

VERMONT PENSION INVESTMENT COMMITTEE
December 18, 2012

VPIC Members Present:

STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016
STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Member(s) Absent:

None

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2016
KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2016
THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer
Matt Considine, CFA, Director of Investments
Katie Green, Investments Manager
Jaye Pershing-Johnson, Attorney General's Office
Linda Deliduka, Alternate VSTRS Board member
Barry Bryant, City of Burlington – via telephone
Christopher Talbert and Springer Harris, Teucrium Trading, LLC
Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, December 18, 2012 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval, Announcements, and Minutes of November 27, 2012 Regular Meeting**

The Chair, Mr. Rauh, briefly reviewed the agenda. The Chair, Mr. Rauh indicated there will be a January VPIC meeting. It was indicated there will be an emerging market review and manager presentations from Aberdeen and Wellington. The Chair, Mr. Rauh

indicated his desire to attend the one-day seminar in Boston on asset allocation presented by the Boston Security Analysts Society.

On a motion by Mr. Hooper, seconded by Mr. Mackey after a friendly amendment, the Committee unanimously approved the travel request of Mr. Rauh to attend the Boston Security Analysts Society asset allocation conference with the cost not to exceed \$1,500.00, and the Committee approved this travel request for any other member of VPIC that wanted to attend the conference.

The Chair, Mr. Rauh indicated he would circulate the email again that contained the information relative to the conference.

On a motion by Mr. Hooper, seconded by Mr. Mackey, the Committee unanimously approved the minutes of the November 27, 2012, Regular Meeting, as amended.

Mr. Hooper indicated he will prepare a report of the Super Bowl of Indexing conference he attended and provide it to the Committee members.

(Ms. Pearce and Ms. Deliduka arrived during this agenda item.)

Mr. Hooper indicated he received an IMN invitation for the Public Funds Summit to be held in Huntington Beach on March 14th and 15th and indicated he will forward that via email to the Committee members.

The Chair, Mr. Rauh indicated they will hold off on the Director of Investments Report until Mr. Considine arrived.

ITEM 2: Discussion Items/Updates

- **Vermont State Treasurer's Update**
- **Contract Updates**
- **NEPC Investment Manager Watch List Update: Post Advisory**

Ms. Pearce indicated they are preparing for the legislative session and indicated there will be a housekeeping bill that will not impact the VPIC Committee. Ms. Pearce indicated amortization would be discussed, and that the Municipal employer and employee rates needing to be addressed. It was indicated the employer rates have been set and there were going to be meetings with interested groups concerning the employee rates. There was a discussion that the Municipal system might be changing its financial reporting method as a result of the recent GASB change.

(Ms. Paul and Mr. Bryant arrived at the meeting at this time.)

Mr. Wisloski indicated he would be requesting an extension to the proxy voting contract for three months and that he would be asking for the creation of a sub-committee to

review the proxy voting guidelines. Mr. Wisloski indicated he would like to have an amendment to the management fee for AQR to not exceed 8.8 million.

(Mr. Considine arrived at the meeting at this time.)

On a motion by Ms. Pearce, seconded by Mr. Hooper, the Committee unanimously approved that the contract for AQR be extended from 2014 to 2019 and that the management fee increase from 2 million and not to exceed 8.8 million, which would be contingent upon successful negotiations.

ITEM 3: Director of Investments Report and Action Items

- **Select Sub-Committee to Review Proxy Voting Guidelines**
- **Review November Flash Report**

Mr. Considine discussed with the Committee the outcome of the December 10th meeting that staff from the Treasurer's office had with interested parties to discuss divestment from fossil-fuel investments.

(Ms. Johnson arrived at the meeting during this agenda item.)

Ms. Paul indicated in Burlington last night the City Council made a request of the members of the Retirement Board to request an examination of the pension funds to see which ones derive revenues from oil companies. Ms. Paul indicated she was just informing the Committee of this possible request.

Mr. Considine reviewed with the Committee the two capital calls they received recently and how the process proceeded with J.P. Morgan.

Ms. Johnson reviewed with the Committee the policy concerning downgrading securities and the Director-approved exemptions.

Mr. Considine reviewed with the Committee the conference call that was held with Post Advisory relative to the departure of Melinda Newman. The Committee indicated it would like to have NEPC provide their feedback on this issue, also.

Mr. Considine indicated there is not a November Flash Report to discuss, but reviewed items from last month.

The Committee discussed forming a sub-committee to review the proxy voting guidelines.

On a motion by Mr. Altemus, seconded by Mr. Mackey, the Committee unanimously agreed to create an ad hoc Sub Committee of Ms. Pearce, Mr. Mackey, Mr. Johannesen and Mr. Hooper to review the proxy voting guidelines.

It was indicated the sub-committee would report back to the Committee at a future time.

ITEM 4: Proposed Amendment to Investment Policy and Guidelines

- **VPIC Investment/Operating Philosophy**

Mr. Rauh reviewed with the Committee the possible additions to the VPIC Investment Policy and Investment Manager Guidelines that he drafted and the changes that were discussed at the last meeting that were included.

(Mr. Altemus left the meeting during this agenda item.)

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously agreed to add the new Section III to the Investment Policy and Guidelines.

Ms. George indicated in response to the Committee's inquiry she checked her email and indicated there was an email from Doug Moseley which indicated the due diligence committee would be preparing a report relative to the departure of Melinda Newman.

ITEM 5: Annual VPIC Self-Evaluation and Governance Review

Mr. Rauh led the Committee in a discussion concerning the VPIC responsibilities and the Committee's performance of those responsibilities. There was a discussion concerning the Treasurer's staff and NEPC's performance of their responsibilities. The Committee discussed their thoughts on how to improve the meetings and how to improve the Committee's performance of its duties.

(Mr. Bryant left the meeting during this agenda item.)

(A luncheon recess was taken from 11:45 a.m. to 12:30 p.m.)

(Mr. Altemus and Mr. Bryant rejoined the meeting after the luncheon recess.)

ITEM 6: Annual Evaluation of VPIC Chair

Mr. Rauh requested that the Committee members fill out the annual conflict of interest disclosures and provide them to Matt or Katie.

Mr. Rauh requested that Ms. Pearce assume the role of Chair for this agenda item.

The Committee discussed the role of the Treasurer's staff in the performance of VPIC's responsibilities.

Mr. Mackey indicated he was extremely happy with Mr. Rauh's performance as Chair. Mr. Mackey indicated he appreciated Mr. Rauh being approachable and responsive to comments

Mr. Altemus indicated he agreed with Mr. Mackey and also that he appreciated the emails that Mr. Rauh forwarded to the Committee members that might be of interest to them.

Mr. Johannesen indicated he agreed with both Mr. Mackey and Mr. Altemus in that he was happy with Mr. Rauh's performance as Chair.

In response to Ms. Pearce's question what is the best quality Mr. Rauh brings to the Committee and what is the one thing he needs to work on, Mr. Rauh indicated his best quality is his patience, and the thing he needs to work on is his impatience.

Ms. Pearce thanked Mr. Rauh for the professionalism that he brings to VPIC and indicated she appreciates all the work he does.

Mr. Considine indicated he agreed with Ms. Pearce and indicated Mr. Rauh is very easy to work with and it is a very educational experience.

Mr. Rauh thanked the Committee for their kind comments. Mr. Rauh indicated VPIC has been very interesting and has been one of the more challenging professional things he has ever done. Mr. Rauh indicated it has been a pleasure to be the Chair and continues to be a pleasure.

Ms. Pearce turned the meeting back to Mr. Rauh.

ITEM 7: Annual Review of Key Service Providers

The Committee discussed NEPC and Mr. Moseley, Mr. Levell and Mr. Charlton. Mr. Wisloski indicated NEPC's contract would expire in June of 2014 and that an RFP would need to be done next year.

The Committee discussed J. P. Morgan. The Treasurer's staff expressed their contentment with the transition and the working relationship with J. P. Morgan.

The Committee discussed the actuary's contract and how all three retirement boards did not need to have the same actuary.

ITEM 8: Review Annual Agenda Cycle for 2013

- **Special Agenda Items**
- **Education Plans**

The Committee discussed the agenda cycle. Ms. Pearce indicated there might be another experience study for all three systems prior to the five-year period.

ITEM 9: Economic and Financial Market Dashboard

Mr. Considine reviewed with the Committee the economic and financial market dashboard. The Committee discussed the positive and negative factors and unemployment.

ITEM 10 Other or New Business

None.

ITEM 11: Adjournment

The meeting was adjourned at 1:56 p.m.

Respectfully submitted,

Monica Chiren, Clerk