

GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS
INVESTMENT COMMITTEE MEETING
Friday, March 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 11:00 a.m. Friday, March 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
Joe T. San Agustin (11:06 a.m.)
Katherine T.E. Taitano

Staff Present:

Wilfred G. Aflague, Director
Pete Tajalle, Controller
Vince Camacho, Great West Retirement Services (12:00 p.m.)
Jackie Blas, Recording Secretary

Public Present: Mark Heath, Metropolitan West Capital Management

II. ACTION ITEMS

A. Approval of Minutes – October 1, 2004, October 22, 2004, January 7, 2005 and February 4, 2005 Committee Minutes

Committee Vice-Chairman Taylor made a comment that he reviewed the above mentioned Investment Committee Minutes and has made changes which the Recording Secretary has incorporated in the minutes. Committee Vice-Chairman Taylor suggested that Committee members review the discussion in the February 4, 2005 minutes to make sure that the discussion reflects what was said by everyone. Committee Vice-Chairman Taylor suggested deferring approval of the February 4, 2005 minutes until the next committee meeting.

Felix P. Camacho
Governor

Kaleo S. Moylan
Lieutenant Governor

Wilfred G. Aflague
Director

Paula M. Blas
Deputy 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

On motion of Committee Vice-Chairman Taylor, seconded by Committee Member Cruz, and without objection, the Investment Committee Meeting Minutes of October 1, 2004, October 22, 2004 and January 7, 2005 were approved, as corrected. Motion passed.

Committee Vice-Chairman Taylor, seconded by Committee Member Cruz, moved to defer the approval of the Investment Committee Meeting Minutes of February 4, 2005 until the next scheduled Investment Committee Meeting. Without objection, the motion passed.

B. Approval – Investment Policy Statement

Committee Vice-Chairman James Taylor stated that he is concerned that so many changes crept into the Investment Policy Statement (IPS) after it had been given several reviews. Committee Vice-Chairman Taylor asked if this reflects what the Investment Committee wants and if this was reviewed by management. Controller Pete Tajalle pointed out that management did have extensive discussions with the Legal Counsel. Committee Vice-Chairman Taylor asked Controller Tajalle if the IPS contains all of the suggested changes from the Investment Committee's last discussion. Controller Tajalle stated that he believes that all the changes were included. Committee Member Gerard Cruz reiterated if all the changes that were discussed were made in the IPS. Controller Tajalle replied, "yes." Committee Chairman Leon Guerrero stated that the IPS would go before the Board at which point the IPS could be revised. Committee Member Cruz asked if management is comfortable with the IPS. Director Wilfred Aflague replied, "yes." Director Aflague stated that he believes that the proposed changes that the Investment Committee wanted were incorporated in the IPS. Committee Member Cruz asked if management could work within the frameworks that the Board is contemplating to putting into place following the passage of the IPS. Director Aflague replied, "yes."

Committee Member Gerard Cruz, seconded by Committee Vice-Chairman James Taylor, moved to approve for presentation of the Investment Policy Statement to the Board of Trustees at their Regular Meeting on March 11, 2005. Without objection, the motion passed.

III. INFORMATIONAL ITEMS

A. Analysis of Cash Drawdown Plan versus Actual Draw Downs

Controller Tajalle reported that he has provided a summary of the actual draw downs from October 2004 through February 2005. Controller Tajalle stated that interests and dividends that have been brought in totaled \$4.8 Million and that liquidations to date of principal totaled \$29.6 Million. Committee Chairman Leon Guerrero stated that he thought that the summary was going to show a comparison of the actual and what was proposed and approved. Controller Tajalle stated that, as an example, for October 2004, a withdrawal of \$3.7 Million was made. Controller Tajalle stated that the average monthly liquidation based on the plan is \$5.5 Million, which left a \$1.8 Million cushion to work with based on the plan. The Investment Committee requested that future reports show a comparison of the actual with the proposed budget.

