The Chairperson, Warren Whitney, called the meeting to order at 8:16 a.m. on Thursday, November 18, 2004 at the Hilltop Inn Conference Room, Airport Road, Berlin, VT.

ITEM 1: Approval of minutes for October 25, 2004

On a motion by Mr. Spaulding seconded by Mr. Harkness, the Board unanimously voted to approve the minutes of October 25, 2004, with the following amendment:

Add: ROB HOFMANN, to list of Board Members Present
Remove: ROB HOFMANN, from list of Board Members Absent

ITEM 2: Approve the Disability Retirement for:

- Stephen Ross
- Connie Swaim

On a motion by Ms. Abair seconded by Mr. Hofmann, the Board unanimously voted to approve the disability retirement for Stephen Ross and Connie Swaim, as recommended by the Medical Review Board.
On a motion by Mr. Hofmann seconded by Mr. Harkness, the Board unanimously voted to approve the disability retirement for Judith Corbett and Bonnie Lague, as recommended by the Medical Review Board.

- Judith Corbett
- Bonnie Lague

Mr. Hofmann made a motion seconded by Ms. Abair, to approve the discontinuance or reduction of the continued disability benefits for Ruth Gemperlein and Joanne Lilly, as recommended by the Medical Review Board and supported by the Certified Vocational Counselor findings.

At 8:30 a.m. on a motion by Ms. Abair seconded by Mr. Hofmann, the Board unanimously voted to enter into executive session pursuant to Title 1 §313 to discuss medical information.

At 9:00 a.m. the Board moved out of executive session.

On a motion by Mr. Hofmann seconded by Mr. Harkness, the Board unanimously voted to table voting on the previous motion, pending further information and discussion with the Attorney General’s Office.

ITEM 3: Investment Consultant Report for Q2/04

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the third quarter 2004 performance. They reported the market value of the fund balance at approximately $1.031 billion and a gross quarterly return of 0.6%, an out performance of the 0.3% median public fund. The one-year return was 12.6% vs. the median public fund at 11.5%, three-year return 7.8% vs. the median public fund at 6.8% and a five-year return of 4.0% vs. 4.6%.

Mr. Hofmann made a motion to authorize NEPC to conduct a data base search summary for a global bond manager, selecting at least six managers including an index manager, for the Board to review and narrow to at least three managers to consider for presentations. Motion failed due to a lack of a second.

On a motion by Mr. Hofmann seconded by Mr. Harkness, the Board unanimously voted to authorize NEPC to conduct a data base search summary for a global bond manager, selecting at least six managers including an index manager, for the Board’s sub-committee to review and narrow to at least three managers, for the Board to consider for presentations.

Mr. Whitney asked interested members to contact him if they would like to serve with him on the sub-committee to review the first draft report.
Ms. LaWare arrived at the meeting during the next item.

ITEM 4: Investment Manager Presentations

Loomis Sayles: Peter Palfrey, 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 $219.6 million with a Q3/04 return of 3.2% compared to the Lehman Brothers Aggregate Index of 3.2%, one-year return was 4.7%, three-year return 6.1% and five-year return 7.6%.

UBS Realty: Ann Dakille, Assistant Portfolio Manager, appeared before the Board. The actively managed, open ended, commingled, core portfolio of equity real estate was reported to have 117 investments and $5.7 billion in assets of which approximately $42.3 million of the market value is from the VSERS. The Q3/04 return was 4.0% compared to the NCREIF Index of 3.4%, one-year return was 12.7%, three-year return 9.4% and five-year return 10.2%.

Mr. Hooper arrived at the meeting.

ITEM 3: Investment Consultant Report for Q2/04 (CONTINUED)

- Real Estate Education – Value Added Managers

Glenn M. Johnson, NEPC Senior Consultant joined the meeting via conference call. Mr. Johnson reviewed the presentation materials provide.

