

BOARD OF TRUSTEES
Regular Meeting
Friday, November 17, 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 was called to order at 1:35 p.m. Friday, November 17, 2006, 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
Gerard A. Cruz, Treasurer
James J. Taylor, Secretary
Anthony C. Blaz, Trustee
George A. Santos, Trustee
Katherine T.E. Taitano, Trustee (2:00 p.m.)

Staff Present:

Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Mike Perez, Great West Retirement Services
Jackie Blas, Recording Secretary

Public Present:

Winton Young, First Hawaiian Bank
Mark Heath, Metropolitan West Capital Management

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. May 12, 2006, May 26, 2006 (Continuation of May 12, 2006) and June 9, 2006 Regular Meetings

On motion of Treasurer Gerard Cruz, seconded by Trustee George Santos, and without objection, the Minutes of May 12, 2006, May 26, 2006 (Continuation of May 12, 2006) and June 9, 2006 Regular Meetings were approved, subject to corrections. Motion passed.

B. July 14, 2006, August 11, 2006, September 8, 2006 and October 20, 2006 Regular Meetings; October 10, 2006 and October 17, 2006 Special Meetings (Pending)

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to defer approval of the minutes of July 14, 2006, August 11, 2006, September 8, 2006 and October 20, 2006 Regular Meetings; October 10, 2006 and October 17, 2006 Special Meetings. Without objection, the motion passed.

III. CORRESPONDENCE

A. November 13, 2006 Letter from J. George Bamba, Chief of Staff, Office of the Governor, Regarding Inquiries on Payment of COLA

Chairman San Agustin stated that he received a letter from the Governor's Chief of Staff regarding inquiries on the payment of COLA. Chairman San Agustin stated that he sent his response this morning to the Governor's Chief of Staff regarding an apparent misconception of the COLA Court Case. Chairman San Agustin stated that his understanding is that Governor Felix Camacho has stipulated with the agreement.

B. November 13, 2006 Letter from Douglas Moylan, Attorney General of Guam (AG), Regarding Legal Services for Government of Guam Retirement Fund

Chairman San Agustin stated that he received a copy of the Attorney General's letter to Attorney David Dooley. Chairman San Agustin stated that the Attorney General is giving Attorney Dooley thirty days' written notice that the Fund is terminating his services. Chairman San Agustin asked whether the Retirement Fund works for the Attorney General. Trustee George Santos stated that the issue is whether the AG could hire and fire. Treasurer Gerard Cruz asked whether there will be an impact on the case. Chairman San Agustin replied, "no." Vice Chairman Wilfred Leon Guerrero recommended referring the AG's letter to the Fund's Legal Counsel. Vice-Chairman Leon Guerrero also recommended authorizing Chairman San Agustin to act on Legal Counsel's recommendation.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve to refer Attorney General Douglas Moylan's letter to Carlsmith Ball LLP, the Retirement Fund's Legal Counsel. Without objection, the motion passed.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. *William Don Parkinson vs. Government of Guam, Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS)* - Director Paula Blas stated that Mr. Don Parkinson submitted a proposed settlement agreement with the Government of Guam. A copy of the proposed settlement is provided for the Board's review.

2. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-98)*-

Director Blas stated that a proposed stipulated judgment was submitted to Judge Arthur Barcinas on November 1, 2006 signed by all parties involved in this case. Director Blas stated that the judgment has not been signed by Judge Barcinas. Director Blas stated that a status hearing is scheduled for 1:00 p.m. on November 20, 2006. Director Blas stated that Attorney Dooley should be at that hearing.

3. *Organic Act / Trust Agreement*- Director Blas stated that the Fund's Legal Counsel is currently working on a draft bill to be submitted to the Legislature for approval.

4. *Request for Proposal (RFP): Custodial Bank Services* – Director Blas stated that the non-disclosure letter has been signed by Mercer. Director Blas stated that the RFP for Global Custody will be issued in two weeks.

5. *Request for Proposal (RFP): Medical Consultant Services* – Director Blas stated that a draft RFP for professional services was submitted to the Members and Benefits (M&B) Committee on November 9, 2006 for their review and comments. Director Blas stated that the M&B Committee will address this issue at their December 2006 meeting.

6. *Public Law 28-38*- Director Blas stated that the Fund is continuing to process applications for retirement for Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS) eligible employees. Director Blas stated that monthly interest payments for GPSS and GMHA are current.

