



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY · SECURITY · REWARDS

**Felix P. Camacho**  
 Governor

**Kaleo S. Moylan**  
 Lieutenant Governor

**Paula M. Blas**  
 Acting Director

**INVESTMENT COMMITTEE MEETING**  
 Friday, January 6, 2006, 12:00 p.m.  
 Retirement Fund Conference Room

*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

**MINUTES**

**I. CALL TO ORDER**

The Retirement Fund Investment Committee Meeting was called to order at 12:52 p.m. Friday, January 6, 2006, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred P. Leon Guerrero officiated.

**Board of Trustees Present:**

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

**Staff Present:**

Paula M. Blas, Acting Director  
 Pete Tajalle, Controller  
 Jackie Blas, Recording Secretary

**II. ACTION ITEMS**

**A. Approval of Minutes – October 12, 2005 and December 2, 2005 Investment Committee Meetings**

**On motion of Investment Committee Member Gerard Cruz, seconded by Investment Committee Member James Taylor, and without objection, the Investment Committee Meeting Minutes of October 12, 2005 were approved, subject to corrections. Motion passed.**

**Committee Member Gerard Cruz, seconded by Committee Member James Taylor, moved to defer approval of the Investment Committee Meeting Minutes of December 2, 2005 until the next scheduled Investment Committee Meeting. Without objection, the motion passed.**

**B. Approval – Motion for Board of Trustees to Review and Approve Attached Committee Principal Drawdown Schedule**

Controller Pete Tajalle reported that the Fund's total cash outflow for first quarter 2006 for benefit payments, refunds and operating expenditures was \$43,897,962.90 and the total cash inflow from contributions, interest and dividend, receipts and other income was \$29,077,485.58. Controller Tajalle stated that the first quarter shortfall totaled \$14,820,477.32 with an average monthly shortfall of \$4,940,159.11 per month. Controller Tajalle stated that the principal cash drawdown for the month of October 2005 was \$2,500,000.00; \$5,000,000.00 in November and \$5,000,000.00 in December. Controller Tajalle stated that the first quarter total principal cash drawdown was \$12,500,000.00 to meet the Fund's operational requirements and benefit payments.

Controller Tajalle stated that Management is asking that the Investment Committee adopt a drawdown authorization not to exceed \$5,000,000.00 per month to meet the Fund's monthly requirements. Committee Member Gerard Cruz asked under what authority has the Fund been drawing down on in the past. Controller Tajalle stated that it was from the previous cash drawdown plan which was carried forward month after month. Controller Tajalle stated that \$5,500,000.00 was the approved drawdown amount. Committee Chairman Leon Guerrero stated that there is justification for the \$5,000,000.00 drawdown based on past expenditures.

Committee Member James Taylor asked about the four quarter budget. Acting Director Paula Blas stated that it is a cash budget for four quarters so that the Fund could drawdown accordingly. Committee Member Taylor stated that the Fund will be drawing down \$15,000,000.00 per quarter for a total of \$60,000,000.00. Controller Tajalle stated that the authorization would be for Management to drawdown up to \$5,000,000.00 if required.

Committee Member Taylor stated that the problem is that the entire contribution by the Government of Guam and the entire matching by the employees, and all interest and dividends are being paid out to the current retirees and not a penny is being set aside for the existing Government of Guam employees who are currently working and are members of the Defined Benefits Plan. Controller Tajalle stated that he is currently working with the Fund's system to try to determine on a drawdown basis what assets are being liquidated and the total gain and loss from a particular transaction. Committee Member Cruz asked why was this necessary. Committee Member Cruz stated that it should not be a concern because the portfolio is marked to market. Committee Chairman Leon Guerrero stated that the Fund knows that it needs the money every month.

Committee Member Cruz stated that there are a couple of interim options – the Fund should have not liquidated from Aberdeen or Lazard, the money could have been from the bonds. Committee Chairman Leon Guerrero stated that the Fund should plan more comprehensively for its annual needs. Controller Tajalle stated that he will develop such a plan.

Committee Member Cruz stated that he would like to see Management's recommendation. Controller Tajalle stated that it will be difficult to develop a liquidation plan. Committee Chairman Leon Guerrero stated that he is not comfortable with the way money is currently being drawn basing the draw on only a determination of monthly needs. Committee Member Taylor stated that the Fund really needs a four-quarter plan. Committee Member Cruz stated that a full plan of what has happened in the past and what is expected to happen in the future is needed. Committee Member Cruz stated that the

Board or the Investment Committee could provide the Controller with more tools to carry out the task, if needed.

