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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

IMPORTANT NOTICE
State of Vermont 457 Deferred Compensation Plan
Change to Stable Value Fund Investment Manager
May 2012

The Vermont State Employees' Retirement System (VSERS), as plan administrator for the State of Vermont 457 Deferred Compensation Plan (457 Plan), and the Office of the State Treasurer are pleased to announce the replacement of the investment manager for the Vermont Stable Value Fund (Fund).

Effective on **Tuesday, June 19, 2012**, the Vermont Stable Value Fund will be managed by ICMA-RC and invested in the Vantage Trust PLUS Fund, and will no longer be invested in the SEI Stable Asset Fund. This new arrangement is expected to provide a significantly higher investment return for Vermont Stable Value Fund investors, while preserving safety of principal and daily liquidity.

Participants in the 457 Plan currently invested in the Vermont Stable Value Fund will be "mapped" to the new investment starting at the close of business Monday, June 18. Participants not currently invested in the Vermont Stable Value Fund will be able to invest in the new Fund starting on Tuesday, June 19.

Investors should be aware that, starting on June 19, you will not be able to move funds directly from the Vermont Stable Value Fund into the 457 Plan's Self-Directed Brokerage Account (SDBA) or into the FPA New Income Fund. These two options are considered "competing" investments to the Vermont Stable Value Fund, meaning that frequent trading between these two options and the Vermont Stable Value Fund could harm the Fund's performance. As such, these two options will be subject to a 90-day "equity wash" rule, which means you must first move funds from the Vermont Stable Value Fund into any other of the 457 Plan's investment options, and remain invested in those options for 90 days, prior to investing in either the SBDA or the FPA New Income Fund.

Vermont Stable Value Fund investors should also be aware that the "SVF Fee Reimbursement" in the "Transaction Detail" section of your quarterly investment statement from Great-West Retirement Services will no longer appear. This reimbursement was due to an arrangement between SEI and the 457 Plan whereby SEI reimbursed 8.4 basis points of their management

fees to the 457 Plan. Inclusive of the 12 basis point administrative fee, the all-in investment fees were 56.3 basis points, deducted from investment income earned by participants. After reimbursement of 8.4 basis points the net cost to participants was 47.9 basis points. The new all-in investment fees will be 50.4 basis points, without the additional step of reimbursement.¹ As such, the new overall fees will be 2.5 basis points higher than the existing fees. However, the investment performance from the new manager is expected to be far superior: over the past year, the new manager has returned over 250 basis points in excess of the existing manager. While past performance is not a guarantee of future results, we believe the product will provide superior performance compared to the previous product. Recent changes to the SEI product also support the VSERS Board decision to move to a new product.

On May 1, 2012, SEI announced its intention to terminate the SEI Stable Asset Fund effective November 30, 2012. SEI also announced several changes to the underlying investments in the SEI Stable Asset Fund, including the termination of all wrap contracts, the liquidation of all fixed income securities, and the investment of the SEI Stable Asset Fund primarily or exclusively in registered money market mutual funds. As such, this investment is expected to have a very low yield until it is terminated by the 457 Plan on June 18. The “Notice of Termination of the SEI Stable Asset Fund” dated May 1, 2012, is included as an attachment for your information.

In summary, VSERS and the Treasurer’s Office expect that this new configuration of the Vermont Stable Value Fund investment will substantially improve the performance of this Fund to the benefit of participants in the 457 Plan.

Please do not hesitate to call toll-free 1-800-642-3191, or 802-828-1451 if you have questions regarding the new Vermont Stable Value Fund investment and how these changes may, or may not, affect you.

¹ The reimbursement lowered the standard 12 basis point 457 Plan administration fee to a net 3.6 basis points for assets invested with the Vermont Stable Value Fund. After June 19, the full 12 basis point administration fee will be reflected in the “Withdrawals/Expenses” column of the “Account Summary by Investment Option” section of your quarterly statement. The \$0.50 fee per quarter charged by Great-West to process the additional transaction will also be eliminated beginning with the next full quarter ending September 30, 2012.