



INVESTMENT COMMITTEE MEETING

Friday, August 6, 2004, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 12:00 p.m. Friday, August 6, 2004, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

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

Staff Present:

Wilfred G. Aflague, Director
Paula M. Bamba, Administrative Services Officer
Pete Tajalle, Controller
Rosalia Bordallo, Investment Specialist
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

II. APPROVAL OF MINUTES

There were no minutes presented for approval.

Wilfred Leon Guerrero, Chairman of the Investment Committee, informed the members of the Investment Committee that he would like to limit the Investment Committee meetings to one (1) hour. Also, Chairman Leon Guerrero stated that the majority for the meeting is two. Chairman Leon Guerrero further stated that any agenda items should be given to the Committee Chair which he'll forward to Controller Pete Tajalle. Chairman Leon Guerrero stated that the Investment Committee meeting agenda setup shows two (2) different meetings. Chairman Leon Guerrero asked if the meetings could be combined. Trustee Gerard Cruz stated that he is not sure if it's necessary, by statute, to have two different meetings. Director Aflague stated no. Trustee Cruz recommended combining both meetings.

James Taylor, Vice-Chairman of the Investment Committee, pointed out that there are several recommendations from Mercer Investment Consulting. Chairman Leon Guerrero stated that this will be added into New Business.

III. OLD BUSINESS

A. Discussion of International Manager Search

Trustee Gerard Cruz stated that the prior Board came to a conclusion that the Fund's exposure of the International Managers was not as well defined as it should be. Trustee Cruz stated that the prior Board made a decision to issue an RFP. Trustee Cruz stated that proposals were received and the Investment Selection Committee recommended the following: 1) International Equity (EAFE) Large Cap - Grantham Mayo Van Otterloo (GMO) and Fisher Investments; 2) Emerging Markets Equity (EME) - Grantham Mayo Van Otterloo (GMO) and Capital Guardian Trust Company; and 3) International Equity (EAFE) Small Cap - Grantham Mayo Van Otterloo (GMO), Dimensional Fund Advisors (DFA) and Axa Rosenberg Investment Management (AXA).

Chairman Leon Guerrero asked if the Committee would like to revisit this or accept it. Vice-Chairman Taylor asked how much money do we have. Trustee Cruz stated that it's under 10% of our portfolio.

Controller Pete Tajalle stated that this was presented to the prior Board for action, which was to accept the selection. Rosalie Bordallo, Investment Specialists, stated that there will be a 60/40 split in equity with this action because 10% will be mutual funds. Ms. Bordallo stated that the law says you can only have 50% of equity. Trustee Cruz stated that we have a legal opinion regarding this.

On motion of Vice-Chairman James Taylor, seconded by Trustee Gerard Cruz, and unanimously agreed upon, the Investment Committee voted to approve to adopt the recommendation of the prior Board of Trustees and to include the Board Minutes of June 9, 2004 and Legal Counsel's opinion. Motion carried.

IV. NEW BUSINESS

A. Status of 2004 Employee and Employer Contributions

Controller Pete Tajalle stated that all agencies are current with their employee and employer contributions except Guam Memorial Hospital (GMH) who is delinquent on their Defined Benefits contributions for pay period ending June 26, 2004. Controller Tajalle stated that he has sent two delinquent notices to GMH. Vice-Chairman Taylor asked if there is something in writing. Controller Tajalle stated that copies of the delinquency notices will be made available to the Committee.

Chairman Leon Guerrero asked how much has been collected so far for this fiscal year. Controller Tajalle stated that he didn't have the numbers as this time but that he will provide a summary to the Committee members on the total contributions coming in by agency. Chairman Leon Guerrero asked if it's about \$95 Million per year. Controller Tajalle replied yes, depending upon remittances. Controller Tajalle stated that the only agency that we have issues with is GMH.

