

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS
INVESTMENT COMMITTEE MEETING
 Friday, April 1, 2005, 12:00 p.m.
 Retirement Fund Conference Room

MINUTES

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

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 12:15 p.m. Friday, April 1, 2005, in the Retirement Fund Conference Room. Investment Committee Acting Chairman James J. Taylor officiated.

Board of Trustees Present:
 James J. Taylor, Acting Chairman
 Gerard A. Cruz, Member

Board of Trustees Absent:
 Wilfred P. Leon Guerrero, Chairman

Staff Present:
 Pete Tajalle, Controller
 Jackie Blas, Recording Secretary

Public Present:
 Mark Heath, Metropolitan West Capital Management

II. ACTION ITEMS

A. Approval of Minutes – February 4, 2005 and March 4, 2005 Investment Committee Minutes

Committee Acting Chairman Taylor stated that he has reviewed the February 4, 2005 Minutes, but has not reviewed the March 4, 2005 Minutes. Committee Member Gerard Cruz recommended tabling the March 4, 2005 Investment Committee Minutes until the next meeting.

On motion of Committee Member Cruz, seconded by Committee Acting Chairman Taylor, and without objection, the Investment Committee Meeting Minutes of February 4, 2005 were approved, subject to corrections. Motion passed.

B. Approval of Recommendation of Draft Bill Authorizing Change in Investment Limit in Mutual Fund

Committee Acting Chairman Taylor asked Controller Pete Tajalle if the draft bill is in order. Controller Tajalle stated that the draft bill was discussed with the investment consultants and was also worked on by the Fund's Legal Counsel. Controller Tajalle stated that the bill talks about raising the limit on the mutual fund limitations from 10% to 20%. Committee Acting Chairman Taylor stated that he is disappointed that the Fund is at a 20% minimum. Committee Member Cruz asked if the Fund is currently at the 20% minimum. Controller Tajalle replied, "no" the fund is currently at the 10% minimum. Committee Member Cruz stated that the Fund could go into the international side with the Fund's previous policy limitations. Committee Acting Chairman Taylor stated that he thought that the Fund had to have the 20% to be able to carry out the decision recently made. Committee Member Cruz stated that that is not his understanding. Committee Acting Chairman Taylor stated that the Fund could currently has a 10% limitation which makes it impossible to carry out its new decision. Committee Acting Chairman Taylor stated that the intention was to go above the 10% limitation and up to at least 20%. Controller Tajalle advocated that decisions on rebalancing could be discussed after the bill passes through the Legislature. Committee Acting Chairman Taylor pointed out that the current bill would lock the Fund into an interest position.

Committee Acting Chairman Taylor stated that he seeks the wisdom of the other trustees on whether it is time to try to increase for 20%. Committee Member Cruz proposed increasing the number to 30%. Committee Member Cruz asked if there was any rationale for the 20%. Committee Acting Chairman Taylor stated that the rationale for the 20% was the previous decision to invest in international fund at the 20% level. Committee Member Cruz asked if the number goes up to 30%, where will the money come from and what will be the strategic allocation at that point. Committee Member Cruz asked if the money will come from bonds or equity and what will be the potential increase in risk that would be associated with going up to 30%. Committee Acting Chairman Taylor stated that the fundamental reason that he would like to go up to 30% is because of the way the Fund has problem when the Fund reaches those limitations. If the Fund invests in international funds at the 20% level and there is a 20% limit, then in an up market the Fund will immediately have to begin withdrawing money to help balance. Committee Acting Chairman Taylor stated that this prevents irrational investment procedures. Controller Tajalle stated that an analysis of where the money is going to come from and what investments are going to be adjusted in order to meet the limitation is something that could be discussed later on down the line.

Committee Member Cruz, seconded by Committee Acting Chairman Taylor, moved to accept the bill as proposed for discussion. Without objection, the motion passed.

Committee Member Cruz, seconded by Committee Acting Chairman Taylor, made a motion to move all references on this draft bill of 20% to 30% and to also have the justification for the scenarios on a 30% allocation with international funds and impacts on risk and potential returns; for a recommendation to the Board of Trustees. Without objection, the motion passed.

III. INFORMATIONAL ITEMS

A. Analysis of Cash Drawdown Plan versus Actual Draw Downs – Second Quarter Review

Controller Tajalle reported that the books for the month of March will be closed on April 8, 2005 and asked to defer the cash analysis until a later date. Committee Acting Chairman Taylor stated that he is concerned because he heard some discussions informally that changes are being made so that payments of interests and dividends come directly to the Fund. Controller Tajalle stated that this is under item III B of the agenda. Committee Member Cruz asked if this was already decided. Controller Tajalle stated that it has been done. Committee Acting Chairman Taylor stated that he does not remember this coming to either the Investment Committee or the Board as a formal resolution or as a proposal. Committee Member Cruz stated that he would be against recouping the investments as opposed to reinvesting it. Committee Acting Chairman Taylor stated that the proposal is to pay the interest directly to the Fund so that the Fund doesn't have to sell off securities. Controller Tajalle stated that a letter was sent to Mr. Winton Young at First Hawaiian Bank requesting the withdrawal of interest. Committee Acting Chairman Taylor stated that he would like to see a formal write up of the proposal at the next meeting. Committee Chairman Taylor stated to carry out the new practice while it is being reviewed.

B. Correspondence to First Hawaiian Bank Regarding Transfer of Bond Interest Payments to Government of Guam Retirement Fund

Committee Acting Chairman Taylor stated that item III B was just discussed. Controller Tajalle stated that a letter was sent to First Hawaiian Bank regarding the transfer of bond interest payments to the Fund's operating account from each respective bond manager account. Controller Tajalle stated that the Fund has taken in \$4.2 Million in interest for operations. Committee Acting Chairman Taylor recommended that the Board of Trustees be provided with a written explanation of what is going on and the rationale. Committee Member Cruz stated that he remembers Board Chairman San Agustin talking about this matter but does not recall it being brought to the table. Committee Acting Chairman Taylor stated that this was not brought to the table at any meeting he was at.

Controller Tajalle asked if the Investment Committee is going to make a recommendation to the Board. He also asked whether this should be suspended until it could be further analyzed at the Investment Committee level. Committee Acting Chairman Taylor stated that he would like to work this out on the Board level and for the Controller to continue carrying out the new practice. Controller Tajalle stated that he proposes to the Investment Committee to get in touch with the Fund's investment consultant and ask for some kind of analysis on the impact of bringing in this bond interest to the Fund rather than reinvesting the interest.

Committee Member Cruz, seconded by Committee Acting Chairman Taylor, moved for a resolution to produce a written explanation of the process and an explanation of why the Fund is moving to that process. Without objection, the motion passed.

IV. OPEN DISCUSSION

A. Due Diligence – Third Party Administrator – Defined Contribution Plan Request that Meeting be Rescheduled to Friday, April 22, 2005

Committee Acting Chairman Taylor asked what the April 22, 2005 meeting is about. Controller Tajalle stated that the meeting was requested at the Board of Trustees level. The request originally was to schedule a due diligence meeting for the DC Plan on April 15, 2005. Controller Tajalle stated that Great West Retirement Services had requested moving the meeting to April 22, 2005. Controller Tajalle stated that he spoke to Board Chairman San Agustin who asked him to request that the Investment Committee table the due diligence until such time as the protest is resolved. Committee Member Cruz stated that the due diligence and the protest are not related. Committee Member Cruz asked if Board Chairman San Agustin gave a reason why he is asking to table the due diligence meeting. Committee Member Cruz stated that if the Fund is required to conduct a due diligence meeting and if it is in the By-Laws, the Fund should go forward with it. Committee Member Cruz recommended to go forward with the due diligence meeting within a reasonable point of time.

