



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, February 3, 2006, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 12:25 p.m. Friday, February 3, 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
Joe T. San Agustin, Ex Officio (*came at 12:45 p.m.*)

Staff Present:

Paula M. Blas, Acting Director
Rosalia Bordallo, Acting Controller
Jackie Blas, Recording Secretary
Stephanie Herrera, Administrative Assistant

II. ACTION ITEMS

A. Approval of Minutes – December 2, 2005 and January 6, 2006 Investment Committee Meetings

Committee Member Gerard Cruz, seconded by Committee Member James Taylor, moved to defer approval of the Investment Committee Meeting Minutes of December 2, 2005 and January 6, 2006 until the next scheduled Investment Committee Meeting. Without objection, the motion passed.

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

B. Approval – Principal Drawdown Schedule

Acting Director Paula Blas stated that she thought that former Controller Pete Tajalle provided a drawdown schedule at the January 6, 2006 meeting. Acting Director Blas stated that former Controller Tajalle had stated that he needed an average of about \$5 Million a month. Committee Member James Taylor stated that the Investment Committee had requested a more detailed schedule. Committee Chairman Leon Guerrero stated that the Fund may not have to draw down \$5 Million a month because of the sale of Guam Telephone Authority (GTA) stocks. Acting Controller Rosalia Bordallo stated that the Fund has not drawn down any money within the last three weeks. Committee Member Gerard Cruz asked if the Fund has received the \$1.1 Million from Aberdeen. Acting Controller Bordallo stated that it was received yesterday. Committee Chairman Leon Guerrero stated that he would like to work with Acting Controller Bordallo to review what to expect in terms of draw downs and the kind of schedule required.

III. OPEN ITEMS

A. Request for Proposal – Transaction Monitoring Services

Committee Chairman Leon Guerrero stated that the Board had approved a Request for Proposal (RFP) be issued for fraud monitoring services. Committee Chairman Leon Guerrero stated that the Investment Committee would like to make sure that the RFP is acceptable before it goes out. Acting Director Blas asked if this is strictly portfolio monitoring services and securities litigation. Committee Member Cruz replied, “yes.” Committee Member Cruz stated that this is on a contingency basis. Acting Director Blas stated that there is no cost to the Fund as far as monitoring services.

Committee Chairman Leon Guerrero asked in what section of the RFP does it state that a firm must have the capability to litigate if that is required. Acting Director Blas stated that it is under No. 6 of Section IV B on Page 8 under *Description of Work Involved* – “If appropriate under the circumstances, initiate and manage legal action on behalf of the Fund with the final approval of the Retirement Fund Board of Trustees and necessary clearances by the Attorney General of Guam.” Acting Director Blas stated that the firm will be able to monitor what is going on now and identify if there is any fraud and provide their findings to the Board for their decision. Committee Member Cruz asked if this is not limited to simply fraud. Acting Director Blas replied, “no.”

Committee Chairman Leon Guerrero stated that the Committee had asked to have the Fund’s Legal Counsel check if the RFP is okay. Committee Chairman Leon Guerrero stated that he would like to get the RFP out. Acting Director Blas stated that she will transmit the draft RFP to Legal Counsel to review if it is in compliance. Committee Chairman Leon Guerrero stated that this has already been cleared with Mercer. Acting Director Blas stated that Board Chairman Joe San Agustin wanted her to include general services and legal services in the RFP. Committee Member Cruz stated that the monitoring services is separate and not to be confused with general services. Committee Member Taylor stated that he recalls the suggestion to hire a lawyer to get the RFP out quickly. Committee Chairman Leon Guerrero stated that the Board had approved the monitoring services and that the Investment Committee would like to look at the language of the RFP before it goes out. Committee Member Taylor stated that there was no direction from the Board to initiate a search of a lawyer. Committee Chairman Leon Guerrero stated that if there are no major changes from Legal Counsel then Management should go ahead and put the RFP out.

Committee Member Cruz suggested bringing up the following question with Legal Counsel: No. 1 of Section IV B on Page 8 under *Description of Work Involved* – “Monitor pending class action securities litigation.” Committee Member Cruz asked if the Fund would need to have an attorney involved with pending class action. Committee Member Cruz stated that his understanding is that if the Fund is a party to a class action the Fund would just need to file a claim. Acting Director Blas stated that it will be something they would have to report back to the Board and get the Board’s approval. Committee Member Cruz asked if the firm would charge the Fund to fill out a claim form on behalf of the Fund. Committee Chairman Leon Guerrero stated that the Board could ask the Fund’s Legal Counsel to do that.

