



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Felix P. Camacho
 Governor

Kaleo S. Moylan
 Lieutenant Governor

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

INVESTMENT COMMITTEE MEETING
 Wednesday, October 12, 2005, 2:30 p.m.
 Retirement Fund Conference Room

MINUTES

I. CALL TO ORDER

The Retirement Fund Investment Committee Meeting was called to order at 2:35 p.m. Wednesday, October 12, 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
 Vince Camacho, Great West Retirement Services

II. ACTION ITEMS

A. Approval of Minutes –September 2, 2005 Investment Committee Meeting

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 September 2, 2005 were approved, subject to corrections. Motion passed.

III. OPEN ITEMS

A. May 6, 2005 Minutes, Item II A – Management’s Recommendation for Letter to Davis Hamilton Jackson & Associates not Considered Necessary Based on Mercer’s Response

Controller Pete Tajalle stated that he added on a section called “Open Items” to the Investment Committee Meeting Agenda.

Controller Tajalle stated that the Fund received a response from Mercer stating that they (Mercer) do not believe the changes documented in either of the letters received from Lynch Jones & Ryan, and Davis Hamilton & Jackson represent reasonable cause for concern on the part of the Fund. Controller Tajalle stated that this was a recommendation to Management. Controller Tajalle stated that Section III A is no longer an open item.

B. May 6, 2005 Minutes, Item II B – Bank of New York Acquisition of Lynch, Jones & Ryan – Awaiting a Response from Mercer

Controller Tajalle stated that the Fund received a letter from Mercer stating that there is no potential impact because of the Bank of New York’s acquisition of Lynch, Jones & Ryan. Committee Member Gerard Cruz asked if Lynch, Jones & Ryan were used as discount brokers. Controller Tajalle stated that Lynch, Jones & Ryan were on the original agreement. Controller Tajalle stated that he will review the contract regarding the assignment issue.

C. August 5, 2005 Minutes, Item III A – The Non-Receipt of Data Regarding the July 9, 2005 Pay Period Ending for Defined Contribution Plan Contributions for Guam Memorial Hospital Authority (GMHA) Has Been Rectified. The Fund Received the Data from GMHA

Controller Tajalle stated that both data and payment were received from the Guam Memorial Hospital Authority (GMHA). Controller Tajalle stated that GMHA is up to date with their current fiscal year contributions. Controller Tajalle stated that Section III C is no longer an open item.

D. September 2, 2005 Minutes, Item III A – Allianz Global Investors Change in Management. Per Mercer, No Impact with These Changes

Controller Tajalle stated that the Fund received a response from Mercer and Mercer stated that neither change is likely to have any impact on the management of the Fund’s assets. Committee Member Cruz stated that he is concerned about the significant turnover. Controller Tajalle agreed that there has been a significant turnover. Controller Tajalle stated that Section III D is no longer an open item.

E. September 2, 2005 Minutes, Item III B – Great West Retirement Services Recommends Placing the Pioneer Emerging Markets Fund on a Watch List

Controller Tajalle stated that the Investment Committee had requested for Great West Retirement Services to look into the change in management with the Pioneer Emerging Markets Fund. Controller Tajalle stated that Great West is recommending that Pioneer Emerging Markets Fund be placed on a watch list for the Defined Contribution Plan. Committee Acting Chairman Taylor asked how does the

watch list work. Controller Tajalle stated that the Fund will formalize a watch list policy for submission to the Board. Committee Acting Chairman Taylor stated that the Investment Committee will be waiting for a watch list policy process.

F. September 2, 2005 Minutes, Item IV B 1 – Fund Continues to Work on Contract Modification to Mercer Contract to Address Request for Proposal for Custodian Bank

Controller Tajalle stated that Legal Counsel had approved using Mercer under the existing contract. The Fund is working on a contract modification with Mercer. Acting Director Paula Blas stated that she received a response from Legal Counsel Joanne Grimes. Acting Director Blas stated that she will be preparing a formal request to Mercer for the actual price quote.

