

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

December 30, 2003

Board members present:

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

DAVID LEWIS, Employer Representative (term expiring July 1, 2006)

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

MARIE DUQUETTE, Governor's delegate

ELIZABETH PEARCE, Deputy Treasurer representing JEB SPAULDING, Vermont State Treasurer

Also attending:

Cynthia Webster, Director of Retirement Operations

David Minot, Director of Investment Services

William Griffin, Chief Assistant Attorney General

Bob Webber, Chairman GMEDC

The Chairperson, Steve Jeffrey, called the meeting to order at 9:06 a.m. on Tuesday, December 30, 2003, in the Ethan Allen Room at the VT State House, Montpelier, Vermont.

ITEM 1: Approval of the minutes of November 21, 2003

On a motion by Ms. Duquette seconded by Mr. Mitchell, the Board voted to approve the minutes of November 21, 2003, as submitted.

ITEM 2: Ratify the Ballot Vote for a Disability Retirement for: *Erin Sanders*

On a motion by Mr. Mitchell seconded by Mr. Lewis, the Board voted to approve the disability retirement for Erin Sanders.

ITEM 3: Treasurer's Report

Mr. Minot and Ms. Pearce updated the Board on the status of the Proxy Voting management contract negotiations. The Board reviewed the information distributed including the costs allocated to the Municipal Retirement System, which was based on the October 31, 2003 balance of assets under active management.

Ms. Pearce explained that a joint committee composed of representatives from the three retirement Boards and the Treasurer's Office (Common Trust Fund) would work with the contractor to develop a proxy voting policy. The final policy would be brought back to the respective Boards for final approval. It was clarified that a Board could deviate from a uniform policy, but additional fees may be incurred.

Mr. Mitchell made a motion seconded by Ms. Pearce to adopt the Proxy Voting Management contract proposal dated 12/30/2003.

Discussion ensued.

Ms. Duquette made a motion seconded by Mr. Lewis to table action on the item until the Board received, reviewed and discussed Delaware's Proxy Voting Policy. Motion failed. Mr. Mitchell, Ms. Duquette and Ms. Pearce voted no. Mr. Lewis voted yes. Mr. Jeffrey abstained.

The original motion carried. Mr. Mitchell, Ms. Duquette and Ms. Pearce voted yes. Mr. Lewis voted no. Mr. Jeffrey abstained.

Ms. Duquette volunteered to serve on the committee to develop a proxy voting policy. Mr. Jeffrey will serve as alternate. It was the Board's understanding that there would be equal representation from the three Boards.

The Board will be notified of the committee's composition once completed and the meeting schedule.

Ms. Pearce distributed and reviewed the base budget for VMERS. It was agreed that the VMERS share of expenses, where applicable, would remain at the current level of 12% until the allocation of staff time is determined. She directed the Board to the "New Initiative" line items and explained the plans to install a new computer system for the Retirement Division. A detailed outline of the proposal was distributed for the Board's information.

On a motion by Ms. Duquette seconded by Ms. Pearce, the Board unanimously voted to approve the VMERS FY'05 budget dated 12/30/2003, subject to a review of the appropriate allocation of the system's user expenses for the re-engineering project.

Ms. Pearce informed the Board that the final Retirement Office Management Consultant contract negotiation was completed and the firm Maximus was selected at a total cost of \$58,650.00. The management review will commence on January 7, 2004 with the Assessment Report and Executive Presentation scheduled for April 1, 2004. The Board will be informed of the findings at the May meeting.

Ms. Pearce thanked Mr. Jeffrey for his participation in the consultant selection process.

ITEM 4: Green Mountain Economic Development Corp. request for admission into VMERS

Mr. Bob Webber, Chairman of GMEDC appeared before the Board. The Board reviewed the December 29, 2003 memo from Assistant Attorney General, Michael McShane.

Mr. Webber stated that he was prompted to request participation in the plan because four Regional Planning Commissions are already in the system, and he believes his organization provides the same type of services.

Ms. Duquette made a motion seconded by Mr. Lewis, to allow Green Mountain Economic Development Corp full membership into the VMERS plan as an instrumentality of a municipality.

Discussion ensued regarding the merits of the request and Assistant Attorney General's opinion.

Mr. Lewis asked the Chair to call the question and cease the discussion. Mr. Lewis, Mr. Mitchell and Ms. Pearce voted yes to cease discussions. Mr. Jeffrey and Ms. Duquette voted no, therefore discussion continued because a two-thirds vote was needed to pass.

The Board discussed the original motion until the Chairperson verified that all members were ready to act on the motion, and called for a vote. **The Board unanimously voted no on the original motion. Motion failed.**

Ms. Webster will send a formal letter notifying GMED of the Board's decision.