Committee Chairman Leon Guerrero stated that the RFP should include a requirement for the firm to have the ability to litigate. Acting Director Blas stated that it is under Section VI A on Page 10 under *Minimum Qualifications*. Committee Chairman Leon Guerrero recommended that on No. 4 of the *Minimum Qualifications* – “Willingness to pursue litigation...” should be changed to read “Ability to pursue litigation...” Acting Director Blas stated that she will make the recommended change.

Committee Member Cruz stated that the \$35 Million for professional liability insurance (No. 5 under Section VI A on Page 10) is a large amount. Acting Director Blas stated that this is based on the Fund’s assets. Committee Member Cruz asked what is the Fund’s total exposure with regards to this. Acting Controller Bordallo stated that this would be on an individual stock. Committee Member Cruz suggested to change the \$35 Million to \$10 Million. Committee Member Taylor recommended changing the professional liability insurance amount to \$25 Million.

(Ex Officio Joe San Agustin joins the Investment Committee Meeting at this time – 12:45 p.m.)

Ex Officio Joe San Agustin suggested combining the securities litigation with legal services which will be on a contingency basis. Committee Chairman Leon Guerrero stated that the proposal is for monitoring services only. Committee Chairman Leon Guerrero stated that when the time comes to litigate, the firm will have to report back to the Board. Ex Officio San Agustin stated that by combining the services, the Fund will be eliminating the extra step of going through another RFP for securities litigation. Committee Member Cruz stated that the draft RFP does include it. Committee Member Cruz stated that the only concern is if the firm litigates on island the firm will still have to go through the Attorney General. Ex Officio San Agustin stated that by having a relationship with a local firm, the Fund will avoid that extra step. Committee Chairman Leon Guerrero stated that he thought that Milberg Weiss had a relationship with a local law firm. Acting Director Blas stated that it was the firm of Civile and Tang.

Committee Member Cruz stated that the Fund’s contracts with the investment managers usually has a clause that says “will abide by the laws of Guam.” Committee Member Cruz asked if it would be possible for the firm to team up with a local firm outside of the contract. Ex Officio San Agustin stated that the Fund could require in the contract for the firm to link up with a local firm. Acting Director Blas stated that the firm must meet the Business License requirements on Guam. Ex Officio San Agustin stated that the attorney must be admitted to the Guam Bar Association. Ex Officio San Agustin stated that it would be best for the firm to tie in to a local firm.

Ex Officio San Agustin asked about the Fund's collection from off-island. Acting Controller Bordallo stated, as an example that a retiree died several years ago in a foreign country and the funds were going directly into a U.S. Bank. Acting Controller Bordallo stated that the Retirement Fund could not go back and recoup the money which was over \$100,000.00. Acting Controller Bordallo stated that the Fund did not find out about the retiree's death until five or six years later. Acting Controller Bordallo stated that the \$100,000,000 was written off three years ago. Ex Officio San Agustin stated that this should have been reported to the Board. Acting Director Blas stated that an update of information is sent to the retirees annually. Acting Director Blas stated that if a second notice for an update of information is sent and there is still no response, then the Fund should stop the annuity. Ex Officio San Agustin stated that the Fund does not have an existing policy pertaining to this. Ex Officio San Agustin stated that there are about 700 retirees living in the Philippines. Ex Officio San Agustin stated that the Fund needs an off-island firm for tracking purposes. Committee Member Taylor stated that it would be strange to offer a firm that specializes in securities monitoring services to go after people in the Philippines. Committee Chairman Leon Guerrero stated that there are firms that specialize on off-island tracking services. Committee Chairman Leon Guerrero suggested that the Fund should have another RFP just to focus on tracking services.

Acting Controller Bordallo asked which Committee would handle making the policy in regards to the update of information being sent to the retirees. Acting Director Blas stated that it would be the Members and Benefits Committee. Ex Officio San Agustin stated that the Board would make the policy but that it would be an administrative duty. Committee Member Cruz stated the Board will make the policy with the conditions by which the Fund would stop.

Committee Chairman Leon Guerrero asked if the RFP includes language that the firm has the ability to collect. Acting Director Blas stated that it is included under No. 8 of Section IV B on Page 8 – "Perform other Related Work as may be requested by the Retirement Fund Board of Trustees."

Committee Chairman Leon Guerrero stated that the RFP should be ready for issuance once the Legal Counsel says that it is in compliance. Acting Director Blas stated that she will look into the types of tracking services offered.

IV. INFORMATIONAL ITEMS

None

V. OPEN DISCUSSION

A. Comparison of Returns Portfolio for 2004 and 2005

Committee Chairman Leon Guerrero stated that he had asked Acting Controller Bordallo to prepare a chart of the Fund's portfolio for the Committee's review. Committee Chairman Leon Guerrero stated that the chart will show how the Fund is doing. Committee Chairman Leon Guerrero stated that the Fund went up about \$94 Million for Fiscal Year 2004. Committee Member Taylor asked what is the 10.10% based on. Acting Controller Bordallo stated that it is based on the Investment Consultant's report. Committee Member Cruz asked if the 10.10% as of September 30 for the first nine months. Acting Director Blas stated that it is on a fiscal year basis.