B. Investment Consultant Contract Review

Chairman Leon Guerrero stated that he has reviewed the contract. Vice-Chairman James Taylor asked what would be the price if we choose to get out of the contract. Paula Bamba, Administrative Services Officer, stated that all that is necessary is to give a thirty-day notification. Ms. Bamba stated that we are not obligated to pay for services that were not utilized. Vice-Chairman Taylor asked if that is clear on the contract. Ms. Bamba stated that their breakdown itemizes the costs associated with each service. Vice-Chairman Taylor asked how much are we paying them compared to their original estimate. Controller Tajalle stated that their annual fee is \$110,000.00. Controller Tajalle stated that the additional work they did for the Fund was the First Retirement Fund Summit, which was held in August 2003, was about \$26,000.00. Vice-Chairman Taylor requested for a summary of the Retirement Fund Summit. Ms. Bamba stated that she will provide the summit packet to the Board of Trustees. Vice-Chairman Taylor asked if the \$110,000.00 included travel. Ms. Bamba stated that it's exclusive of travel expenses.

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C. Outstanding Receivables

Chairman Leon Guerrero stated that with regards to the courtesy visit with the Governor, the Governor indicated that he is anticipating that the Attorney General will take the bond issue to Supreme Court, which will take some time. Chairman Leon Guerrero stated that the Governor is also anticipating that once that's cleared, the new law will be proposed. Chairman Leon Guerrero stated that there will be a need for the Legislature to reallocate. Chairman Leon Guerrero asked if we should treat the outstanding debt as part of the Investment Portfolio. Vice-Chairman Taylor stated that he has a different understanding. Vice-Chairman Taylor stated that it was suggested by Board Chairman Joe T. San Agustin that the \$30 Million that is owed to the Fund by DOE and GMH be on a signed note. Vice-Chairman Taylor asked if there is a signed note from GMH. Controller Pete Tajalle replied yes, for a portion of the outstanding balance. Vice-Chairman Taylor stated that Board Chairman San Agustin was advocating that the government start paying on that. Chairman Leon Guerrero stated that the Governor is committed to assisting the Retirement Fund but he made it clear that he does not have the money.

Controller Tajalle reiterated that currently, on the outstanding receivables, the Fund is charging the rate of return by statute from the previous fiscal year, which is 9.9%. Controller Tajalle stated that this could change at the end of Fiscal Year 2004. Trustee Gerard Cruz asked if we are accruing interest earned. Vice-Chairman Taylor stated that it doesn't matter how much interest we charge as long as payment is not being made. Trustee Cruz asked if there was a discussion with GMH to resurrect the promissory note. Director Aflague replied yes. Trustee Anthony Blaz asked what is the total outstanding liability. Controller Tajalle stated that GMH owes \$15.8 Million and DOE owes \$17 Million. Controller Tajalle stated that we are looking at outstanding interest and penalty of \$2.63 Million for DOE and \$1.95 Million for GMH.

D. Portfolio Review – June 30, 2004

Controller Pete Tajalle stated that he has provided a breakdown as of June 30, 2004. Controller Tajalle stated that the bond market is not doing as good as it should be, but that the stock market is doing well now. Rosalia Bordallo, Investment Specialist, reported on the performance summary for the quarter ending June 30, 2004. Ms. Bordallo stated that our return is negative for the quarter, but as of the fiscal year to date, we are still on track to beat the actuarial rate. For the quarter, we made (0.8) and for the fiscal year it's 8.3. Ms. Bordallo stated that we are still doing very well. Ms. Bordallo stated that the summary also shows what the individual managers have done. The one doing well now, basically for the year, is the International Equity. Ms. Bordallo stated that the bonds are all in the negative. Vice-Chairman Taylor questioned the number 34 for the quarter under Total Domestic Equity. Ms. Bordallo stated that it's based on the ranking. Ms. Bordallo stated that it's ranking 34 out of 100. Ms. Bordallo stated that 34 is better than average. Vice-Chairman Taylor stated that the summary is saying we are good for the quarter, but not too well for the year. Vice-Chairman Taylor stated that he was concerned with the comparison against their proprietary index and that if we would go to another advisor, we've lost the comparisons. Ms. Bordallo stated that any other advisor would have the same make up. Vice-Chairman Taylor stated that this is a Mercer data base, and if we go to another advisor, the comparisons will change. Ms. Bordallo stated that we do have a backup, which is Merrill Lynch.

