



GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS
INVESTMENT COMMITTEE MEETING
Friday, February 4, 2005, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 1:06 p.m. Friday, February 4, 2005, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Chairman
James J. Taylor, Vice-Chairman
Gerard A. Cruz, Member

Staff Present:

Wilfred G. Aflague, Director
Pete Tajalle, Controller
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

Public Present: Mark Heath, Metropolitan West Capital Management

II. ACTION ITEMS

- A. Approval of Minutes – January 7, 2005, October 22, 2004 and October 1, 2004 Committee Minutes**

Committee Vice-Chairman James Taylor, seconded by Committee Member Gerard Cruz, moved to defer the approval of the Investment Committee Meeting Minutes of January 7, 2005, October 22, 2004 and October 1, 2004. Motion carried.

Felix P. Camacho
Governor

Kaleo S. Moylan
Lieutenant Governor

Wilfred G. Aflague
Director

Trustees:

Joe T. San Agustin
Chairman

Dr. Wilfred P. Leon Guerrero
Vice-Chairman
Investment Committee, Chairman

James J. Taylor, Ph.D.
Secretary
Investment Committee, Vice-Chairman

Katherine T.E. Taitano
Trustee
Treasurer

George A. Santos
Trustee
Members' & Benefits Committee, Chairman

Anthony C. Blaz
Trustee
Audit & Operations Committee, Chairman

Gerard A. Cruz
Trustee

III. INFORMATIONAL ITEMS

A. Manager Due Diligence Meetings

Controller Pete Tajalle stated that the Due Diligence meetings will commence on February 21 through February 25, 2005. The meetings will include the three Fixed Income managers and the two ADR managers. Committee Chairman Leon Guerrero asked if the Due Diligence will also be held on Friday, February 25, 2005. Controller Tajalle replied, "yes." Committee Chairman Leon Guerrero inquired about the Strategic Plan. Controller Tajalle stated that a Board Working Session will be held on Friday, February 25, 2005 from 12:00 Noon to 4:00 p.m. Director Aflague stated that the Fund's Investment Consultant will be on island on Monday, February 7, 2005. Controller Tajalle stated that Mr. Terry Dennison will be in attendance as Mr. Rich Nuzum will not be able to make it.

Controller Tajalle stated that he proposes to finalize the Manager Due Diligence Meeting schedule. Committee Chairman Leon Guerrero stated that, without objection from the committee members, the Due Diligence Meeting schedule will be finalized as presented.

B. Status Report: Mercer Investment Alternatives "White Paper"

Controller Tajalle stated that Mr. Dennison is still working on the white paper, but it will be sent to the Fund one week prior to the Due Diligence meeting. Committee Vice-Chairman Taylor asked what Mr. Dennison's relationship to Mr. Rich Nuzum is. Controller Tajalle stated that Mr. Dennison is the Senior Investment Consultant and is Mr. Nuzum's boss and colleague.

Committee Vice-Chairman Taylor asked what the substance of the white paper is. Controller Tajalle stated that it's based on the information requested. Director Aflague stated that it's also based on the presentation Mr. Nuzum made.

IV. OPEN DISCUSSION

Letter from Governor - Committee Chairman Leon Guerrero stated that Board Chairman Joe T. San Agustin received a letter from Governor Felix Camacho regarding investing in federally guaranteed loans. Committee Chairman Leon Guerrero stated that Board Chairman San Agustin had asked him to co-sign a letter in response to the Governor's letter. Committee Chairman Leon Guerrero stated that the Governor is requesting that the Retirement Fund ask the Fund's Investment Managers to review the Fund's portfolio to accommodate the Governor's request. Committee Chairman Leon Guerrero stated that the Retirement Fund has about \$100 Million in its portfolio in government guaranteed loans. Committee Chairman Leon Guerrero stated that the Fund needs to identify how much the Fund is investing on Guam. Committee Member Cruz asked if these are actually invested in federally guaranteed loans. Controller Tajalle stated that it's collateralized mortgage obligations. Director Aflague stated that the Governor's request is to set aside 10% of the Fund's assets for use on Guam. Director Aflague stated that he does not know if the Fund has \$100 Million total on Guam. Committee Member Cruz stated that the Fund would have difficulty finding \$100 Million in loans. Committee Member Cruz stated that a Freddie Mac loan is not guaranteed. Committee Member Cruz mentioned bonds secured by real estate.

Mark Heath, Metropolitan West Capital Management, reported to the Investment Committee that this is a two-pronged attack. The first is to try to encourage use of federally-insured loan programs. The other approach would be to use Sallie Mae, Fannie Mae and Ginnie Mae. Mr. Heath stated this would give liquidity to the Guam market. Committee Member Cruz stated that there's too much competition to make such a program work.

Mr. Heath stated that another approach is that Board Chairman San Agustin wants the private sector firms to purchase loans similar to Freddie Mac. Committee Vice-Chairman Taylor stated that the risk is on the company holding the note. Mr. Heath stated that Board Chairman San Agustin wants the private sector to hold the risk. Mr. Heath stated that Board Chairman San Agustin stated that he does not want the Retirement Fund to hold the risk.

