Systems Access, and Technology Support.

System and Service Partners - Trust Accounting System and Sub-Custodian Settling Bank and Securities Lending Provider - Mr. Young stated that FHB uses SEI Investments Trust Account System. SEI Investments is a leading provider of investment technology and outsourcing business solutions for investment processing, securities trading and processing, mutual fund processing, and asset management. Mr. Young stated that JP Morgan is FHB's Sub-Custodian Settling Bank and Securities Lending Provider. JP Morgan is one of the world's largest providers of custody and investor-related services, including: Trade processing and settlement, asset servicing, network management, distribution, transition management, and securities lending.

Mr. Young's custodial services presentation also included the following topics (*see Appendix B*):

- Custody Functions and Services -Trade Settlement/Settling an Institutional Trade/Income Collection/Corporate Actions/Proxy Processing/Securities Lending/Statement Production/Daily Transaction Summary File/Additional Support Functions
- Why First Hawaiian Bank

- First Hawaiian Bank Non-Profit Support of Guam and Saipan
- Government of Guam Retirement Fund History with First Hawaiian Bank

Trustee Gerard Cruz asked if First Hawaiian Bank was able to settle the issues with Capital. Mr. Young stated that there is a custody issue which has not been settled. Mr. Young stated that they are looking at a co-mingled funds situation. Chairman San Agustin stated that every dollar that the custodian bank disburses, there must be evidence to support that purchase. Trustee Cruz asked if this is the only vehicle that Capital has available. Mr. Terry Dennison from Mercer Investment Consulting replied, "yes." Chairman San Agustin asked why would Capital do that. Mr. Dennison stated that it is because most investors prefer the co-mingled vehicle because it has the lower cost. Chairman San Agustin stated that the Fund cannot do business with Capital. Mr. Dennison stated, at least not until Section 8158 is amended. Chairman San Agustin asked if even with Section 8158 would it preclude other custodial banks. Trustee Cruz asked Mr. Young if they will lose custody. Mr. Young replied, "yes."

Chairman San Agustin asked Trustee Cruz if that was the understanding on the RFP when Capital was interviewed. Mr. Dennison stated that he suspects that the form of vehicle was discussed. Mr. Dennison stated that they never ran into the situation where it was not permitted. Chairman San Agustin stated that the Board does not have any documentation on the foreign investment emerging markets to support one or the other. Rosalia Bordallo, Accountant III, stated that if the RFP specifically states it should be in mutual funds and you were given this proposal, would it have been automatically discarded because it is not the right type of vehicle. Chairman San Agustin stated that it should have been disqualified. Mr. Dennison stated that they did designate AXA Rosenberg as a formal backup and GMO has agree to keep the door open if we wanted to invest so that we are not locked into Capital. Mr. Dennison stated that the Fund could use AXA or GMO for this. Mr. Dennison stated that he does not believe that Capital would set up a mutual fund because it will not be used by any other institutional investor if a co-mingled fund is available.

Proxy Processing - Chairman San Agustin asked who has the right to vote. Mr. Young stated that the investment manager could or they would tell FHB who to send it to if FHB has a proxy voting agent. Chairman San Agustin asked whether the Fund automatically gives it to them as the owner of the stocks if there is an investment manager. Trustee Cruz stated that he thinks they do. Trustee Cruz stated that the Board has discretion.

Security Lending Structure - Trustee Cruz asked whether the Retirement Fund assets are always marked to market on a daily basis. Mr. Young replied, "yes." Chairman San Agustin asked if the Fund puts up its own securities as collateral, will we be in default. Mr. Young stated that when there is a default, the security is replaced.

How Are Revenues Generated? - Chairman San Agustin stated that the way the money is transmitted in the monthly posting, FHB does not identify that that revenue came from secure lending. It is credited to real estate. Mr. Young stated that it was from the old real estate account which could be changed. Trustee Cruz requested to have Mr. Young change the account name. Chairman San Agustin stated that it should be identified as a source of income. Chairman San Agustin stated that the Fund does not want to reinvest the money because it is needed for the Fund's daily operation.

Mr. Young stated that he will work with Controller Tajalle on better identifying the account. Acting Director Blas stated that the account could be named "Securities Lending Account." Chairman San Agustin suggested "Settlement Account." Mr. Young stated that Controller Tajalle would provide him with the name of the account.

Why First Hawaiian Bank? - Chairman San Agustin stated that the Fund established the first account at FHB in 1974.