E. Defined Contribution Contract Review

Chairman Leon Guerrero inquired about the \$54.00 fee and also inquired about the rental fee. Vince Camacho, Great West Retirement Services, stated that there's a fee schedule on page 28 of the contract. Mr. Camacho stated that the \$54.00 is \$13.52 per quarter for ongoing fees associated with Great West. Chairman Leon Guerrero asked if it's \$54.00 per participant. Mr. Camacho replied yes. Chairman Leon Guerrero asked Mr. Camacho if he's not paying for rent. Mr. Camacho replied no and stated that

Trustee Anthony Blaz asked if there was any consideration. Mr. Camacho stated that the consideration is that Great West is strictly dealing with government of Guam employees and because the Retirement Fund had the space available, the Fund made the space available for Great West. Mr. Camacho stated that he tried to cut a lot of the costs in the fee schedule. Trustee Blaz asked if he's below cost. Mr. Camacho replied yes. Director Aflague stated that only space was provided, there are no costs incurred by the Fund.

Chairman Leon Guerrero asked about the fee rate. Paula Bamba, Administrative Services Officer, stated that it's a brand new plan and since the inception of the plan, the growth of cost has been minimal. Mr. Camacho stated that he has not sought any fee adjustments. Ms. Bamba stated that the Fund has received five (5) submissions on the RFP. Vice-Chairman Taylor asked how many employees does Mr. Camacho have. Mr. Camacho stated that he has five, four full time employees and one part-time employee, which is the Administrative Assistant.

F. Proposed Investment Policy Statement Amendments

Trustee Gerard Cruz recommended tabling the "Proposed Investment Policy Statement Amendments" until the next meeting.

G. Custodian Bank Contract Review

Chairman Leon Guerrero stated that we have had custodial bank services with First Hawaiian Bank for about seven years. Chairman Leon Guerrero stated that it's time to ask for a Request for Proposal for custodial bank services.

On motion of Trustee Gerard Cruz, seconded by Vice-Chairman James Taylor, and unanimously agreed upon, the Investment Committee voted to approve the recommendation for a Request for Proposal for Custodial Bank Services. Motion carried.

H. August 4, 2004 Letter from Mercer Investment Consulting

Chairman Leon Guerrero stated that there is a recommendation to rebalance the investment program. Rosalia Bordallo, Investment Specialist, stated that on the investment policy, we have an approved asset allocation. Trustee Gerard Cruz asked if there were any specific equity managers the Fund was going to reduce exposure of. Ms. Bordallo stated that it's Met West and maybe the ADRs. Vice-Chairman James Taylor asked if there's any new money going into investments. Vice-Chairman Taylor also asked how often do we rebalance. Ms. Bordallo stated that we rebalance every time we ask for money. Vice-Chairman Taylor stated that Ms. Bordallo is saying that we are being driven by a law that uses an incorrect mechanism to define what we need to do. Vice-Chairman Taylor asked what's the rule that says we have to do something right now. Ms. Bordallo replied cash necessity. Ms. Bordallo stated that we have looked at the statute, and the statute is saying that, based on the cost of the fund, we could have no more than 50% based on the total fund costs. Vice-Chairman Taylor stated that the total fund cost is a meaningless figure.

Chairman Leon Guerrero asked Ms. Bordallo if she agrees with Mercer's recommendation. Ms. Bordallo agreed to have to look at what it is. Vice-Chairman Taylor asked if there's a legal opinion from our attorney. Director Aflague replied, not on this. Director Aflague stated that he will take it to Legal Counsel. Vice-Chairman Taylor stated that we need to change the law. Vice-Chairman Taylor stated that the law is not an appropriate mechanism to manage a fund bond. Ms. Bordallo stated that we are projecting that we need \$15 Million till the end of this fiscal year. Ms. Bordallo stated that we're short on payroll. Vice-Chairman Taylor stated that there are two separate issues, which should be clearly separated. Vice-Chairman Taylor stated that there's no cash flow policy. Vice-Chairman Taylor also stated that we would like to see a policy on liquidation.

