

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 18, 2004

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

JEB SPAULDING, Vermont State Treasurer – **arrived later in the meeting**

ELIZABETH PEARCE, Deputy VT State Treasurer – Representing JEB SPAULDING in his absence.

Also attending:

Cynthia Webster, Director of Retirement Operations

Michael Clasen, Deputy Director of Retirement Operations

David Minot, Director of Investment Services

Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC

Dick Lloyd, Town of Rutland delinquent tax collector

William Griffin, Chief Assistant Attorney General

Investment Manager personnel

The Chairperson, Steve Jeffrey, called the meeting to order at 9:34 a.m. on Wednesday, May 18, 2004, in the Department of Employment & Training Conference Room at 5 Green Mountain Drive, Montpelier, Vermont.

ITEM 1: Approval of the minutes of February 20, 2004 and April 21, 2004

On a motion by Ms. Duquette seconded by Mr. Lewis, the Board unanimously voted to approve the minutes of February 20, 2004 and April 21, 2004, as submitted.

ITEM 2: Ratify the Disability Retirement for: *Joan A. Wood*

Ms. Duquette made a motion seconded by Mr. Mitchell, to approve the disability retirement for Joan A. Wood, as recommended by the Medical Review Board.

Mr. Spaulding arrived at the meeting during executive session.

At 9:36 a.m. on a motion by Mr. Lewis seconded by Mr. Mitchell, the Board unanimously voted to enter into executive session pursuant to Title 1 § 313 to discuss the medical information.

At 9:44 a.m. the Board moved out of executive session.

On a vote by the Board the motion passed to approve the disability retirement. Mr. Jeffrey, Mr. Mitchell, Mr. Spaulding and Ms. Duquette voted yes. Mr. Lewis voted no.

Mr. Lewis explained he voted “no” on the motion solely because he believes an approval would be in direct conflict with the governing statute.

The Board agreed to discuss the disability retirement process later in the meeting.

ITEM 3: Investment Consultant Q1/04 Report

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the first quarter 2004 performance. They reported the market value of the fund balance at approximately \$218.2 million and a quarterly return of 2.4%, an under performance of the 2.9% median public fund. The one-year return was 26.6% vs. the median public fund at 26.9%, three-year return 5.8% vs. the median public fund at 5.5% and a five-year return of 4.6% vs. 4.8%.

The Treasurer advised the Board the unitization bill is unlikely to pass this year, however, it is possible that the individual retirement systems, with Board approval, could unitize assets on their own and without legislation. Mr. Spaulding is awaiting an opinion confirming that option from the Attorney General's Office.

▪ **Review Investment Policy Guidelines as updated by NEPC**

NEPC will distribute the Policy Guidelines to the system's managers and advised they are also available on the Treasurer's web site. Ms. Griggs reminded the Board that the Policy Guidelines is a living document that can and should be changed as the Board makes changes in their philosophies, asset allocations, managers, etc.

▪ **Discussion of "Alternatives" Investment asset Category**

Mr. Charlton said that many public funds are looking at the Alternative Investments class and his long-term recommendation was for the Board to think about a move from the current 2% allocation to 3%.

Ms. Duquette shared a copy of the *Marketing vs. Investing* article prepared by Colonial Consulting, for the Board's information.

The Board discussed and agreed to attend an NEPC joint education presentation (for the three systems) regarding alternative investments.

Mr. Spaulding left the meeting.

ITEM 4: Investment Manager Presentations

Seix Investment Advisors – Core and High Yield Fixed Income: Christina Seix, Chairman & CIO, and Sam Zona, Partner & Senior Client Service Manager, appeared before the Board. As of March 31, 2004 the core fixed income portfolio market value reported was approximately \$53.3 million with a first quarter 2004 return of 2.6% compared to the Lehman Aggregate index of 2.7%; 1-year performance was 6.1% vs. 5.4% for the index and three-year performance was 6.7% vs. 7.4%. The manager has not established five-year performance results.

High yield fixed income portfolio - As of March 31, 2004 the market value reported was approximately \$10.8 million with a first quarter 2004 gross return of 2.3% compared to the Citibank BBIB index of 2.0%. The manager has not established one, three and five-year performance results.

Ms. Seix provided an update regarding the April 13, 2004 acquisition of the firm by SunTrust Banks, Inc. to be effective in May 2004. Ms. Seix assured the Board there would be no changes to the Seix

Investment Advisors organization or personnel and that they would retain complete authority over all business decisions. Seix will become a division of Truco Capital Management, the asset and investment management subsidiary of SunTrust Banks, Inc.

On a motion by Ms. Duquette seconded by Mr. Mitchell, the Board unanimously voted to approve signature of an authorization notice to assign the contractual rights, title and interest in the investment advisory agreement between Seix Investment Advisors and VMERS to Trusco Capital Management.

Delaware Investment Advisors – Domestic Large Cap Equity Value: Ged Deming, Senior VP and Sr. Portfolio Manager and Dave Prince, Senior VP of Client Services appeared before the Board. As of March 31, 2004 the portfolio market value was approximately \$38.3 million with a first quarter 2004 return of 1.8% compared to the Russell 1000 Value index of 3.0%; 1-year performance was 39.3% vs. 40.8% for the index; three-year performance was 4.2% vs. 4.3% and five-year performance was 4.2% vs. 3.9%.

Mr. Prince advised the Board of the pending separation of the International Equity team who have chosen to buy their way out of the Lincoln International parent company; however will remain managers of the Global mandate, with no change in fees, through assignment of the portfolio contracts by the parent organization.

Mr. Prince also advised the Board that their firm recruited an entire portfolio management team from Merrill Lynch.

Mr. Spaulding returned to the meeting.

Ms. Pearce arrived at the meeting.

UBS Global Asset Management – Global Equity: Steve Wilde, Executive Director & Client Services and Bruno Bertocci, Executive Director & Global Equity Portfolio Manager appeared before the Board. As of March 31, 2004 the portfolio market value was approximately \$36.1 million with a first quarter 2004 return of 2.8% compared to the CITI EPAC index of 4.4%; 1-year performance was 51.1% vs. 57.9%; three-year performance was 6.7% vs. 3.9% and five-year performance was 3.8% vs. 1.1%.

ITEM 5: Treasurer's Report

A. Retirement Office Consultant Recommendations

Ms. Pearce distributed and reviewed the results of the Maximus Executive Summary and introduced Mr. Michael Clasen, Deputy Director of Retirement Operations.

The recommendation is to restructure the Retirement Office into three groups of services; employer services, member services and accounting. The majority of the employees would perform duties in the member services area, with two employees dedicated to the employer services and two employees dedicated to the accounting sections. Extensive cross training of job functions will improve customer service.

The Board was also advised of movement to an automated telephone system and plans for improvements in the technology area that will be implemented including imaging, employer reporting, and a new computer system.

Mr. Spaulding left the meeting.

Mr. Mitchell left the meeting.

B. Unitization Update

Mr. Jeffrey advised the Board Mr. Spaulding was called to Legislature to testify and information regarding the unitization bill would be relayed, when available.

Mr. Jeffrey briefed the Board on the recent discussions of the Vermont State Employees' Retirement Board regarding disability retirements and said there are similar issues with the Municipal System. He suggested developing a sub-committee to examine the statutes.

On a motion by Mr. Lewis seconded by Ms. Duquette, the Board voted to instruct staff not to accept any applications for disability retirement from the VMERS unless the person has separated from service. Mr. Jeffrey, Ms. Duquette and Mr. Lewis voted yes. Ms. Pearce abstained.

ITEM 6: Director of Finance & Investments Report

A. Report on Alliance Contract Change

Mr. Minot reported a contract for the separately managed account, previously approved by the Board, has been initiated and would be in place by June 1st, which will replace the existing commingled account. Also reported were successful fee renegotiations, with the assistance of NEPC, which resulted in lowered fees for the new contract.