G. September 2, 2005 Minutes, Item IV B 2 – Fund is Awaiting Completion of Plan Document

Acting Director Blas stated that the Plan Document was approved. Vince Camacho, Great West Retirement Services, stated that Legal Counsel Grimes drafted the statutory changes. Committee Member Cruz asked if the Plan Document is filed with the Department of Revenue and Taxation. Mr. Camacho stated that the Plan Document is before the Legislature. Acting Director Blas stated that the retroactive date is October 1, 2005. Controller Tajalle stated that Item III G is no longer an open item.

H. September 2, 2005 Minutes, Item IV C – Fund has Received all International Manager Contracts and is in the Process of Transitioning to the Contracted Managers

Controller Tajalle stated that all the contracts have been signed. Controller Tajalle stated that there are a couple of developments. Controller Tajalle stated that there is an email from Winton Young from First Hawaiian Bank regarding the custody issue for emerging markets for the Capital Group. Controller Tajalle stated that First Hawaiian Bank had questions on how Capital handle custody. Controller Tajalle stated that he needs an opinion from Legal Counsel Grimes. Committee Member Cruz asked how much of an investment the Capital Group will get. Controller Tajalle stated that he does not have that information available. Controller Tajalle stated that he will email the responses to the committee members.

Committee Acting Chairman Taylor asked if the Fund is currently waiting for a response from Legal Counsel. Committee Member Cruz asked what would happen if the Fund is not in compliance. Controller Tajalle stated that the Fund wouldn't be out of compliance. Committee Acting Chairman Taylor asked if Mercer was informed about the First Hawaiian Bank questions. Controller Tajalle stated that copies of the questions were sent to Mercer. Committee Member Cruz asked if the Capital Group approach was typical. Controller Tajalle stated that Winton Young thinks that it is unusual. Committee Acting Chairman Taylor stated that the Fund needs responses from Legal Counsel and Mercer. Committee Acting Chairman Taylor asked Management for Plan B. Controller Tajalle stated that Plan B would be AXA Rosenberg. Controller Tajalle stated that the Investment Committee could have a working session on steps to be taken.

Controller Tajalle stated that he is currently working with First Hawaiian Bank on an early transition to the new managers. Committee Acting Chairman Taylor asked whether this is to be brought up in the Board Meeting. Controller Tajalle stated that it is up to the Investment Committee Chairman. Controller

Tajalle stated that the hold back had been on the contract signing. Controller Tajalle stated that he will present a progress report at the next Investment Committee Meeting. Committee Acting Chairman Taylor indicated that the matter should be brought to the Board Meeting.

IV. INFORMATIONAL ITEMS

A. Cash In Flow/Out Flow Comparison

Controller Tajalle stated that he has provided a summary of all cash in and out flows and the principal drawdown both by quarter and then by a quarterly breakdown for FY 2005. Committee Member Cruz asked if the dividends are reflected. Controller Tajalle stated that the principal breakdown for FY 2005 was \$52,025,000.00. Committee Acting Chairman Taylor asked what was the beginning cash balance. Controller Tajalle stated that he will add the beginning balance and the ending balance to the schedule. Controller Tajalle stated that it averages \$5 Million per month. Committee Member Cruz asked if this will improve. Controller Tajalle stated that it may improve with the interest the Fund will be getting pursuant to Public Law 28-38.

B. Drawdown Memorandum

Controller Tajalle stated that prior to March 2005: 1) cash requirements determined including current contributions due and required cash outflows; 2) manager holdings analysis performed (includes dividend and interest income cash availability); and 3) determination of cash received from dividend (fixed income interest reinvested) is done. Required balance necessary to cover cash needs is determined based asset allocation as set by the Investment Policy Statement (IPS). Liquidations from managers are based on this analysis.

Controller Tajalle stated that subsequent to March 2005: 1) cash requirements determined including current contributions due and required cash outflows; 2) manager holdings analysis performed; and 3) determination of cash received from dividend and interest (change occurred in March 2005) is done. Required balance necessary to cover cash needs is determined based asset allocation as set by the IPS. Liquidations from managers are based on this analysis. Controller Tajalle stated that the cash requirements brought in the bond interest. Committee Acting Chairman Taylor asked about investing cash balances. Committee Acting Chairman Taylor suggested to look and see if it makes sense to invest. Controller Tajalle stated that he will check with Mercer.