Trustee Cruz asked if FHB holds physical custody of the Fund's securities. Mr. Young replied, "no, JP Morgan." Trustee Cruz asked if the Retirement Fund is First Hawaiian Bank's first client that is in co-mingled. Mr. Young replied, "no." Trustee Cruz asked if the co-mingled funds are in U.S. denominations. Mr. Young replied, "yes." Mr. Dennison stated that units are priced in U.S. dollars. Trustee Cruz asked at what point does the Fund need multiple accounts – for the segregated accounts. Mr. Dennison replied, "yes, for the segregated accounts."

Controller Tajalle asked Mr. Young to inform the Board of the cost of opening up the new managers' account. Mr. Young stated that there was no cost to open the accounts. Mr. Young stated that the costs are going to come in when foreign trade goes through and custody is established. Mr. Young stated that he could provide the fee schedule which is all based on actual transactions and the country of custody. Mr. Dennison stated that the foreign securities are significant generators of income. Mr. Young asked whether the Fund wants to be in security lending. Mr. Dennison stated that it is desirable from the borrower's perspective. Chairman San Agustin stated that it is easily tradable. Acting Director Blas asked Mr. Young to submit his recommendation in writing. Chairman San Agustin stated that he is concerned that it may be outside regulation.

2. International Equity Allocation

Vice-Chairman Leon Guerrero stated that the Retirement Fund performed U.S. Equity Manager Due Diligence reviews on November 7-8, 2005, and meetings with the new international managers on November 9, 2005. Vice-Chairman Leon Guerrero stated that various issues were discussed during these meetings between Investment Committee members and Mercer Investment Consulting, the Fund's consultant. Vice-Chairman Leon Guerrero stated that these discussions centered on funding of the new international managers and other matters that the Investment Committee will address at their next meeting. Vice-Chairman Leon Guerrero stated that the Investment Committee, during these discussions recognized the urgency to move forward with termination of ADR managers, Aberdeen and Lazard, and funding of the new international managers. Chairman San Agustin asked if the money transferred from Aberdeen and Lazard will go to GMO and Fisher. Vice-Chairman Leon Guerrero replied, "yes." Trustee Cruz pointed out that this is just a partial funding.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Investment Committee to terminate ADR Managers, Aberdeen and Lazard, and to begin funding of the new international managers to go to GMO and Fisher in the total allocation of \$132,269,558.15. Without objection, the motion passed.

At this time, Mr. Terry Dennison from Mercer Investment Consulting, reported to the Board on the Due Diligence Meeting. Mr. Dennison gave a performance summary for the period ending September 30, 2005 (*see Appendix C*).

Mr. Dennison stated that Mercer looks at the performance of the Fund on a quarterly basis. Mr. Dennison stated that Mercer also looks at the performance of the class in which the funds are invested and the individual investment managers that the Fund utilizes. Mercer looks at their performance relative to their benchmark. Mercer also compares both the fund and the managers against the universe, which is data Mercer has for all managers pursuing the same strategy.

Mr. Dennison stated that the total fund for the quarter was 2.8% and for the fiscal year it was at 10.1%. This outperformed the Blended Index which had 8.8%. Mr. Dennison stated that the 10.1% is significantly above the actuary's earning assumption of 7%. Mr. Dennison mentioned that there was a discussion of a number calculated for this year to be about 7.2% which would be necessary to keep the Fund from shrinking. It was pointed out that the return of 10.1% was significantly below the return of other funds of the same type.

Mr. Dennison stated that the Fund's asset mix is much less aggressive than other Funds. The reason is largely asset allocation. The legislative structure is making it disadvantageous in up markets. Since the Fund is forced to be more conservative in down markets, the Fund benefits there somewhat because the Fund lost less money on a proportion basis than other pension funds did when the equity market was down.

Trustee Cruz asked if with the amendment of Section 8158, will the Fund still have the custody issue. Mr. Dennison stated that he would like to explore the custody issue. Mr. Dennison stated that Mercer would like to investigate this issue and will report back to the Fund about their findings.

Mr. Dennison mentioned that on Section 8157, Mercer thinks of this as the dividend restriction. Mr. Dennison stated that he would like to meet with the Fund's Legal Counsel to make sure that the draft language incorporates all the needed revisions. The Board agreed to direct Mercer to work with the Fund's Legal Counsel on the draft revision for Section 8157. Trustee Cruz asked if there are any dividend restrictions on the international managers. Mr. Dennison stated no because they are operating under the basket clause.

