

GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY · SECURITY · REWARDS  
**INVESTMENT COMMITTEE MEETING**  
 Friday, May 6, 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**  
 Acting 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 12:10 p.m. Friday, May 6, 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

**Staff Present:**

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

**II. CORRESPONDENCE**

**A. Letter from Davis Hamilton Jackson & Associates, L.P.**

Controller Pete Tajalle stated that the Retirement Fund received a letter from Mr. Robert Davis of Davis Hamilton Jackson & Associates informing the Fund that one of their principal partners will be opening his own company named the Inroad Group. Controller Tajalle stated that he is concerned that this will result in a reduction in service to the portfolio. Controller Tajalle stated that he is also concerned that this will be a vehicle by which Davis Hamilton Jackson could take a portion of the Fund's investment portfolio and give it to the Inroad Group. Controller Tajalle stated that he recommends that Management draft a response letter to Davis Hamilton Jackson asking whether there will be a reduction in service and whether Davis Hamilton Jackson intends to give a portion of the portfolio to the Inroad Group.

Board Chairman Joe T. San Agustin suggested having Committee Chairman Wilfred Leon Guerrero sign the letter. Committee Chairman Leon Guerrero stated that he would write the letter but that the Investment Committee needs to decide if the Fund should continue with Davis Hamilton Jackson & Associates. Controller Tajalle recommended that this be forwarded to Mercer for comments on what would be the impact on the Fund. The Investment Committee agreed.

**B. News Release: “The Bank of New York to Acquire Lynch, Jones & Ryan, A Leader in Commission Recapture Services”**

Controller Tajalle reported to the Investment Committee that the Bank of New York has announced that it has signed a definitive agreement with Instinet Group Incorporated to acquire Lynch, Jones & Ryan, Inc., a leader in the provision of commission recapture services to institutional clients. Controller Tajalle stated that Lynch, Jones & Ryan, Inc. is a discount brokerage. Controller Tajalle stated that the Fund currently uses four (4) discount brokers. Board Chairman San Agustin asked if the Fund needs to use all four (4) discount brokers. Controller Tajalle stated that he would check with Mercer to see if all four discount brokers are needed. Controller Tajalle further stated that he would forward this to Mercer to find out if there will be any negative results from this acquisition.

**III. ACTION ITEMS**

**A. Approval of Minutes –March 4, 2005 and April 1, 2005 Investment Committee Minutes**

Committee Vice-Chairman James Taylor stated that he had reviewed the March 4, 2005 and April 1, 2005 Investment Committee Minutes. Committee Vice-Chairman Taylor noted that the Recording Secretary had made the appropriate corrections on the Minutes of March 4, 2005 and April 1, 2005.

Board Chairman San Agustin made a clarification on Page 4, Second Paragraph, of the March 4, 2005 Minutes. Board Chairman San Agustin stated that Mr. Winton Young of First Hawaiian Bank in Hawaii was supposed to make a presentation in April 2005 to the Board on the custodian bank services. Board Chairman San Agustin pointed out that Mr. Young did not make a presentation to the Board in April 2005. Committee Chairman Leon Guerrero so noted Board Chairman San Agustin’s clarification that Mr. Young did not make a presentation to the Board.

**On motion of Committee Vice-Chairman James Taylor, seconded by Committee Member Gerard Cruz, and without objection, the Investment Committee Meeting Minutes of March 4, 2005 and April 1, 2005 were approved, as corrected. Motion passed.**

**B. Approval of First Quarter 2005 Performance Review Scheduling**

Controller Tajalle stated that the first quarter for 2005 ended March 31, 2005. Controller Tajalle stated that Mercer suggested scheduling the first quarter 2005 performance review for May 26 and May 27, 2005. Committee Vice-Chairman Taylor and Committee Member Gerard Cruz both stated that they were comfortable with the May 26 and May 27, 2005 dates for the Mercer performance review. Controller Tajalle stated that the performance review will be held from 9:00 a.m. to 12:00 Noon. (Note: This review was subsequently rescheduled.)

Committee Chairman Leon Guerrero noted that the fiscal year runs from September to October. He also asked why the performance review being conducted on a calendar year basis. Chairman Leon Guerrero asked why can't the first quarter review be from October to December. Controller Tajalle stated that it is the first quarter but it is called fourth quarter 2004. Controller Tajalle stated that the review will be for the period from January to March 2005. Committee Member Cruz asked what would be the impact of such a change when comparing this to the benchmark. Controller Tajalle stated that it is compared on a one full year basis. Mr. Vince Camacho, Great West Retirement Services, stated that the quarterly reports are rolling quarters. Committee Member Cruz asked if it could be changed. Controller Tajalle stated that he sees no problem on changing the performance review to make it on a fiscal year basis. He will discuss the matter with the Investment Consultant.

Committee Chairman Leon Guerrero informed the Investment Committee that he would be leaving off-island on May 15, 2005 for an indefinite period of time.

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

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

Controller Tajalle stated that he has provided a cash flow summary for the first quarter (October-December 2004) and the second quarter (January-March 2005). Controller Tajalle stated that the summary shows the cash outflow from annuities and operations. Controller Tajalle further stated that the summary also shows the cash inflow from employee contributions, government contributions, unfunded portions, bond interests and dividends, bank account interests and ERIP note payments. Controller Tajalle stated that the shortfall averages between \$6-7 Million per month. Controller Tajalle stated that the original drawdown plan called for a principal drawdown of \$5.5 Million per month. Controller Tajalle stated that the first quarter principal drawdown was \$15.5 Million. The second quarter drawdown was \$13 Million. Committee Vice-Chairman Taylor again requested for a brief written explanation of the change in the process that has been initiated in providing cash to operations.

Board Chairman San Agustin asked Controller Tajalle if the figures represented bond interest and dividends from January through March balanced to this from First Hawaiian Bank. Controller Tajalle replied, "yes." Board Chairman San Agustin stated that the data supplied by the Custodial Bank (First Hawaiian Bank) of \$2.4 Million differs from Controller Tajalle's report of \$7 Million. Controller Tajalle stated that the figure is from actual transfer cash draw. Board Chairman San Agustin pointed out a \$4 Million difference. Committee Vice-Chairman Taylor stated that in October 2004, there was a shortfall of \$5,396,594. The Fund drew down \$2,525,000. Committee Vice-Chairman Taylor asked where is the other \$2 Million. Controller Tajalle stated that the beginning cash balances are carried forward. Committee Vice-Chairman Taylor requested that such data also show on the funding document. Controller Tajalle stated that he would provide the information requested.

Committee Vice-Chairman Taylor stated that he does not see the drawdown plan represented on the report. Controller Tajalle stated that the drawdown plan was \$5.5 Million per month. Committee Vice-Chairman Taylor stated that there should be a column for the drawdown plan versus the actual drawdown. Committee Vice-Chairman Taylor stated that he is comfortable with the report being quarterly.

Controller Tajalle stated that he would add a column of what the drawdown plan calls for which is \$5.5 Million per month. Committee Chairman Leon Guerrero noted that if that column is added on as suggested by Committee Vice-Chairman Taylor, it would then explain a lot.

Board Chairman San Agustin asked what is the average cash balance. Controller Tajalle stated that it is roughly \$1.2 Million. Committee Member Cruz asked if the report would have a different format next month. Controller Tajalle replied, "yes." Controller Tajalle stated that he would like to confirm through the Investment Committee, then through the Board of Trustees, that the Fund continue with the cash drawdown plan of \$5.5 Million. Committee Chairman Leon Guerrero recommended reconciling the general ledger with the actual bank report.

## **B. Defined Contribution Plan Contribution Report**

Mr. Vince Camacho, Great West Retirement Services, reported to the Investment Committee on the Defined Contribution Plan and Deferred Compensation Plan (457) contributions for the month of April 2005. Mr. Camacho also provided a report on the Defined Contributions Plan and Deferred Compensation Plan (457) asset summary for 2005.

Committee Chairman Leon Guerrero asked if GMHA is behind in their contributions for the month of February and March 2005. Mr. Camacho replied, "yes," but that GMHA is current with their contributions for the last pay period. Committee Member Cruz asked if GMHA's payment for the current pay period could be applied to the arrearage in February. Mr. Camacho replied, "no."

Committee Vice-Chairman Taylor stated that the Guam Community College's accounts payable staff is following up on why data is not being received by the Retirement Fund on time. Mr. Camacho stated that someone from GCC contacted him regarding the problem. Mr. Camacho stated that the problem has been cleared.

Committee Chairman Leon Guerrero asked what the Fund is going to do about the February late payments by GMHA. Mr. Camacho stated that Director Aflague has sent letters to GMHA with copies to the members, the U.S. Department of Labor, and the Attorney General. Director Aflague asked if GMHA could ask the Fund to credit payment towards the pay period in February. Controller Tajalle stated that GMHA could do that as long as GMHA identifies the pay period. Committee Chairman Leon Guerrero asked if GMHA is behind on their DB Plan contributions. Controller Tajalle replied, "yes," GMHA is behind five pay periods for both plans. Controller Tajalle stated that if Bill 118 passes into law, GMHA would have to pay roughly \$900,000 for the five pay periods outstanding. Committee Chairman Leon Guerrero agreed with Director Aflague's suggestion to ask GMHA to start making payments on the outstanding pay periods in February. Director Aflague stated that he spoke to Mr. Peter John Camacho, GMHA's Administrator, and Mr. Camacho told him that GMHA would be current for last pay period. Director Aflague stated that he told Mr. Camacho that GMHA's financial staff should have advised that the oldest pay period be paid first. Committee Chairman Leon Guerrero asked what options the Fund has regarding the outstanding payments. Director Aflague stated that he has written a letter to the Attorney General to investigate this matter. Committee Chairman Leon Guerrero recommended that the Investment Committee express its concern to the Board of Trustees about the non-payment by GMHA.

Mr. Vince Camacho reported that payment was received from DOE for the pay period ended April 16, 2005. Controller Tajalle asked Mr. Camacho if there are any outstanding payments from DOE on the DC Plan contributions. Mr. Camacho stated that DOE had no outstanding payment since 2001.

Mr. Camacho reported to the Investment Committee on the asset summary for 2005. Mr. Camacho stated that for the first quarter, the DC Plan had a decrease in assets because of the GTA sale. Committee Chairman Leon Guerrero requested for an explanation on the growth. Mr. Camacho stated that the beginning balance for the quarter was \$108 Million and the ending balance for the quarter was \$109 Million. Mr. Camacho stated that there had been \$4.3 Million on contributions less distributions, less any investment changes, resulting in a net difference of \$731,000.

Mr. Camacho also provided a chart describing the contribution allocations for the first quarter. Committee Chairman Leon Guerrero asked whether the loss can be attributed to the fact that 25% of the portfolio was in the Aggressive Profile. Mr. Camacho stated that 25% was in the Invesco stable value. Committee Member Cruz stated that the market was down in the month of March. Controller Tajalle suggested adding a column showing the actual rate of return for performance by each fund. Mr. Camacho stated that there is such a report that the Investment Committee gets on a monthly basis.

Committee Vice-Chairman Taylor asked about the additional information that was going to be provided by Great West as a follow-up to the DC Plan review. Mr. Camacho stated that he just received the profile information. Mr. Camacho stated that he would print out a copy for the Investment Committee. Committee Vice-Chairman Taylor also noted that certain additional historical information had been requested. Committee Member Cruz stated that at the DC Plan review there had been a recommendation to replace two funds offered to members. Mr. Camacho stated that Controller Tajalle has provided the Investment Committee with a copy of the report on current fund performance. Board Chairman San Agustin asked if Great West is restricted to sixteen funds. Mr. Camacho replied, "yes." Board Chairman San Agustin asked how the previous Board decided on which funds to choose. Mr. Camacho stated that at the initial offering, it was the Board's Investment Consultant. Mr. Camacho stated that the most recent action was an addition to the 401 Plan and to the 457 Plan. Mr. Camacho stated that the prior Board had decided to make the funds the same for each plan.

## **V. OPEN DISCUSSION**

### **A. Due Diligence Review**

Controller Tajalle stated that the Investment Committee had conducted a due diligence meeting on the third party administrator. It was noted that the Board had not contracted with the current Investment Consultant for advice on the DC Plan. Controller Tajalle stated that the Investment Committee will be recommending to the Board of Trustees to hire a consultant to review the issues raised at the due diligence meeting and to address those issues.