7. *Century 21, Realty Management Company, Inc.: Parking Lot Use Agreement*- Director Blas stated that the Fund is currently reviewing the proposed changes to the lease by First Hawaiian Bank on the indemnification on liability.

Financial Report

1. *Contributions* – Director Blas stated that all agencies are current with their Fiscal Year 2006 employee and employer contributions, except Guam Public School System (GPSS). Director Blas stated that GPSS is disputing the calculation of the contribution rate of 22.65%. Director Blas stated that all other agencies are paying the higher contribution rate of 22.94%.

2. *Financial Statements* – Director Blas stated that the books for Fiscal Year ending September 2006 are closed and the Fiscal Year 2006 audit has commenced.

3. *Fiscal Year 2006 Retirees' Supplemental Benefits* – Director Blas stated that the supplemental benefits for retirees and survivors for the month of October 2006 were paid. The General Fund funds these benefits.

4. Medicare Reimbursements – Director Blas stated that the appropriations for the shortages for Medicare Reimbursements for Fiscal Years 2005 and 2006 were included in the Fiscal Year 2007 Executive Budget. Director Blas stated that once monies have been received by the General Fund, a lump sum payment for the remaining months for Fiscal Years 2005 and 2006 will be paid.

V. LEGAL COUNSEL’S REPORT

No report was made at this time.

VI. TREASURER’S REPORT OF FINANCIAL STATUS

Treasurer Cruz reported on the Fiscal Year 2006 unaudited financial statement. Treasurer Cruz stated that the rate of return is at 8% versus 10%. The actual rate of return dividend yield is 3%. Treasurer Cruz applauded the Investment Committee for a good year. Vice-Chairman Leon Guerrero stated that the asset allocation will increase the rate of return. Chairman San Agustin stated that the Fund needs a 14% yield to meet expenses. Chairman San Agustin stated that the Fund should be more concerned on meeting the bench mark.

Treasurer Cruz stated that a drawdown is needed. Chairman San Agustin stated that the Fund may need to adopt the Sweep Program. Treasurer Cruz stated that the sweep account is no different with the operational account.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the drawdown schedule beginning December 2006 through March 2007 in the amount of \$4 Million per month. Without objection, the motion passed.

Winton Young, First Hawaiian Bank, spoke on the Sweep Program. Mr. Young stated that the Fund needs to know which account to use. There are seven different options. The Government fund uses Treasury. Mr. Young stated that Goldman Sachs is a pure Treasury fund. Goldman Treasury was at 4.32 as of October 2006. Bishop Street Money Market was at 4.66 net of fees. Mr. Young stated that there is a fee for the use of the Business Cash Manager. There is an account fee of \$50.00 per month. The Fund would need to maintain a minimum of \$200,000.00. Mr. Young stated that Blackrock is the favored fund. Trustee Santos asked what the projection is. Mr. Young stated \$12,000.00 per month.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the Sweep Program using the Blackrock Fund. Without objection, the motion passed.

VII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos reported to the Board of Trustees on his Committee’s October 2006 end of the month report.

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee (APPROVAL) contained on Pages 4 through 13, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of October 18, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

Trustee Santos reported on the review and findings on Item V A, Page 14, on the matter of Pito Q. Cruz. Trustee Santos stated that Mr. Cruz has requested for a petition for military credit for retirement purposes. Trustee Santos stated that Mr. Cruz is ineligible for creditable military service and the Members and Benefits Committee is recommending **disapproval** of this request.

Trustee George Santos, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee (DISAPPROVAL) contained on Page 14, based on the Committee's review and findings during their meeting of October 18, 2006 and subsequent meetings thereafter. Trustee Anthony Blaz abstained and without further objection, the motion passed.

Trustee Santos reported on the review and findings on Item V B, Pages 15 through 17, on the matter on the adjustment to the estimated annuity for Carl T.C. Gutierrez. Trustee Santos stated that the Members and Benefits Committee received letters from Attorney Randall Cunliffe regarding this matter. Trustee Santos further stated that the Members and Benefits Committee has extensively reviewed this matter and based on the request, the findings of the Members and Benefits Committee remain the same. Trustee Santos stated that the Members and Benefits Committee is asking to make the Retirement Fund "whole" with respect to the amount of monies due to the Fund. Trustee Santos stated that it is not a question of qualifying for the enhancement, it is a matter of making the Fund "whole."

