

# **VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM**

Meeting of the Board of Trustees

February 17, 2005

## **Members present:**

WARREN WHITNEY, Chairperson, VSEA member (term expiring September 2006)  
ROBERT HOOPER, VSEA member (term expiring September 2006)  
CATHERINE SIMPSON, Alternate VSEA member (term expiring September 2006)  
JEB SPAULDING, Vice-Chairperson, VT State Treasurer  
ELIZABETH PEARCE, Deputy State Treasurer representing JEB SPAULDING  
ROB HOFMANN, Commissioner of Finance & Management  
WAYNE CALDERARA, Alternate for Retired Vermont State Employees' Association – **arrived  
later in the meeting**

## **Member(s) absent:**

JANICE ABAIR, Retired Vermont State Employees' Association  
CINDY LAWARE, Commissioner of Human Resources  
DICK JOHANNESSEN, Governor's Delegate  
WILLIAM HARKNESS, VSEA member (term expiring September 2005)

## **Also attending:**

Donna Holden, Board Coordinator  
Cynthia Webster, Director of Retirement Operations  
David Minot, Director of Finance and Investments  
Glenn Johnson, Ellen Griggs, Kevin Kondry, NEPC  
Investment Management Personnel

The Chairperson, Warren Whitney, called the meeting to order at 8:11 a.m. on Thursday, February 17, 2005, held in the Suzanna's Restaurant Conference Room at the Hilltop Inn, Airport Road, Berlin, VT.

The Board welcomed Jim Reardon, who will assume the roll of Commissioner of Finance & Management effective February 21, 2005. Mr. Reardon thanked the Board and said he was looking forward to working with the Board.

**With the Board's permission items on the agenda were taken out of order.**

## **ITEM 1: Board Action**

- A. Discuss/Approve the Disability Retirement For:  
*Michael Relyea, Norman E. Joubert, Linda L. Works*

**On a motion by Mr. Hooper seconded by Mr. Spaulding, the Board unanimously voted to approve the disability retirement for Michael Relyea, Norman E. Joubert, and Linda L. Works, as recommended by the Medical Review Board.**

The Board asked why the disability denial case was included, and agreed to discuss the case issues.

**At 8:15 a.m. on a motion by Mr. Hooper seconded by Ms. Simpson, the Board unanimously voted to enter into executive session pursuant to Title 1 §313, to discuss medical records.**

**At 8:22 a.m. the Board exited executive session.**

**B. Global Bond Manager Finalist Update**

Mr. Spaulding advised the Board of the results of the February 15, 2005 Global Bond Manager finalist presentations. He said three members of the VSERS and Marie Duquette from the VMERS Board were all very impressed with Brandywine. Mr. Whitney concurred as a result of his review of the materials, and said it was the recommendation of the sub-committee, with the support of NEPC, to hire Brandywine as the Global Bond Manager.

**On a motion by Mr. Hooper, seconded by Mr. Spaulding, the Board voted to accept the sub-committee's recommendation to hire Brandywine as the new Global Bond Manager. Mr. Hooper, Mr. Spaulding, Mr. Whitney, and Ms. Simpson voted yes. Mr. Hofmann abstained.**

*Mr. Spaulding left the meeting. Mr. Calderara arrived during the next item.*

**C. Update on Large Cap Index Fees**

The Board reviewed the final fee proposals from PIMCO, T. Rowe, and SSgA for the new domestic equity index management contracts.

**On a motion by Mr. Hofmann seconded by Mr. Hooper, the Board unanimously voted to approve the final fee negotiations of PIMCO .324%, T. Rowe .300%, and SSgA .031%, as presented by NEPC.**

**On a motion by Mr. Hooper seconded by Mr. Hofmann, the Board unanimously voted to authorize the Treasurer's Office to initiate transition management, and authorize the AG's Office and Board Chair to sign subsequent contracts.**

Mr. Minot discussed the proposal to engage SSgM, State Street Global Management, as a sole source entity to handle the ultimate transition functions for the three systems. Additionally Mr. Minot explained the current custodian bank contract language regarding their services. NEPC will also provide a letter in support of the action to be used along with the Treasurer's Office Bulletin 3.5 waiver request.