Committee Chairman Leon Guerrero stated that the motion would be to hire a consultant to analyze and review the existing situation based on the issues raised at the due diligence meeting. Mr. Camacho asked if it is to hire an investment consultant or a plan consultant. Committee Chairman

Leon Guerrero asked if this will address the issues from the due diligence meeting and serve as a consultant in the future. Board Chairman San Agustin asked who would pay for the consultant. Controller Tajalle stated that the DC Plan has provisions for administrative expenses. Committee Member Cruz asked if there are any critical issues that cannot wait for the consultant to be on board. Mr. Camacho stated that it was necessary to complete the plan restatement.

Mr. Camacho mentioned the child support laws that were enacted as a federal statute. Mr. Camacho stated that the DC Plan statute needs to be changed to conform to the federal statute. Mr. Camacho stated that there is a conflict with the federal law in the way the current statute reads. Committee Member Cruz asked if the restatement of the plan document was very critical. Mr. Camacho replied, "yes." Mr. Camacho stated that he does not think that a consultant is needed for the plan restatement. Mr. Camacho stated that the Fund's attorney has done a lot of work on the plan document. Indeed a lot of work has been done on the plan document since 2002. Mr. Camacho stated that Great West has been waiting for the final treasury regulations. Committee Vice-Chairman Taylor asked does the fact that the IRS signs off on the plan document constitute a "safe harbor." Mr. Camacho replied, "yes," because the Fund has adopted "safe harbor" as part of the plan document. Mr. Camacho stated that Legal Counsel Joanne Grimes has the final version of the revised draft plan document. Committee Chairman Leon Guerrero asked Director Aflague to obtain the plan document from Legal Counsel Grimes. Mr. Camacho stated that the plan document has to be updated with the new treasury regulations.

#### **B. Status of Custodian Bank RFP Process**

Controller Tajalle stated that the draft RFP for the performance of professional services related to providing assistance in the search for custodial bank services is provided for review by the Investment Committee. Committee Member Cruz recommended to have the Fund's Legal Counsel review the draft RFP. Controller Tajalle stated that he will refer the draft RFP to the Fund's Legal Counsel. Committee Member Cruz asked what is the difference between a Request for Proposal and a Request for Bid. Mr. Camacho stated that a Request for Bid is based on cost and a Request for Proposal is based on qualification. Committee Vice-Chairman Taylor pointed out that the current draft RFP reflects purchasing of supplies not the purchase of consulting services. Thus, additional review by Management is needed. Committee Chairman Leon Guerrero stated that the draft RFP will be referred to the Fund's Legal Counsel.

#### **C. Investment Consulting Services for the Defined Contribution Plan**

Committee Chairman Leon Guerrero stated that the Investment Committee reports that, as a result of the due diligence meeting on the DC Plan, the Investment Committee made a major recommendation to hire a consultant for the DC Plan. Committee Chairman Leon Guerrero stated that some of the major issues raised included the possible need for an increase in contributions and the need for the restatement of the Plan Document. Committee Chairman Leon Guerrero stated that the first assignment that the consultant would have would be to review and analyze the existing situation and to address the issues that were raised in the due diligence meeting.

**D. E-Mail Response from Rich Nuzum of Mercer**

Controller Tajalle mentioned that at an "Investment Institute" conference he attended in Florida, one of the recommendations was for pension plans to consider to have 20% to 30% of their Fund's fixed income portfolio in Treasury Inflation Protected Securities.

Controller Tajalle stated that he received email from Mr. Rich Nuzum (Mercer) informing him that he is working on the proposed legislation to amend Section 8158.

Committee Vice-Chairman Taylor asked about the status of the international investment manager search for international manager. Director Aflague stated that three out of the five managers have signed the contract.


**VI. ANNOUNCEMENTS**

None

**VII. ADJOURNMENT**

**There being no further business before the Investment Committee, on motion of Investment Committee Chairman Leon Guerrero, seconded by Investment Committee Member Cruz, and without objection, the meeting was adjourned at 1:40 p.m. Motion passed.**

Respectfully submitted,

  
**JACKIE BLAS**  
Recording Secretary

**AFFIRMED:**

  
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**WILFRED P. LEON GUERRERO, Chairman**