



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
STABILITY · SECURITY · REWARDS  
**INVESTMENT COMMITTEE MEETING**  
Friday, October 1, 2004, 12:15 p.m.  
Retirement Fund Conference Room

**MINUTES**

**Felix P. Camacho**  
Governor

**Kaleo S. Moylan**  
Lieutenant Governor

**Wilfred G. Aflague**  
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, October 1, 2004, 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

**Staff Present:**

Wilfred G. Aflague, Director

Pete Tajalle, Controller

Rosalia Bordallo, Investment Specialist

Vince Camacho, Great West Retirement Services

**II. AGENDA AMENDMENT**

Dr. Taylor noted omission of the Committee's proposed resolution for Board consideration relating to the review and update of the investment guidelines of 4GCA §8142 through §8150. The resolution was added as Action Item F.

**III. INFORMATIONAL ITEMS**

**A. MERCER GLOBAL INVESTMENT FORUM**

An invitation was extended to the Board and staff for Mercer's Global Investment Forum in Tokyo, Japan on Thursday, December 9, 2004. There is no fee for plan sponsor attendees and a draft agenda was provided for reference.

## **B. LETTER TO CITIGROUP ASSET MANAGEMENT/CITIGROUP RESPONSE**

Management noticed Citigroup Asset Management was keeping an unusually large amount of cash within the SEI Fund that is used by the Custodian as a sweep vehicle and notified them of the compliance issues related to that in a letter dated September 20, 2004. Citigroup responded on September 21 stating they will make every effort to be in compliance. They also raised a concern regarding the change in their mandates and mentioned it would be helpful to ascertain the Fund's view of how they manage the exposure to Mortgage-backed Securities. Management discussed the issue with Mercer and is awaiting their response. The Committee will be kept apprised of the situation.

## **C. DC MONTHLY CONTRIBUTION REPORT**

Mr. Camacho reported contribution remittances by department as of September 30, 2004. The only agency unpaid as of this morning is General Fund. They have until the close of business today before payments are considered delinquent

Mr. Tajalle noted DC plan statutes allow the Fund to assess interest on delinquent contribution remittances. However, because that section of the law makes reference to a section in the DB statutes that no longer exists, the amount of interest is not quantified.

## **D. FISCAL YEAR 2003 AUDIT REPORT REVIEW**

During the Investment Committee work session on September 24, 2004, the Committee reviewed the draft audit report noting internal control finding 2002-5, 2002-9, and 2002-10 relate directly to investment activities. At that working session management reported legislation is required to address these findings.

Chairman Leon Guerrero questioned the ERIP collections issue noted in the audit report. Mr. Tajalle explained that the terms of the promissory note do not provide a remedy upon the death of an annuitant. The Fund was authorized to issue an RFP for credit life insurance but that never came to fruition.

At the direction of the Board Chairman, management ordered the compilation of a listing of all note holders. The staff was tasked to develop options on how to deal with each situation. At the request of Dr. Taylor, the information will be presented as new business in the Board meeting on October 8, 2004. The list will consist of all ERIP participants, including those who have suspended their annuities or are deceased. Management noted that written notification has been issued to those who are currently delinquent. The only recourse the Fund may have is to deem the member in default of the note and thus no longer entitled to the ERIP credit.

Dr. Taylor also requested a detailed review of the financial statement receivable section. Mr. Tajalle indicated he will follow the financial statement breakdown format for that report.

## **E. STATUS OF DC PLAN ADMINISTRATION RFP PROCESS**

Tabled, pending the Evaluation Committee's findings and recommendation.

## **F. FY 2005 PROJECTED REQUIRED CASH FLOW SCHEDULE**

Ms. Bordallo stated the projected fiscal year 2005 required cash flow was based on the actual in and out cash flow for fiscal year 2004. Assuming all contributions are remitted on a timely basis, the monthly averages for the prior fiscal year is expected to continue over the next year. There is an expected increase in annuities as additional retirees are placed on payroll. At no point in fiscal year 2004 was the Fund in the black. Cash shortfalls before investment withdrawals averaged \$6.5 to \$7 million per month. Mr. Tajalle suggested discussing the rebalancing and cash flow in a future work session.

