



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Felix P. Camacho
 Governor

Kaleo S. Moylan
 Lieutenant Governor

Paula M. Blas
 Acting Director

July 14, 2006

To: Joe T. San Agustin, Board Chairman
From: Wilfred Leon Guerrero, Investment Committee Chairman
Subject: Investment Committee Meeting of July 7, 2006

The Fund held its regular Investment Committee meeting on July 7, 2006. In attendance were Trustees Dr. Taylor, Gerard Cruz, and I. Other attendees were Paula Blas, Diana Bernardo, Rosalia Bordallo and Vince Camacho.

The following items were discussed and approved by the committee for Board action.

1. Contract with Grantham, Mayo, Van Otterloo & Co. LLC (GMO)

Although the Retirement Fund has a contract with GMO for funding of the following investment mandates, these have not yet been funded:

1. Foreign Equity Large Cap – Segregated Fund
2. Foreign Equity Large Cap – Mutual Fund
3. Small Cap – Mutual Fund

The Committee discussed issues relating to the delayed funding of the aforementioned mandates. The Committee also reviewed an email from Joanne Grimes of Carlsmith Ball LLP, the Retirement Fund’s Attorney. In her email she indicated that, “to resolve GMO’s perceived ambiguities between the main contract and Appendix A to GMO’s satisfaction probably would require an amendment to the contract, which would require full signatures including the Governor”.

In addition, according to Attorney Joanne Grimes:

- If the Board decides not to fund GMO, no contract amendments are needed,
- And unless there is a really good reason to terminate for convenience, leaving the contract in place without funding gives the Retirement Fund more flexibility should it need to revisit the relationship with GMO.

RECOMMENDATION: In order to avoid further delays in the funding of the Retirement Fund’s investment policy mandates, the Committee recommends that the Board not fund GMO at this time and instead consider other funding alternatives.

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

424 Route 8
 Maite, Guam 96910
 Tel: 671.475.8900
 Fax: 671.475.8922
 www.ggrf.com

2. Funding Alternatives:

Funding alternatives are as follows:

a. For the Foreign Equity Large Cap – Segregated

The Retirement Fund has an existing contract with Fisher Investments for its International Equity Investments, which has been funded. According to Attorney Joanne Grimes, no contract amendments are required to increase the funding amount and there are no procurement issues arising from the additional funding.

RECOMMENDATION: The Committee recommends that the Board approve an increase in funding of approximately \$39 million for Fisher Investments' International Equity Investments.

b. For the Foreign Equity Large Cap – Mutual Fund

The Retirement Fund has an existing contract with AXA Rosenberg Investment Management LLC (AXA) for its Small Cap Core: Laudus Rosenberg International Small Cap Fund, which has been funded.

In its proposal AXA indicated that its Large Cap Core: Laudus Rosenberg International Equity Fund is also available to the Retirement Fund. However, the Board did not approve the hiring of AXA for its Large Cap Core: Laudus Rosenberg International Equity Fund.

According to Attorney Joanne Grimes, if the Board decides to hire AXA for its Large Cap Core: Laudus Rosenberg International Equity Fund, the Retirement Fund will need to notify Bill Ricks, AXA's CEO that Appendix A of the contract will be revised and a draft will be provided for his review. She also indicated that there are no procurement issues related to the revision of Appendix A so long as the additional investments are in international equities.

RECOMMENDATION: The Committee recommends the following:

- i. The Board approve the hiring of AXA Rosenberg Investment Management LLC for the Large Cap Core: Laudus Rosenberg International Equity Fund;
- ii. The Board approve funding of approximately \$36.5 million for AXA Rosenberg Investment Management LLC's Large Cap Core: Laudus Rosenberg International Equity Fund; and
- iii. The Board approve an amendment to Appendix A of the existing contract with AXA Rosenberg Investment Management LLC relative to items i and ii above.

c. For the Small Cap – Mutual Fund

The Retirement Fund has an existing contract with Dimensional Fund Advisors, Inc. (DFA) for its International Small Company Portfolio. The Retirement Fund also has an existing contract with AXA Rosenberg Investment Management LLC (AXA) for its Small Cap Core: Laudus Rosenberg International Small Cap Fund. Both contracts have been funded.

c. For the Small Cap – Mutual Fund, continued

According, to Attorney Joanne Grimes, no contract amendments are required to increase the funding amounts for DFA or AXA, and there are no procurement issues arising from the additional funding.

RECOMMENDATION: The Committee recommends that the Board approve an increase in funding of approximately \$17 million for Dimensional Fund Advisors, Inc.'s International Small Company Portfolio.

3. Capital International Inc.

The Retirement Fund has a contract with Capital International Inc. for its Emerging Markets Equity Style, which has not yet been funded.

RECOMMENDATION: As a result of the passage of Bill 295, which is now Public Law 28-135, the Committee recommends that the Board approve funding of approximately \$36.5 million for Capital International Inc.'s Emerging Markets Equity Style.

Informational Items

1. Investment Committee Minutes – The Committee reviewed and approved the May 5, 2006 Investment Committee Minutes.
2. Watch List Policy – A revised draft Watch List Policy was provided to the Investment Committee members for their review and discussion at the next committee meeting.
3. Mercer's Quarterly Meetings – Scheduled for August 9 and 10, 2006
4. Annual Manager Reviews – Scheduled for the week of November 13, 2006.