

**VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM**

Meeting of the Board of Trustees

August 17, 2004

**Board members present:**

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2007)

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

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005) -  
**Arrived later in the meeting**

MARIE DUQUETTE, Governor's delegate

JEB SPAULDING, Vermont State Treasurer

**Also attending:**

Michael Clasen, Deputy Director of Retirement Operations

Donna Holden, Board Coordinator

David Minot, Director of Investment Services

Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC

William Griffin, Chief Assistant Attorney General

The Chairperson, Steve Jeffrey, called the meeting to order at 9:29 a.m. on Tuesday, August 17, 2004, in Room 10 at the Vermont State House, Montpelier, Vermont.

**ITEM 1: Re-Appointment of Steve Jeffrey to Employee Representative Seat**

Ms. Holden advised the Board that Mr. Jeffrey was the only candidate to file a nomination form for the three-year position of Employee Representative, pursuant to 24 V.S.A. §5062(n). Mr. Jeffrey accepted a three-year re-appointment to the Board.

➤ Election of Officers

Mr. Jeffrey opened the floor for nominations for the position of Chairperson.

Mr. Lewis nominated Mr. Jeffrey for the position of Chairperson, seconded by Ms. Duquette.

As a nominee, Mr. Jeffrey stepped down from chairing the meeting and asked Mr. Spaulding to assume the role as Acting Chairperson.

Hearing no other nominations, Mr. Spaulding closed nominations.

**The Board unanimously voted to elect Mr. Jeffrey as Chairperson.**

Mr. Spaulding surrendered the role as Acting Chairperson to Mr. Jeffrey.

The Board agreed to postpone action regarding the election of the Vice-Chair position.

**ITEM 2: Approval of the minutes of May 18, 2004**

**On a motion by Mr. Spaulding seconded by Mr. Lewis, the Board unanimously voted to approve the minutes of May 18, 2004, as submitted.**

**ITEM 3:**      **Ratify the Disability Retirement for: *Robert E. Mesick, Jr.***

**On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board unanimously voted to approve the disability retirement for Robert E. Mesick, Jr., as recommended by the Medical Review Board.**

**ITEM 4:**      **Approval of Membership to VMERS for October 1:**

- **Town of Pittsford – 1 member into Group B**
- **Deborah Rawson Memorial Library – 1 member into Group B**
- **Wallingford Fire District - 3 members into Group B**
- **Town of Hartford Firefighters – 16 members into Group C or Defined Contribution Plan**

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to grant membership to the Town of Pittsford into Group B, Deborah Rawson Memorial Library into Group B, Wallingford Fire District into Group B, and the Town of Hartford Firefighters into Group C and Defined Contribution Plan.**

The Board requested that staff provide more information for future requests, including minutes of the election to participate, and information regarding the entity, group, etc. along with a statement of verification from staff that the criteria of 24 V.S.A §5068 (b) have been met.

Upon request, Mr. Spaulding was provided background information regarding the Vermont Volunteer Firefighters Association's prior request by for membership.

*Mr. Mitchell arrived during the next item's discussions.*

**ITEM 5:**      **Legislative Initiatives**

- **Definition of Employer & Employee for Board Elections**

Mr. Jeffrey reminded the Board that the 2004 initiative to define *Employee and Employer* was opposed, and failed. He suggested a sub-committee be developed in cooperation with the Assistant Attorney General to work through the APA (Administrative Procedures Act) process to develop Rules that define "Employee" and "Employer" for elections.

Discussion ensued. The Board requested an AG's opinion be obtained regarding the following:

- What is the definition of instrumentality pursuant to §5051(14),
- Clarify what "employee" means in § 5062(a) and how it relates to entities of §5051(14),
- Define what "official" means pursuant to § 5062(a)

Discussion and resolution for future action will be taken at the November meeting.

➤ **Discuss Policy for Contribution/Wage Reporting**

The Board agreed their prior discussion and direction to staff that “total” means all compensation paid, was in effect and that no other action is required.

**ITEM 6: Discuss Policy for Mandatory Web Page Reporting**

Mr. Clasen advised the Board that outreach by the Retirement Office has been successful and many of the entities not previously Web reporting were now using that method. He suggested the Board delay any action on mandated reporting while his office continues their personal contacts for training and Web reporting encouragement.

The Board was pleased with the outreach and progress and agreed to postpone action. Future updates will be provided.

**ITEM 7: Discuss Legal Opinion of DC Plan Expenses Shortfall**

Mr. McShane was asked to provide a written opinion before the November quarterly investment meeting regarding:

- Can the 25 basis point administrative fee charged to DC participants be increased for new members and/or prospectively on the assets of the plan including existing participants?
- Can the DB plan “loan” funds to the DC administration expenses until enough funds are generated to make that plan self-supporting?

