

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

August 22, 2003

Board members present:

STEVEN JEFFREY, Chairperson, Municipal Employee (term expiring July 1, 2004)

W. JOHN MITCHELL, II, Vice-Chairperson, Municipal Employee (term expiring July 1, 2005)

DAVID LEWIS, Municipal Official (term expiring July 1, 2006)

MARIE DUQUETTE, Governor's delegate

JEB SPAULDING, Vermont State Treasurer

Also attending:

David Minot, Director of Finance and Investment Services

Dick Charlton, Doug Moseley and Kevin Kondry, New England Pension Consultants (NEPC)

Cynthia Webster, Director of Retirement Operations

The Chairperson, Steve Jeffrey, called the meeting to order at 8:09 a.m. on Friday, August 22, 2003, in the Ethan Allen Room at the State House, Montpelier, Vermont.

ITEM #1: Approval of Minutes for the July 11, 2003, Meeting

On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board approved the July 11, 2003, minutes as amended. Mr. Minot clarified that the minutes of May 23, 2003, accurately reflect the Board's action relating to an allocation to the high yield asset class.

David Lewis arrived at the meeting.

ITEM #2: State Treasurer's Report

Mr. Spaulding reported his pleasure to have David Minot filling the position of Director of Finance and Investment Services, and Beth Pearce as his new Deputy Treasurer. He indicated his expectation that the remaining vacancies in the Retirement Division will be filled within the next few weeks.

Mr. Spaulding summarized a recent subcommittee meeting to address unitization of the assets of the three retirement systems. He advised another meeting was scheduled in September, and a proposal will be developed for distribution at the November investment meetings.

Mr. Minot was asked to research the following questions and respond to the Board at the next board meeting:

1. Do the other New England states have separate municipal systems?
2. How are the municipal retirement systems funded? What is the state's role?
3. What is the percentage of municipal employees participating in a state-wide system versus a local system?

Considerable discussion ensued over the make-up and responsibility of an investment board.

ITEM #3: NEPC Quarterly Review

Mr. Charlton provided an overview of the investment environment. Mr. Moseley discussed the overall performance of the fund. Mr. Kondry discussed individual manager performance.

The market value of the fund at June 30, 2003, was \$185,321,000. The return over the last quarter was 10.7% as compared to the median public fund return of 11.0%, 1.9% versus the median at 4.6% over the last year, and .3% versus the median at (.5%) over the last 3 years.

The Board requested Mr. Minot compile a list of all private investments on an annual basis. NEPC will provide a spreadsheet that maps the old and new asset allocations.

ITEM #4: Global Bond Asset Class

NEPC restated the reasons for their recommendation to diversify into global bonds. The Board asked Mr. Minot to check with the Attorney General's Office to ensure they can expand their mandate with Delaware to include a global bond mandate without conducting a Request for Proposal. Further action will be postponed until a later date. A full educational presentation on global bonds will be conducted by NEPC at the November investments meetings. Also information on high yield bonds and hedge funds will be addressed.

The Board requested that NEPC change the asset allocation mix within the investment policies to accurately reflect the current adopted asset allocation mix with the recent changes made to establish a high yield asset allocation.

ITEM #5: Market Neutral Asset Class (Hedge Funds)

NEPC compared this asset class to a "bond" fund, and explained how the asset class works.

ITEM #6: Defined Contribution Plan Review

Fidelity Investments – presenters: Susie Sylvester and George Mellman. Ms. Sylvester provided an overview of the plan activity over the last quarter. Mr. Mellman provided an investment review of the funds in the plan.

Ms. Duquette moved to request Fidelity provide a recommendation for a midcap blend and midcap value equity fund for board consideration. Motion died due to lack of a second. The board informally agreed to request the information from Fidelity.

The Board requested Mr. Minot to check into the status of Fidelity's contract and report back to the Board in February.

ITEM #7: New Municipalities Entering the VMERS

The board discussed the appropriate procedures for new entities to join the VMERS. After considerable discussion, the board took the following actions:

On motion of Mr. Lewis seconded by Ms. Duquette, it was unanimously voted to adopt the effective dates of all new entities that have joined VMERS since July 1, 2002.

On motion of Mr. Lewis seconded by Ms. Duquette, it was unanimously voted to require staff to postpone payment of benefits for previous service until the unfunded liability has been established unless a "hold harmless" agreement is signed.

On motion of Ms. Duquette seconded by Mr. Mitchell, it was unanimously voted to require all new entities be approved by the Board before entry into the VMERS.

On motion of Mr. Mitchell seconded by Ms. Duquette, it was unanimously voted to approve the Colchester Police Department and the Winooski Police Department to participate in VMERS prospectively.

The Board discussed the definition of "compensation" for purposes of determining Average Final Compensation. It was agreed to put the issue on the agenda for the next business meeting at the end of October, along with the actuary's annual report and review of the budget.

ITEM #8: Ratify Disability Retirement Votes

On motion of Mr. Lewis seconded by Mr. Mitchell, it was unanimously voted to ratify the paper ballot votes to accept the Medical Review Board's recommendations to approve the disability retirement applications for Michael Cochran and Gilbert Marsh.

ITEM #9: Other Business

It was announced that David Lewis was the only valid petition received for the position of municipal official on the Board. As a result, Mr. Lewis was appointed to the position of municipal official on the Board of Trustees for the term beginning July 1, 2003, and ending June 30, 2006.

On motion of Mr. Lewis seconded by Mr. Mitchell, it was unanimously voted to approve the Town of Essex to participate in VMERS prospectively.

On motion of Mr. Mitchell seconded by Mr. Lewis, it was unanimously voted to adjourn at 1:50 p.m.

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board