

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

August 19, 2004

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2004)
CATHERINE SIMPSON, VSEA Alternate (term expiring September 2005)
JEB SPAULDING, Vice-Chairperson, VT State Treasurer
ROB HOFMANN, Commissioner of Finance & Management
CINDY LAWARE, Commissioner of Personnel – **arrived later in the meeting**
DICK JOHANNESSEN, Governor's Delegate – **via conference call later in the meeting**
GORDON MACARTHUR, Retired Vermont State Employees' Association

Members absent:

ROBERT HOOPER, VSEA member (term expiring September 2004)
WILLIAM HARKNESS, VSEA member (term expiring September 2005)

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
William Griffin, Chief Assistant Attorney General
Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC
Investment Manager personnel

The Chairperson, Warren Whitney, called the board meeting to order at 8:17 a.m. on Thursday, August 19, 2004 in the Department of Employment & Training Conference Room at 5 Green Mountain Drive, Montpelier, VT.

ITEM 1: Approval of minutes for August 12, 2004

On a motion by Mr. MacArthur seconded by Mr. Hofmann, the Board unanimously voted to approve the minutes of August 12, 2004, as submitted.

Ms. LaWare arrived at the meeting during the next Item.

ITEM 2: Investment Consultant Report for Q2/04

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the second quarter 2004 performance. They reported the market value of the fund balance at approximately \$1.035 billion and a quarterly return of 0.2%, an out performance of the (0.2%) median public fund. The one-year return was 15.7% vs. the median public fund at 14.6%, three-year return 4.7% vs. the median public fund at 4.4% and a five-year return of 3.7% vs. 4.1%.

Mr. Whitney left the meeting during the next item. Mr. Spaulding assumed the role of Chairperson.

ITEM 3: Investment Manager Presentations

LAZARD ASSET MANAGEMENT – International Equity: Tom Franzese, Director Michael Bennett, Managing Director, appeared before the Board. The International Equity portfolio was reported to have a market value of approximately \$85.5 million as of June 30, 2004 with a Q2/04 return of (1.0%) compared to the CITI EPAC Index of (0.1)%, one-year performance was 25.5% vs. 31.6%; three-year return 3.8% vs. 3.9% for the benchmark, and five-year performance was 1.6% vs. 0.6%.

Mr. Whitney returned to the meeting. Mr. Spaulding stepped down as Chair.

BARING ASSET MANAGEMENT – US Large Cap Growth Equity: William Thomas, Investment Manager, Michael Brown, President and CAO, and Barclay Douglas, Director of Business Development and Client Services, appeared before the Board. The US Large Cap Growth Equity portfolio market value reported was approximately \$98.5 million as of June 30, 2004 with a Q2/04 return of 2.9% compared to the Russell 1000 Growth Index of 1.9%; one-year performance was 17.4% vs. 17.9%, three-year performance was (3.4)% vs. (3.7)% for the benchmark, and five-year performance was (6.3)% vs. (6.5)%.

NORTH ATLANTIC VENTURE CAPITAL - David Coit and Mark Morrissette, Managing Directors appeared before the Board. They reported the initial investment was \$6 million and the VSERS has received \$1.3 million in distributions. The Venture Fund II projected Limited Partner projected total distributions of \$8-10 million or 3 to 6% returns at maturity. The initial partnership term would end September 2005, however may be extended for one to two years.

Mr. Johannesen joined the meeting via conference call.

ITEM 4: Discuss/Act on Large Cap Investing Alternatives

The Board discussed NEPC's August 17, 2004 Domestic Large Cap Review recommendation of:

•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)

On a motion by Mr. MacArthur seconded by Mr. Hofmann, the Board unanimously voted to authorize NEPC to initiate two RFP searches, the first for an Equal Weighted S&P 500 Index manager, the second for an Enhanced, Cap Weighted, S&P 500 Index manager which would also include a request for respondents to provide information regarding a standard S&P Cap Weighted product.

The Board agreed to make final decisions regarding moving forward once the RFP information was received.

On a motion by Mr. MacArthur seconded by Mr. Hofmann, the Board unanimously voted to appoint Mr. Whitney to work with the Treasurer's Office staff, NEPC, and members of the other Boards, to select finalists for presentations at a meeting in November.

Ms. LaWare left the meeting.