The Board asked the Treasurer’s Office to provide a report detailing all of the past and ongoing administrative expenses charged to the DC Plan. Also requested was a report resulting from a discussion with Fidelity regarding the cost/ability of municipalities to report directly to Fidelity thereby decreasing the current in-house administrative staff expenses.

**ITEM 8: Discuss Follow-Up for Disability Retirement Process**

Mr. McShane advised the Board that the statutes for all three retirement systems were consistent, and that they all anticipated members would be terminated/separated from service prior to application for a disability retirement. In his opinion, this requirement seemed harsh and to avoid potential litigation, he encouraged the Board to reconsider their 5/18/04 Board action to allow application prior to separation or termination, which is the current practice of the other two Boards. In addition, he recommended that the three retirement Boards amend the current statutes to comply with this practice.

The Board hopes to be included in a disability retirement statute review with the other systems. Hopefully, for compliance and consistency, this issue, among others, will be discussed and they will reach consensus with the other two Boards.

**ITEM 9: Investment Consultant Q2/04 Report**

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the second quarter 2004 performance. They reported the market value of the fund balance at approximately \$220.7 million and a quarterly return of .4%, an out performance of the (0.2%) median public fund. The one-year return was 14.8% vs. the median public fund at 14.6%, three-year return 4.8% vs. the median public fund at 4.4% and a five-year return of 4.2% vs. 4.1%.

➤ **Approval of Alliance Waiver Request**

Action on this item was postponed until after the educational presentation later in the day.

➤ **FY'05 Meeting Schedule**

Because of a scheduling conflict, Ms. Duquette requested that moving forward the Board consider holding their quarterly investment meetings with the consultant on the Tuesday rather than Friday of the designated weeks.

NEPC was able to accommodate the request, therefore the Tuesday meeting dates of November 16, 2004, February 15, 2005, May 17, 2005, August 16, 2005, and November 15, 2005 will be scheduled.

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

➤ **Election of Vice Chairperson**

Mr. Jeffrey opened the floor for nominations.

Mr. Jeffrey nominated W. John Mitchell for the position of Vice-Chairperson, seconded by Ms. Duquette.

Hearing no other nominations, Mr. Jeffrey closed nominations.

**The Board unanimously voted to elect Mr. Mitchell as Vice Chairperson.**

**At 12:10 p.m. upon Board approval, the Chairperson recessed the meeting until later in the day.**

The Board attended a joint educational presentation with the VSTRS and VSERS Board members. The presentation by NEPC was regarding a *Domestic Large Cap Portfolio Reviews*. The consultant's presentation and recommendation was discussed at length.

In summary the recommendation was as follows:

•**Step One:**

–Partially fund equally between Enhanced S&P 500 product and a Equal Weighted S&P 500 product within each System

- Recommend search for Enhanced Index manager
- Recommend SSGA for Equal Weighted Index

- Choose and fund manager for Enhanced S&P 500 portfolio
- Fund manager for Equal Weighted S&P 500 portfolio
- Restructure the centrist approach to the large cap portfolio at a lower fee base
- Potential savings across all three Plans will be approximately \$1.8 million

•**Step Two: Satellite Considerations**

- On the margin, free up time to allow more focus on value added activities (alternative manager selection, traditional and non-traditional high alpha strategies and hedge funds)

**At 3:13 p.m.** on Tuesday, August 17, 2004, in Room 10 at the Vermont State House, Montpelier, Vermont the Chairperson of the Vermont Municipal Employees' Retirement System, Steve Jeffrey, called the recessed meeting back into order.

**On a motion by Ms. Duquette seconded by Mr. Lewis, the Board unanimously voted to accept, in concept, Step One of the NEPC recommendation as outlined on page 27 in the presentation materials, to instruct NEPC and staff to initiate the steps necessary to move towards the new large cap management strategy, and seek to obtain a "sole source" approval from the Administration, if needed.**

**On a motion by Mr. Spaulding seconded by Mr. Mitchell, the Vermont Municipal Employees' Retirement System Board unanimously voted to adjourn at 3:24 p.m.**

**Next Meeting Dates:**

The next scheduled quarterly investment meeting will be Tuesday, November 16, 2004.

Respectfully submitted,

Donna Holden  
Board Coordinator

## 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	
AG	Opinion re: employee, official, instrumentality (8/17 #5)	ASAP	
AG	Opinion re: DC plan (8/17 #7)	ASAP	
CLW	DC Admin expenses report (8/17 #7)	ASAP	
David	DC TPA request (8/17 #7)	ASAP	