



GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS
INVESTMENT COMMITTEE MEETING
Friday, January 7, 2005, 2:00 p.m.
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 2:10 p.m. Friday, January 7, 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
Joe T. San Agustin
Katherine T.E. Taitano (2:16 p.m.)

Staff Present:

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

Committee Chairman Leon Guerrero asked if there's any addition to the meeting agenda. Committee Chairman Leon Guerrero stated that he would like to include the Due Diligence Review in the agenda under section III B. Committee Vice-Chairman James Taylor recommended that the Investment Committee Agenda show designation of new business and old business items.

II. ACTION ITEMS

A. Approval of Minutes – October 1, 2004 and October 22, 2004 Committee Minutes

Committee Vice-Chairman Taylor, seconded by Committee Member Gerard Cruz, moved to postpone the approval of the Investment Committee Meeting Minutes of October 1, 2004 and October 22, 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. Mercer Global Investment Forum

Controller Pete Tajalle stated that he has submitted a travel report on the Mercer Investment Consulting sponsored Global Investment Forum entitled "Best Practices in Pension Investment Management" which was held on December 9, 2004 in Tokyo, Japan. The forum was attended by Board Chairman Joe T. San Agustin, Deputy Director Paula Bamba, Controller Tajalle and Investment Specialist Rosalia Bordallo.

Controller Tajalle stated that the presentations were very informative and included the following points for consideration for the Fund:

- Cost reduction and asset value enhancement could be solutions to the major problem of the inadequacy of value of available assets to meet the expected levels of pension requirements.
- 100% investment in Bonds will not meet the return requirements essential to meeting pension requirements.
- Investment in "Real Estate" provides portfolio diversification and assists in risk management in relation to competitive returns.
- Internal Fund Governance should be established in order to meet the needs of control, consistency, information, compliance, assurance, and reputation of management.

B. Due Diligence Review

Committee Chairman Leon Guerrero stated that he would like to finalize the Due Diligence Meeting which is scheduled for the latter part of February 2005. Controller Tajalle stated that we're looking at the week of February 21-25, 2005. Board Chairman San Agustin asked how many managers are there. Controller Tajalle replied five (5) managers: three (3) Fixed Income Managers and two (2) ADR Managers. Committee Chairman Leon Guerrero recommended polling the Board members who are not present at today's committee meeting on their preference of the meeting schedule. Controller Tajalle stated that he will email the proposed schedule to the Board of Trustees.

Board Chairman San Agustin inquired about the International Managers. Controller Tajalle stated that the International Managers RFP process is on-going. Controller Tajalle stated that it's at the stage now of contract review between the selected managers and the Fund's Legal Counsel to iron out any issues that they have with the contract and then it will be presented to the Board for signature.

Committee Chairman Leon Guerrero asked when the Actuarial Review will be held. Controller Tajalle stated that he has not received an update as to when we can get a proposed draft, but that he expects the first draft by the end of January for review and comments. Committee Vice-Chairman Taylor asked what kind of review and comments will it be; would it include sitting down with him and walking it through. Controller Tajalle stated that, if so desired, it can be done that way.

Committee Chairman Leon Guerrero asked if we want to have the Strategic Planning Meeting to take place at the same time as the Due Diligence Meeting. Board Chairman San Agustin replied no. Committee Chairman Leon Guerrero stated that the Due Diligence is tied in with the Strategic Plan. Committee Member Cruz asked if Mercer is going to provide something to the Fund on the Strategic

Plan. Controller Tajalle replied yes. Committee Member Cruz asked if we could reserve setting up the time frame strictly for a Board meeting so the other Board members could be involved with the Strategic Plan as it involves the entire organization. Committee Chairman Leon Guerrero recommended to include the Strategic Plan in the next Board Meeting.

Committee Chairman Leon Guerrero stated that we would need the full Board on the Actuarial Review. Committee Vice-Chairman Taylor stated that it seems like the Actuarial Review will take more than an hour just to understand the actuarial study, so we might as well make it a meeting. Controller Tajalle stated that the Actuarial Review will be held on February 4, 2005. Committee Member Cruz asked if the Board could make changes to the draft actuarial study when it's received. Committee Chairman Leon Guerrero stated that it's important that we look at the assumptions. Controller Tajalle stated that he'll request for Rich Wright to email all the assumptions to include the rate of return. Board Chairman San Agustin requested for Controller Tajalle to ask Mr. Wright what he means by the actuarial assumptions. Board Chairman San Agustin asked if it's the goal for investment returns or is that the goal to make you break even.

Committee Chairman Leon Guerrero stated that he would like to push for the approval of the Director's objectives. Director Aflague stated that he gave a copy of his objectives to the Administrators in-house and he was told that it's ambitious but it's achievable.

IV. OPEN DISCUSSION

A. Legal Counsel Recommendation for IPS

Controller Tajalle stated that the Investment Policy Statement (IPS) was forwarded to Legal Counsel for review and comments. Controller Tajalle stated that Legal Counsel had submitted her comments and she sent an email regarding why the comments she made were recommended. Controller Tajalle stated that Legal Counsel's email stated that the biggest change as discussed was to eliminate from the Investment Policy Guidelines (IPG) the abbreviated statutory language in favor of an attachment of all of the relevant statutes as an appendix to the IPG. Controller Tajalle stated that as read we should put the full law in but don't paraphrase within the body of the Investment Policy.

Committee Chairman Leon Guerrero asked Board Chairman San Agustin if he is objecting to putting the full text of the law into the IPS. Board Chairman San Agustin stated that he is against taking it out. Committee Chairman Leon Guerrero stated that the whole law should be in the IPS. Committee Chairman Leon Guerrero stated that we should get this back to Legal Counsel Joanne Grimes. Committee Vice-Chairman Taylor stated that he is a little frustrated since a lot of time and energy was put into the IPS and now we are doing a major rewrite on it. Board Chairman San Agustin stated that Legal Counsel Grimes never had the IPS before for review. Committee Vice-Chairman Taylor asked what we can do to avoid this in the future. Committee Vice-Chairman Taylor stated that this is a major rewrite from the point of view of making it reference a body of law formally rather than the way it's set up.

Board Chairman San Agustin stated that we want to be sure that whatever investment policy we make here that we use our local laws. Controller Tajalle stated that he will get back in touch with Legal Counsel Grimes and let her know that the Investment Committee would like to see language to say that the IPS should state that Investment Managers hired by the Retirement Fund must adhere to the guideline of Guam laws. Committee Chairman Leon Guerrero stated that we want to make the law an

appendix to the guidelines. Committee Vice-Chairman Taylor stated that Legal Counsel made major changes throughout the whole structure of the IPS. Controller Tajalle asked if it's acceptable to send Legal Counsel an email to say that we like what she's saying on the compliance aspect and we want to be able to keep the major write ins, but just make sure that what's written does not conflict with the Bond's Act over the appendix. Director Wilfred Aflague stated that, in reading Legal Counsel's email of December 28, 2004, he believes this is strictly an Investment Policy Guideline and has nothing to do with the collection and non remittance of contributions.

Committee Chairman Leon Guerrero asked if Legal Counsel is going to attend the meeting on the third week of February. Controller Tajalle stated that if the Board wants Legal Counsel there, he'll inform her. Committee Chairman Leon Guerrero recommended tabling this. Committee Vice-Chairman Taylor asked if we are asking Legal Counsel to attend the meeting to explain why they dealt with that particular paragraph or to explain why they are asking for a restructuring of the whole document. Committee Chairman Leon Guerrero stated that we are going to ask her why she is taking things out. Committee Member Cruz stated that these are just recommendations.

B. DC Forfeiture Allocation Process

Controller Tajalle stated that 4 GCA §8210 – Termination of Membership – states that any member who leaves government service after the completion of five complete years of employment service, for vesting purposes shall be eligible following his or her attainment of age 55 to receive a distribution from the member's account of an amount equal to the member's contributions plus one hundred percent of the employer contributions and any earnings thereon.

Controller Tajalle stated that with the provision of 4 GCA §8210, which deals with forfeitures; a forfeiture is if a member in government service is a member of the Defined Contribution Plan, fails to meet the vested purposes, the government contributions made are forfeited and are allocated based on §8210. Controller Tajalle stated that this is an issue to the Fund because within in the statute it says you can pay for the administrative cost of the DC Plan with the forfeiture then you allocate it back to the agencies to be taken as a credit. Controller Tajalle stated that the problem that we face is two-fold: 1) we need to receive authorization to use the forfeiture money to repay the administrative costs associated with the DC Plan in the amount of approximately \$420,000.00; and 2) the allocation of the forfeitures after that.

Controller Tajalle stated that he would like to recommend to the Investment Committee proposed legislation to get the statute changed to get the allocation of forfeitures back to the agencies. Controller Tajalle also stated that he would like to recommend that the Investment Committee recommend that the Board of Trustees use part of the forfeitures to repay back the start up cost associated with the DC Plan. Mr. Vince Camacho, Great West Retirement Services, stated that next forfeiture amount is about \$1.4 Million which is expected by this summer.

Committee Chairman Leon Guerrero stated that the Investment Committee will be making a recommendation to the Board of Trustees at the next regularly scheduled meeting to authorize the reimbursement of Defined Contributions Plan start up costs and administrative fees to the Defined Benefit Plan from the Defined Contributions Plan forfeitures.

