

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

November 19, 2003

Board Members present:

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005
JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2004
THOMAS CANDON, representing Commissioner of BISHCA
VAUGHN ALTEMUS, representing Commissioner of Education
JEB SPAULDING, VT State Treasurer

Board Member(s) absent:

JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
Rita Rinehart, President Association of Retired Teachers of Vermont
Alden Wolcott, June Atwood, Association of Retired Teachers of Vermont
Dick Charlton, Kevin Kondry, Doug Moseley, NEPC
Elizabeth Pearce, Deputy State Treasurer
William Rice, Assistant Attorney General
Bill Norton, Treasurer's Office Internal Auditor

The Chairperson, Joe Mackey, called the meeting to order at 8:10 a.m. on Wednesday, November 19, 2003 in Room 10 at the VT State House, Montpelier, Vermont.

ITEM 1: Approval of minutes of October 29, 2003

On a motion by Mr. Spaulding seconded by Mr. Altemus, the Board unanimously voted to approve the minutes of October 29, 2003.

ITEM 2: Treasurer's Report

A. Budget presentation

Ms. Pearce and Mr. Norton reviewed and discussed the FY'03 financial statement with the Board. Ms. Pearce explained that the statement is printed in the Comprehensive Annual Financial Report (CAFR) and is being presented to the Board as background, prior to the presentation of specific FY'05 budget information at a meeting in December.

Mr. Kaplan requested that VEHI be invited to discuss changes and health insurance projected costs, etc.

B. Retirement Office

Mr. Spaulding advised the Board that the Retirement Office is now fully staffed and a department wide reclassification project was submitted to the Department of Personnel. The objective is to be sure that jobs are defined, and staff is properly recognized and compensated for their service. Additionally some reorganization is planned for the Retirement Office. In addition to bringing Ms. Holden back as Board Coordinator, the Retirement Operations Chief position has been reclassified down to a Retirement Specialist position. This was done in order to provide additional resources at the customer level. The intent is to maximize customer service and meet the needs of the membership across the three systems. A new position, Deputy Director, has also been requested with the plan that the Deputy Director would be responsible for day-to-day supervision of operations staff and serve in the reporting, financial management, and information technology side of operations. Ms. Webster will supervise the Deputy Director as well as the Retirement Specialists, providing additional resources for customer service, outreach, education, and staff development.

In addition to the organizational changes planned, the Treasurer's Office is proceeding with the management consultant RFP. Twelve RFP responses were received; 9 out-of-state and 3 in-state, which were narrowed to four candidates. The Treasurer's Office anticipates final selection shortly. The intent of this project is to complete an intense analysis and comprehensive review of the Retirement Office operations and workflow. The project is expected to be completed by early spring with the recommendations and/or results to be used in the information technology (IT) project.

On a motion by Mr. Candon seconded by Mr. Mackey, the Board unanimously voted to authorize the Treasurer to proceed with the RFP selection and enter into a contract for the Retirement Office management consultant services at an expense not to exceed \$76,460 with the cost to be proportionately divided amount the three retirement systems, SDIA and Defined Contribution plan.

Mr. Spaulding invited interested members to the Treasurer's Office to review the RFP responses.

C. Proxy Voting RFP

Mr. Spaulding and Ms. Pearce advised the Board of the Proxy Voting RFP results. Two firms responded, which were reviewed with the assistance of the VSERS and VSTRS Board Chairs. The Treasurer requested the Board's permission to pursue contract negotiation with one of the firms, Institutional Shareholder Services (ISS), and explained that the contract cost would be split with any other participating system and the Treasurer's Office – Common Investment Trust.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Board unanimously voted to authorize the Treasurer to enter into RFP contract negotiations with ISS for proxy voting management services, not to exceed \$45K, and to present the final contract terms to the Board for approval in December 2003.

A sub-committee in cooperation with members of the other participating Boards would design and develop the proxy voting policy, for their Board's approval.

D. Other

Mr. Minot advised the Board that the transition of funds from the Putnam account was complete. He suggested the Board consider, at some point in the future, authorizing a formal manager search.

State Street Bank will be submitting a proposal for commission recapture services. The terms are expected to be as favorable as any other firm that NEPC would negotiate with.

ITEM 3: Investment Consultant Report for Q3/03

Ms. Griggs and Mr. Moseley reviewed the third quarter 2003 performance. They reported a market value fund balance of \$1.123 billion and a quarterly return of 3.0%, an out performance of the 2.7% median public fund. The one-year return was 20.0%, three-year return 0.2% and five-year return 5.8%.