Committee Vice-Chairman Taylor asked Controller Tajalle why he is calling them a variance. Controller Tajalle stated that it is variance between what was budgeted versus what was actually drawn down. Controller Tajalle stated that the Fund is \$1.8 Million under what was planned. Committee Vice-Chairman Taylor asked if the average monthly liquidation is the budget. Controller Tajalle replied, "yes." Controller Tajalle stated that the Fund is slightly over on the average monthly liquidation. Controller

Tajalle pointed out that the interests and dividends column represents dividends only. Committee Chairman Leon Guerrero asked why there is a huge fluctuation. Controller Tajalle stated that it is a matter of timing with respect to the contributions coming in. Controller Tajalle stated that contributions, by law, are due within ten days after the issuance of the payroll for the Defined Benefits Plan and within five days for the Defined Contributions Plan of which the Fund gets a portion. Controller Tajalle stated that \$5.5 Million was budget based on the plan. Board Chairman Joe T. San Agustin asked where is the operational requirement. Committee Chairman Leon Guerrero asked what happened in the month of December. Controller Tajalle stated that employees were resigning and were being refunded. Committee Chairman Leon Guerrero stated that in the short-term, that is a lot of money taken out, but in the long run it will be better for the Retirement Fund. Board Chairman San Agustin asked if the Fund provides counseling when an employee is requesting a withdrawal. Director Aflague stated that employees are provided counseling.

Controller Tajalle stated that the plan calls for a quarterly review of the drawdown requirements. Committee Member Cruz asked if the budget of \$5.5 Million would need to be increased. Committee Member Cruz asked if the Fund needs to withdraw more money. Controller Tajalle stated that is a possibility. Committee Vice-Chairman Taylor asked if there are any actions anticipated at this time the Committee would need to review and approve. Controller Tajalle replied, "not at this time." Board Chairman San Agustin asked if the Fund has negative growth. Committee Member Cruz stated that the Fund is taking more out than it is putting in. Controller Tajalle stated that he defines this as a negative cash flow. Committee Vice-Chairman Taylor asked if the negative cash draw is increasing the Fund's actuarial liability. Controller Tajalle stated that the 2003 Actuarial Study states that the Fund needs 24.89% contributions to insure that the Fund stays alive through the year 2030. Committee Vice-Chairman Taylor asked Controller Tajalle to provide an explanation of what the transfers are for and the date they are needed. Controller Tajalle stated that he would provide an explanation of the transfers and the dates. Committee Chairman Leon Guerrero asked if the Investment Committee will see this report again in March. Controller Tajalle stated that that the Investment Committee will see this report in the first week of April.

B. RCM "Proxy Voting Guidelines and Procedures"

Controller Tajalle reported that the RCM "Proxy Voting Guidelines and Procedures" is being resented to the Investment Committee for informational purposes. Controller Tajalle stated that he is in the process of requesting that all the investment managers provide proxy voting guidelines. Controller Tajalle stated that he will provide a copy of the guidelines to the committee members as soon as he receives it. Committee Vice-Chairman Taylor asked if the Retirement Fund Board had any guidelines for proxies. Controller Tajalle replied, "not at this time." Committee Member Cruz stated that any proxy vote should benefit the Fund. The Investment Committee needs to develop proxy guidelines in the future.

C. FHB/JP Morgan Fee Schedule – International Equity Management

Controller Tajalle stated that this relates to what First Hawaiian Bank and JP Morgan charge for single managed accounts in the different areas of the world. Controller Tajalle stated that he provided this for information purposes so that the Investment Committee would be aware of the different fees that are being charged in the different regions of the world. Board Chairman San Agustin asked whether this will increase the current fees that they charge. Controller Tajalle stated that the increase in fees will be dependant upon what area of the world each of the income international managers is located.

