

# VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 17, 2005

## **Board members present:**

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

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2008)

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

JEB SPAULDING, Vermont State Treasurer

MARIE DUQUETTE, Governor's delegate

## **Also attending:**

Cynthia Webster, Director of Retirement Services

David Minot, Director of Investment Services

Bill Rice, Director of Law and Policy

Elizabeth Pearce, Deputy State Treasurer

Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC

Investment Management Personnel

The Chairperson, Steve Jeffrey, called the meeting to order at 9:15 a.m. on Tuesday, May 17, 2005, held in the Suzanna's Restaurant Conference Room at the Hilltop Inn, Airport Road, Berlin, VT.

## **ITEM 1: Executive Staff Reports**

### A. State Treasurer

Mr. Spaulding advised the Board negotiations toward unitization were continuing with a proposal to include all Board members, creating a seventeen-member Pension Investment Committee (VPIC). He said nine members would be required for a quorum and/or action, and the chair position would rotate among the three Boards. The final proposal may also require a minimum number of representatives from each Board be present as part of the quorum.

Discussion ensued including Board member opinions, custodian bank requirements, and original unitization proposal changes.

**On a motion by Ms. Duquette seconded by Mr. Mitchell, the Board voted to support the current unitization compromise, which includes the entire original proposal with an exception to change the Committee composition. Mr. Spaulding, Ms. Duquette, and Mr. Mitchell voted yes. Mr. Jeffrey and Mr. Lewis voted no.**

Mr. Spaulding advised the Board of a meeting later today with representatives from Vermont Economic Development Association (VEDA), regarding a new alternative investment program. He also provided a copy of a developing alternative investment proposal from Vermont Heritage Fund, L.P. Mr. Spaulding said he advised the entity to contact NEPC.

The Board discussed the process for manager consideration, and desire for either a formal RFP, or prior review and investment consultant recommendations for alternative investment allocations.

B. Director of Finance & Investments

Mr. Minot provided information to assist the Board in a discussion regarding the status of the large cap index management transition, including issues with proposed Trust Agreement language in the commingled SSgA Index contract allocation. He explained language in the Trust Agreement included indemnities and representations that state - the Board's tax-exempt status, authority to enter into a contract, execution of the contract is authorized, and the contract is legally binding. Mr. Rice discussed the "indemnify and hold harmless" language for SSgA and participating funds, and advised the Board on the State's historical position not to endorse contracts with indemnifications.

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to authorize proceeding with execution of the contract with SSgA, understanding the indemnification and representation language, as discussed.**

Mr. Minot advised the Board he recently learned the PIMCO commingled trust vehicle, previously approved, included a three-party agreement between the system, PIMCO, and the three brokers who would be purchasing future contracts. He explained the agreement contained rather severe language to indemnify against losses in future contracts. He also explained features of an alternative option, to enter into a separate limited partnership agreement vs. the commingled trust agreement, advising the AG's Office would still need to examine and concede to the limited partnership representation and indemnification language.

Mr. Minot distributed details and fee schedules for the PIMCO StocksPLUS, Part A & B investment vehicles and suggested NEPC provide further information later in the meeting regarding the two versions of the Limited Partnership.

Mr. Minot advised the Board the first quarter proxy voting reports from ISS were examined revealing that manager compliance with the adopted Proxy Voting Guidelines was less than 100%. Mr. Minot suggested an option to expecting managers to completely adhere to the Policy, would be to engage ISS to vote proxies on behalf of the systems, for domestic large cap managers, and potentially add small cap and international money managers. He said an estimated \$40K cost might be expected in exchange for near total compliance with the Policy. Mr. Minot will prepare a formal proposal for the Board to consider at a later date.

Mr. Minot also advised the Board of receipt of an approved Bulletin 3.5 waiver from the Secretary of Administration permitting open-ended contracts, and waiver of some RFP regulations.

C. Director of Retirement Operations

Ms. Webster added information regarding H.528 to her written report, stating only section one is expected to be acted upon during this session. The Board expressed their disappointment in the need for the second section to be withdrawn due to legal concerns raised by the AG's office, and others.

**ITEM 2: Contracts and RFPs – Process and Updates**

A. Re-Engineering Project

Ms. Pearce provided an update of the re-engineering project, which is currently on time and under budget. Mr. Jeffrey volunteered to represent the Board in the LOB (line of business) RFP evaluations.

B. Investment Consultant RFP

Ms. Pearce advised an RFP had been drafted and the scope of services would be shared with the Board next week, for feedback. Ms. Pearce also distributed a copy of a May 16, 2005, SEC report regarding findings and examinations of select pension consultants. The Board agreed to have Ms. Duquette serve on a sub-committee to review responses, and narrow to an undetermined number of finalists for Board interviews.

C. Future RFPs and Contracts

Ms. Pearce advised the Board of the results of the §457 Deferred Compensation Plan internal audit RFP, issued pursuant to the VSERS Board's request.

Ms. Duquette said based on municipal participation, she felt the VMERS Board should discuss and seek representation in the administration of the Deferred Compensation Plan.

D. Actuary RFP and Finalist Presentations

Ms. Pearce reviewed the RFP sub-committee and finalist selection process.

