

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

April 14, 2005

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2006)

JEB SPAULDING, Vice-Chairperson, VT State Treasurer

JAMES REARDON, Commissioner of Finance & Management

LINDA McINTIRE, Commissioner of Human Resources

ROBERT HOOPER, VSEA member (term expiring September 2006)

CATHERINE SIMPSON, VSEA member Alternate (term expiring September 2005)

JANICE ABAIR, Retired Vermont State Employees' Association

DICK JOHANNESSEN, Governor's Delegate

Members absent:

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

Ellen Griggs, Kevin Kondry, Melissa Perel, New England Pension Consultants

Senator Matt Dunne

Jay Kaplan, Vermont State Teachers' Retirement System

The Chairperson, Warren Whitney, called the **conference call** meeting to order at 8:04 a.m. on Thursday, April 14, 2005, in the Treasurer's Office, Montpelier, VT.

ITEM 1: Approval of minutes for February 15, 2005 February 17, 2005 March 10, 2005

On a motion by Mr. Hooper seconded by Ms. Simpson, the Board voted to approve the minutes of February 15, 2005, as submitted. Ms. Simpson and Ms. Abair abstained.

On a motion by Mr. Hooper seconded by Ms. Simpson, the Board voted to approve the minutes of February 17, 2005, as submitted. Mr. Johannesen, Mr. Reardon, Ms. Abair, and Ms. McIntire abstained.

On a motion by Mr. Hooper seconded by Ms. Simpson, the Board voted to approve the minutes of March 10, 2005, as submitted. Mr. Johannesen abstained.

ITEM 2: Discuss/Act on Disability Retirements for: Stephen M. Danielowich and Thomas P. Hannon

On a motion by Mr. Hooper seconded by Mr. Spaulding, the Board unanimously voted to approve the disability retirement for Stephen M. Danielowich, as recommended by the Medical Review Board.

On a motion by Ms. Abair seconded by Mr. Reardon, the Board unanimously voted to approve the disability retirement for Thomas P. Hannon, as recommended by the Medical Review Board.

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

ITEM 3: Discuss/Act on International Equity Finalist Presentations

Mr. Spaulding provided a brief history of events leading up to the RFP and summary of the international equity manager finalist presentations conducted by the VSTRS on March 21, 2005, which was attended by some members of the VSERS and VMERS Boards.

NEPC staff consulted with the Board to discuss the style and performance of the proposed managers vs. the fund's current money managers. Also discussed was the current status of fee negotiations and NEPC's expectation for optimum manager fees if they were only expected to make performance reports to all three Boards at the same time.

Mr. Hooper made a motion seconded by Mr. Spaulding to authorize NEPC to include VSERS in final contract negotiations with Mondrian Investment Partners and Acadian Asset Management for international equity money management, with the intent of terminating the current managers, UBS and Lazard, and later determining the appropriate asset allocations.

At separate times during the discussion of the motion, both Mr. Whitney and Mr. Hooper temporarily left, and returned to the meeting.

Mr. Spaulding disclosed that Mr. Franzese from Lazard contacted him during the RFP process. Mr. Spaulding advised Mr. Franzese contact was inappropriate and he could not talk with him.

At the conclusion of discussion, upon a call for a vote, the motion passed.

ITEM 4: Status of Index Contracts

Mr. Minot advised the Board the PIMCO and T Rowe contracts were written and have been sent to the Secretary of Administration's Office for approval. He also said amendment language to the existing SSgA transition management contract was written, based on advice from William Griffin, Chief Assistant AG, and was also being circulated for signatures.

Mr. Minot advised the Board there were issues with the SSgA Equal Weighted Index contract because of certain agreement of trust language, on which Mr. Griffin was assisting with language amendments. He said his target date of May 1, 2005, for the large cap transition would most likely now be later in the month or by June 1.

Mr. Minot said he has learned from this contract process to generate and transmit our standard contract quickly, even in instances of new or non-traditional investment mandates such as PIMCO, T Rowe, and SSgA. As a result, he expects to be more expeditious with the contracting process in the future.

Mr. Spaulding vowed the Treasurer's Office's commitment to expeditiously handle contracts.

Ms. Simpson left the meeting.

ITEM 5: Presentation on Sudanese Related Investments, Sen. Matt Dunne

Senator Matt Dunne appeared before the Board to discuss the resolution he is sponsoring to divest public pension funds from companies that support the genocidal Sudanese Government. He said an Executive Order issued by former President Clinton on November 3, 1997, and supported by current President Bush, in part prohibits American investments in or doing business with Sudan. He explained the problem lies primarily with foreign-based companies traded on the American stock exchange that continue to operate in Sudan.

The Board discussed the resolution's broad language, and their reluctance to potentially penalize companies that may be doing business in or with the government of Sudan that are in actuality supporting the positive and humane treatment of people.

Mr. Spaulding said he felt active ownership, such as proxy voting and shareholder resolutions, could be effective in influencing corporate behavior, and he would prefer trying to effect positive change rather than just selling stock and walking away from an issue. Mr. Spaulding advised the Board that according to his limited information, one of the companies on the short list of potential offenders was Siemens, which is owned within the VSERS. He said he had tried to reach out to the corporate officers to ask what the company is doing in Sudan, and if appropriate, ask how the company, or officers of the company, would or could support genocide. Mr. Spaulding said he would continue his contact attempts.

Mr. Spaulding and other Board members agreed that perhaps the collective efforts of other pension fund administrators, or national organizations such as NAST, NAGDCA, NCPERS, etc., could also be effective.

Mr. Dunne thanked the Treasurer for his proactive attempts and acknowledged his respect for Mr. Spaulding's opinion, however, he also felt pulling funds in support of the company was also appropriate and necessary, since that is what would have the greatest impact on the company.

Mr. Whitney thanked Senator Dunne for bringing this most compelling issue to the Board, and assured him that neither the Board nor any Board member supports genocide. He requested, if possible and available, that Mr. Dunne provide a list of companies that are believed to warrant sanctions.

ITEM 6: Discuss/Act on Board's Position Regarding Social Security Privatization

The Board reviewed a resolution drafted by Mr. Spaulding modeling the resolution adopted by the VSTRS in March, in non-support of activities, organizations or financial investment companies that support the privatization of Social Security.

The Board discussed potential political ramifications, and other fiduciary and personal opinions.

On a motion by Mr. Reardon seconded by Ms. Abair, the Board unanimously voted to table further discussion/action on this item until the May 19, 2005 meeting.

ITEM 7: Any other business to come before the Board

The Board discussed upcoming worthwhile conferences. Mr. Johannesen advised he was interested in attending the NEPC Conference.

On a motion by Mr. Spaulding seconded by Mr. Hooper, the Board unanimously voted to authorize and support attendance of any interested Board member at the NEPC Client Conference in May, held in Boston, MA.

Mr. Spaulding advised the Board the Green Mountain Investors Conference agenda provided a variety of interesting topics, and he encouraged members to attend all or part of the day.

On a motion by Mr. Spaulding seconded by Ms. Abair, the Board unanimously voted to authorize and support attendance of any interested Board or staff member at the Green Mountain Investors meeting in May, held in Stowe, VT, at the cost of \$49.00 per person.

The Board questioned whether the privatization of Social Security would be discussed.

Mr. Whitney asked for those interested in attending either of the upcoming conferences to notify him.

Next Meeting Dates:

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

Adjournment:

On a motion by Mr. Hooper seconded by Mr. Johannesen, the Board unanimously voted to adjourn at 9:54 a.m.

Respectfully submitted,

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