C. Strategic Plan Including FY 2005 Cash Drawdown Plan

Controller Tajalle stated that he provided a chart on drawdowns of principal, interest and dividends from fiscal years 1999 to 2005. Controller Tajalle stated that the total drawdown for FY 2005 is \$15.6 Million. Controller Tajalle stated that the projected average monthly drawdown of interest, dividend and principal liquidation requirements in FY 2005 is \$5 Million. Committee Chairman Leon Guerrero asked what is the total contribution. Controller Tajalle stated that it runs roughly \$80 Million a year.

Controller Tajalle stated that he would need authorization from the Investment Committee to bring this to the Board level that we need to liquidate \$5 Million per month. Board Chairman San Agustin asked if the prior Board approved this before. Controller Tajalle replied no. Committee Chairman Leon Guerrero asked Controller Tajalle why he is seeking the Board's approval now. Board Chairman San Agustin stated that he questions if Controller Tajalle has the right to divert contributions. Committee Member Cruz stated that it's no different with what the federal government is doing with Social Security.

Board Chairman San Agustin asked what is the definition of the actuarial rate of assumption. Controller Tajalle stated that it includes the unrealized gain component. Committee Chairman Leon Guerrero suggested putting this in writing and the Investment Committee will make a recommendation to the Board of Trustees at the next regularly scheduled meeting.

Committee Chairman Leon Guerrero asked how much is the portfolio now. Director Aflague stated \$1.2 Billion. Committee Chairman Leon Guerrero asked what was the portfolio last year. Committee Member Cruz stated \$1.9 Million. Committee Chairman Leon Guerrero asked on what is the cash drawdown plan based. Controller Tajalle stated that it's based on the previous year's figures.

(Vince Camacho, Great West Retirement Services left the meeting at this time [3:40 p.m.]

D. Mercer Investment Alternatives "White Paper"

Controller Tajalle stated that there is no "White Paper" but he attached an email from Rich Nuzum indicating that Terry Dennison is working on it and it will be provided to the Fund before the meeting. Controller Tajalle stated that Mr. Nuzum provided a hand out called "The Case for Indexing." Committee Chairman Leon Guerrero asked what subscription do we have available for the Board of Trustees. Director Aflague stated that we have *Pensions and Investments* and we also have *Business Week*. Director Aflague stated that the Fund is working on obtaining subscriptions online.

E. Status of DC Plan RFP

Director Aflague stated that he has provided to the Board a copy of a letter he received on December 28, 2004 from Great West Retirement Services and a copy of Director Aflague's response was also provided to the Board.

Director Aflague stated that a meeting with ASC is scheduled for 9:00 a.m. on Monday, January 10, 2005 regarding the input that he received. Committee Chairman Leon Guerrero asked if we would have to start the process all over again. Director Aflague replied no; we will continue with the process. Board Chairman San Agustin asked what prompted the letter from Great West. Director Aflague

stated that what Mr. Camacho stated in his letter that David John has been soliciting for new employees because he was informed by another offeror, which was Merrill Lynch, that he was awarded the contract. Director Aflague stated that this went through the RFP process and evaluation procedure. Director Aflague stated that the four offerors were placed in rank order. Director Aflague stated that we have not notified any of the offerors, other than the selected one, that they are not selected. Director Aflague stated that procurement regulations require we negotiate terms and conditions with the top ranked offeror and if that falls through, then we negotiate with the second ranked offeror. Director Aflague stated that nothing becomes official until the committee concludes those negotiations and then it's presented to the Board for action. Board Chairman San Agustin asked if the offerors are informed of their ranking. Director Aflague replied no. Committee Chairman Leon Guerrero asked if the committee is still in the negotiating process. Director Aflague replied yes.

Committee Chairman Leon Guerrero inquired about the Defined Benefits Custodial Banking Services. Director Aflague stated that Ms. Bordallo met with Mercer in December in Tokyo, Japan regarding the Custodial Banking RFP. Controller Tajalle stated that the Fund is still working on the specifics of Ms. Bordallo's meeting with Mercer. Committee Member Cruz asked if we decided to go with Mercer. Director Aflague replied no. Committee Vice-Chairman Taylor stated that after having made a decision not to go with Mercer, Mercer came back and said you really want to think about this, this is not something you do not want to do yourself. Committee Vice-Chairman Taylor stated that the Fund never made a formal response to that.

V. ANNOUNCEMENTS

Investment Committee Vice-Chairman Taylor stated that it will be very helpful if the meeting packets get delivered at least three days before the scheduled meetings and if the documents could be copied one-sided only and stapled together in sequence.

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 objections, the meeting was adjourned at 4:06 p.m.

Respectfully submitted,


JACKIE BLAS
Recording Secretary

AFFIRMED:



WILFRED P. LEON GUERRERO, Chairman