

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

December 11, 2003

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2004)
ROBERT HOOPER, VSEA member (term expiring September 2004) – arrived later in meeting
WILLIAM HARKNESS, VSEA member (term expiring September 2005)
JEB SPAULDING, Vice-Chairperson, VT State Treasurer
David Herlihy representing CINDY LAWARE, Commissioner of Personnel
ROB HOFMANN, Commissioner of Finance & Administration
DEBORAH FIELDER, Alternate Retired VSEA (term expiring September 2004)

Members absent:

GORDON MACARTHUR, Retired VSEA (term expiring September 2004)
DICK JOHANNESSEN, Governor's Delegate

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
Beth Pearce, Deputy State Treasurer
William Griffin, Chief Assistant Attorney General
Marie Panciocco and Karl Kroner, Great West Retirement Services
Edgar May
Paul Wallace-Brodeur
Doug Moseley, New England Pension Consultants – via conference call

The Chairperson, Warren Whitney, called the board meeting to order at 8:13 a.m. on Thursday, December 11, 2003 in the Treasurer's Conference Room #2 at 133 State Street, Montpelier, VT.

ITEM 1: Approval of minutes for November 20, 2003

On a motion by Mr. Spaulding seconded by Mr. Herlihy, the Board unanimously voted to approve the minutes of November 20, 2003, as submitted.

ITEM 2: Discuss/Act on VSERS Mailing Request Policy

The Board reviewed and discussed the DRAFT policy. Upon discussion the Board agreed to the following amendments and points of clarification:

- any other group requesting access to addresses other than VRSEA and VSEARC must be approved by the Board
- a line for E-mail address will be added
- the first line of the application will read "A VERBATIM COPY OF YOUR REQUESTED COMMUNICATION MUST BE ATTACHED"

On a motion by Ms. Fielder seconded by Mr. Spaulding, the Board unanimously voted to approve the policy as amended.

Mr. Whitney will make the revisions and distribute the approved policy to the Board.

ITEM 3: Discuss/Act on the Paul Wallace-Brodeur service credit request

Ms. Webster distributed her written recommendation and a December 10, 2003 memo from Department of Personnel Human Resources Director, Thomas Ball, outlining the discovery in his investigation of the circumstances surrounding Mr. Wallace-Brodeur's leave of absence.

Ms. Webster advised the Board that at the time Mr. Wallace-Brodeur decided to retire he had less than thirty years of service credit. He brought the 30+ year-old leave of absence (LOA) service credit issue to Ms. Webster's attention approximately three months prior to his planned retirement date. Ms. Webster advised Mr. Wallace-Brodeur not to postpone his retirement date, and that his retirement benefit could be adjusted after the retirement if the Board approved the LOA service credit. Mr. Wallace-Brodeur decided to purchase service credit to bring him to a total of 30-years, and not delay his retirement.

Ms. Webster asked the Board to consider whether Mr. Wallace-Brodeur should have an option to receive a refund of the cost of the service credit he purchased or leave the service on his account for a higher benefit.

On a motion by Mr. Spaulding seconded by Ms. Fielder, the Board unanimously voted to approve Mr. Wallace-Brodeur's request for a service credit adjustment for the approved professional study LOA during 1966-1968, and that he be given an option to be made within 30 days of notice, for: 1.) a return of the contributions paid for the service credit he purchased at retirement with a corresponding adjustment to the final service credit or, 2.) leave the purchase on account to be used in calculating a higher benefit. It was further voted that the action of the Board was not a precedent setting decision but only related to the specific facts of this case.

Ms. Webster was requested to write a formal notice for the records that the action of the Board is not a precedent setting action but related only to the specific facts of this case.

ITEM 4: Discuss/Act on Educational Opportunity: NEPC New Client Training

The Board discussed the need and their desire to provide educational opportunities to both new and experienced members of the Board. NEPC has offered to provide training.

Mr. Spaulding advised the Board that he had been invited to serve as a member on two panels at the 5th Annual Public Funds Summit sponsored by Opal Financial Group. In consideration of the adopted Ethics Policy, he acknowledged that the sponsor couldn't pay for his travel and participation. Mr. Spaulding requested the Board consider approving this educational opportunity for himself and other interested Board members.