B. DC Contract Recommendations

Mr. Minot advised that a consultant from NEPC has conducted an evaluation of the State's 457 Deferred Comp and State's Defined Contribution plans. The recommendations were to narrow fund options to core based, fixed, and bond funds in addition to several lifecycle funds. The theory is that fewer options would encourage participation and diversification.

Mr. Minot will prepare a report and final recommendations for the August meeting.

C. Report on Bulletin 3.5 waiver request

Mr. Minot advised the Board that a request to waive the bidding requirements of Bulletin 3.5 was sent to the Secretary of Administration along with a follow-up clarification memo. An answer to the request is expected shortly.

D. Real Estate Update – (NEPC comment on SSR Tower Fund)

Mr. Minot distributed an estimate of the expected change to the SSR Tower Fund contract fees as a result of the Vermont State Teachers' Retirement System's decision to terminate the manager. Ms. Griggs distributed a March 2004 Real Estate Manager Comparison for the Board's review.

ITEM 7: Director of Retirement Operations Report

A. Retirement Legislative Update

Ms. Webster reported that a list of housekeeping items for the three retirement systems was originally drafted into a House Government Operations committee bill. The items were moved to bill S-206, which contains; definition of separation of service for the VMERS, along with other miscellaneous items for the other two systems.

Ms. Webster explained that because of several controversial issues and input by lobbyists and union representatives, two of the items were removed from the original committee bill, and the only remaining item is the 90 days "definition of separation of service".

Further reported was the commitment by the Retirement Office and other interested parties to study the three retirement systems over the next few months and draft a unified presentation for amendments to next year's legislature.

B. DC Fees Accumulated Balance

Ms. Webster explained that an annual cost for a dedicated person in the Retirement Office that handles DC matters and other DC Plan expenses of approximately \$74K over the past four years are not being met with the accumulated accrued revenue of approximately \$54K.

Ms. Webster will prepare a report for the Board for the August meeting and request an AG's opinion on whether the participant fee can be increased, the DB Plan can subsidize the DC Plan, and whether an employer administrative fee can be charged.

The Board requested staff commence with an outreach program to encourage entities that report DC participants to report via the web and to advise those entities the Board is considering a mandate that participating DC entities must report via web by October 1, 2004 unless the entity can demonstrate an extraordinary reason for non compliance.

Mr. Spaulding returned to the meeting during the next item.

ITEM 8: Dick Lloyd – Rutland Delinquent Tax Collector: Petition to Enroll in the VMERS

Mr. Lloyd appeared before the Board. The Board reviewed the packet of information regarding Mr. Lloyd's request.

Mr. Lloyd and Ms. Webster were instructed to follow the procedure for verifying the applicant's regular number of hours of employment over his career and acquire certification from the employer that the minimum hours for eligibility have been met. If applicable, the actuary would have to calculate the actuarially neutral cost for enrollment.

ITEM 9: Any other business to be brought before the Board

None

Next Meeting Dates:

The Board agreed that due to scheduling conflicts, the next scheduled quarterly investment meeting would be Tuesday, August 17, 2004, contingent upon NEPC's availability.

Ms. Griggs will notify staff of their availability.

On a motion by Ms. Duquette seconded by Mr. Lewis, the Board unanimously voted to adjourn at 3:55 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:

BOARD FOLLOW UP ITEMS

<u>Who</u>	<u>What</u>	<u>When</u>	<u>Done</u>
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** = for possible 2004 legislative changes

CLW/All	Adopt final policy re: joining entities w/prior service liabilities (7/11#3)	ASAP	
All	Examine new funding methods w/actuary (10/29 #2)	ASAP	
All	Discuss the 2% investment allocation to alternative investments		
All	Developing a sub-committee to examine disabilities (5/18 #5)	ASAP	