Mr. Johnson recommended the Board conduct a search for value-added real estate managers, including managers with a large variety of characteristics. He recommended hiring two complementary managers; allocate the larger amount of incoming funds from the Henderson liquidation to a value-added open-ended manager, and less to a value-added close-ended manager. He said value added management returns could be in the mid to high teens or 20s.

On a motion by Mr. Spaulding seconded by Ms. LaWare, the Board unanimously voted to authorize NEPC to conduct a data-base search summary for value-added real estate management, including at least six open-ended and two close-ended managers, for the sub-committee to review and present to the Board for potential hiring of two complementary managers.

On a motion by Mr. Spaulding seconded by Ms. LaWare, the Board unanimously voted to allocate $9 million of the existing $25 million returned by Henderson to UBS Realty for a temporary investment exposure in the asset class.
ITEM 5: Treasurer’s Report

- VEDA/VOF Overview

Michael Sweatman, Peter Cline, and Joe Bradley provided an overview of a new investment plan initiative for the Board’s future consideration.

- Consideration of Environmental Investment Proposal

Mr. Spaulding reviewed the August 2004 proposal memo, summarized his opinions, and queried the Board on their interest in directing NEPC to initiate an RFP for investment in environmentally managed funds from the large cap mandate.

On a motion by Mr. Spaulding seconded by Mr. Hooper, the Board unanimously voted to consider an allocation to an environmentally sound investment strategy, and direct NEPC to conduct an RFP for an environmentally managed US large cap mandate as described in the August 2004 memo, to be reviewed by a designated sub-committee for the Board’s final consideration.

- Proxy Voting Report

Mr. Spaulding and Mr. Minot reviewed the November 8, 2004, Vermont Retirement Systems’ Institutional Shareholder Investor proxy voting report for Q1&Q2 2004. Reported were votes in the areas of Director Elections, Compensation, Auditor Ratification, and Capital Structure.

Mr. Minot advised the Board he would follow-up with ISS and the money managers regarding report format, discrepancies, policy guidelines, etc. Mr. Minot will also research the impact to proxy voting with a transition to indexed funds.

- Discuss Pension Investments that Support Terrorism

Mr. Spaulding explained the request was made by Frank J. Gaffney to discuss specific retirement fund investments with alleged entities associated with the sponsorship of terrorism.

The Board thanked Mr. Spaulding for sharing the information and agreed they look forward to seeing a federal or SEC guideline, policy, or list of terrorism sponsoring companies, when developed.

The Board agreed the Chair should draft a letter to send to international managers acknowledging the issue, the Board’s concerns, and ask for their attention to the issue.

- Shareholder Resolutions

On a motion by Mr. Spaulding seconded by Mr. Hofmann, the Board unanimously voted to ratify the e-mail and phone approval joining AFSCME and several other states in co-
sponsoring shareholder resolutions at Pfizer, Wyeth and Lily regarding their actions relating to prescription drug re-importation.

- **Unitization**

Mr. Spaulding advised the Board it was his hope to bring people together to continue working towards a unitization proposal.

The Board reiterated its continued support, in concept, of unitization and would support moving forward.

**ITEM 6: Director of Finance & Investments Report**

Mr. Minot advised the Board the new 457 vendor contract was signed by the Chair and is ready to send to the vendor. In addition to quarterly statement inserts from Great-West and the Treasurer’s Office payroll stuffer disseminated, informational meetings are being conducted throughout the state advising members of the December 1 transition. Mr. Minot informed the Board he was still working with Dwight Asset Management regarding the change in fee structure to charge the management fee to only the participants in the Stable Value Fund, vs. all of the Plan participants.

The Board acknowledged that consistent, and varied vehicles of communication regarding the changes in fee payment for Stable Value Participants is critical. The Chair will work with staff on this issue.