**On a motion by Ms. Pearce seconded by Mr. Hooper, the Board unanimously voted to authorize the Treasurer's Office to move forward with a waiver request to Bulletin 3.5 for transition management services with SSgM, based on the recommendation of NEPC, cost effectiveness, and relationship with SSB.**

**D. Approve the Minutes of January 13, 2005**

**On a motion by Ms. Simpson seconded by Mr. Hooper, the Board unanimously voted to approve the minutes of January 13, 2005, as submitted.**

*Mr. Hofmann left during the next item. The Board thanked him for his service, and wished him well.*

E. Loomis Sayles Mandate Information

The Board discussed the January 6, 2005, letter submitted by Loomis Sayles regarding a proposed change in their mandate. Mr. Minot explained the VSTRS Board adopted the proposal with the exception of permitting only a 15% 144A exposure.

Discussion ensued regarding the potential increase in high yield exposure and bond rating.

**Mr. Hooper made a motion to table action on this item until the next meeting. The motion died due to a lack of a second.**

The Board discussed a number of alternatives to the proposal.

**On a motion by Mr. Whitney seconded by Mr. Hooper, the Board voted to table action on the item, pending further information from NEPC regarding pros and cons of 144A, and impact to change in overall exposure to the System. Mr. Whitney, Mr. Hooper, Ms. Simpson, and Mr. Calderara voted yes. Ms. Pearce voted no.**

**On a motion by Mr. Whitney seconded by Ms. Pearce, the Board unanimously voted to permit Mr. Whitney to appoint the senior Board member, Mr. Hooper, to act as moderator until either the Chair or Vice-Chair returned to the meeting.**

*Mr. Whitney left the meeting, resulting in the lack of a quorum.*

**ITEM 2: Investment Manager Presentations**

**Longwood Investment Advisors-** Robert A. Davidson, CIO and Managing Director, appeared before the Board. The small cap equity portfolio market value was approximately \$70.4 million with a Q4/04 return of 7.5% vs. the Russell 2000 Growth Index of 15.1%. The one, three, and five-year numbers were not yet available, as this manager was originally funded during the Q1/04.

**Green Mountain Capital** – Michael Sweetman appeared before the Board and provided a status report on the initial \$500K alternative investment portfolio investment, with a 12/31/06 termination date. Mr. Sweetman reported an expected return on investments of approximately 1%.

Mr. Sweetman advised he would request to appear before the Board in May to further discuss a VETA/VOF proposal.

**ITEM 3: Real Estate Finalist Presentations**

The Board reviewed the Value-Added Real Estate Manager Search book dated January 2005, prepared by NEPC as a result of the authorized search for an allocation of approximately \$25 million or 3% assets, to replace Henderson Realty. Seven firms were considered for the search, four were invited to participate by submitting data on their products. Three of the four firms did not have an open product in the marketplace. An additional firm, Transwestern Investment Company, LLC, subsequently released a new product and was included in the final review in an attempt to bring the “best in class” to the Board. The firms reviewed were:

- The Guardian Realty Fund II, LLC
- The JP Morgan Special Situation Property Fund
- The RREEF America REIT III
- The Tishman Speyer Real Estate Venture VI
- Transwestern Investment Company, LLC

Mr. Johnson explained the value-added managers proposed would be a balance to the current UBS core real estate manager, and provide further diversification. Two of the managers propose open-ended product – large funds that continuously raise capital and have fairly easy liquidity, after a initial two-year lockout. Two managers propose closed-ended products – limited life contract of 7-10 years, typically smaller funds that focused on region or property type. There is no liquidity with this type of manager until the end of the term, and investments are drawn down in increments at the end of the term. Mr. Johnson advised that NEPC recommended engaging one manager of each style, and of the firms originally reviewed; four were selected for finalist presentations.

*Mr. Spaulding returned to the meeting, creating a quorum, and assumed the role as acting Chair.*

**The JP Morgan - Special Situation Property Fund:** George L. Ochs, Vice President and Portfolio Manager, and Douglas P. Lawrence, Vice President and Real Estate Specialist appeared before the Board. The company is located in New York and offered an open-ended fund. Currently there had 78 clients, 34 investments, and approximately \$2.1 billion under management in the fund.