On a motion by Mr. Spaulding seconded by Ms. Fielder, the Board unanimously voted to approve two members (Board members, staff, or any combination) to attend the Public Funds Summit sponsored by Opal Financial to be held in Scottsdale, Arizona January 14-16, 2004, and for the Board to share in the cost for the State Treasurer to attend.

Mr. Whitney asked that anyone interested in attending to notify him within the next week.

Mr. Hofmann mentioned that he was still interested in seeing a travel report on who has already attended conferences this year and where they were held, and what the usual annual conferences were and what is planned for the future. (See 10/9/03, item 12). Mr. Whitney said he had removed the item from the current agenda because of time constraints, however, agreed that the report could be provided via e-mail. Ms. Webster was asked to forward the 2003 travel history and 2004 anticipated conference information to the Board.

Mr. Hooper arrived at the meeting.

ITEM 5: Great West Retirement Services Q3/03 Report

Marie Panciocco and Karl Kroner appeared before the Board. A comprehensive presentation on how fund performance is reviewed by Great West (GW) was given. The Board also received materials related to possible additions/replacements to the plan's fund selections along with a list of the firms that GW has existing relationships with.

Ms. Panciocco advised the Board that in cooperation with Mr. Minot, the two members (one retired and one active) engaging in day trading were notified by letter to cease their activity. The active person has refused to pick up his letter and an attempt by Mr. Minot to hand deliver the notice was unsuccessful. However, the member has currently stopped the short term trading activity. The retired member has not stopped the activity and has recently changed the funds he is trading and increased the activity to include very large sums of money. There is some indication that the two members may have been working in concert, and were expecting to be contacted. Mr. Minot attempted to contact the retiree via telephone and was told by the man that answered that the retiree was on a long-term hunting expedition, out of the country.

The members will be notified again that they are violating the restrictions as imposed by the prospectus. Great West will continue to monitor the situation and report to the Board. Ms. Panciocco explained that fund companies are currently responsible for the monitoring of trading practices as a part of their fiduciary responsibility to all fund participants. GW's role as third party administrator is to provide record keeping and reporting and that GW currently does not have the capability to track each participant's account for short term trades as defined by each of the funds prospectus. However, the responsibility may be mandated if the SEC imposes regulations being considered that administrators track rapid trading activities on all international funds.

Ms. Panciocco reported a 3rd quarter 2003 contribution balance of \$3.4 million, with the year to date plan balance at approximately \$150.36 million. The total participation count was reported at 5,270 with the state employee membership at 5,000 and the local memberships at 270 participants.

Mr. Whitney asked for a QDRO section to be added to the "Plan Distribution" section of the report.

Ms. Panciocco suggested the Board consider adding an IRA option for rollovers at retirement as a way for participants to leave their money in the plan. Some members prefer the flexibility of an IRA rather than having to make a distribution agreement.

Ms. Panciocco said plans for expanding the plan participant counts and assets include:

- Follow-ups with existing participants to discuss contribution amounts, rollover options, etc.
- Expand municipal entity participation

Suggestions for expanding the plan participant counts and assets include:

- Offer an IRA option
- Include teachers in the plan in addition to their 403(b) plans
- Consider allowing employees to contribute a % of payroll as an alternative option to a fixed dollar amount

A. Discuss/Act on Potential Revisions to 457 Plan Document

No action.

B. Discuss/Act on Modification to Emergency Withdrawal Language

Ms. Panciocco distributed the updated emergency withdrawal letter and application.

Mr. Whitney left the meeting. Mr. Spaulding assumed the role of Chairperson and welcomed Mr. May, a past Legislator and active Springfield community member.

Mr. Whitney returned during the next item, Mr. Spaulding stepped down as acting Chairperson.

ITEM 6: Discuss/Act on Rosalie Nason Retirement Option

Mr. May explained that he is a friend of the Nason family and outlined the events and Ms. Nason's mental condition leading up to her death.

At 12:17 p.m. on a motion by Mr. Hooper, seconded by Mr. Hofmann, the Board unanimously voted to enter into executive session pursuant to Title 1 § 313 to discuss medical records.

At 12:20 p.m. the Board moved out of executive session.