Mr. Aflague explained the Budget provision which allowed Department of Education and Guam Memorial Hospital employees to retire, as long as the individual and employer contributions, plus interest and penalties are remitted, had a positive effect on the remittance of current Retirement Fund contributions. All agency heads were notified via a memorandum that unless all contributions are current and delinquent payments do not extend beyond two pay periods, the Fund will automatically suspend or disallow any employees from retiring. The Fund's enforcement of that law was one of the primary factors that made contributions for this fiscal year current. Mr. Aflague believes some agencies might fall behind in their contribution remittances on a pay period to pay period basis should the Board decide not to comply with Section 13 of P.L. 27-106, the Budget. Dr. Taylor agreed that enforcing that provision would be good but asked if the Fund could enforce more than that provision, at least for DOE or GMHA.

The Budget Bill contains a \$1.2 million appropriation from the General Fund to the Guam Memorial Hospital that the Fund hopes to receive, stated Mr. Aflague. There are approximately a dozen GMH employees whose retirement processing is held up pending remittance of contributions, interest, and penalties. The GMH note includes contributions remitted for individuals to enable them to retire or refund. Those payments are applied to the note. Transfer of the long-term care facility to the Fund has also been discussed. Management has approached the legislative oversight chair and the vice-speaker to ask for direct allocation from the agencies through the allotment process.

## **G. MERCER COMMUNICATION AND REPORT RELATING TO THE CUSTODIAL BANK RFP PROCESS**

At direction of the Investment committee, Mrs. Bordallo sought Mercer's assistance to review of the original RFP. Mercer expressed their willingness to provide services in relation to the Custodial Bank RFP process at a cost of \$35,000. Mrs. Bordallo's understood their response to mean they want to control the RFP process - create the RFP and do the short listing using their database. What they actually wanted was for Mercer to look at the RFP and suggest where it can be tightened, not to create a new RFP and takeover the process.

The staff is confident they'll be able to prepare the RFP, but may require Mercer's assistance in developing the Scope of Services. Before proceeding, they would need to know what types of services are available and what the Board would like. Mrs. Bordallo stated that retiree support services and benefit payments are services available, but not included in the prior RFP. Support services entail

everything from establishing a checking or savings account. Chairman Leon Guerrero asked if these services can be included as an optional item.

Staff will develop a proposed Scope of Services and will seek Mercer's review/recommendation.

#### **IV. ACTION ITEMS**

##### **A. APPROVAL OF SEPTEMBER 3, 2004 MINUTES**

Tabled.

##### **B. ADOPTION OR PROPOSED INVESTMENT COMMITTEE POLICIES AND PROCEDURES**

The Committee's proposed Policies and Procedures reflect amendments to ensure compliance with current statutes. All the recommendations brought up in the two working sessions were incorporated into the document.

Trustee Cruz moved to adopt the Investment Committee Policies and Procedures as presented, seconded by Trustee Taylor, motion carried.

##### **C. ADOPTION OF PROPOSED INVESTMENT POLICY STATEMENT AMENDMENTS**

The purpose of adopting this policy statement is primarily to adhere to current law. The managers listed in the appendix reflect existing managers as of today's date.

Trustee Cruz moved to adopt the Investment Policy Statement, seconded by Trustee Taylor, motion carried.

##### **D. NOMINATION OF TRUSTEE GERARD CRUZ TO REPRESENT BOARD OF TRUSTEES IN THE ASIA PACIFIC ASSOCIATION FOR FIDUCIARY STUDIES**

The Committee will present their nomination to the Board. Chairman Leon Guerrero asked Trustee Cruz to provide materials about the organization.

##### **E. AUTHORIZATION FOR DIRECTOR TO SIGN POWER OF ATTORNEY TO TAKE ADVANTAGE OF JAPANESE ADR FOREIGN TAX EXEMPTION**

The Committee affirmed the Director's action taken in order to take advantage of Japanese ADR Foreign Tax exemption.

##### **F. PROPOSED DRAFT RESOLUTION**

Mr. Tajalle will draft a resolution relating to the review and update of the investment guidelines of 4 GCA § 8142 through 8159. Draft will be presented during the next work session.

**V. OPEN DISCUSSION**

**A. INVESTMENT MANAGERS' PERFORMANCE REVIEW**

At the direction of Chairman Leon Guerrero, the due diligence meeting will be placed on the agenda as an informational item, prospectively scheduled the week after Thanksgiving. Management was directed to instruct Mr. Nuzum to communicate the schedule to the managers.

**B. COMMITTEE MEETING MINUTES**

The Committee agreed, based on Robert's Rules of Order, the signature of only one Trustee is necessary upon adoption of the meeting minutes.

**VI. RECESS**

Meeting was recessed at 1:25 p.m.; same date.

**Respectfully submitted,**

  
**VIVIAN D. MANTANONA**

**AFFIRMED:**

  

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**WILFRED P. LEON GUERRERO, Chairman**