Committee Vice-Chairman Taylor stated that international investments will be fund based so the Retirement Fund will be buying and selling shares of different funds. Controller Tajalle stated that the Fund currently has two international accounts. Committee Member Cruz stated that this is only as it currently relates to the two international managers. Committee Member Cruz asked whether when the Fund hires a investment manager and they trade, the manager trade on his/her own desk. Controller Tajalle stated that the fees are associated with trading. Committee Member Cruz stated that his understanding is that the Fund pays for the trade as part of its fees. Controller Tajalle stated that he will get a clarification on this matter.

Controller Tajalle mentioned that Mr. Winton Young, Custodian Bank Representative, from First Hawaiian Bank in Hawaii will be on Guam in the month of April to make a presentation to the Board on the custodian bank services.

IV. OPEN DISCUSSION

A. Due Diligence – Third Party Administrator Defined Contribution Plan

Committee Chairman Leon Guerrero stated that he had discussed with Board Chairman San Agustin the need for the Board to carry out their fiduciary responsibility by having an oversight hearing on the DC Plan. Committee Chairman Leon Guerrero stated that Board Chairman San Agustin recommended that the Investment Committee conduct such a meeting. Committee Chairman Leon Guerrero asked when the due diligence should be conducted. Committee Member Cruz asked if it will be with all the investment managers from the DC Plan. Committee Chairman Leon Guerrero stated that it will only be with the administrator.

Committee Chairman Leon Guerrero asked if the quarterly report shows what are stocks in which the DC Plan is invested. Committee Vice-Chairman Taylor stated that the quarterly reports shows what funds the members of the DC have chosen. Controller Tajalle suggested that the Investment Committee would like to know that the funds that the Third Party Administrator is recommending for investment are the best funds out there. Committee Member Cruz stated that the Fund needs to review the Investment Policy Statement for the DC Plan. Committee Member Cruz stated that the Fund needs to look at that IPS once a year. Committee Vice-Chairman Taylor stated that he would like to know more about what the DC Plan is offering. Committee Chairman Leon Guerrero stated that the Fund's advisor (Mercer) is saying that the Fund needs to have such a review. Committee Member Cruz recommended to get a report on the number of allocations per participant. Controller Tajalle stated that it shows on the administrative statements. Committee Chairman Leon Guerrero stated that it is the Fund's responsibility to insure that at least 50% is in the aggressive pool.

Mr. Mark Heath, Metropolitan West Capital Management, stated that the Fund should look into the make up of the mutual fund being offered. Committee Vice-Chairman Taylor stated that the Fund should look if each fund is following its mandate. Controller Tajalle stated that he could request a copy of each fund's financial statements and the Great West report on compliance and internal control. Controller Tajalle stated that the Legal Counsel should review the contract itself. Controller Tajalle pointed out that the original RFP did call for Investment Consultant Services for the Defined Benefit Plan. Committee Vice-Chairman Taylor stated that the investment policy should have statements about responsibilities, helping the Investment Committee carry out its responsibilities. Committee Vice-Chairman Taylor stated that this will only be for one or two years. Controller Tajalle stated that he will look into this. Committee

Chairman Leon Guerrero stated that it is prudent for the Investment Committee to do something. Controller Tajalle recommended to allow management a six-week window to try and pull everything together and do a manager due diligence in the second week of April. Controller Tajalle stated that the Fund will need the Third Party Administrator and they will probably send in the manager from the states to answer questions regarding how the investments are being allocated and to discuss the funds. Controller Tajalle stated that he will obtain a copy of their latest financial statements and report on internal controls and Controller Tajalle will also check if Mercer will be available.

Committee Vice-Chairman Taylor stated that he assumed that this was about the issue with the protest. Committee Chairman Leon Guerrero replied, "no." Committee Vice-Chairman Taylor asked if the protest was going to be discussed at today's meeting. Committee Chairman Leon Guerrero stated that the protest will appear at the next Board of Trustees meeting. Board Chairman San Agustin stated that the Board was advised by the Legal Counsel that the Board cannot go into Executive Session without appropriate planning. Director Aflague stated that he will work with Deputy Director Paula Blas to make sure that the Board goes into Executive Session properly.