Committee Member Cruz, seconded by Committee Acting Chairman Taylor, moved that the Investment Committee recommends proceeding with the April 22, 2005 due diligence meeting and also recommended for a set of questions similar to those provided to the DB managers. Without objection, the motion passed.

B. Draft “Trust Agreement” Document

Controller Tajalle stated that Committee Chairman Wilfred Leon Guerrero asked to have the Board members review the draft Trust Agreement in so far as it relates to their particular committee. Committee Acting Chairman Taylor stated that the Investment Committee will review and discuss the document and then make a recommendation at the next meeting.

C. Custodial Bank RFP Process – Discussion of RFP Scope of Services

Controller Tajalle stated that he has provided a proposed scope of services to be included in the RFP for the Custodial Bank RFP. Controller Tajalle stated that the vendor chosen to provide the Fund assistance in the search for custodial bank will help the Fund on the analysis of items listed in the proposed scope of services. Committee Member Cruz asked if the Fund could work with Mercer. Controller Tajalle stated that the Fund can not use Mercer in this particular endeavor. Committee Acting Chairman Taylor suggested to talk to someone with a lot of GovGuam procurement experience about the matter. Committee Acting Chairman Taylor suggested talking to Mr. Fred Mendiola. Controller Tajalle stated that he has gone into the national website and searched for requests for proposals to use as a guide. Committee Acting Chairman Taylor stated that he is sensitive to the comments made by the Fund’s consultant about issues with international banks that the Fund has and other funds don’t have. Committee Member Cruz asked if the Fund is looking at at least ninety (90) days for this process and also asked what the cost would be. Controller Tajalle stated that he does not have a cost figure.

Committee Acting Chairman Taylor stated that he is concerned about the purchasing issue but suggested to continue to expedite the RFP for the RFP. Controller Tajalle stated that the following are key area in which the chosen consultant can assist the Fund in the analysis and search for a custodial bank: 1) asset

safekeeping and securities processing including international investments, 2) insurance coverage of the assets in custody, 3) computer systems and security and 4) securities lending process. Committee Member Cruz asked if the Fund is talking about another general consultant.⁴ Controller Tajalle stated that this would be for this one particular process. Committee Member Cruz asked if this would include the evaluation services. Controller Tajalle stated that he could pull out the verbiage from the international manager search RFP. Committee Acting Chairman Taylor recommended management to finalize the RFP.

D. Finalized Actuarial Report

Controller Tajalle stated that this is an informational item that the Board of Trustees adopted and approved the September 20, 2003 Actuarial Report. Committee Acting Chairman Taylor asked if it is the Fund's intention to use the 24.89%. Controller Tajalle stated that the 24.89 % is the number being currently discussed with the Legislature.

V. CORRESPONDENCE

A. Lazard Asset Management – “Consent to Continuation of Your Advisory Agreement”

Controller Tajalle stated that Lazard Asset Management is asking if the Fund wants to continue with the terms of the management advisory agreement since Lazard was going to become a public firm. Committee Member Cruz asked what is the impact of Lazard going public. Controller Tajalle stated that it changes their business form. Controller Tajalle stated that the March 11, 2005 letter states that there are forty-five (45) days to submit a written response. Controller Tajalle asked if the Board would like to continue with Lazard. Committee Member Cruz asked if this is the ADRs.

Committee Member Cruz asked what is the hold up on the investment manager search contracts. Controller Tajalle stated that it is the handling of the terms and conditions of the contract. Controller Tajalle stated that it is between the legal counsels. Controller Tajalle stated that the Fund was able to come to a contractual agreement with two (2) managers. Committee Member Cruz asked how much longer will this process take. Controller Tajalle stated that it could happen in thirty (30) days optimistically or sixty (60) days conservatively.

Committee Member Cruz stated that his recommendation is to keep Lazard. Committee Member Cruz asked if there was a recommendation to fire Lazard. Controller Tajalle replied, “no.”