**ITEM 3: Board Action Items**

A. Approve the Minutes of March 21, 2005

B. Approve the Minutes of April 18, 2005

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to approve the minutes of March 21, 2005, as submitted. Mr. Lewis abstained.**

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to approve the minutes of April 18, 2005, as submitted.**

C. Ratify Approval for Marguerite Cole Disability Retirement

**On a motion by Mr. Mitchell seconded by Mr. Spaulding, the Board unanimously voted to ratify the ballot approval for a disability retirement for Marguerite Cole.**

D. Approve Board Member Appointment

Mr. Jeffrey advised the Board that Mr. Mitchell was the only nominee for the three-year, first seat, Employee Representative seat up for election in 2005.

**On a motion by Ms. Duquette seconded by Mr. Lewis, the Board unanimously voted to nominate and elect Mr. Mitchell for a term of three-year as Employee Representative.**

- E. Approval of Membership to VMERS: Town of Irasburg
- F. Approval of Membership to VMERS: Town of Essex County Sheriff Department
- G. Approval of Membership to VMERS: Royalton School District
- H. Approval of Membership to VMERS: Town of Hyde Park
- I. Approval of Membership to VMERS: Orange Center School District
- J. Approval of Membership to VMERS: Washington Village School District

**On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board unanimously voted to approve the membership of the Towns, School Districts, and Sheriff Department, as presented by the Retirement Office.**

*Mr. Lewis left the meeting.*

- K. Approve SSgM for International Equity Transition Management

Mr. Minot explained the request before the Board was simply an addition to the language in the previously approved transition management contract.

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to add international equity language to the previously approved transition management contract with SSgM.**

*Mr. Lewis returned to the meeting.*

**ITEM 4: Investment Consultant Report for Q1/05 – NEPC**

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the first quarter 2005 performance. They reported the market value of the fund balance at approximately \$238.8 million and a gross quarterly return of (1.4)%, an under performance of the (1.0)% median public fund. The one-year return was 6.0% vs. the median public fund at 6.6%, three-year return 6.1% vs. the median public fund at 6.8% and a five-year return of 4.2% vs. 3.5%.

- A. Investment Policy Guideline Review/Approval

Ms. Griggs led the Board in a review of the guideline amendments, which included amendments to page A9, section V, Section D, and Part B, pages 3-5, 7-8, and page 11.

The Board discussed separately managed and Limited Partnership, Part A & B PIMCO investment vehicles. NEPC verified they were familiar with, and had no problem with PIMCO's Limited Partnership product. Ms. Griggs pointed out the LP contained a performance fee structure, which would be a deviation from the retirement system's past practice in contract negotiations.

Ms. Griggs also advised the Board a decision was required to select which investment vehicle with Brandywine Asset Management the Board desired. She said the options included whether to invest in a

separate account or commingled account with a 15% global fixed income/high yield, and 15% emerging market debt investment components. The Board unanimously agreed to the commingled account, including the high yield component.

**On a motion by Ms. Duquette seconded by Mr. Mitchell, the Board unanimously voted to adopt the Investment Policy Guideline amendments, as submitted by NEPC, with an additional amendment to Part B page 11 to add 15% high yield language.**

**On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board unanimously voted to authorize execution of a PIMCO StocksPLUS Limited Partner, Part B version contract, pending legal approval.**

**ITEM 5: Investment Manager Presentations**

**Seix Advisors – Core and High Yield Fixed Income:** Christina Seix, CEO & CIO, and Sam Zona, Partner & Managing Director, appeared before the Board. The core fixed income portfolio was reported to have a market value of approximately \$65.7 million with a Q1/05 return of (0.3)% compared to the Lehman Aggregate Bond Index of (0.5)%, 1-year performance was 2.1% vs. the benchmark of 1.2%; three-year return 6.0% vs. the benchmark of 6.0%, and a five-year of 7.0% vs. 7.1% for the benchmark.

**High yield fixed income portfolio:** Mr. Zona provided a report of the High Yield Fixed Income portfolio reported to have a market value of approximately \$12.3 million with a Q1/05 return of (1.5)% compared to the Merrill Lynch High Yield Master II Index of (1.4)%, 1-year performance was 4.9% vs. the benchmark of 6.9%; three-year and a five-year returns were not available at this time.

**ITEM 6: Any other business to come before the Board**

None

**At 12:45 p.m. the Chair declared the meeting in recess.**

*Mr. Lewis, Mr. Mitchell and Mr. Spaulding left the meeting.*

The Board participated in a joint meeting with the Vermont State Employees' and Vermont State Teachers' Retirement Systems to interview actuary services RFP finalists.

*Mr. Spaulding returned to the meeting during the final RFP finalist presentation.*

**At 5:20 p.m. the Chair called the meeting back into order.**

The Board discussed the finalist presentation.

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to retain Mellon Consulting for a 2-year period, and instructed staff to initiate fee negotiations.**

**Adjournment:**

**On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to adjourn at 5:21 p.m.**

**Next Meeting Dates:**

The next scheduled quarterly investment meeting will be Friday, August 19, 2005.

Respectfully submitted,

Donna Holden, Board Coordinator  
for  
Cynthia Webster, Secretary to the Board