Mr. Whitney explained that an opinion from the Attorney General's Office prevented the Board from taking action, however, the Board will request the Attorney General's Office take another look at the request to determine whether there are any other sections of statute that might permit the Board to intervene on Mr. Nason's behalf.

Mr. Hofmann and Mr. Harkness left the meeting.

ITEM 5: CONTINUED Great West Retirement Services Q3/03 Report

Ms. Webster will accompany representatives from Great West to the VT-NEA to discuss a 457 Plan option. Each entity would have to elect to offer the plan and participants would be allowed to defer the maximum under both the 403(b) and 457 regulations.

The Board discussed adding or changing investment options.

On a motion by Mr. Spaulding seconded by Ms. Fielder, the Board unanimously voted to direct Mr. Minot to initiate an RFP for consultant services to review and advise the Board regarding current 457 Plan investment options and/or possible new investment options, and any other ancillary related contract issues.

Mr. Whitney distributed a DRAFT investment policy for the Board's consideration. Mr. Whitney wrote the policy in cooperation with Ms. Panciocco. He advised the Board it was modeled after a policy adopted by the State of Colorado.

Mr. Spaulding made a motion seconded by Mr. Hooper, directing Mr. Minot to review the policy and bring back recommendations for an investment policy to the Board on January 8, 2004.

Discussion ensued. Chief Assistant Attorney General, Bill Griffin suggested the consultant hired by the RFP, under ancillary issues, could advise the Board on topics such as an investment policy. Mr. Griffin will assist by preparing a report using the supporting documents available (contract, plan document, etc.).

The Board discussed the adoption of an interim policy pending the consultant input. Mr. Griffin recommended the Board do its due diligence prior to adoption of any investment policy, including even an interim policy.

The Board agreed that Mr. Minot would report to the Board on the status of the RFP at the January 8, 2004 meeting and strive to have finalist presentations as soon as possible.

Mr. Spaulding withdrew his motion. Mr. Hooper withdrew his second to the motion.

The Board reviewed a copy of *Maryland's Inquiry Into Mutual Fund Trading Practices*.

On a motion by Mr. Spaulding seconded by Mr. Hooper, the Board unanimously voted to instruct the Treasurer's Office to write an identical letter and send it to each of the mutual funds associated with the 457 Plan from Vermont, and notify Great West of the letter.

ITEM 7: Treasurer's Report

A. Budget Presentation

Ms. Pearce distributed and reviewed the base budget for the VSERS. She directed the Board to the "New Initiative" line items and explained the Treasurer's Office 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 Mr. Hooper seconded by Mr. Herlihy, the Board unanimously voted to approve the VSERS FY'05 budget, subject to a review of the appropriate appropriation of the system's user expenses.

Mr. Spaulding agreed, moving forward, to report on the tracking of expenses.

ITEM 8: Discuss/Act on Final Proxy Voting Contract Approval

Ms. Pearce distributed a summary of the negotiations resulting from the proxy voting services RFP.

On a motion by Mr. Hooper seconded by Mr. Spaulding, the Board unanimously voted to enter into a contract with Institutional Shareholder Services (ISS) to provide proxy management services subject to cost sharing, based in established asset allocation percentages with the State Teachers' Retirement System and Common Trust Fund. It is further moved that these services and corresponding charges be revised to incorporate the inclusion of the Municipal Retirement System should it take action to participate, and if managers are not following the policy, the contract would be reviewed.

ITEM 9: Discuss/Act on Unitization Proposal

Mr. Spaulding distributed the 12/10/03 version of the unitization proposal.

Mr. Herlihy made a motion seconded by Mr. Spaulding, to endorse in concept the State Treasurer's proposal, dated 12/10/03, to unitize the assets, for purposes of investments, of the VSTRS, VSERS, and VMERS with an amendment to the final item of the implementation plan to include that the report would be presented to the respective Boards and Chairs of the House and Senate Gov Ops Committees.

The Board discussed the composition of the Vermont Pension Investment Committee. Mr. Hooper expressed his concern that under the proposal the contributing members of the systems, from a labor perspective, would not be adequately represented.