ITEM 5: Director of Finance & Investments Report

Mr. Minot distributed information dated 12/30/2003 gathered from five New England States regarding the questions:

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

From the information gathered, Mr. Minot reported that all New England states offer some form of municipal retirement to local municipalities. However, they are all somewhat different.

ITEM 6: Discuss/Act on Unitization Proposal

Ms. Pearce distributed and reviewed the 12/10/03 version of the unitization proposal.

The Board discussed their concerns surrounding the governance and composition of the Vermont Pension Investment Committee. The members spoke to their opinions of the proposal and whether they would or would not support the proposal.

Ms. Duquette wanted to go on record as expressing her concerns regarding the make-up of the investment board. She felt strongly there should be fewer stakeholders and more investment professionals.

Mr. Jeffrey stated his reasons for not supporting the unitization proposal as follows:

- VMERS is currently the 7th best performing public fund;
- VMERS funding levels are different from the VSRS and STRS;
- there will not be sufficient VMERS representation on the VPIC Board;
- VMERS is already experiencing cost savings;
- the proposal is not in compliance with the current statutory language relating to the Board's fiduciary responsibilities.

Mr. Mitchell stated he felt some of the points to favor of unitization made sense. He has faith in the opinions of the two VMERS representatives who served on the unitization subcommittee.

The Board questioned whether Title 24 V.S.A. §5063 regarding the Board's "fiduciary responsibility" would need amendment.

On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board voted to endorse in concept the State Treasurer's proposal dated 12/10/2003 to unitize the assets for purposes of investment, of the VSTRS, VSERS and VMERS. Mr. Mitchell, Mr. Lewis, Ms. Duquette and Ms. Pearce voted yes. Mr. Jeffrey voted no.

ITEM 5: CONTINUED Director of Finance & Investments Report

- What is the list of all current private investments?

Mr. Minot distributed a list of accounts held for the VMERS. He will break out the alternative investments held in the State Street account and provide the Board with a copy of the latest Green Mountain Capital annual report.

- Can global bonds be added to a manager's mandate without an RFP?

Mr. Minot distributed a September 11, 2003 memo from David Beatty, Finance and Management Budget Analyst. The memo and its attachments describe the waiver provisions granted to the State Treasurer and the Retirement Systems with respect to some of the Bulletin 3.5 requirements. This waiver provides for a waiver of the contract bidding process and length of time investment management contracts may be written for.

If the Board chooses to add a manager, or asset class, they should conduct an RFP search for the manager. However, the search can be done with the assistance of the Investment Consultant and through their database.

- Status of Fidelity Investments DC contract

Mr. Minot reported, that the Fidelity Investments Defined Contribution (DC) contract would expire on June 30, 2004. At that time the vendor will have fulfilled the original Bulletin 3.5 provisions for a 4-year term. If the Board wants to keep this vendor and can present a compelling case to the Secretary of Administration that this is a sole source vendor, the Board can request a waiver of the Bulletin 3.5 requirement for an RFP.

Mr. Minot will prepare recommendations for the Board's consideration at the February 20, 2004 meeting.

- Summary of asset allocation history

Ms. Pearce presented the Board with results from her research into the previous action taken by the Board relating to asset allocation. Based on the information, the Board agreed New England Pension Consultants was clearly confused by what the Board had approved and what NEPC thought the Board should do.

Ms. Pearce will now research the history and adoption of the Investment Policy & Guidelines. The Board agreed to ratify/adopt both the asset allocation and investment policy again at the February 20, 2004 meeting. Ms. Pearce agreed to provide the information in advance for the Board's review.

ITEM 7: Discuss/Act on Proposed Legislative Housekeeping Bill

The Board reviewed recommendations for proposed language changes to 24 VSA § 5062 as related to the election of Board members. Mr. Griffin will review and work on the language for the Board. Ms. Webster will distribute the DRAFT for the Board's comments.

The Board discussed proposed language for the definition of "separation from service" prepared by Ms. Webster.

On a motion by Ms. Pearce seconded by Ms. Duquette, the Board unanimously voted to support the 90-day "separation from service" legislative language.

ITEM 8: Review/Approve Prior Service Purchase Agreement for the Town of Bennington

Ms. Webster explained the Prior Service Purchase Agreement for the Town of Bennington is new, and is based on the final figures arrived at by our actuary once all of the prior service data had been compiled.

On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board voted to adopt the amended Prior Service Purchase Agreement for the Town of Bennington. Mr. Jeffrey, Mr. Mitchell, Ms. Pearce and Ms. Duquette voted yes. Mr. Lewis voted no. (As he had not had and opportunity to read the document).