Committee Chairman Leon Guerrero stated that the Fund's loan related portfolio is about \$100 Million. Committee Chairman Leon Guerrero asked Mr. Heath how the funds are invested in the mainland. Mr. Heath stated that the federal agencies buys these mortgages and then sells them in the different states. Committee Chairman Leon Guerrero asked if this is what the Fund's managers are buying. Committee Member Cruz stated that there is a market for it. Committee Chairman Leon Guerrero stated that the Governor's letter is asking the Board of Trustees to look at a guarantee from the federal government. Committee Chairman Leon Guerrero mentioned the Untalan family had invested in a housing development. Committee Chairman Leon Guerrero stated that they will be looking for loans. Committee Member Cruz stated that the investors will be looking for banks to fund the development and their buyers will be looking for loans. Committee Member Cruz stated that the loans could be sold to Freddie Mac. Committee Chairman Leon Guerrero stated that this is a 300 unit development; how much will the development cost. Mr. Heath stated that not all buyers are going to the same bank. Committee Member Cruz stated that the banks can accept about a 25% concentration risk. Committee Member Cruz stated that the Fund is not in a position to bring in the secondary market participants.

Committee Chairman Leon Guerrero stated that this is more a public relations matter. Committee Member Cruz stated that the Fund should try to avoid the concept of buying in secondary markets to secure loans for the Fund. Committee Chairman Leon Guerrero stated that the \$100 Million in the Fund's portfolio may have some Guam loans. Director Aflague stated that the Controller and Ms. Bordallo are conducting a research with the bond managers. Director Aflague stated that it's the Board's prerogative to explore these options. Director Aflague stated that the Governor's request was to invest in federally backed investments because its risk free. Director Aflague stated that the Retirement Fund may not have \$100 Million to invest. Committee Vice-Chairman Taylor stated that he is concerned whether this is a sound business proposition and if it will be open to all banks. Director Aflague stated that Chairman San Agustin is also looking at having the bond managers give the Retirement Fund feedback on what is the Governor's request.

Mr. Heath stated that SBA guarantees 60-70% loans. Committee Member Cruz stated that the Fund needs more cash. Mr. Heath stated that there is a possibility of submitting a white paper for the Board's review. Committee Member Cruz stated that there are some opportunities worth exploring in which we could achieve the goal of both the Governor and Board Chairman San Agustin. Committee Chairman Leon Guerrero stated that he was asked by several people why the Retirement Fund is not investing on Guam. Committee Vice-Chairman Taylor stated that off-island people are investing on Guam. Director Aflague stated that the question is why the Retirement Fund has zero investment on Guam.

Director Aflague stated that there is a provision in the Fund's statute where members and retirees could borrow money.

Committee Chairman Leon Guerrero stated that the Retirement Fund is looking into the Governor's request. Director Aflague stated that Board Chairman San Agustin will be meeting with Mr. Domenick Masotti in Washington, D.C. to explore this option.

2004 Asset Summary Report - Mr. Vince Camacho, Great West Retirement Services, stated that he has provided the Investment Committee with the annual report for the Defined Contributions Plan and the 457 Plan. Mr. Camacho stated that last quarter the Plan went up \$6.2 Million. Mr. Camacho stated that the total asset is \$108 Million. Controller Tajalle asked what the average on distributions is. Mr. Camacho stated that it runs about \$1.5-Million per quarter for distributions. Mr. Camacho stated that you will see the influx of contributions during summer and Christmas. Controller Tajalle stated that he's concerned with the availability of funds. Mr. Camacho stated that the numbers are pretty much the same. Mr. Camacho stated that the distribution includes terminations and retirements.

Committee Chairman Leon Guerrero asked about the difference between the sheets. Mr. Camacho stated that the blue header is the Defined Contributions Plan and the maroon header is the 457 Plan. Mr. Camacho stated that the difference between this quarter and last quarter was \$8.7 Million. Mr. Camacho stated that out of the \$8.7 Million, \$3.8 Million were due to contributions, less any distributions, and then the net investment gain was \$6.2 Million for the quarter. Committee Chairman Leon Guerrero asked if this is net. Mr. Camacho replied, "yes." Mr. Camacho stated that the fourth quarter did very well. Committee Chairman Leon Guerrero asked what is the percentage of growth. Mr. Camacho stated that it averages about 6% for the DC Plan. Committee Vice-Chairman Taylor asked what is the average participation on the 457 Plan. Mr. Camacho stated that there are 751 participants.

V. ANNOUNCEMENTS

None

VI. ADJOURNMENT

There being no further business before the Investment Committee, on motion of Investment Committee Member Gerard Cruz, seconded by Investment Committee Vice-Chairman James Taylor, with no objection, the meeting was adjourned at 1:50 p.m.

Respectfully submitted,


JACKIE BLAS
Recording Secretary

AFFIRMED:

WILFRED P. LEON GUERRERO, Chairman