Committee Chairman Leon Guerrero stated that he has been talking to Director Aflague about the protest. Committee Member Cruz asked if the company that's protesting has legal representation. Committee Member Cruz also asked if the Fund will have legal representation. Board Treasurer Katherine Taitano asked if there is going to be an issue about who is going to represent the Fund. Committee Member Cruz asked who represents the company that's protesting. Board Treasurer Taitano stated that Carlsmith's firm is counsel for both the Retirement Fund and Great West Retirement Services and the law firm will not represent either the Fund or Great West at an Executive Session. Board Treasurer Taitano asked Committee Vice-Chairman Taylor and Committee Member Cruz if they recall that during a phone conversation with Legal Counsel Joanne Grimes, Legal Counsel Grimes made a statement that if it comes down to having to represent the Fund, she will not be able to represent the Fund. Both Committee Vice-Chairman Taylor and Committee Member Cruz stated that they do not recall that. Committee Vice-Chairman Taylor stated that his best recollection of the conversation with Carlsmith is that Legal Counsel Grimes made a specific statement which is "I am definitely pursuing the points under discussion so that when I represent you..." Committee Vice-Chairman Taylor stated that there was a statement made during that conversation in which the attorney acknowledged that she was going to be the one to represent the Fund. Committee Member Cruz stated that that was the way he understood it.

Board Treasurer Taitano asked if an opinion could come from the Fund's Legal Counsel on this issue of going into Executive Session. Director Aflague stated that there is an opinion from the Legal Counsel which he has provided to the Board. Committee Member Cruz stated that the Legal Counsel could only provide guidelines. Director Aflague stated that the Civil Service Commission is saying that the Fund can not hire a staff attorney but the Fund could hire legal counsel under contract. Board Chairman San Agustin stated to go ahead and hire a staff attorney. Committee Member Cruz asked if the Fund will have legal representation at the March 11, 2005 Board of Trustees meeting. Director Aflague replied, "yes."

B. Proposed Future Implementation of "Investment Protection Principles"

Committee Chairman Leon Guerrero stated that Board Chairman San Agustin has information that relates to "Investment Protection Principles." Board Chairman San Agustin stated that he did not know whether this type of protection was already in the Investment Policy Statement (IPS). Board Chairman San Agustin stated that he is now aware that this is on Page 8 of the Investment Policy Statement. Board

Chairman San Agustin stated that the Fund is not in compliance. Board Chairman San Agustin stated that the Fund has spent, in 2004, \$278,597 for custodial fees; \$2.877 Million in investment managers fees and \$776 in brokers fees. Board Chairman San Agustin stated that the commission fee per unit is 6¢ and 5¢. Board Chairman San Agustin stated that their commission fees are not revealed in their report. Board Chairman San Agustin stated that he would like to have the investment managers make a statement about complying with the investment requirements.

Committee Vice-Chairman Taylor asked how long has that section been in the IPS. Controller Tajalle stated that it had been in for a long time. Board Chairman San Agustin stated that there was no discussion of this in the due diligence.

Board Chairman San Agustin stated that the actual cash income received for 2004 was \$11.5 Million and the fees were \$278,000. Board Chairman San Agustin stated that the grand total was \$15,476,000. Board Chairman San Agustin stated that he asked Controller Tajalle what was the average asset for 2004 which he said was \$1.4 Billion. Board Chairman San Agustin stated that the Fund is only realizing 1% on its investments. Committee Vice-Chairman Taylor stated that this is part of the reason of going to an index fund. Board Chairman San Agustin stated that the investment managers are not in compliance on reaching the bench mark. Committee Member Cruz stated that the bench mark was changed. Committee Member Cruz stated that it was a strategic decision involving the contribution rate. Committee Vice-Chairman Taylor stated that all three were using the same index for bench mark purposes.