Trustee Santos reiterated that the Members and Benefits Committee sustains its action on the matter of Mr. Gutierrez as reported on April 21, 2006 and continues to recommend that Mr. Gutierrez remit the amounts due to the Fund as a condition of continuing the enhanced benefit. Chairman San Agustin stated that there are two actions here, one is to reaffirm the Board's action and the other is based on the appeal. Trustee Santos stated that this is the first attempt at an appeal. Chairman San Agustin asked what the Board is entertaining at this time. Trustee Santos stated that, in the August 14, 2006 letter, Attorney Cunliffe is trying to sustain the execution of the reduced enhancement. Trustee Santos stated that this is a moot action since the Board carried out the execution. Chairman San Agustin asked whether the Board is now entertaining the appeal. Trustee Santos replied, "yes."

Trustee Anthony Blaz asked Trustee Santos and Chairman San Agustin whether the Board could reinstate the annuity because the Government of Guam has already remitted the matching government share on this issue. Chairman San Agustin asked what the percentage of the government share is. Director Blas replied, \$136,000 which is 30%. Trustee Blaz stated that Attorney Michael Phillips, in his June 6, 2005 letter, stated "From my review of the record in this case, it continues to appear as if the Retirement Fund has chosen not to adjust or in any way amend Governor Gutierrez's annuity worksheet, annuity, or other retirement benefits." Trustee Blaz stated that this whole situation was already decided by the Superior Court.

Rosalia Bordallo, General Accounting Supervisor, stated that the Superior Court ruled that Mr. Gutierrez was entitled to the credit. It did not say that the Fund had to pay Mr. Gutierrez the benefit until he paid this. Mrs. Bordallo stated that she is concerned on why the Fund would pay Mr. Gutierrez the benefit for something he has not paid. Chairman San Agustin asked who is going to absorb the \$81,919.25. Trustee Blaz stated that statute of limitation has expired. Mrs. Bordallo reminded the Board that this is a benefit that had not been approved by the Board. Their defense was that it was still an estimated benefit. Mrs. Bordallo stated that an estimated benefit does not mean everything is all cleared. Trustee Katherine Taitano stated that when this issue was discussed, the Members and Benefits Committee has maintained that the error is not here, it was with who ever handled his side.

Trustee Blaz stated that he would like to amend the motion to remit the entire amount to make the annuity whole. Chairman San Agustin stated that there is no amendment to be made because it has always been the position of the Board that the total contribution is going to be made, one from the employee and one from the government. Mrs. Bordallo stated that everyone who is up for retirement must pay for the benefit in full. Chairman San Agustin stated that it is the policy of the Board. Secretary James Taylor asked who owes the \$54,770.40. Director Blas replied, "the Government of Guam," which was paid on November 6, 2006.

Chairman San Agustin reiterated that this case is now before the Board and it is reinstating the Board's original position that the Retirement Fund has to be made whole in order to restore the benefit. Chairman San Agustin stated that part of the restoration was already made by the government share as of November 6, 2006. Chairman San Agustin stated that what is remaining now is the annuitant's share which has to be made whole in order to enhance the benefit.

Trustee Santos stated that there are additional correspondences on this matter which would be brought up at the next Board Meeting.

Trustee George Santos, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 15 through 17, based on the Committee's review and findings during their meeting of October 18, 2006 and subsequent meetings thereafter. Trustee Anthony Blaz abstained and without further objection, the motion passed.

B. Investment Committee

Vice-Chairman Leon Guerrero reported to the Board that the Investment Committee met on October 27, 2006. Vice-Chairman Leon Guerrero stated that the following items were discussed and approved by the Investment Committee for Board action:

1. Request for Proposal (RFP) for Feasibility Study: Vice-Chairman Leon Guerrero stated that during the September 15, 2006 Board of Trustees meeting, the Board had authorized the issuance of an RFP for a "Real Estate Feasibility Study." An RFP was prepared and has been reviewed by the Investment Committee. Vice-Chairman Leon Guerrero noted that although the Board approved a "Real Estate Feasibility Study," what the Board is actually looking for is a study and recommendation about "how" the Fund could implement a program, and not whether one is really feasible or not.

Vice-Chairman Leon Guerrero stated that the Investment Committee is recommending the removal of the words “Real Estate Feasibility” and simply issue an RFP for a “Study.” Vice-Chairman Leon Guerrero stated that the Investment Committee is also recommending that the Board approve finalization and release of the RFP for the Study.

Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, moved to approve the issuance of a Request for Proposal for a Study Related to Investing in Real Estate. Without objection, the motion passed.

2. Transition Manager: Vice-Chairman Leon Guerrero stated that the draft Request for Proposal (RFP) for a Transition Manager has been reviewed by the Investment Committee. The Investment Committee is recommending issuance of the RFP.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the issuance of the Request for Proposal for a Transition Manager. Without objection, the motion passed.

3. Mercer’s Quarterly Meetings and Annual Manager Reviews: Vice-Chairman Leon Guerrero stated that the Due Diligence was conducted on November 13-14, 2006. Vice-Chairman Leon Guerrero stated that the Investment Committee met with Terry Dennison and Ashish Shrestha from Mercer Consulting, Inc., to discuss Manager Performances for the fourth quarter. Vice-Chairman Leon Guerrero stated that investment issues were also addressed. Vice-Chairman Leon Guerrero stated that the Investment Committee also met with representatives of the following investment management firms to discuss the performance for the past year and their outlook for the future:

- Atalanta Sosnoff Capital Corporation
- Davis, Hamilton, Jackson & Associates
- RCM Capital Management LLC
- Allianz Dresdner Asset Management (Oppenheimer)
- Metropolitan West Capital Management LLC

Secretary Taylor stated that, in communicating with Mercer, Growth Managers had the most difficulty and will benefit most from the change. Treasurer Cruz stated that growth has been down and the change will make it better. Chairman San Agustin stated that he has reviewed Mercer’s report and has comments. Chairman San Agustin stated that the report showed no rate of return. Chairman San Agustin mentioned the rating mechanism. Chairman San Agustin stated that the present rate of return is 3%. The Fund needs a rate of return of 8%. Chairman San Agustin stated that the Fund needs to meet the current and future liabilities. Vice-Chairman Leon Guerrero stated that the law was just changed. Vice-Chairman Leon Guerrero stated that the portfolio needs to be \$3 Million. Chairman San Agustin stated that the Fund does not have the historical trench.

C. Audit Committee

No report was made at this time.

D. Governmental Liaison

No report was made at this time.

VIII. TRAVEL REPORT

A. Wilfred P. Leon Guerrero: October 5-6, 2006 Institutional Investor Forum, New York City; and October 8-11, 2006 International Foundation of Employee Benefit Plans (IFEBP) 52nd Annual Conference, Las Vegas, Nevada

Chairman San Agustin stated that Vice-Chairman Leon Guerrero has submitted his travel report on the Institutional Investor Forum he attended on October 5-6, 2006 in New York City and the IFEBP 52nd Annual Conference on October 8-11, 2006 in Las Vegas, Nevada.

B. George A. Santos: October 8-11, 2006 International Foundation of Employee Benefit Plans (IFEBP) 52nd Annual Conference, Las Vegas, Nevada

Chairman San Agustin stated that Trustee Santos has submitted his travel report on the IFEBP 52nd Annual Conference he attended on October 8-11, 2006 in Las Vegas, Nevada.

C. Paula M. Blas: October 8-11, 2006 International Foundation of Employee Benefit Plans (IFEBP) 52nd Annual Conference, Las Vegas, Nevada

Chairman San Agustin stated that Director Blas has submitted her travel report on the IFEBP 52nd Annual Conference she attended on October 8-11, 2006 in Las Vegas, Nevada.

IX. OLD BUSINESS

None

X. NEW BUSINESS

None

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Winton Young, First Hawaiian Bank, reported on the securities lending asset. Mr. Young stated that the Fund uses the Securities Lending Program which earned \$530,000 for the Fund in the year 2005. Treasurer Cruz asked whether the Fund is on exclusive. Mr. Young stated that the Fund uses JP Morgan as the agent. Mr. Young stated that there has been a change in assets. The Fund now uses the mutual funds and co-mingled funds which are no longer lendable securities. Mr. Young stated that these have now been taken out of the pool. Mr. Young stated that he is recommending adding the foreign securities into the lending pool with a new negotiating rate. Chairman San Agustin recommending negotiating 70/30.

Vice-Chairman Wilfred Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve to add the foreign securities into the lending pool with a new negotiating rate. Without objection, the motion passed.

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 3:50 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of November 17, 2006 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on January 05, 2007.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas