


GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

Felix P. Camacho
Governor

Michael W. Cruz, M.D.
Lieutenant Governor

Paula M. Blas
Director

Trustees:

Joe T. San Agustin
Chairman

Wilfred P. Leon Guerrero, Ed.D.
Vice-Chairman
Investment Committee, Chairman

James J. Taylor, Ph.D.
Secretary
Investment Committee, Vice-Chairman

Gerard A. Cruz
Treasurer
Audit & Operations Committee,
Chairman

George A. Santos
Members' & Benefits Committee,
Chairman

Katherine T.E. Taitano
Trustee

Antolina S. Leon Guerrero
Trustee

**INVESTMENT COMMITTEE MEETING
DEFINED BENEFIT PLAN**

Friday, August 31, 2007, 12:00pm
Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee meeting was called to order at 12:35 pm on Friday, August 31, 2007, in the Retirement Fund Conference Room. Investment Committee Chairman Wilfred Leon Guerrero officiated.

Board of Trustees Present:

Wilfred Leon Guerrero, Chairman
Gerard A. Cruz, Member
James Taylor, Member
Joe T. San Agustin, Ex-Officio

Staff Present:

Paula M. Blas, Director
Rosie Bordallo, General Accounting Supervisor
Stephanie Herrera, Recording Secretary

II. ACTION ITEMS

1. Approval of Minutes – July 27, 2007

A motion was made by Committee Member Cruz, seconded by Committee Chairman Leon Guerrero to approve the minutes of June 27, 2007, subjected to correction. Without objection, the motion was passed.

III. OPEN ITEMS

1. Proxy Voting RFP - Pending

Director Blas stated that Controller Diana Bernardo is still working on the draft for the RFP for Proxy Voting.

IV. NEW BUSINESS

1. Franklin Templeton 8/21/07 Letter

A letter was addressed to the Fund's Chairman from Franklin Templeton advising the Fund that the corporate bond Residential Capital, a lender for subprime loans, has fallen below the minimum credit quality requirements of the Fund. General Accounting Supervisor provided the current price (as of today's date) and indicated that the current value is the market value and the current price is the book (original) value. The 3 bonds were purchased within the last 6 months. She reported that for the first bond, the units were 1.255 and purchased at 1.296, with a current market value of \$897,000. She also stated that this bond will not mature until 6/30/2015 and the Fund is facing a paper loss of \$399,000. Interest for the bonds is earned on a semi-annually basis and General Accounting Supervisor reported that for the first 2 bonds, interest in the amount of \$25,000 and \$16,000 was received. Committee Chairman Leon Guerrero expressed his concern on the date of purchase of the bonds and when Franklin Templeton advised the Fund of the potential problem. General Accounting Supervisor stated that when the bonds were purchased, they were valid Triple B bonds and they have only been recently downgraded. In an email response from Mercer regarding the potential loss from these bonds (as requested by Controller Bernardo) and whether the Fund should hold onto the bonds, Mercer stated that they are not in a position to dispense security-specific investment advice. Committee Member Taylor indicated that Mercer is not an advisor to the investment managers. Mercer provides information on managers to the Fund, but it is not their obligation to advise the investment managers. Fund Chairman stated that questions as to how much more this will continue to go down and for how long needs to be addressed. Committee Member Taylor stated that the last time this issue came up with the Ford Motor bond, the interpretation of the law was that if the manager purchased a bond and it was legal at the time of purchase, it could be kept and the fact that it goes down does not make it an obligation on their part to sell it. He further stated that Franklin Templeton is only informing the Fund of the current status and the Fund could be placed in a double bind if they instruct the manager to keep the bond and it loses more money or sell the bond and it loses money, they could state that it was the decision of the Fund. He indicated that because Franklin Templeton was obtained as an investment manager, the decision should be theirs and they should offer an explanation of their decisions. As indicated in their letter, Franklin Templeton is recommending holding on to the bond and they indicated they will monitor it and report to the Fund on a bi-weekly basis. Committee Member Cruz made a recommendation to obtain more information, to have an analysis done on the

bonds by both Franklin Templeton and Mercer and to advise Franklin Templeton that a decision will be subject to receipt of the analysis on the bonds. Committee Member Taylor recommended not advising the manager on a decision of what to do, however agreed that information should be requested. General Accounting Supervisor Bordallo indicated that Franklin Templeton has full discretion on the assets and although the Fund does have the right to tell them to sell, the Fund does not have to exercise that right, because the bond fell short, it was their obligation to inform the Fund. She agreed that she does not want to advise Franklin Templeton on a decision of what to do with the bonds. Director Blas added that the Fund should correspond with Franklin Templeton, requesting for information and to cite the law, stating that they are to inform the Fund of the status and take the position that it is their decision as to what they will do with the bonds. It was recommended to request that Mercer advise the Fund on the position of Residential Capital as a company for the record. Committee Chairman Leon Guerrero and Committee Member Taylor also recommended that the Fund ask Mercer for their recommendation on handling situations when they would advise the Fund of issues that are developing within the market and what should have been done. General Accounting Supervisor also suggested inquiring from Aberdeen Asset Management about their portfolio because they also hold Residential Capital.

V. INFORMATIONAL ITEMS

1. Bernstein's 8/01/07 Report

General Accounting Supervisor Bordallo indicated that the Fund does not have anything to file at this time because the Fund did not hold any investments of the companies listed in its report.

2. Investment Fee and Income Summary

A fee and income summary was provided for review and discussion. The report shows instances where one manager sells holdings and another manager is purchasing the same holdings. Committee Chairman Leon Guerrero recommended addressing Mercer on situations where one manager is selling a stock or bond and another manager is purchasing the same stock or bond. General Accounting Supervisor Bordallo indicated the Fund could ask Mercer to advise them on how to handle those situations.

3. Investment Summaries by Manager

Investment summaries by manager were provided to the Committee for information purposes.

VI. OPEN DISCUSSION

- 1. Schedule for 9/30/07 Quarterly Performance Meeting**
- 2. Schedule for Annual Review of Domestic Equity Managers**

It was decided to move the Board meeting to November 16, 2007 and schedule the Quarterly Performance and Annual Review of Domestic Equity Managers Meetings for November 14 and 15, 2007.

VII. CORRESPONDENCE

- 1. From Mercer – “Turmoil in the Credit (and other) Markets”**
- 2. From Capital International, Inc. – “The Market Crisis in Context”**
- 3. From Custodian – “Capital International”**

Committee Chairman Leon Guerrero indicated that initially, FHB informed the Fund that they had a problem with the way Capital International was handling custody. FHB stated they do not have custody over stocks and bonds, but have custody over units. Fund Chairman San Agustin explained that that Capital International wants to maintain a consul that they can dictate how the funds are distributed, they do not want to go through a Custodian. Committee Chairman Leon Guerrero recommended that Director Blas obtain an opinion from the Fund’s legal counsel regarding this issue.

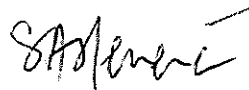
VIII. ANNOUNCEMENTS

None.

IX. ADJOURNMENT

There being no further business before the Investment Committee, Committee Chairman Leon Guerrero adjourned the meeting at 2:20pm.

Respectfully submitted,



STEPHANIE A. HERRERA
Recording Secretary

AFFIRMED:



Wilfred Leon Guerrero, Chairman