Controller Tajalle stated that the bench mark was changed for one of the managers that were on the long duration mandate to allow him the ability to get higher returns. Committee Vice-Chairman Taylor stated that this would mean the Fund is doing market timing. Committee Member Cruz stated that it is an irresponsible way to prepare for a long term strategy. Committee Vice-Chairman Taylor stated that the Fund is not set up to do any market timing. Board Chairman San Agustin stated that the Fund is doing it to the IPS. Committee Member Cruz stated that the restrictions on the fixed income side are more complicated.

C. Treatment of Fixed Income Interest

Controller Tajalle stated that currently the interest paid on bonds is being reinvested in the fixed income portfolio. Controller Tajalle stated if this interest were instead sent to the Retirement Fund it would increase cash flow by \$800,000 to \$1 Million per month. Controller Tajalle stated that bringing in the interest to the Retirement Fund will reduce the amount of liquidation required. Committee Vice-Chairman Taylor asked how much of an advantage that is. Controller Tajalle stated that staying in the market would make more money. Committee Chairman Leon Guerrero asked if this would need Board action. Controller Tajalle stated that he would need direction from the Investment Committee. Committee Member Cruz stated to make it a part of the cash draw plan which would be presented for approval. Controller Tajalle agreed to make it a part of the cash draw plan and approve it by a resolution.

D. Status of Custodial Bank RFP Process

Controller Tajalle stated that he has not heard from Mr. Terry Dennison on whether he is able to assist the Fund based on the current contract. Controller Tajalle stated that if Mr. Dennison can not assist, based on the current contract, he should then provide the Fund with some scope of services that the Fund could put into the RFP. Controller Tajalle stated that he is waiting for a response from Mr. Dennison.

V. CORRESPONDENCES

A. Aberdeen Asset Management – Privacy Notice

Controller Tajalle stated that once the information is received, he'll forward it to the Investment Committee for review.

B. Citigroup Asset Management – Management Changes

Controller Tajalle stated that Mr. Domenick Massotti had mentioned that Citigroup Asset Management had gone through some management changes. Controller Tajalle stated that he received a letter from Citigroup Asset Management indicating the changes that took place. Committee Member Cruz asked if the Fund expects any changes in their performance. Controller Tajalle stated that he can't really say if it will cause changes in performance.

VI. ANNOUNCEMENTS


Vince Camacho, Great West Retirement Services, reported that GMHA is caught up with their contributions for January 2005. Mr. Camacho stated that they were behind on November and December 2004. Controller Tajalle stated that GMHA is still outstanding for pay periods ending January 22, 2005, February 5, 2005 and February 19, 2005. Committee Vice-Chairman Taylor asked what the federal rules are with regards to remittance. Mr. Camacho stated ten (10) days from the end of the pay period and five (5) days from the end of the payday. Committee Vice-Chairman Taylor asked what are the federal rules with regard to late payments. Mr. Camacho stated that it requires a participant file a claim on the Fair Labor Standards. Mr. Camacho stated that all the remittance letters were sent to GMHA, with copies to the U.S. Department of Labor. Committee Vice-Chairman Taylor asked why can't the Fund act as a fiduciary on behalf of the participants of the DC Plan. Mr. Camacho stated that Great West could encourage GMHA employees go to the U.S. Department of Labor.

Committee Chairman Leon Guerrero asked about the Uniformed Services Employment and Reemployment Rights Act (USERRA). Mr. Camacho stated that USERRA does not apply to governmental plans. Controller Tajalle asked if he could get a copy of the last two audited financial statements for Great West Retirement Services. Mr. Camacho stated that the auditors get the report. Controller Tajalle stated that he will check with the auditor.

VII. ADJOURNMENT

There being no further business before the Investment Committee, on motion of Investment Committee Chairman Leon Guerrero, seconded by Investment Committee Vice-Chairman Taylor, and without objection, the meeting was adjourned at 12:17 p.m. Motion passed.

Respectfully submitted,


JACKIE BLAS
Recording Secretary

AFFIRMED:


WILFRED P. LEON GUERRERO, Chairman