Committee Chairman Leon Guerrero stated that the Board of Trustees had asked for a one-year drawdown plan. Controller Tajalle stated that he could ask Mercer if there is a methodology for cash liquidation strategy. Committee Chairman Leon Guerrero asked if Management needs authorization to drawdown for January 2006. Controller Tajalle stated that there is enough cash to carry through January. Committee Chairman Leon Guerrero recommended tabling the drawdown authorization request. The Committee Members agreed.

### **III. OPEN ITEMS**

#### **A. September 2, 2005 Minutes, Item III B – Great West Retirement Services Recommends Placing the Pioneer Emerging Markets Fund on a Watch List. Management is Awaiting Response from Mercer on Proposed Language for Consideration and Modification of the Investment Policy Statement Regarding this Issue**

Controller Tajalle stated that Mercer is going to provide language for consideration and modification of the Investment Policy Statement for watch list criteria. Controller Tajalle stated that he is waiting for a response from Mercer.

#### **B. September 2, 2005 Minutes, Item IV B 1 – The Contract Modification to Mercer’s Contract to Address the Request for Proposal for Custodian Bank Services have been Forwarded to the Board of Trustees for their Disposition**

Controller Tajalle stated that all signatures for the contract modification to Mercer’s contract have been obtained except for one. Committee Member Taylor asked if the contract modification was reviewed by the Board prior to distribution for signature. Acting Director Blas replied, “yes.” Controller Tajalle stated that once all signatures have been obtained, the contract modification will be forwarded back to Mercer and the Fund could proceed.

#### **C. September 2, 2005 Minutes, Item IV B 2 – The Plan Document has been Forwarded to the Board of Trustees for their Disposition**

Controller Tajalle stated that the Fund is waiting for word on whether the Plan Document has been filed with the Internal Revenue Service (IRS). Committee Chairman Leon Guerrero asked why the Plan Document has to be filed with the IRS. Acting Director Blas stated that the Plan Document is a qualified plan.

#### **D. September 2, 2005 Minutes, Item IV C – Fund has Received all International Manager Contracts and is in the Process of Transitioning to the Contracted Managers. The Custody Issue Raised by First Hawaiian Bank Regarding Capital International for Emerging Markets has been Reviewed by Mercer and Carlsmith. Management is to Recommend Options to the Committee to Address this Matter.**

Controller Tajalle stated that he is trying to figure out whether the Fund would need to issue another Request for Proposal (RFP) in lieu of going with Capital International. Controller Tajalle stated that it was decided by the Investment Committee and the Board of Trustees to give the money to Capital.

Controller Tajalle stated that in light of the custody issue with Capital, the decision has been made to suspend funding Capital indefinitely. Controller Tajalle stated that the Fund may need to issue another RFP. Committee Member Taylor asked Controller Tajalle what he wants to see happen with this matter. Controller Tajalle stated that may be the Fund could modify an existing contract with one of the managers. Committee Chairman Leon Guerrero asked what category is Capital. Controller Tajalle replied, "Emerging Markets."

Committee Member Taylor stated that during prior discussions, Grantham, Mayo, Van Otterloo (GMO) was the one recommended and the Committee thought that the fees were high and that is when the Committee decided to go to Capital. Committee Member Taylor asked why the Fund would not want to go back to GMO and get the problem resolved. Controller Tajalle stated that the fees for GMO are 81 basis points on \$40 Million. Committee Member Taylor asked if it would not be better to get the money invested and then put out an RFP. Controller Tajalle stated that he does not want Management recommending a high-fee manager. It was noted that was not his decision. Committee Member Cruz asked if Controller Tajalle is recommending changing the Fund's strategic allocation. Controller Tajalle stated that it is a possibility.

Controller Tajalle stated that he would like to give this to Mercer to get their analysis on going back to GMO, continuing into the emerging markets, and not going into the emerging markets vehicle. Controller Tajalle stated that once the Fund receives the analysis, the Fund could make a decision as to where the money should go. Controller Tajalle stated that the Fund still has an issue with GMO. Controller Tajalle stated that he is waiting for a response from Mercer. Controller Tajalle stated that there was confusion at the GMO level as to what they had bid for. The Investment Committee requested for clarification on what are the issues.

Controller Tajalle stated that the international manager, Axa Rosenberg, had received \$2.5 Million since December 29, 2005. Controller Tajalle stated that the Fund is proceeding with the complete asset transfer of Aberdeen assets to Fisher International which should be completed by January 7, 2006. Controller Tajalle stated that a listing of all of Lazard's assets has been sent to GMO. Controller Tajalle stated that with respect to funding the remaining managers, there was a motion at the previous Board meeting to adopt a funding schedule which needed to be modified in order to fund the remaining managers. Committee Member Taylor asked if the action item on this matter is to push Mercer to get a quick response. Controller Tajalle stated that when he gets a response from Mercer, he would recommend that the Board call for a Special Meeting to address this issue.