Mr. Lewis said he did not like having to vote on issues that he hasn't had time to review. He requested that staff send backup for agenda items in sufficient time prior to the meeting so members can be informed and prepared to act on issues as required.

ITEM 9: Review/Approve Amended Prior Service Purchase Agreements for the City of Montpelier and Montpelier School District

Ms. Webster explained the agreements for the City of Montpelier and the Montpelier School District contain revised amounts as additional monies were received from both entities to be deposited against

the principal unfunded liability. The revised agreements reflect the additional money plus the re-calculated unfunded liability and annual installment amounts.

On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board voted to adopt the amended Prior Service Purchase Agreement for the City of Montpelier and Montpelier School District. Mr. Jeffrey, Mr. Mitchell, Ms. Pearce and Ms. Duquette voted yes. Mr. Lewis voted no.

The Board agreed to discuss and review the agreements to provide language that will not require Board approval for amendments.

ITEM 10: Any other business to be brought before the Board

Ms. Webster presented the ten results received to date from the Website Reports Survey. She expects the majority to be received with the quarterly reports and will provide a summary at the February 20, 2004 meeting.

Ms. Webster requested the Board consider sharing in the expense for her to attend the February Legislative Conference sponsored by NASRA held in Washington, DC. The cost to VMERS would be under \$100.00.

Mr. Mitchell made a motion to grant approval of the expense for Ms. Webster to attend the conference.

The motion failed due to lack of a second to the motion.

Mr. Jeffrey questioned why the Board needed to grant travel expense permission when there are line items in the FY'05 budget for travel and education. The Board agreed to defer permission for attendance to the Treasurer and if approved the appropriate budget expense should be made.

The Board requested Ms. Webster provide for the February 20, 2004 meeting information regarding the membership of the Regional Planning Commissions, i.e. how/when they became members, evidence of instrumentality, etc.

The next regular Board meeting is February 20, 2004.

On a motion by Ms. Duquette seconded by Mr. Lewis, the Board unanimously voted to adjourn at 1:45 p.m.

Respectfully submitted,

Cynthia Webster
Secretary to the Board

GOALS

The Board established the following list of goals to be addressed in the future:

TO DO's

Who	What	When	Done
** = for possible 2004 legislative changes			
CLW/All	Adopt final policy re: joining entities w/prior service liabilities (7/11#3)	ASAP	
CLW	Prepare legislative language for VSA 24 §5062 to Clarify definition (7/11 #5)	11/21/03**	Done 11/21
CLW	Send letter to Fidelity re: info provided to potential DC members (7/11 #6)	ASAP	
D Minot	Question letter from NEPC (7/11 #8)	ASAP	
D Minot	Investigate 5/23/03 asset allocation table consistency (7/11 #8)	ASAP	Done 11/21
D Minot	Other state: municipalities (8/22 #2)	10/29/03	
D Minot	List (annually) of all alternative investments (8/22 #3)	11/21/03	
CLW/DMinot	AG opinion re expanding manager mandate (8/22 #3)	11/21/03	Done 12/30/03
NEPC	Global bonds, high yield, hedge funds education (8/22 #4)	11/21/03	
D Minot	Status of Fidelity Contract (8/22 #6)	11/21/03	Done 12/30/03
CLW	Develop methods & recommendations for verifying wages & OT (10/29 #1)	11/21/03	Done 11/21
All	Examine new funding methods w/actuary (10/29 #2)	ASAP	
Beth/Jeb	Bring final proxy voting contract info to Board (11/21 #2)	ASAP	Done 12/30/03
NEPC	Asset Allocation & Policy Guideline ratification (11/21 #3)	ASAP	
SJ & Beth	Verify asset allocation history (11/21 #3)	ASAP	Done 12/30/03
CLW	Legal opinion: "instrumentality" definition (11/21 #5)	12/30/03	Done 12/30/03
CLW	Legal opinion: "§5062 language change (11/21 #6)	12/3/03	Done 12/30/03
CLW	Draft "separation of service" language (11/21 #6)	12/3/03	Done 12/30/03
Dave M	Breakout the alternative investments held in the State Street account (12/30 #5)	2/20/04	
Dave M	Provide the Board with a copy of the latest Green Mountain Capital annual report (12/30 #5)	ASAP	
Dave M	Prepare DC contract recommendations for Board (12/30 #6)	2/20/04	
Beth	History and adoption of the Investment Policy & Guidelines (12/30#6)	2/20/03	
Bill G/AG	proposed language changes to 24 VSA § 5062 Mr. Griffin will review and work language (12/30 #7)	ASAP	
CLW	Research RPC's memberships (12/30 #10)	2/20/04	