Trustee Cruz asked if there are any other alternative that is going to have the Fund achieve the same objective, the 7.2% return, based on the Fund's existing strategy. Mr. Dennison stated that finding a way to increase and make the international component more productive will be very helpful. Trustee Cruz asked if there is a strategic allocation that Mercer could get together that would significantly increase return. Mr. Dennison stated that it depends on what is achievable in the market.

Controller Tajalle mentioned that the Fund does not have any exposure to real estate and asked Mr. Dennison to speak on that. Mr. Dennison stated that there are two kinds of real estate: one is private real estate where you own buildings, and public real estate which are real estate investment trusts. Mr. Dennison stated that the issue of concern with real estate is liquidity.

Mr. Dennison stated that he will provide, in writing, pointed recommendations on various managers. Mr. Dennison stated that on the large cap, core category, Atalanta's process is capable of producing better returns than Invesco. In the large cap, growth category, the Retirement Fund uses Davis Hamilton and RCM. Mr. Dennison stated that RCM is the weaker of the two. In the large cap, value category, Metropolitan West is superior to Oppenheimer.

Chairman San Agustin stepped out of the conference room to take a phone call. Acting Director Blas stated that Section 8158 is not a problem. Acting Director Blas stated that she thinks the Board Chairman will support Section 8158. Trustee Cruz stated that, for the record, he would like to hear that from the Chairman himself. Acting Director Blas stated that Mr. Dennison is going to review and provide a recommendation on Section 8158.

Chairman San Agustin returned to the conference room. Chairman San Agustin stated that the Board originally talked about 10% and then it went up to 30% and now we are talking about 50%. Secretary Taylor stated that the confusion with the 30% is that originally both changes were to be addressed in Section 8157. There is now a different approach. The Fund is also considering whether to go to indexing. Chairman San Agustin stated that the Fund is talking about the cost of the actual investment fees. Vice-Chairman Leon Guerrero suggested looking at buying index funds. Secretary Taylor stated that this matter could be expedited more quickly. Vice-Chairman Leon Guerrero stated that the Board should work toward getting the law changed so that the Fund could invest in index funds. Chairman San Agustin stated that Mercer's analysis of Section 8157 only generates \$600,000.00 a year. Chairman San Agustin stated that Section 8158 will show significant money earnings. Mr. Dennison stated that Mercer will provide an analysis that looks at both sides of Section 8157.

Chairman San Agustin made several strong statements recommending a more active role by Mercer. Chairman San Agustin stated that anytime you raise the investment return it reduces the actuarial rate. Chairman San Agustin stated that the Board needs to demonstrate that it will be less cost to the government. Trustee Cruz suggested for Board to focus on finding a solution to the needed fundamental changes in investment policy.

Secretary James Taylor, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve First Hawaiian Bank Securities Lending, subject to receipt and review of a letter from Mercer Investment Consulting. Without objection, the motion passed.

C. Audit Committee

No report was made at this time.

D. Governmental Liaison

No report was made at this time.

VI. OLD BUSINESS

None

VII. NEW BUSINESS

A. Tuition Reimbursement Policy

Treasurer Katherine Taitano stated that Management has made a recommendation for a tuition reimbursement policy for Fund employees who want to enhance their knowledge in retirement systems and to improve their job skills. Treasurer Taitano stated that a draft policy, which is patterned on other programs that have been successfully run, is being presented to the Board of Trustees.

Treasurer Taitano stated that this may be opened not just to classified employees but to unclassified employees on a full time status. Treasurer Taitano stated that this will be outside of working hours and that employee performance must be kept up. Chairman San Agustin recommended amending the policy on the eligibility requirements to eliminate “classified” and replace it with “full time employee.”

Trustee Anthony Blaz, seconded by Trustee George Santos, moved to approve the Tuition Reimbursement Policy, as amended. Without objection, the motion passed.

VIII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

IX. ANNOUNCEMENTS

Defined Contributions (DC) Meeting - No meeting for Defined Contributions was held November 10, 2005. Acting Director Blas informed the Board that the Defined Contributions forfeiture check in the amount of \$980,000.00 for year ending 1999 was received to offset DC expenses.

X. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, and without objection, the meeting was adjourned at 3:05 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of November 10, 2005, Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on December 9, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas