

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, September 2, 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 12:14 p.m. Friday, September 2, 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

**Staff Present:**

Paula M. Blas, Acting Director  
 Pete Tajalle, Controller  
 Jackie Blas, Recording Secretary

**II. ACTION ITEMS**

**A. Approval of Minutes – May 6, 2005 and August 5, 2005 Investment Committee Minutes**

Committee Acting Chairman Taylor raised a couple of questions on the May 6, 2005 Minutes. Committee Acting Chairman Taylor stated that he is concerned that agenda items discussed are getting lost. Committee Acting Chairman Taylor stated that he would like to have items raised to an agenda level so that at subsequent meetings the items would show if it was completed or not. As an example, the May 6, 2005 Minutes mentions a response letter to be drafted by Management. The minutes does not show any evidence that it was done. Controller Pete Tajalle stated that this may be an open item. Committee Acting Chairman Taylor suggested that Controller Tajalle research if the letter was sent out. Committee Acting Chairman Taylor stated that, at subsequent meetings, there should be an action item or informational item showing what tasks have been completed or have not been completed.

*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

Committee Acting Chairman Taylor pointed out that on Item II B of the May 6, 2005 Minutes, the minutes reflects that Controller Tajalle was going to check with Mercer to see if all four discount brokers are needed and also that he would also find out with Mercer if there will be any negative results from the acquisition. The minutes do not show if the Fund received a report from Mercer. Controller Tajalle stated that he would have to research if Mercer has responded.

Committee Acting Chairman Taylor also pointed out that on Item III A of the May 6, 2005 Minutes, a presentation was made in June 2005 by Winton Young. Committee Acting Chairman Taylor stated that he was the only Trustee who attended the presentation. Committee Acting Chairman Taylor asked if there is a need to call Mr. Winton Young back to make another presentation. Controller Tajalle stated that Mr. Winton Young is planning a presentation in November 2005. Committee Acting Chairman Taylor stated that this should be placed on the next Board Meeting agenda.

Committee Acting Chairman Taylor stated that Item III B of the May 6, 2005 Minutes, Controller Tajalle was going to discuss the matter of changing the performance review from a calendar year basis to a fiscal year basis with the Investment Consultant. The minutes does not reflect if this was done. Controller Tajalle stated that he sent an email to Rich Nuzum to have him put the performance review on a fiscal year presentation.

Controller Tajalle stated that Mr. Vince Camacho, Great West Retirement Services, is not able to attend today's meeting and sends his apologies.

**On motion of Investment Committee Member Gerard Cruz, seconded by Investment Committee Acting Chairman James Taylor, and without objection, the Investment Committee Meeting Minutes of May 6, 2005 were approved, subject to corrections. Motion passed.**

Committee Acting Chairman Taylor asked about the status of Section 8158 on Item IV A of the August 5, 2005 Minutes. Acting Director Paula Blas stated that legislation was transmitted to the Legislature. Committee Acting Chairman Taylor had a question on stocks that do not pay dividend. Acting Director Blas stated that this will be included in Section 8157 under common stock. Acting Director Blas stated that Legal Counsel Joanne Grimes will draft the language for Section 8157.

Committee Acting Chairman Taylor asked about the status of the Guam Memorial Hospital Authority (GMHA) having problems providing data (Item III A of the August 5, 2005 Minutes). Controller Tajalle stated that he will need to follow up with Rosalia Bordallo regarding the data problems. Controller Tajalle stated that GMHA remains behind in their contributions. Committee Acting Chairman Taylor stated that he is concerned with GMHA's payroll system. Committee Acting Chairman Taylor requested to find out the status of the situation.

**On motion of Investment Committee Member Gerard Cruz, seconded by Investment Committee Acting Chairman James Taylor, and without objection, the Investment Committee Meeting Minutes of August 5, 2005 were approved, subject to corrections. Motion passed.**

**B. Email Dated September 1, 2005: "General Motors Downgrade Notification/Request to Hold – Government of Guam"**

Controller Pete Tajalle stated that due to the recent downgrade of General Motors Acceptance Corporation (GMAC), the Fund's portfolio now holds securities that are rated below investment grade, which is below the Fund's minimum guideline requirement for individual securities. Controller Tajalle stated that Deutsche Asset Management is requesting for a waiver from the current guidelines to permit Deutsche Asset Management to continue to hold securities as well as to continue to trade General Motors in the portfolio. Controller Tajalle stated that the current rating will be at the current level for not a long period of time. Controller Tajalle asked if the Investment Committee would like to entertain this or does the Board want to engage in active management. Committee Acting Chairman Taylor stated that he is concerned that the Fund has hired Deutsche as a Bond Manager. Committee Acting Chairman Taylor stated that the Fund has guidelines for the Bond Managers and that they should have had a strategy a long time ago. Committee Member Gerard Cruz stated that the bonds are short-term bonds. Committee Member Cruz stated that at the time of purchase the Bond Managers were after the yields and the attractive coupon rates for short-term securities. Committee Member Cruz agrees that the market value is a much better indicator of risks. Committee Member Cruz stated that the Fund should let them know to follow the law and that the Board of Trustees have no authority to circumvent the law or deviate from the law. Controller Tajalle stated that the law specifies compliance. Committee Acting Chairman Taylor recommended asking the Fund's Legal Counsel for an interpretation if the Board of Trustees have the discretion to waive this kind of item. Controller Tajalle stated that he will get more information on the original purchase cost of the bonds. Acting Director Paula Blas stated that she will get a legal opinion from Legal Counsel by next week.

**III. INFORMATIONAL ITEMS**

**A. Allianz Global Investors – Change of Management**

Controller Tajalle stated that Allianz Global Investors are the legal entity for two managers which are Oppenheimer Capital and RCM. Controller Tajalle stated that the effective date of Peter Rayner's resignation as CEO of Allianz Global Investors is September 30, 2005. Controller Tajalle stated that there will be a significant turnover in less than six months. Controller Tajalle stated that this is a notification of management changes. Committee Acting Chairman Taylor asked if the Fund has received a report from Rich Nuzum. Controller Tajalle stated that he should get the report by next week.

**B. Pioneer Emerging Markets Fund – Change of Management**

Controller Tajalle stated that there is a change in fund management on the Pioneer Emerging Markets Fund. Committee Acting Chairman Taylor stated that the Investment Committee needs Mr. Nuzum's analysis. Committee Member Cruz asked about the status of the recommendation of replacements for the two funds. Committee Acting Chairman Taylor recommended to have Great West Retirement Services' investment advisor review and provide a recommendation regarding the change of fund management. Committee Acting Chairman Taylor requested that this be included on the next Board Meeting agenda.

#### **IV. OPEN DISCUSSION**

##### **A. Status of Current Proposed Legislation Regarding Investments**

Acting Director Blas stated that Section 8158 has been submitted to the Legislature. Acting Director Blas stated that Speaker Mark Forbes will schedule a public hearing. Acting Director Blas stated that there is additional language to incorporate non-dividend stocks in the proposed bill.

Acting Director Blas stated that Section 8157 deals with the common stock provision. Acting Director Blas stated that after speaking to Board Chairman San Agustin, the Board Chairman is in agreement to allow for a certain percentage of what is being invested in the common stock.

##### **B. Status of Request for Proposals**

###### **1. Custodian Bank**

Controller Tajalle stated that Management's recommendation is to table the initiation process of the Request for Proposal (RFP) for the Custodian Bank until the transition into the new International Managers. Committee Acting Chairman Taylor stated that he would like to see the recommendation in writing. Committee Acting Chairman Taylor asked who is going to do the RFP. Acting Director Blas stated that Legal Counsel Joanne Grimes is not comfortable in doing the RFP. Acting Director Blas stated that the Fund is now working on a modification of the current contract with Mercer.

###### **2. Defined Contributions Plan Administration**

Acting Director Blas stated that the last instruction was to proceed once the contract with Carlsmith Ball has been terminated by Great West Retirement Services. Acting Director Blas stated that Legal Counsel Joanne Grimes is finalizing the statutory amendments on the Plan Document. Acting Director Blas stated that she will provide an update at the next Board Meeting.

##### **C. Status of International Manager Contracts**

Acting Director Blas stated that the contracts are on their way to the Attorney General's office for the Attorney General's review. Committee Acting Chairman Taylor recommended for Acting Director Blas to follow up on the status of the contracts.

##### **D. Status of Citigroup Defunding**

Controller Tajalle stated that the Citigroup defunding has been completed. Committee Member Cruz asked if the money has been placed already. Controller Tajalle replied "yes." Committee Member Cruz asked about the cost. Controller Tajalle stated that he will get that information.

**V. CORRESPONDENCE**

**A. Mercer**

**1. Letter Dated June 22, 2005 "Comment on Proposed Bill to Amend Section 8158"**

Controller Tajalle stated that the Committee wanted to see the impact on the proposed amendment to Section 8158. The proposed bill is to amend Section 8158 to permit investment of up to 30% of the Government of Guam Retirement Fund's investments in collective investment trusts and other commingled funds, without restriction as to the nature of type of underlying securities included in these funds. Controller Tajalle stated that Mercer has provided an analysis on the proposed bill to amend Section 8158. Committee Acting Chairman Taylor stated that at some time the Fund needs a simple scenario from Mercer. Committee Member Cruz suggested not asking Mercer for anything further until the bill passes. The two Committee Members agreed.

**2. Letter Dated June 24, 2005 "Implications of Proposed Language for Bill to Amend Section 8158"**

Controller Tajalle stated that Rich Nuzum has made a presentation to the Investment Committee. Controller Tajalle stated that Mr. Nuzum had a concern on the limitation of a 5% incremental increase that is part of the statute. Controller Tajalle stated that Mr. Nuzum wanted to change the limitation to say to exempt up to 30%. Controller Tajalle stated that this was revised by the Board after submission. Committee Member Cruz stated that this may get technical or complicated. Committee Acting Chairman Taylor suggested to ask Speaker Mark Forbes for his opinion on how to have the changes made. Acting Director Blas stated that this has not gone before a public hearing. Acting Director Blas stated that she needs to know what the position of the Board is and if this is what the Board wants she could submit what the Board wants. Committee Acting Chairman Taylor recommended to include Management's Recommendation in the Board Agenda and include the June 22, 2005 letter.

**3. Letter Dated June 24, 2005 "Regarding Recommendation to Stop Trading and Remove Funding From Citigroup Asset Management"**

Controller Tajalle stated that Board action has been taken regarding the recommendation to stop trading and remove funding from Citigroup Asset Management. Controller Tajalle stated that the June 24, 2005 letter is presented for documentation purposes.

**4. Email Dated June 25, 2005 "Recommendation to Stop Trading and Shift Assets from Citigroup Portfolio"**

Controller Tajalle stated that the position taken by Mercer is to authorize Fund Staff to direct Citigroup to stop trading the fixed income portfolio it manages on behalf of the Fund. Controller Tajalle stated that the June 25, 2005 letter is for information purposes. Controller Tajalle stated that Board Chairman San Agustin had requested for an update on Mercer's position. Controller Tajalle stated that Mercer's position has not changed.

**5. Email Dated August 26, 2005 “Regarding Deutsche Asset Management Acquisition by Aberdeen Asset Management”**

Controller Tajalle stated that Mercer’s recommendation to the Board is to keep the management contract with Deutsche Asset Management in light of the acquisition. Acting Director Blas stated that, after reviewing the contract for the Fund’s Managers, there is an assignment clause in the contract. Committee Member Cruz stated that the contract that was signed does not allow assignments “except upon the prior written consent of the Board of Trustees.” Committee Acting Chairman Taylor asked if Board Chairman San Agustin agrees with this. Controller Tajalle stated that the Board Chairman’s concern is that the Investment Consultant is recommending that the Fund terminate Aberdeen and that the Fund is keeping Deutsche Asset Management which will soon be all under the same umbrella. Acting Director Blas stated that the Fund was looking at terminating Aberdeen under ADR but the Fund will now allow Aberdeen to take fixed income. Committee Acting Chairman Taylor stated that the Committee needs Mercer’s analysis of this. Controller Tajalle stated that the final closing for transition for Aberdeen is November 30, 2005. Controller Tajalle stated that he will request for Mercer’s analysis.

**B. Aberdeen Asset Management Inc.**

**1. Letter Dated August 18, 2005 “Announcement Letter of Deutsche Asset Management Acquisition and Request for Assignment of Deutsche Asset Management Contract with Government of Guam Retirement Fund”**

Controller Tajalle stated that Aberdeen is informing the Fund that they acquired Deutsche Asset Management and that Aberdeen is requesting for assignment of Deutsche Asset Management’s contract with the Fund. Controller Tajalle stated that this is open for discussion with Rich Nuzum. Controller Tajalle stated that he had a question on Aberdeen’s letter regarding Aberdeen’s assumption of the contract that he wanted to clarify with Mr. Nuzum – “By signing the attached appointment, you will be approving the substitution of Aberdeen Asset Management Inc. (AAMI) for the current Deutsche affiliate with which you have contracted and the other terms and conditions of your existing agreement will remain the same, except to the extent your agreement contemplates that all or a portion of our assets would be invested in commingled funds for which a Deutsche subsidiary serves as trustee. That portion of your assets will instead be invested in private funds having similar investment objectives that will be established and managed by AAMI.” Controller Tajalle stated that at this time the legislation is not in place for commingled funds.

Controller Tajalle stated that the excerpt of Scudder, Stevens & Clark contract, which is the name change to Deutsche, “Attachment 12,” is for information purposes. Controller Tajalle stated that this allows for the assignment based on Board approval.

**C. Deutsche Asset Management**

**1. Letter Dated August 19, 2005 “Announcement Letter of Deutsche Asset Management Acquisition by Aberdeen Asset Management Inc.”**

Controller Tajalle stated that this is the formal notification to the Fund of Deutsche Asset Management acquisition by Aberdeen Asset Management Inc. Controller Tajalle stated that the closing date for the transaction is November 30, 2005.

**D. Citigroup**

**1. Letter Dated June 30, 2005 "Citigroup Acquisition by Western Asset Management**

Controller Tajalle stated that this has been completed and the June 30, 2005 letter is for information purposes. Committee Member Cruz asked how much does the Fund have with Citigroup. Controller Tajalle stated about \$160 Million. Committee Member Cruz asked how much does the Fund have with Deutsche. Controller Tajalle stated one half. Committee Acting Chairman Taylor requested to have Management review this and have Legal Counsel provide an interpretation of the law.

**VI. ANNOUNCEMENTS**

**A. Second Quarter Performance Review – Scheduled for September 6 and September 7, 2005**

Controller Tajalle reported that the Second Quarter Performance Review is scheduled for September 6 and September 7, 2005 from 11:30 a.m. to 3:00 p.m.

**B. Managers Due Diligence**

Controller Tajalle reported that the Managers Due Diligence meeting is scheduled for November 6-10, 2005. Controller Tajalle stated that he is trying to schedule at least four hours a day for two days. Controller Tajalle stated that the six equity managers will be reviewed. Committee Member Cruz suggested to review two managers a day. Acting Director Blas mentioned that the November Board meeting is scheduled for Thursday, November 10th since Friday, November 11, 2005 is a holiday.

Controller Tajalle further reported that the proposed review of the two Fixed Income Managers will be held sometime in January 2006.

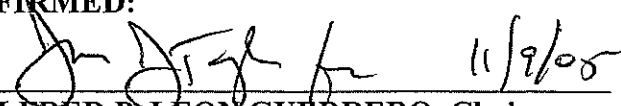
**VII. ADJOURNMENT**

**There being no further business before the Investment Committee, on motion of Investment Committee Acting Chairman James Taylor, seconded by Investment Committee Member Gerard Cruz, and without objection, the meeting was adjourned at 1:30 p.m. Motion passed.**

Respectfully submitted,

  
**JACKIE BLAS**  
Recording Secretary

**AFFIRMED:**

  
**WILFRED P. LEON GUERRERO, Chairman**