

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

June 7, 2001

Board Members present:

BLYTHE MCLAUGHLIN, representing Commissioner of BISHCA, Elizabeth Costle

VAUGHN ALTEMUS, representing Commissioner of Education, David Wolk

JAMES DOUGLAS, VT State Treasurer

JOSEPH MACKEY (Active No. 29334), term expiring July 1, 2001

JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2004

JON HARRIS (Active No. 25669), term expiring July 1, 2003

Also attending:

Cynthia Webster, Director of Retirement Operations

Marie Duquette, Director of Investment Services

Cliff Axelson of Callan Associates

Larry Chase, Vermont Retired Teachers Association

Alden Walcott, Vermont Retired Teachers Association

The Chairperson, James Douglas, called the meeting to order at 8:15 a.m. on Thursday, June 7, 2001 in the Treasurer's Conference Room #1 at 133 State Street, Montpelier, Vermont.

ITEM 1: Approval of the March 1, 2001 minutes.

On a motion by Mr. Kaplan seconded by Ms. McLaughlin, the Board unanimously voted to approve the minutes for March 1, 2001 as submitted.

ITEM 2: State Treasurer's Report.

- The Rules Committee will review the Standards of Conduct policy on June 27, 2001.
- Newsletters have been mailed to both active and retired members of the systems and are expected to be published on a regular schedule.
- Ms. Young spoke to Assistant Attorney General Bill Griffin regarding the extension of money manager contracts. He recommends extensions do not exceed a 4-year time frame after the normal policy of 2 + 1 + 1 extensions.
- The Vermont Educational Health Initiative (VEHI) contract is subject to its final 1-year renewal and an RFP will be required before June 30, 2002.

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Board unanimously voted to extend the Fidelity (#0312095) and Delaware (#0312124) contracts for a term not to exceed 4 years and the VEHI (#0312091) contract for 1-year.

ITEM 3: Investment consultant quarterly review.

Cliff Axelson of Callan Associates appeared before the Board. He reported the total fund balance for Q1/01 was approximately \$1.105 billion with a (6.10%) return for the quarter, 1-year return of (4.21%) and 3-year return of 5.29%. Mr. Axelson said the fund's ranking in the Callan Public Plan Sponsor database in the last five years has been consistently above the median and is #42 for the most recent quarter. He said the database includes both Callan and non-Callan clients and is calculated on a percentage basis.

Mr. Mackey made a motion seconded by Mr. Harris to release Scudder Investments from their contract, following completion of the Investment Consultant interviews next week. After discussion the motion was amended to begin a search for a replacement firm, notify Scudder of the Board's intent to replace them, but retain them to continue in the interim. Further discussion ensued and Mr. Mackey withdrew his motion.

On a motion by Mr. Mackey seconded by Ms. McLaughlin, the Board unanimously voted to move forward with a search for an International Equity growth manager.

ITEM 4: Investment management presentations.

LOOMIS SAYLES – Domestic Fixed Income: Tim Haarmann and Steve Kaseta appeared before the Board. As of March 31, 2001 the portfolio market value was approximately \$160.94 million with a first quarter return of 4.30%, an outperformance of 1.27% over the 3.03% of the Lehman Brothers Aggregate Index; 1-year performance was 12.06% vs. 12.52% for the benchmark.

LOOMIS SAYLES – SDIA Annuity: Mr. Haarmann reported a portfolio market value of approximately \$64.5 million with a first quarter return of 3.46%, an outperformance of 0.36% over the 3.10% Lehman Intermediate Aggregate Index; 1-year performance was 2.16% vs. 0.99% for the benchmark.

LEND LEASE - Commingled Core Real Estate fund: Mike Cassidy, Gene Conway, Joseph Thomas and Dan McDonough appeared before the Board. As of March 31, 2001 the portfolio market value was \$35.66 million with a first quarter return of 2.4% compared to the NCREIF benchmark of 2.31%; 1-year annualized performance was 12.86% vs. 12.54% for the benchmark.

METLIFE – Commingled Real Estate fund: Barbara Drew and Mr. John Loehr appeared before the Board. As of March 31, 2001 the portfolio market value was \$27.8 million with a first quarter return of 1.85% compared to the NCREIF benchmark of 2.31%; 1-year annualized performance was 11.66% vs. 12.54% for the benchmark.

DELAWARE – Global Fixed Income: John Campbell, Ryan Brist and John Kirk appeared before the Board. As of March 31, 2001 the portfolio market value was approximately \$218.3 million with a first quarter return of 0.50%, an outperformance of 0.09% vs. the 75% Lehman Brothers Aggregate Bond & 25% Salomon Smith Barney non-US World GVMT Index at .41%; 1-year performance was 6.91% vs. 6.07% for the benchmark and annualized performance since inception on October 1, 1990 was 7.84%.

ITEM 3: CONTINUED Investment Consultant report

- High yield bond report/recommendation

The Board asked Callan Associates to prepare a comparison of high yield bond holdings in a mutual fund vs. a separate account that will include fee schedules, performance history, etc. A recommendation of the appropriate benchmark should also be included. The expected allocation could be up to 25% of Loomis' portfolio with no more than 5% to drop below the BB rating.