ITEM 5: Director of Finance & Investments Report

Mr. Minot reported that \$13 million of the Henderson Real Estate liquidation has been received, which he suggest be retained for payment of the system's expenses over the next few (approximately six) months. The remaining \$24.8 million from the manager is expected within the next 3-6 months.

The Board agreed to discuss the potential placement of the incoming funds at the September disability meeting, which may include an RFP for a new manager.

Mr. Minot recommended and the Board agreed, pursuant to the Attorney General's review and recommendation, to sign the change of contract notice from Wachovia Timber to RMK Timber.

The Board discussed the status of the 457 Deferred Comp Third Party Administrator contract negotiations, as approved at the June 12, 2004 meeting.

At 1:20 p.m. on a motion by Mr. MacArthur seconded by Ms. Simpson, the Board unanimously voted to enter into executive session pursuant to Title 1 § 313, to discuss the contract.

At 1:42 p.m. the Board moved out of executive session.

On a motion by Mr. Spaulding seconded by Mr. MacArthur, the Board unanimously voted to authorize Mr. Minot, with the assistance of the AG's Office, to contact Great-West and to take whatever appropriate steps are feasible to eliminate any other revenue sharing from the plan and create a completely transparent plan, while assuring the 25 basis points per participant fees are not increased.

ITEM 6: Treasurer's Report

Mr. Spaulding reported on the successful changes and re-organization in the Retirement Office as a result of the Maximus study recommendations.

ITEM 7: Director of Retirement Operations Report

Ms. Webster reported the successful and timely retiring of approximately a total of 300 members from the three systems.

An advisory committee to study retirement issues will meet monthly over the next few months and report back to the Treasurer on issues such as medical coverage, plan design, disability retirement, etc. The goal is to present a report to the legislature to support any changes needed during the next session.

Ms. Webster reported a review of the SDIA plan is commencing to examine the possibility of contracting a Third Party Administrator.

ITEM 8: Any other investment related business to come before the Board

Mr. Hooper contacted Mr. Whitney with a request to attend the IMN Index Conference in Phoenix, Az, in October or November. Mr. Hooper won the trip at another conference last year in a raffle, but was not able to attend last year. The Board discussed and approved attendance at that time and would only require reimbursement of the daily personal per-diem.

The Board agreed providing there was no violation of the Ethics Policy.

Mr. Whitney suggested either Mr. Minot or Ms. Webster and at least one or two Board members take a trip to Denver to make an on-site visit to the Great-West.

On a motion by Mr. Spaulding seconded by Mr. MacArthur, the Board unanimously voted to allow one staff member and one Board member to make an on-site due diligence visit to the offices of Great-West in Denver, Co.

Mr. Hofmann suggested that since the new Deputy Director of Retirement was previously with the Auditors Office he would have the skills needed for this type of visit and could also be considered.

Mr. Whitney presented Mr. MacArthur with a letter of thanks and certificate of appreciation for his service to the Board. Primarily due to logistics, and a desire for his constituents to have consistent representation, Mr. MacArthur regrettably elected to step down from his position as the retired members representative. A new representative from the association will be named in September.

ITEM 9: Great-West Report Q2/04

Ms. Panciocco, Mr. Kroner, and Mr. Sanville appeared before the Board. They reported for the Q2/04 a total of 5,506 participants of which 5,176 were state members and 330 were municipal members. The total plan assets were reported to be \$170.93 million as of June 30, 2004.

Ms. Panciocco reviewed the time-line for the transfer and mapping strategy to the newly selected funds planned for November 30th. Informational meetings would be held November 1-15, along with Retirement Office and payroll newsletters, and participant quarterly statement direct mailings.

Mr. Spaulding advised the Board of Great-West's sponsorship and participation in the free Vermont Women & Money Conference, September 17, 2004.

On a motion by Ms. Simpson seconded by Mr. MacArthur, the Board unanimously voted to accept the report presented, subject to audit.

ITEM 10: Discuss/Act on 457 Revisions to Investment Guidelines

This item was postponed to the September 9th meeting.

Next Meeting Dates:

The next scheduled conference call meeting is September 9, 2004.

The next scheduled quarterly investment meeting is November 18, 2004.

On a motion by Mr. MacArthur seconded by Mr. Spaulding, the Board unanimously voted to adjourn at 2: 38 p.m.

Respectfully submitted,

Cynthia 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

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