Mr. Hooper moved to amend the motion to include approval pending further discussion regarding the VPIC composition. The amendment was not accepted as a friendly amendment. **Motion seconded by Mr. Whitney.**

Amendment to the original motion failed, Mr. Hooper and Mr. Whitney voted yes. Mr. Spaulding, Mr. Herlihy, and Ms. Fielder voted no.

Original motion carried: Mr. Whitney, Mr. Spaulding, Mr. Herlihy, and Ms. Fielder voted yes. Mr. Hooper voted no.

ITEM 10: Discuss/Act on Real Estate Asset Recommendation

Mr. Moseley from New England Pension Consultants (NEPC) joined the meeting via conference call. The Board discussed the NEPC memo dated 12/11/03 regarding the Henderson Real Estate Investment portfolio.

On a motion by Mr. Spaulding seconded by Mr. Herlihy, the Board unanimously voted to instruct New England Pension Consultants to formally notify Henderson of its concern over the size of the U.S. Property Fund and the System's relative ownership position, and as an investment policy decision the VSERS' portion of the total net value of the portfolio assets should be no more than 15%, and of an initial withdrawal request for \$6 million from the U.S. Property Fund on the next withdrawal date of March 31, 2004, with the possibility of more funds being withdrawn in subsequent quarters if there is no expansion to the portfolio assets.

ITEM 11: Discuss/Act on Legislative Housekeeping Bill Language

Ms. Webster distributed possible legislation for the 2004 session. The first item was for clarification to 3 VSA § 464(a) to add the word *designated* to dependent beneficiary for the purpose of qualifying for a death-in-service survivorship benefit.

On a motion by Mr. Hooper seconded by Mr. Spaulding, the Board unanimously voted to accept the recommendation to add the word designated to 3 V.S.A § 464(a).

Ms. Fielder left the meeting.

Discussion regarding the remaining possible legislative items will continue on January 8, 2004.

ITEM 12: Any Other Business to be Brought Before the Board

Mr. Hooper advised the Board that he did not attend the Information Management Network (IMN) Indexed Funds training, in Phoenix, AZ December 7-10, 2003. He asked that the Board's approval for the training be held open and available to him for another opportunity at a later date.

Due to lack of a quorum the request could not be acted upon.

Ms. Webster distributed a notice of denial for a 457 Plan emergency withdrawal. Mr. Whitney asked Ms. Webster to verify the reason for denial with Great West, contact the member to discuss the procedure for a formal appeal, and bring the item before the Board on January 8, 2004.

Due to lack of a quorum, the Chairperson, Mr. Whitney, declared the meeting adjourned at 3:46 p.m.

Respectfully submitted,

Cynthia L. Webster
Executive Secretary to the Board

GOALS

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

- Form a *Policy Development* sub-committee

TO DO's

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

CLW & Joan	Complete all backlogged minutes (10/9 item 2)	ASAP	11/21
PD Sub	Complete Proxy voting policy (10/9 item 3)	ASAP	12/11
CLW	Work w/DOP regarding old LOA's (10/9 item 4)	ASAP	12/11
CLW	Obtain AG's opinion re: old LOA's (10/9 item 4)	ASAP	
PD Sub	Prepare mailing request policy (10/9 item 6)	11/20/03	12/11
All	Review Deferred Comp plan document (10/9 item 10)	12/11/03	
CLW	457 modified language for members to Board (10/9 item 11)	12/11/03	
CLW	Prepare travel report (10/9 item 12)	11/20/03	
	Send travel report via e-mail (12/11 item 4)	NOW	
WW & DM	Prepare letter for 457 participants (mkt tmng) (10/29 item 3)	ASAP	11/21
CLW	Advise BenefitsCorp of newsletter info request (10/29 item 2)	ASAP	
CLW	Obtain legal opinion re: real estate assets (11/21 item 7)	12/11/03	
CLW	write a formal notice for the records that action of the Board is not a president setting (12/11 item 3)	NOW	
AG's Office	Request from Roselie Nason family (12/11 item 6)	ASAP	
Dave	Write 457 plan consultant RFP (12/11 item 5 cont.)	1/8/04	
Jeb/Beth	Write & send mutual fund letter (12/11 item 5 cont.)	ASAP	