Ex Officio San Agustin stated that he has a summary of the Fund's cash income and disbursements from Fiscal Year 1999 to Fiscal Year 2005. Ex Officio San Agustin stated that the market rate of return for FY1999 was 6.63%, FY2000 7.21%, FY2001 0.25%, FY2002 0.00%, FY2003 9.90%, FY2004 9.30% and FY2005 10.10%. Ex Officio San Agustin asked if the amount is the actual investment balance. Acting Controller Bordallo stated that it is the actual at September 30 of the fiscal year. Ex Officio San Agustin stated that the investment ending of the year for FY1999 was \$1.367 Million, FY2000 \$1.350 Million, FY2001 \$1.229 Million, FY2002 \$1.123 Million; FY2003 \$1.133 Million, FY2004 \$1,181 Million and FY2005 \$1.225 Million. Committee Member Cruz asked if the report includes the dividends. Acting Controller Bordallo stated that this is the market value. Acting Controller Bordallo stated that it does not include accruals. Committee Member Cruz asked if this is net of the draw downs. Acting Controller Bordallo stated that it is net. Committee Member Taylor asked if these figures were taken from Mercer's report. Acting Controller Bordallo replied, "yes." Committee Member Cruz asked what would happen if there were no draw downs and if the Fund did not have to pull back the interest and dividends to make payments, and all the money would be reinvested. Acting Controller Bordallo stated that the number will be greater. Ex Officio San Agustin stated that the sheet he has shows the investment beginning and the investment ending.

B. Third Party Administrator

Committee Chairman Leon Guerrero asked if Carlsmith Ball has terminated their relationship with Great West Retirement Services. Acting Director Blas stated that Mr. Vince Camacho, Great West Retirement Services, was going to terminate Carlsmith Ball once the statutory amendments went through. Acting Director Blas stated that she could send the RFP to Legal Counsel but that she needs to find the waiver of conflict of interest. Committee Member Taylor asked why the Board can't have Legal Counsel terminate her relationship with Great West. Committee Member Cruz stated that the Fund needs to hire another attorney to review as to the contents and form. Acting Director Blas stated that she will see if she could get another attorney to review as to the contents and form. Acting Director Blas stated that it will be an informal bid. Ex Officio San Agustin asked if the Fund could use staff attorneys from other agencies to do the review. Acting Director Blas stated that she was going to check if the Attorney General's Office could do the review.

C. Consultant for the Defined Contribution Plan

Committee Chairman Leon Guerrero asked about the status of the Request for Proposal (RFP) for a consultant for the DC Plan. Acting Director Blas stated that she provided a copy of the RFP at the last Investment Committee Meeting. Committee Member Cruz stated that at the last Investment Committee Meeting, the Committee decided to hire a consultant for the Defined Contribution Plan. Acting Director Blas stated that she will reprint the RFP and will provide the Committee.

VI. CORRESPONDENCE

None

VII. ANNOUNCEMENTS

A. Fixed Income Manager Due Diligence Meeting – February 20-24, 2006

Committee Chairman Leon Guerrero stated that the time has to be set for the Due Diligence Meeting scheduled for February 20-24, 2006. Committee Member Taylor stated that he teaches on Mondays and Wednesdays at 5:30 p.m. Committee Member Taylor further stated that he is free on Tuesdays and Thursdays from 1:00 p.m. through 3:30 p.m. and Fridays are flexible. Committee Member Cruz stated that he will be off-island but will be available on February 23rd and 24th.

Committee Member Cruz asked how many managers will be at the Due Diligence Meeting. Acting Controller Bordallo stated that there are two managers. Committee Chairman Leon Guerrero asked if Mr. Terry Dennison will be here. Acting Director Blas replied, "yes." Acting Director Blas asked if the Investment Committee would like to have Legal Counsel present during the Due Diligence Meeting.

B. Due Diligence in November 2006

Committee Member Cruz stated that the Asia Pacific Association for Fiduciary Studies (APAFS) will be holding its annual conference in Manila on November 9-10, 2006. Committee Member Cruz suggested having the November Due Diligence in Manila at that same time. Committee Chairman Leon Guerrero stated that he has no problem with that except that Committee Member Taylor may not be able to attend the Due Diligence Meeting if it is in Manila. Committee Member Cruz stated to leave it as it is and have the November Due Diligence here.

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 1:50 p.m. Motion passed.

Respectfully submitted,


JACKIE BLAS
Recording Secretary

AFFIRMED:



WILFRED P. LEON GUERRERO, Chairman