#### **IV. INFORMATIONAL ITEMS**

##### **A. Cash In Flow/Out Flow Comparison**

Controller Tajalle stated that Item IV A was discussed earlier. Controller Tajalle stated that this gives the Investment Committee an idea of what the cash in and cash out flows were for the fiscal year. Controller Tajalle stated that he will come up with an annual plan.

##### **B. Defined Contribution – November 2005 Contribution Report**

Controller Tajalle stated that all agencies are current with their fiscal year contributions for the Defined Contributions and Deferred Compensation Plan.

### **C. Memorandum to Board of Trustees on International Manager Funding**

Controller Tajalle stated that he going to work on modifying the memorandum. Committee Chairman Leon Guerrero stated that the Investment Committee needs the justification on the approval of the motion that was made at the last Board meeting. Committee Chairman Leon Guerrero stated that he will work with Controller Tajalle on modifying the memorandum.

### **V. OPEN DISCUSSION**

#### **A. Status of Current Proposed Legislation Regarding Investments – Section 8158**

Controller Tajalle stated that the legislative calendar has not been issued for the public hearings. Controller Tajalle stated that he would like for Mr. Terry Dennison, when he is on island for the proposed due diligence for Fixed Income Managers (tentatively scheduled for the third week of February 2006) to attend the public hearing at that time so he could answer questions. Committee Chairman Leon Guerrero stated that he met with Speaker Mark Forbes on January 5, 2006 regarding the recruitment of the Director of the Fund. Committee Chairman Leon Guerrero stated that if the Board has the authorization to hire and fire the director, then the Board should set the terms and conditions of the employment. Committee Chairman Leon Guerrero stated that there is a need to go to the Legislature to clarify that portion of the law governing the Retirement Fund. Committee Chairman Leon Guerrero stated that he met with Acting Director Blas and they propose to have a Retirement Fund bill. Acting Director Blas stated that Section 8158, Section 8157, the restatement, the amendments to Section 8140 and the possibility of disability outsourcing will all be included in the bill.

#### **B. Status of Request for Proposals**

##### **1. Custodian Bank**

Controller Tajalle stated that Item V B was discussed earlier. Controller Tajalle stated that the contract modification is pending one more signature.

##### **2. Defined Contribution Plan Administration**

Acting Director Blas stated that the Fund is waiting for the restatement to be completed.

##### **3. Transaction Monitoring Services**

Controller Tajalle stated that the Board of Trustees had approved for Management to proceed with the Request for Proposal for monitoring investment transaction fraud.

#### **C. Status of International Manager Contracts**

Controller Tajalle stated that Item V C was discussed earlier.

#### **D. Fixed Income Manager Due Diligence Meeting**

Controller Tajalle stated that the Fixed Income Manager Due Diligence Meeting is tentatively scheduled for February 20-24, 2006. Committee Chairman Leon Guerrero stated that he is hoping to

have the public hearing in January. Controller Tajalle stated that if the Board would like to have Mercer here for the public hearing, it would be at the expense of the Fund. Committee Chairman Leon Guerrero suggested having Mercer on island around the February 10, 2006 Board meeting. Controller Tajalle stated that he will ask Terry Dennison if he could attend the February 10, 2006 Board meeting and try to schedule the Due Diligence for February 13-17,2006. Vice Chairman Leon Guerrero stated that if Mr. Dennison can not make it for the Board meeting, then the Fund could keep the Due Diligence schedule for February 20-24, 2006.

**VI. CORRESPONDENCE**

**A. December 29, 2005 E-Mail from Jonathan Goll from Grantham, Mayo, Van Otterloo (GMO) as Treatment of Investment**

Controller Tajalle stated that the GMO issue was discussed earlier under Item III D.

**B. January 5, 2006 E-Mail from Winton Young, First Hawaiian Bank, on AXA Rosenberg Mutual Fund Investment Vehicle**

Controller Tajalle stated that email from Winton Young regarding the Axa Rosenberg Mutual Fund Investment Vehicle was discussed earlier under Item III D.

**VII. ANNOUNCEMENTS**

None

**VIII. ADJOURNMENT**

**There being no further business before the Investment Committee, on motion of Investment Committee Member Gerard Cruz, seconded by Investment Committee Member James Taylor, and without objection, the meeting was adjourned at 2:07 p.m. Motion passed.**

Respectfully submitted,

  
**JACKIE BLAS**  
Recording Secretary

**AFFIRMED:**

  

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**WILFRED P. LEON GUERRERO, Chairman**