*Mr. Hofmann left during the following item.*

**ITEM 7: Director of Retirement Operations Report**

- **FY’06 Budget Recommendations**

Ms. Pearce reviewed the 6/30/04 balance sheet and income statement provided in the November 9, 2004 draft, and also provided an update on the status of the retirement administration-reengineering project.

On a motion by Mr. Hooper seconded by Ms. Abair, the Board unanimously voted to recommend to the Treasurer, the preliminary budget as proposed in the November 9, 2004 *Proposed Budget: State Employee’ Retirement System Base Budget (Preliminary)* spreadsheet provided.

- **Legislative Initiatives**

Ms. Webster explained a Summer Study Committee has been meeting since July, and that in addition to many other stakeholders the Treasurer, Mr. Whitney, Ms. LaWare, and VSEA are serving on the Committee.
Ms. Webster explained that annually several issues come before legislature that are never resolved, i.e. medical plan coverage, and subsidy for spousal health coverage, etc. Therefore, the Treasurer was directed by the legislature to conduct a summer study committee to discuss and collectively resolve several outstanding retirement statute issues.

Ms. Webster distributed and reviewed the 10/27/04 summary of the 2004 Summer Retirement Study Advisory Committee items discussed regarding suggestions and/or amendments to the health care coverage. She said the items considered were for new employees prospectively, unless proven acceptable to also be included in the current membership. Proposals, if implemented, would represent a decrease in the system’s liability.

Also distributed and explained was the history of the draft legislative amendments to the disability statutes, 3 V.S.A §460, §461, §462, and new definitions for “Gainful Occupation,” and “Other Income.”

Ms. LaWare suggested amending the definition for Other Wages to read …allowance, “group” insurance payments for short or long term…

Ms. LaWare suggested amending the definition for Gainful Occupation to read …by the “beneficiary immediately prior to disability retirement adjusted for inflation,” …

### GASB Report Approval

On a motion by Mr. Spaulding seconded by Ms. LaWare, the Board unanimously voted to table this item to December 9th to investigate other funding sources to authorize the system’s actuary, David Driscoll of Mellon Consultants, to prepare a GASB 43 & 45 report projecting the cost of liability to the VSERS for post retirement benefits.

**ITEM 8:** Discuss/Act on Deferred Comp 457 Plan Audit

Mr. Whitney advised the Board he had not completed his research on this matter, therefore he would table discussion until the December 9th meeting.

**ITEM 9:** Any other investment related business to come before the Board

Mr. Whitney advised the Board he believed they should conduct due-diligence visits to the system’s money managers. He requested the Treasurer’s Office prepare and prioritize a list of recommended managers.
Ms. LaWare advised the Board that the Department of Human Resources has been charged with implementing an option for state employees to participate in a new higher education saving plan payroll deduction program, effective after January 1, 2005.

Ms. LaWare explained the program, administrated by VSAC, would be a voluntary contribution of tax-deferred money earmarked for qualified educational expenses, and informed the Board of the possible impact to 457 Plan contributions, as a result of the new plan.

Ms. LaWare requested permission from the Board to allow a representative from the higher education investment plan be allowed to make a presentation in conjunction with Great-West at public meetings scheduled with employees throughout the state. She advised the purpose would to reach groups of employees at the same time, rather than having to pull employees from their workplace for separate meetings.

Mr. Whitney objected to the proposal sighting his lack of understanding of the program, administrators, fund options, etc. He additionally feared the Retirement System could be perceived as endorsing or sanctioning the satellite program, if it was combined with a state sponsored vendor.

Mrs. LaWare withdrew her request and advised the Board her department would be moving forward, as directed, with educating employees of the alternative education savings plan.

Next Meeting Dates:

The next scheduled meeting of the Board is December 9, 2004.
The next scheduled quarterly investment meeting is February 18, 2005.

On a motion by Mr. Hooper seconded by Mr. Spaulding, the Board unanimously voted to adjourn at 3:05 p.m.

Respectfully submitted,

Cynthia Webster  
Executive Secretary to the Board