Committee Member Cruz, seconded by Committee Acting Chairman Taylor, moved to recommend to the Board of Trustees to keep Lazard. Without objection, the motion passed.

B. Carlsmith Letter Regarding Enron Lawsuit

Controller Tajalle stated that during the due diligence meeting, it was requested by the Legal Counsel to look for people who are entering into a class action lawsuit. Controller Tajalle stated that he sent an email to the Fund's custodial bank so that the Fund would be made aware of this. Controller Tajalle stated that Board Chairman San Agustin thought this was an authorization to go ahead and participate in the class action lawsuit. Controller Tajalle stated that this is more just for informational purposes. Committee Member Cruz asked if there has been any settlement. Controller Tajalle replied, “no.” Committee

Member Cruz asked if the Fund has received any letter or correspondence about this matter from any attorney. Controller Tajalle replied, "no," not even from the custodial bank. Committee Member Cruz stated that the Fund is automatically entered into the class action by virtue of owning stock during certain time periods. Controller Tajalle stated that the Fund had the ability to opt out of the class action and that the due date for a response was March 28, 2005. Controller Tajalle stated that the Fund is now a part of the class action suit. Controller Tajalle stated that the suit is just against Enron and its Chief Executive Officer.

Committee Acting Chairman Taylor asked if the Fund would need an independent lawyer. Controller Tajalle stated participation in this class action suit is not costing the Fund any money right now. Committee Member Cruz stated that his concern with the private attorney is that the Fund has to accept the fact that the Fund's investment managers are in the business of risk. Controller Tajalle stated that as a matter of information, the Fund is part of the class action suit by virtue of the fact that the Fund did not send out an exclusion letter. Controller Tajalle asked the Investment Committee if the Fund should be a participant in every class action suit. Committee Member Cruz stated that the Fund needs to see what the litigation is about. Committee Acting Chairman Taylor stated that the Investment Committee is going to recommend to the Board that the Investment Committee continue to actively review all class action suits associated with the Enron case.

VI. ANNOUNCEMENTS

Controller Tajalle reported on Great West's contribution report. Controller Tajalle stated that if an agency is highlighted in yellow then payments are not due until 5:00 p.m. today. Controller Tajalle stated that GMHA is behind four (4) pay periods for both the DC Plan and the DB Plan. Committee Member Cruz asked what legal recourse does the Fund have. Controller Tajalle stated that litigation is a possibility. The agency would be sued for not being in compliance with the Fund's statute. Controller Tajalle stated that the members are being informed of the delinquency and members are entering into class action suits against GMHA. Committee Member Cruz asked if there is an alternative that is within the Fund's control that the Fund could exercise. Committee Member Cruz asked if this is set up in the Fund's financial statements as a receivable. Controller Tajalle stated that it is a receivable to the Fund.

Committee Acting Chairman Taylor asked for an update on the Defined Contribution Plan protest. Controller Tajalle stated that he was not part of that process. Committee Acting Chairman Taylor stated that apparently ASC is going to make a presentation at next week's Board meeting. Committee Acting Chairman Taylor asked if there is going to be a closed meeting as part of next week's Board of Trustees meeting. Controller Tajalle replied, "no."

Committee Member Cruz mentioned that Rich Nuzum has been promoted and is relocating. Committee Member Cruz asked if there is a material change in the Fund's relationship with either Mercer or any of the managers. Controller Tajalle stated that Mr. Nuzum is planning to stay as lead consultant and the Fund is not going to see change in service that the Fund normally receives from Mercer. Committee Acting Chairman Taylor stated that he agrees with Board Chairman San about being careful about its management of the Mercer contract.

VII. ADJOURNMENT


There being no further business before the Investment Committee, on motion of Investment Committee Acting Chairman Taylor, seconded by Investment Committee Member Cruz, and without objection, the meeting was adjourned at 1:25 p.m. Motion passed.

Respectfully submitted,



**JACKIE BLAS
Recording Secretary**

AFFIRMED:



JAMES J. TAYLOR, Acting Chairman