C. Defined Contribution September 2005 Contribution Report

Vince Camacho, Great West Retirement Services, reported that all agencies are up to date with their contributions. Mr. Camacho stated that lately payments have been received sooner than normal.

V. OPEN DISCUSSION

A. Status of Current Proposed Legislation Regarding Investments

Controller Tajalle stated that Section 8158 is at the Legislature. Acting Director Blas stated that a public hearing would be scheduled soon. Committee Acting Chairman Taylor asked if Section 8157 will be left out. Acting Director Blas stated that both Legal Counsel Grimes and Rosalia Bordallo are looking at the dividend options. Controller Tajalle stated that he received a report from Mercer and that he will provide

the committee members with the email from Mercer. Acting Director Blas stated that a lot are moving to dividends as a result of the statute changes. Committee Acting Chairman Taylor asked that Management and Legal Counsel draft specific language for Section 8157.

B. Status of Request for Proposals

1. Custodian Bank

Controller Tajalle stated that Item V B was discussed earlier under Section III F. Controller Tajalle stated that this is pending Board resolution.

2. Defined Contribution Plan Administration

Acting Director Blas stated that she needs to find out from the Board whether to proceed with the statutory changes before Great West Retirement Services' termination of Legal Counsel. Vince Camacho stated that Legal Counsel Joanne Grimes wanted to complete the changes. Mr. Camacho stated that once the statutory changes are passed by the Legislature, Great West will no longer need Legal Counsel Grimes.

C. Status of International Manager Contracts

Controller Tajalle stated that item V C was discussed earlier under Section III H.

VI. CORRESPONDENCE

A. September 19, 2005 Letter from Carlsmith Ball Regarding Deutsche Asset Management Notice of General Motors and General Motors Acceptance Corp Rating Downgrade: Request for Waiver of Guidelines

Controller Tajalle stated that the Fund received a response from Legal Counsel Joanne Grimes regarding a rating downgrade that impacts the General Motors Acceptance Corp (GMAC) bonds currently in the Fund's Defined Benefit Plan investment portfolio. This relates to the Deutsche Asset Management's request that the Fund waive its investment guidelines so that Deutsche may continue to hold the GMAC bonds currently owned, and to continue to trade General Motors in the portfolio. Controller Tajalle stated that the Board could amend the Investment Policy Statement (IPS) and the Board directives. Controller Tajalle read a statute referenced in the IPS: "Nothing contained in any Section shall be construed to require sale or disposition of an investment, authorized at the time of acquisition, if such investment should subsequently cease to be authorized for purchase." Acting Director Blas stated that the statute does prevail.

Committee Member Cruz recommended to accept Deutsche Asset Management's recommendation dated August 3, 2005, based on Legal Counsel Joanne Grimes' letter dated September 19, 2005. The Fund will continue to hold four GMAC bonds rated "Ba1." This is to be submitted to the Board at the next regularly scheduled Board Meeting.

B. October 5, 2005 Letter from Mercer Regarding Implementation of Revised International Equity Allocation

Controller Tajalle stated he received a letter from Mercer seeking an update regarding the status of various implementation steps so that Mercer could provide advice to the Fund regarding issues that may come up during implementation. Controller Tajalle will provide this.

VII. ANNOUNCEMENTS

A. Manager Due Diligence and International Meetings Scheduled for November 7, 2005 through November 9, 2005

Controller Tajalle stated that he has forwarded to the Board of Trustees the draft agenda for the Manager Due Diligence Meeting scheduled for November 7-9, 2005. Acting Director Blas mentioned that Board Chairman Joe T. San Agustin met with the five new managers on a recent trip.

B. 5th Annual Pacific Region Investment Conference – November 3-4, 2005

Committee Member Cruz stated that the 5th Annual Pacific Region Investment Conference is scheduled for November 3-4, 2005 in Saipan.

VIII. ADJOURNMENT

There being no further business before the Investment Committee, on motion of Investment Committee Member Gerard Cruz, seconded by Investment Committee Acting Chairman James Taylor, and without objection, the meeting was adjourned at 3:50 p.m. Motion passed.

Respectfully submitted,


JACKIE BLAS
Recording Secretary

AFFIRMED:



WILFRED P. LEON GUERRERO, Chairman