



Pension funds will aid in-state development

April 10, 2007

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Associated Press

MONTPELIER — Some of Vermont's \$3 billion in state-managed pension funds are going to be targeted toward affordable housing and supporting other economic and community development, state Treasurer Jeb Spaulding said Monday.

The Vermont Pension Investment Committee, which manages money on behalf of retired teachers, state workers and municipal employees, adopted a new policy in November calling for what the treasurer's office describes as "economically targeted investments."

That means projects that boost the state's economy, such as a venture capital fund that could help new or expanding businesses or one that could help renewable energy developers raise the cash to build their projects.

A limited number of other public pension managers have adopted similar policies to ensure that money remains local, and Vermont's was based on those in Massachusetts and New York City, Spaulding said.

"It's common, but it's the minority," he said. "We're not breaking any new ground here, but there tends to be a perception that if you're looking at economically targeted investments it must mean you're looking to take a lower return or additional risk. That tends to shut down the conversation right there."

Public pension investment managers have a primary fiduciary responsibility to ensure a reasonable rate of return with as little risk as possible. But that doesn't mean they can't contribute to economic growth, Spaulding said. "I think to the extent you can demonstrate to people you can do both ...then you get more interest," he said.

State government has experimented in the past with how it can use its cash reserves to benefit local businesses. In recent years it has conducted an Internet bidding program in which Vermont banks can compete for the state's short-term investments. The state can have as much as \$100 million in cash on hand. Now, up to \$40 million of it can be targeted at Vermont institutions.

Last week, the most recent bids for short-term local investments were awarded to Mascoma Savings Bank, Citizens Bank, the National Bank of Middlebury, BankNorth and Passumpsic Savings Bank, according to the treasurer's office. The local investments have resulted in a better return for those short-term holdings, Spaulding said.

The roughly \$50 million the state holds in its tobacco settlement and higher education trust funds also is invested through Vermont investment managers, Spaulding said.

The pension funds won't be looking to put their money in specific businesses or projects. Rather, they will work with fund managers that are targeting their finances. Affordable housing, for example, could be supported through managers investing in the Vermont Housing Finance Agency or Habitat for Humanity.

The funds might find a manager that has among its holdings working Vermont timber stands or renewable energy projects.

"We don't want to limit the field of investment possibilities," Spaulding said.

Whatever economic development initiatives the pension funds invest in will have to meet standard criteria for risk and return potential. The funds currently expect, for example, a return of 5 to 6 percent for fixed income, 8 to 10 percent for stocks and 15 to 20 percent for venture capital or startups. Those returns reflect the relative risk each investment represents.

The treasurer's office will seek proposals for the new investment strategy between May 1 and June 15 with the goal of choosing some new investments by August, Spaulding said.

No specific target has been set for how much money will go into the initiative. That largely depends on response. "In the beginning of the program I think we have to take a little bit of a wait-and-see stance," Spaulding said. "In the first year, I'd be surprised if it were more than \$10 (million) or \$20 million."