- Investment Guidelines review/revisions

Ms. McLaughlin and Mr. Kaplan will review the draft revisions provided by Callan Associates and discuss their comments prior to scheduling a conference call that will also include Ms. Duquette and Mr. Axelson. A new draft will then be prepared for the Board's review and comments.

ITEM 5: Ratify the disability retirement for: *Diane Duffy-Patyjewicz*

On a motion by Mr. Altemus seconded by Mr. Kaplan, the Board unanimously voted to ratify the ballot vote of approval of the disability retirement for Diane Duffy-Patyjewicz.

ITEM 6: Legislative update

Mr. Douglas and Ms. Webster reported:

- The Governor appropriated a total of \$20.443 million to the Teacher's fund of which \$713 thousand was earmarked for the increase in health insurance costs.
- A new program services clerk position has been approved for the Retirement Division to assist in processing more of the time sensitive functions.
- A health care package was approved to increase premium payments for retirees only from the current 50% of the JY Plan to 80% of the Comp 250 Plan. The increased cost of the benefit is to be shared by the State and active membership and will require annual review and contribution rate adjustments. In FY 2002 (7/1/01 – 6/30/02) the cost of the increased health premium benefit will require an upward adjustment of .14% to the active member contribution, raising it from 3.4% to 3.54%.

On a motion by Ms. McLaughlin seconded by Mr. Altemus, the Board unanimously voted to adjust the active member contribution rate to 3.54% for FY 2002.

- H.494 Military Service Credit bill 1.) allows active teachers to receive retirement credit during periods of approved leave of absence to serve in the military; 2.) allows active teachers who meet the statutory criteria for a grant of military service but were previously unable to receive retirement credit due to receipt of a military pension for non-regular military service (guards and reserves) to now apply and receive the retirement credit. (Brings Vermont into compliance with federal law); 3.) allows retired teachers to be granted a one time stipend of \$500.00 per year up to \$1,500.00 as retroactive credit for military service provided they meet the criteria; 4.) allows retired teachers to be granted retroactive credit for military service under same criteria as #2 for active employees. (Compliance with federal law); 5.) contains a housekeeping item to correct the required number of years to be eligible for a death-in-service benefit from 10 to 5 years.
- Mr. Kaplan reported that federal legislation was signed by the President that allows for more portability among tax deferred retirement savings plans as well as the ability to purchase service credit with pre-tax money. Ms. Webster will request an AG's opinion on whether Title 16 allows the board to authorize the pre-tax purchases or if a statutory amendment will be required.

ITEM 7: Reimbursement of travel for Jay Kaplan: 9/7/00 12/7/00 and 3/1/01 meetings

On a motion by Mr. Mackey seconded by Mr. Harris, the Board voted to reimburse actual travel expenses up to the total of mileage from the furthest point in Vermont to Montpelier, subject to review by the Attorney General's Office. Mr. Douglas, Mr. Kaplan, Mr. Mackey and Mr. Harris voted yes. Ms. McLaughlin voted no. Mr. Altemus abstained.

The Board agreed to pay Mr. Kaplan's expenses for the 9/1/00 and 12/7/00 meetings based on the above policy and to pay the full cost of expenses for the 3/1/01 meeting.

ITEM 8: Any other investment related business to be brought before the Board.

On a motion by Mr. Kaplan seconded by Ms. McLaughlin, the Board unanimously voted to allow Ms. Webster to attend the NCTRS Directors Conference in Amherst, NY June 23-26, 2001.

Mr. Altemus, Ms. McLaughlin, Mr. Mackey and Mr. Douglas all expressed an interest in attending the NCTR annual conference in October to be held in Salt Lake City, UT.

The Board requested that Ms. Webster send a thank you letter to NCTR for their help in promoting recent federal legislation.

The goals list was discussed.

On a motion by Ms. McLaughlin seconded by Mr. Kaplan, the Board unanimously voted to adjourn at 4:22 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:

October 25, 2000

Support full appropriation
~~Health insurance~~
Increased staff for counseling & ~~continued training~~
Disability procedure review or revisions
~~Investment guideline revisions~~
Common info material formats for managers/consultant
~~Code of Conduct (ethics) policy~~
Improved communication with staff
Bond discussion
~~Increased communication with membership~~
Benchmark the System Rating Project
Legislative language for “Teacher” & “Extra Curricular”
~~Discuss board’s position regarding health care subsidy~~
Discuss format of actuarial report
Conferences & Meetings: updates from Board members

December 7, 2000

Discuss alternative investments

January 9, 2001

Develop policy for standards for recruitment, appointment & re-appointment to Medical Review Board.

January 17, 2001

~~Develop policy regarding expense reimbursements on universal protocol.~~
Review priorities of Information & Communication Specialist

March 1, 2001

Revisit 6/4/97 Education & Education Reimbursement Policy

June 7, 2001

Develop process for evaluating money mgrs & rptng mgr performance to membership