Chairman Leon Guerrero stated that he's concerned on violating the statutory limit. Trustee Gerard Cruz asked how soon could we get a legal opinion. Paula Bamba, Administrative Services Officer, stated that she'll get this out to Legal Counsel today.

Trustee Cruz asked if our receivables follow GAP. Controller Pete Tajalle replied yes. Chairman Leon Guerrero asked, in sensing the urgency, if one month will hurt the Fund. Ms. Bordallo stated that this upcoming payroll is covered. We would then have two and a half week period. Vice-Chairman Taylor stated that we have revenues that come in from GovGuam. Vice-Chairman Taylor stated that the cash is not going to change in value. Controller Tajalle stated that Vice-Chairman Taylor is looking for a schedule of what the anticipated drawdown will be.

Trustee Cruz stated that the current Investment Policy, as it stands, does give the Fund the authority to pull money from different accounts. Trustee Cruz further stated that under the current authority, you can liquidate. Chairman Leon Guerrero stated that there is a prior recommendation on this, but he is requesting that the committee be given a plan.

Chairman Leon Guerrero asked if the Committee would like to meet with the Investment Consultant. Trustee Cruz stated that its okay with him and Vice-Chairman Taylor stated he's neutral. Chairman Leon Guerrero stated that the Committee will meet with the consultant at the next Investment Committee Meeting. Controller Tajalle stated that he will inform our Investment Consultant.

I. Pioneer Emerging Markets Application

Vince Camacho, Great West Retirement Services, stated that he needs a decision on whether to use the same account number since the 401 Plan does not have \$10 Million in assets to transfer to the Pioneer Emerging Markets. Mr. Camacho stated that the prior Board had wanted both the 457 and 401a Plans to have mirror investment options. Mr. Camacho stated that Pioneer Emerging Markets is no longer accepting any accounts with assets less than \$10 Million. Mr. Camacho stated that he attempted to apply for an account specifically for the 401a Plan. There's only one account for both plans. Trustee Gerard Cruz stated that both plans have the same investment options. Vice-Chairman Taylor stated that he is concerned of the complexity if the two plans had the same account number. Trustee Cruz asked how much money do we have in the 401a Plan. Mr. Camacho replied zero but that the 457 Plan has \$93,000.00. Vice-Chairman Taylor asked if the 457 and 401a are combined. Mr. Camacho stated that it's not combined. Mr. Camacho stated that it goes into payroll separately.

On motion of Trustee Gerard Cruz, seconded by Vice-Chairman James Taylor, and unanimously agreed upon, the Investment Committee voted to deny the application by Pioneer Emerging Markets. Motion carried.

V. OPEN DISCUSSION

None

VI. ANNOUNCEMENTS

None

VII. ADJOURNMENT

There being no further business before the Investment Committee, on motion of Trustee Gerard Cruz, seconded by Vice-Chairman James Taylor, and unanimously agreed upon, the meeting was adjourned at 1:35 p.m. Motion carried.

Respectfully submitted,


Jackie Blas, Recording Secretary

We, the undersigned Trustees of the Government of Guam Retirement Fund Board, certify that we have read the Minutes of August 6, 2004 Investment Committee Meeting, including all exhibits attached hereto and approve the same.

Wilfred P. Leon Guerrero, Vice-Chairman

James J. Taylor, Secretary

Katherine T.E. Taitano, Treasurer

Anthony C. Blaz, Trustee

Gerard A. Cruz, Trustee

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We acknowledged by our signatures affixed below that we were not present and that we have read the Minutes and approved the action taken then.

Joe T. San Agustin, Chairman

George A. Santos, Trustee