NEPC will keep the Board informed of developments in the mutual fund trading investigations.

A. Discuss appropriate timing of semi-annual rebalancing
No discussion.

B. Discuss enhanced index investment alternatives
No discussion.

ITEM 4: Investment Manager Presentations

Fidelity Investments: Art Greenwood, relationship Manager and Joe Day, Co-Portfolio manager appeared before the Board. The large cap growth portfolio was reported to have a market value of approximately \$132.8 million with a Q3/03 return of 3.7% compared to the Russell 1000 Growth Index of 3.9%, one-year return was 24.5%, three-year return (14.1%) and five-year return .7%.

Loomis Sayles: William Driscoll, Portfolio Manager and Timothy Haarmann, VP Client Product Manager appeared before the Board. The domestic fixed income portfolio was reported to have a market value of approximately \$143 million with a Q3/03 return of 0.3% compared to the Lehman Brothers Aggregate Index of (0.1%), one-year return was 13.2%, three-year return 8.6% and five-year return 6.6%.

UBS Realty: Dan Leary, Head of US Operations appeared before the Board. The actively managed open ended, commingled, core portfolio of equity real estate was reported to have 115 investments and \$4.9 billion in assets of which approximately \$37.9 million of the market value is from the VSTRS. The Q3/03 return was 2.4% compared to the NCREIF Index of 1.8%, one-year return was 8.9%, three-year return 7.2% and five-year return 9.9%.

ITEM 5: Any other business to be brought before the Board

None

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Board unanimously voted to adjourn at 12:55 a.m.

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board

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

Support full appropriation
 Increased staff for counseling & continued training

TO DO's

Who	What	When	Done
** = for possible 2004 legislative changes			
All	Support full appropriation		
CLW	Conclude RFP for evidentiary hearing process	ASAP	
All	Benchmarking the system project	TBD	
David	Provide chart outlining projected contribution rates (7/21 item 3)	ASAP	
Beth	Complete Proxy voting RFP (7/21 item 4)	9/30/03	
CLW	Prepare and send letter to school districts re: independent contractors (7/21 item 2 & 9/23 item 6)	ASAP	11/2003
CLW	Return to work policy (7/21 item 2)	ASAP	
CLW	State Employee reimbursement policy GSA? (7/21 item 4)	ASAP	
David?	Follow-up info on securities litigation (7/21 item 6)	ASAP	
CLW	Reportable wages (7/21 item 9)	ASAP	
CLW	Define teacher & independent contractor (8/20 item 3)	ASAP **	
NEPC	Comsn Recapture negotiations w/State Street Bank (8/20 item 3)	ASAP	
David	Appropriate timing of semi-annual rebalancing (8/20 item 4)	11/19/03	
NEPC	Review of Objectives regarding "transparency" for hedge funds (9/23 item 1) POSSIBLE JOINT MEETING	11/19/03	
NEPC	Index manager enhancements options (9/23 item 2)	11/19/03	
CLW	Follow up on AG's opinion/information regarding Attorney Storrow appeal (9/23 item 3)	12/1/03	
CLW	Follow up on developing policy for independent/private school membership (9/23 item 4)	ASAP	
CLW	Define entity eligibility criteria (9/23 item 4)	ASAP **	
CLW	Define "separation of service" (9/23 item 6)	ASAP **	
CLW	Re-vesting if second account established (9/23 item 6)	ASAP **	
Jeb	Increase communication with membership – Treasurers' Office plan (9/23 item 7)	ASAP	
Jay/CLW	Follow-up on Retired Teachers' Association flyer (9/23 item 7)	ASAP	
Jeb	Independent Retirement web site access (9/23 item 7)	ASAP	
Jeb	Follow-up on funding strategy (9-23 item 9)	on going	
CLW	Evaluate magnitude/impact to system of potential 700 wavered teachers (9/23 item 11)	ASAP	
ALL	Clarify title 16 "License" definition (9/23 item 11)	1/1/04 **	
Jeb	Complete Independent Management Review RFP and Send copy to Jay Kaplan (9/23 item 12)	ASAP	11/19/03
Jeb	Letter to Administration re: funding plan (10/29 item 5)	ASAP	11/19/03
All	Consider formal Int'l Equity manager search (11/19 item 2)	TBD	