**The RREEF America REIT III, Inc:** Terry Doyle, Director of Client Relations, and Ben Christian, Vice President and Portfolio Manager appeared before the Board. The company is located in Chicago, IL and offered an open-ended fund. The two-year old fund currently had 43 clients, 22 investments, and approximately \$831 million under management with a \$2 billion expected fund cap. The manager reported they were still in the growth phase with \$750 million in additional properties expected during 2005.

*Mr. Whitney returned to the meeting and assumed the role as Chair.*

**The Tishman Speyer Real Estate Venture VI:** Steve Wechsler, Senior Managing Director and Director of Acquisitions, and Peter Berg, Managing Director of Equity Capital Markets appeared before the Board. The company is located in New York and offered a close-ended fund concentrated in six target markets. The developing fund currently had 7 closed client commitments and an additional 13 soft and hard commitments, 4 investments, and approximately \$730 million in closed and additional commitments under management, with a \$1 billion fund cap.

**Transwestern Investment Company, LLC – Aslan III:** Stephen R. Quazzo, Managing Principal and CEO, and Douglas Lyons, Managing Director of Portfolio Management and Capital Markets appeared before the Board. The company is located in Chicago, IL and offered a close open-ended fund under development with a four-year investment period expected to be completed within three-years. The fund possessed pending commitments from existing partners in other funds and planned a Q1/05 first investments closing. Approximately \$10 million from General Partner investments was under management with a \$500-750 million fund cap.

The Board discussed their opinions of the presentations and Mr. Johnson summarized his opinion regarding the finalist presentations and on behalf of NEPC recommended \$10 million in an open-ended fund and \$5 million in a closed-ended fund.

**ITEM 4: 457 Plan Emergency Withdrawal Request – VMERS Member Julie Pickett**

**On a motion by Mr. Spaulding seconded by Mr. Hooper, the Board unanimously voted to approve the 457 Plan Emergency Withdrawal request made by VMERS members Julie Pickett.**

*Mr. Hooper left the meeting resulting in the loss of a quorum.*

**ITEM 3: (CONTINUED) Real Estate Finalist Presentations**

The Board continued discussion with NEPC regarding the manager presentations, value of diversification, and potential split of the 6% allocation.

By consensus the Board agreed they were in favor of the RREEF America REIT III and Transwestern Investment Company, LLC – Aslan III funds, also discussed the split of 60% of the 6% allocation to the core manager, and 40% of the 6% allocation to the closed and open-ended, which would be discussed at the March 10, 2005, conference call meeting.

**ITEM 5: Great-West Q4/04 Deferred Compensation Report**

Karl Kroner appeared before the Board. He reported a Q4/04 asset balance of \$184.21 million with 5,617 members, of which 5,269 were State and 348 were Municipal employees. The Plan's average account balance was reported at \$32,796 with average contributions per member at \$928.

Mr. Kroner reported there were no problems or major feedback resulting from the new fund implementations. Mr. Minot reported the new fee application for the Stable Value fund was completed, also, with no major feedback.

Mr. Kroner agreed to the request, once again, to provide a listing of all participating Municipal entities in the quarterly reports.

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

See information in Item 1.

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

**A. Legislative Initiatives**

Ms. Webster reviewed the status of pending legislation outlined in her written report. Ms. Webster added information regarding a proposal to increase the minimum pension for Group A members of the VSTRS, which also lowered the minimum years to qualify. This bill would also include the VSERS system, at an annual cost of \$35K per year for the less than 300 Group A members.

Mr. Whitney advised of H.185 to allow the Department of Safety Commissioner to grant a waiver to Group C members to work beyond the mandatory age 55-retirement age.

**B. SDIA Report**

Ms. Webster advised the Board an RFP would be initiated to assume third-party administration of the program. The plan is to consolidate all services, including (but not limited to) customer relations, check distribution, 1099R reporting, etc. The Board will be kept advised of the results.

**ITEM 8: Treasurer's Report**

Mr. Spaulding referred the Board to his written report and asked members who had questions to contact him for clarification.

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

None

**Next Meeting Dates:**

The next meeting of the Board will be March 10, 2005

The next scheduled quarterly investment meeting is May 19, 2005.

**Adjournment:**

**Due to the lack of a quorum, the meeting was declared adjourned at 2:50 p.m.**

Respectfully submitted,

Donna Holden, Board Coordinator  
for  
Cynthia Webster, Secretary to the Board