

**VERMONT PENSION INVESTMENT COMMITTEE**  
**December 20, 2011**

**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

JOSEPH MACKKEY, VSTRS Representative, term expiring June 30, 2013

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

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

**VPIC Member(s) Absent:**

None

**VPIC Alternate Members Present:**

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

**VPIC Alternate Member(s) Absent:**

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

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

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

**Also attending:**

Steve Wisloski, Deputy Vermont State Treasurer

Matt Considine, CFA, Director of Investments

Bill Griffin, Attorney General's Office

Joel East, JP Morgan

Monica Chiren, Clerk

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, December 20, 2011 meeting to order at 8:30 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agenda Approval, Announcements, and Minutes of November 22, 2011 Regular Meeting****

The Chairperson, Mr. Rauh introduced Joel East from JP Morgan, and indicated he would be sitting in on the meeting today. Mr. Rauh indicated it was a housekeeping agenda today, and that NEPC would not be attending, but would be attending the January meeting and at that time supply the data on the security lending. There were no additions to the agenda.

Mr. Altemus indicated he would need to leave during the lunch break to attend another meeting. It was announced there would be a meeting with BERS on Thursday which Ms. Pearce, Mr. Wisloski, Mr. Rauh and Mr. Considine would be attending. Mr. Rauh indicated if anyone else was interested in attending the meeting, they were welcome to.

**On a motion by Mr. Mackey, seconded by Mr. Jeffrey, the Committee unanimously approved the minutes of the November 22, 2011, Regular Meeting, as submitted.**

**ITEM 2: Discussion Items/Updates**

- **Contract Updates**
- **Foreign Securities Litigation**
- **Report on Super Bowl of Indexing Conference**
- **NEPC Manager Watch List Updates: Mellon, GAM**

Mr. Rauh indicated there was a meeting scheduled with JP Morgan for Wednesday to start the transition of custodian services from State Street to JP Morgan. Mr. Considine indicated the contract piece had not been started yet. Mr. Rauh indicated since Ms. Johnson and Mr. Hooper were not present there would not be a foreign securities litigation update or a report on the Super Bowl of Indexing Conference. Mr. Considine indicated Mellon and GAM were still on the watch list. There was a discussion about the length of time to be on the watch list without an action being taken. Mr. Rauh indicated they would take that up with NEPC at the January meeting.

**ITEM 3: Director of Investments Report**

- **Review November Flash Report**

(Mr. Hooper and Mr. Wisloski arrived during this agenda item.)

Mr. Considine indicated that one security in the PIMCO Core Plus fund and one in the KDP portfolio had been downgraded. Mr. Considine indicated he granted a “Director approved waiver” to PIMCO, and that the manager at KDP decided to sell the security so there was no approval needed.

Mr. Considine indicated as of the close of market December 13, 2011 the Quality D Liquidity Pool net asset value (NAV) was \$1.0000, the Duration Pool NAV was \$0.9536 and the overall Quality D NAV was \$0.9914, down from an NAV of \$0.9933 in the prior month. Mr. Considine indicated the Liquidity Pool’s percentage decreased to 81.4% from 84.6% of VPIC’s invested amounts, and the Duration Pool increased to 18.6% from 15.4%, compared to November. Mr. Considine indicated the “underwater” amount decreased slightly to \$1.9 million from \$2.0 million. It was indicated the “breakeven” timeframe decreased to 14.7 months from 16.0 months previously. There was a discussion about the different options available with the Liquidity Pool during the transition from State Street to JP Morgan. Ms. Pearce indicated the available options

would be explored, and then at the February or March meeting a definitive plan and option would be presented to the Committee.

Mr. Considine indicated to the Committee that the portfolio asset allocation was running pretty tight to the policy targets. Mr. Considine reviewed with the Committee the assets under management.

Mr. Considine reviewed the November 2011 flash report with the Committee. Mr. Considine indicated he spoke at length with Schroders, and that he would be doing the same with Wellington.

Mr. Hooper indicated he would be ready to present a report on the Super Bowl of Indexing Conference at the January board meeting. Mr. Rauh indicated he would put that on the January agenda.

**ITEM 4: Annual VPIC Self-Evaluation and Governance Review**

- **Letter from VPIC Chair**
- **Written Comments from VPIC Members and Alternates**

Mr. Rauh led the Committee in a discussion concerning the annual VPIC self-evaluation and the letter from the VPIC Chair. It was discussed that the VPIC responsibilities should be outlined, and then decide who best to perform the duties.

(Mr. Griffin arrived during this agenda item. )

Ms. Pearce indicated a matrix should be created indicating the functions of the VPIC Board, NEPC, the managers, the Treasurer's staff, the Retirement Boards, the Custodian, etc. and determine if they are being used to their full advantage. It was discussed that the AG's Office should be involved to make sure that the legislature has given the Committee the authority to delegate these responsibilities. There was a discussion about the investment approach of the Committee and who should be making the decisions, and how the decisions would be monitored. There was a discussion about NEPC and how to monitor their performance. Mr. Wisloski indicated he would provide to the Committee members the effectiveness and governance assessment that was prepared in 2008.

**On a motion by Mr. Mackey, seconded by Mr. Altemus, the Committee unanimously agreed to create an ad hoc Governance Sub-Committee of all interested parties to perform a risk assessment around governance to better define VPIC responsibilities and roles.**

(A recess was taken from 10:25 a.m. to 10:40 a.m.)

**ITEM 5: Annual Evaluation of VPIC Chair**

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

Mr. Mackey indicated he was very happy with Mr. Rauh's performance as Chair. Mr. Mackey indicated he appreciated Mr. Rauh's willingness to listen when issues are brought forward. Mr. Mackey indicated he also liked the structure that Mr. Rauh exhibited in conducting the meetings. Mr. Mackey made a comment about not seeing more managers on the agenda.

Mr. Altemus indicated he was very happy with Mr. Rauh's performance as Chair, and did not have any suggestions for improvement. Mr. Altemus indicated the Committee has come a long way.

Mr. Jeffrey indicated he was pleased with Mr. Rauh and indicated to Mr. Mackey if he wanted to see an item on the agenda he could always make a motion. Mr. Jeffrey also indicated it would be helpful if people waited to be recognized by the Chair before they spoke.

Mr. Golonka indicated Mr. Rauh is doing a great job, and that he brings a lot of experience to the table. Mr. Golonka indicated he appreciates the role the Chair takes with reference to NEPC.

Mr. Hooper indicated he might like to see Mr. Rauh take a more confrontational role with NEPC, but that he believes Mr. Rauh does an excellent job. Mr. Hooper indicated he does not think they could ask for a better person to lead them.

Mr. Johannesen indicated he agreed with everyone's comments and indicated he believed they were lucky to have someone with Mr. Rauh's financial management background. Mr. Johannesen indicated, in addition to Mr. Rauh's letter, there should be some long term objectives that they can work towards, and that he would be interested to know if there are any role models out there that are viewed as the ultimate State pension board.

Mr. Wisloski indicated his only regret is that he is not working as closely with Mr. Rauh as he had in the past, now that Mr. Considine has been hired. Mr. Wisloski indicated Mr. Rauh is very thoughtful and does not lose sight of the annual framework.

Mr. Griffin indicated he had no complaints.

Ms. Pearce indicated she can speak both as a Committee member and also as the Treasurer and indicated that Mr. Rauh has advocated for the Committee with NEPC. Ms. Pearce indicated they are moving in the right direction, with all that they have accomplished, and that it is a real compliment to Mr. Rauh and the Board. Ms. Pearce indicated Mr. Rauh has certainly earned her respect.

Mr. Rauh thanked the Committee for their kind comments. Mr. Rauh indicated VPIC has been very interesting and the more challenging professional things he has ever done. Mr. Rauh indicated it has been a team effort, and will continue to be a team effort. In response to Mr. Mackey's comment Mr. Rauh indicated if anyone has a suggestion for an

agenda item to please let him know. Mr. Rauh indicated it continues to be a pleasure to serve as the VPIC Chair.

Mr. Hooper indicated he wished they could find something in Vermont to invest in. The Committee discussed Champlain and KDP, and that this would be something the Committee would talk about again since it was an important issue.

Ms. Pearce turned the meeting back to Mr. Rauh, as Chair.

**ITEM 6: Annual Review of Key Service Providers**

The Committee discussed NEPC and how the contract had two one-year extensions, and that the contract would expire in 2014. The Committee discussed the personnel changes at NEPC, and indicated they would like to know what the future of NEPC would be when Mr. Charlton finally decides to move on. Ms. Pearce indicated there would be the annual review of the service providers as part of the risk piece she previously discussed and that the sub-committee would also work on that issue.

**ITEM 7: Review of VPIC Operating Policies, Including Attached Standards of Conduct and Education Policy**

- **Wellington Code of Conduct**
- **Proposed Revisions to VPIC Policy**

The Committee discussed the motion Mr. Hooper made at the November 22, 2011 meeting concerning the *Operational Policy*. The Committee discussed the intent of the paragraph in question.

**Mr. Hooper requested that his tabled motion from the November 22, 2011 meeting be taken off the table.**

**Mr. Hooper made a request to withdraw the previously tabled motion and requested he be allowed to make a substitute motion to eliminate the first sentence in Section B under Article 6 Contracts. Mr. Altemus seconded his motion. The Committee unanimously passed the motion.**

The Committee discussed the *Education Policy*. The Committee discussed incidental travel expenses.

**On motion by Mr. Hooper, seconded by Mr. Mackey, the Committee unanimously voted to approve to grant the Chair the right to approve incidental travel up to \$300.00 for appropriate training.**

Mr. Rauh indicated that motion would be added to the *Travel Policy*.

There was a discussion about conflict of interest. The Committee discussed NEPC being in hedge funds. Ms. Pearce indicated NEPC got a clean bill of health from the SEC. There was a discussion about the GSA per diem rates. Mr. Hooper indicated he had questions about the rate they use and the Federal amount and State amount. Mr. Griffin indicated it might be better to have the Governance Sub-Committee deal with this issue. Ms. Pearce indicated she will work with counsel on that and get back to the Committee.

Mr. Wisloski indicated the Committee would need to complete the Standards of Conduct forms by the January meeting.

(A luncheon recess was taken from 12:02 p.m. to 12:32 p.m.)

(Mr. Altemus and Mr. Golonka were not present for the afternoon session.)

**ITEM 8: Review VPIC Proxy Voting Guidelines and 2011 Voting Summary**

(Ms. Pearce entered the meeting during this agenda item.)

Mr. Considine reviewed with the Committee the Proxy Voting *Policy Comparison: ISS vs. VPIC* document. The Committee discussed what additional information VPIC would be interested in receiving. Mr. Mackey indicated he would be interested to know what percent of the time ISS voted against management, in maybe five major categories. Mr. Considine shared with the Committee information he had gathered concerning the percentage of time ISS voted against management. It was indicated that is the kind of summary the Committee would be interested in. Mr. Johannesen indicated it might be nice to have a visit from ISS in the future. The Committee discussed that it would like to identify a short list of issues that interest Vermont and to see how ISS voted on those issues. Mr. Considine indicated he will continue to work on this item.

**ITEM 9: Review Annual Agenda Cycle for 2012**

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

The Committee discussed the agenda cycle. Mr. Mackey indicated it would be interesting to have a shared presentation with Mondrian, Brandywine and Wellington to discuss international and emerging market debt. Mr. Rauh indicated he will meet with Mr. Moseley and Mr. Considine to see what they can come up with. It was indicated the Governance Sub-Committee might be ready to present its findings at the May meeting. Mr. Rauh indicated in reference to the education piece that NEPC would be presenting, if anyone had a topic they were interested in, to let him know. Mr. Johannesen indicated he was disappointed that NEPC does not notify them of things that might be of interest to the Committee that comes across their desk.

**ITEM 10: Review/Approve Draft Policy Statement/Guidelines in New Format**

Mr. Griffin indicated he will work with Ms. Johnson, Mr. Rauh and Mr. Wisloski and the Treasurer's staff and perhaps a sub-committee to come up with a proposal of how to reformat the guidelines. Mr. Rauh indicated this might be an extension of the Governance Sub-Committee, and that they should see how that progresses.

(Ms. Pearce and Mr. Hooper left the meeting.)

**ITEM 11: Economic and Financial Market Dashboard**

The Committee discussed the list of positives and negatives factors. The Committee discussed the Economic and Financial Market Dashboard and set its 12-month forward expectation for U.S. GDP at 2.0%, and for CPI at 2.5%, the same as last month.

**ITEM 12: Other or New Business**

None.

**ITEM 13: Adjournment**

**The Committee adjourned at 2:20 p.m.**

Respectfully submitted,

Monica Chiren, Clerk