

VERMONT PENSION INVESTMENT COMMITTEE
November 23, 2010

VPIC Members Present:

STEPHEN RAUH, CHAIR

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2011

VPIC Member(s) Absent:

JEB SPAULDING, VICE-CHAIR, VT State Treasurer

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

VPIC Alternate Member(s) Absent:

NONE

Also attending:

Lestyn Mattison, Clerk

Steve Wisloski, Director of Investment and Debt Management

Jaye Pershing Johnson, Assistant Attorney General

Linda Deliduka, VSTRS Board Member

Dick Charlton, Kevin Kondry and Chris Levell, NEPC

Thomas MacLeay, Trustee, Air Force Aid Society

Wendy Wilton, Treasurer, City of Rutland

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, November 23, 2010 meeting to order at 8:32 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval and Announcements**

The Chair, Mr. Rauh, introduced Thomas Golonka, the new VMERS Alternate.

Mr. Gaffney moved to approve the agenda, seconded by Mr. Mackey. Mr. Rauh commented that the Wellington Management presentation as outlined on the agenda would be out of sequence. The agenda was approved unanimously with no changes or additions.

There were no announcements.

ITEM 2: Minutes

- **Approve the Minutes of October 28, 2010 – Regular Meeting**

On a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted to approve the minutes of October 28, 2010 – Regular Meeting, as discussed.

ITEM 3: Committee Action Items

- **Municipal Pension Investment Procedures**

Mr. Rauh reported that the City of Burlington was still reviewing the draft procedures, therefore any action on the procedures would be moved to the December meeting.

ITEM 4: Discussion Items/Updates

- **Contract Updates**

Ms. Pershing Johnson advised the Committee that the three hedge fund-of-fund contracts, Grosvenor, GAM, and Permal are complete. The State Street custody contract will be complete by the end of December. Mr. Wisloski explained that liquidity constraints related to the restructuring of State Street's commingled securities lending program precluded funding all three hedge fund-of-funds managers on November 30, as originally planned. As such, one manager would be funded on November 30, with the other two funded on January 31, 2011. Mr. Wisloski also stated that the ISS proxy voting services contract and the Mondrian Global Fixed Income contract would be renewed at the end of December, for a one-year and a five-year period, respectively.

- **Investment Manager Monitoring Process**

Mr. Rauh and Mr. Kondry presented the Committee with draft reports to assist with a formal monitoring process for investment managers. Mr. Mackey suggested, and the Committee approved, the addition of a new column entitled, "Latest Visit with VPIC" in the NEPC report. Mr. Rauh asked that Ms. Pershing Johnson amend the language of the existing policy in preparation for approving and implementing the new monitoring process policy at the December meeting.

- **Single Strategy Hedge Fund Shadow Portfolio**

NEPC recommended three single strategy hedge funds for the "shadow portfolio." They are Strategic Value Partners LLC, Cevian Capital II GP Ltd., and Passport Capital LLC. The funds were chosen to complement VPIC's approved hedge fund of funds commitment. VPIC will limit its hedge fund participation to a 5% allocation for the foreseeable future but will begin tracking the shadow portfolio next year as an educational exercise.

- **Acadian Follow-up**

Mr. Rauh and Mr. Wisloski briefly discussed the Acadian Asset Management presentation at the October 28, 2010 meeting. No changes relative to Acadian are being contemplated at the present time.

ITEM 5: NEPC Q3 Portfolio Review

NEPC reviewed third-quarter performance results, focusing on individual managers' performance. Strong positive contributions by active managers have given VPIC excellent results in the past 12-month and 24-month periods. Detailed results by manager are reported quarterly by NEPC. Performance for the individual plans was as follows:

VSTRS:

The third quarter 2010 performance reported a market value fund balance of approximately **\$1.438** billion and a gross quarterly return of 9.5%, performing above the total public funds median ranking in the 24th percentile. The one-year return was reported at 13.0% ranking in the 6th percentile, three-year return (1.6%) ranked in the 49th percentile, and a five-year return of 4.0% reported in the 44th percentile of the median public fund universe.

VSERS:

The third quarter 2010 performance reported a market value fund balance of approximately **\$1.267** billion and a gross quarterly return of 9.7%, performing above the total public funds median ranking in the 14th percentile. The one-year return was reported at 13.4% ranking in the 3rd percentile, three-year return (0.9%) ranked in the 33rd percentile, and a five-year return of 4.2% reported in the 32nd percentile of the median public fund universe.

VMERS:

The third quarter 2010 performance reported a market value fund balance of approximately **\$355** million and a gross quarterly return of 9.6%, performing above the total public funds median ranking in the 18th percentile. The one-year return was reported at 13.5% ranking in the 2nd percentile, three-year return (0.6%) ranked in the 29th percentile, and a five-year return of 4.5% reported in the 25th percentile of the median public fund universe.

BURLINGTON:

The third quarter 2010 performance reported a market value fund balance of approximately **\$114** million and a gross quarterly return of 9.7%, performing above the total public funds median ranking in the 15th percentile. The one-year return was reported at 13.6% ranking in the 2nd percentile of the median public fund, and the three-year return of (1.7%) ranked in the 53rd percentile. The inception date of this municipal deposit was November 1, 2007; therefore, further performance data was achieved prior to it joining VPIC. Burlington's five-year return of 3.7% was reported in the 54th percentile of the median funds universe.

ITEM 6: Wellington Management Presentation and Discussion

A team from Wellington Management presented a routine update and review of the four strategies they currently manage for VPIC: Small Cap Value at a 2% allocation, Emerging Market Debt at 3%, Diversified Alpha Strategies Plus U.S. Core Fixed Income at 2.5%, and

Opportunistic Investment Allocation at 2.5%. Wellington also discussed a document request received from federal investigators and said they will keep VPIC informed if and as further information becomes available.

ITEM 7: Hedge Fund-of Funds Contracts and Funding

The Committee discussed whether to delay its investment in Grosvenor due to the search warrant, subpoena and on-site visit by the FBI to the offices of Level Global Investors, L.P. which is one of the funds in Grosvenor's portfolio. **Mr. Hooper moved to proceed with funding Grosvenor as previously agreed. Mr. Altemus seconded and the motion carried unanimously.**

Mr. Jeffrey, Mr. Harris and Mr. Hooper left the meeting

ITEM 8: VPIC Financial Market Dashboard

Mr. Rauh and Mr. Wisloski reviewed the Economic and Financial Markets Dashboard Report.

ITEM 9: Director's Report

Mr. Wisloski reported that both Brandywine and Mondrian have proposed changes to investment guidelines for their respective global bonds contracts. **After review and discussion by the Committee, Mr. Mackey moved to adopt the changes to the Global Fixed Income guidelines requested by Brandywine and Mondrian subject to approval by VPIC. Motion was seconded by Mr. Altemus and passed unanimously.**

ITEM 10: Other or New Business

No other or new business was presented.

ITEM 11: Adjournment

On a motion by Mr. Golonka, seconded by Mr. Mackey, the Committee unanimously voted to adjourn at 4:50 p.m.

Respectfully submitted,

Lestyn Mattison, Clerk