

VERMONT PENSION INVESTMENT COMMITTEE
July 26, 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 MACKEY, VSTRS Representative, term expiring June 30, 2011
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

VPIC Member(s) Absent:

STEVEN JEFFREY, VMERS Representative, 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
THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

VPIC Alternate Member(s) Absent:

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

Also attending:

Steve Wisloski, Deputy State Treasurer
Matt Considine, CFA, Director of Investments
Jaye Pershing Johnson, Assistant Attorney General
Chris Levell and Doug Moseley, NEPC LLC
Robert J. Schoen, Jason R. Vaillancourt and Paul P. Heffernan, Putnam Investments
Jeffrey L. Knight, Putnam Investments – via telephone
Michael Anderson and Bryan Belton, PanAgora
Ignacio Galaz, John Cavalieri, and Alan Eisenberg, PIMCO
Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, July 26, 2011 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 June 28, 2011
Regular Meeting****

Mr. Rauh indicated there would be presentations from Putnam, PanAgora and PIMCO. Mr. Rauh indicated Mr. Mackey would give a short presentation concerning his attendance at the Public Funds Summit East held in Newport in July. Mr. Rauh advised the Committee in September they would discuss whether the metrics developed for the

portfolio were accomplishing what they should. Mr. Rauh indicated the Committee would discuss Mr. Johannesen's concerns regarding the debt ceiling deliberations in Washington later in the day.

The Committee approved the Agenda.

On a motion by Mr. Altemus, seconded by Mr. Mackey, the Committee unanimously approved the minutes of the June 28, 2011 Regular Meeting.

Mr. Mackey provided a brief overview of his attendance at the Public Funds Summit East indicating it was a good conference to attend and providing to the Committee some of the issues that were addressed that would be of interest to the Committee.

There was a brief discussion concerning the legal issues now facing public pensions.

ITEM 2: NEPC Introduction to Risk Parity Presentations

Mr. Moseley handed out an abbreviated version of the *Risk Parity Search Profiles* from the June meeting. The Committee reviewed a comparison and contrast of the three candidates. The Committee was advised what each candidate's approach was. It was discussed the funds for this investment would come from the large cap domestic equities and the international developed equities. It was discussed this would be a 3% position to complement VPIC's existing 5% allocation to AQR's Global Risk Premium product.

ITEM 3: Risk Parity Manager Presentation by Putnam Investments

(Mr. Schoen, Mr. Vaillancourt, Mr. Heffernan and Mr. Knight entered the meeting at this time. Mr. Knight was present via telephone.)

The representatives from Putnam were introduced and presented a brief overview of Putnam. Information was provided concerning the Putnam Total Return product. The representatives from Putnam addressed all the questions and concerns as presented by the Committee.

(The representatives from Putnam left at this time.)

(A recess was taken from 10:17 a.m. to 10:25 a.m.)

(Mr. Anderson and Mr. Belton entered the meeting at this time.)

(Mr. Gaffney was not present at this time.)

ITEM 4: Risk Parity Manager Presentation by PanAgora

The representatives from PanAgora were introduced and presented a brief overview of PanAgora. Information was provided concerning the PanAgora Risk Parity Total Return

product. The representatives from PanAgora addressed all the questions and concerns as presented by the Committee. It was discussed the Committee would be interested in a commingled product.

(The representatives from Pan Agora left at this time.)

(A luncheon recess was taken from 12:15 p.m. to 12:45 p.m.)

(Mr. Gaffney entered the meeting at this time. Mr. Altemus left the meeting at this time.)

(Mr. Galaz, Mr. Cavalieri, and Mr. Eisenberg entered the meeting at this time.)

ITEM 5: Risk Parity Manager Presentation by PIMCO

The representatives from PIMCO were introduced and presented a brief overview of PIMCO. Information was provided concerning the PIMCO Global Multi-Asset Strategy product. The representatives from PIMCO addressed all the questions and concerns as presented by the Committee.

(The representatives from PIMCO left at this time.)

(A recess was taken from 2:00 p.m. to 2:05 p.m.)

ITEM 6: Risk Parity Manager Discussion/Manager Selection/Source of Funds

Mr. Moseley led a discussion concerning the Risk Parity Manager presentations. Topics discussed included the leverage embedded in these products, correlations with AQR, and several GAA products currently owned, overall product volatility, and management fees. There was a discussion concerning the possibility of increasing AQR's allocation to 8% in lieu of hiring a second risk parity manager. The Committee discussed the strategies of the different managers.

(Ms. Pearce left the meeting for a brief time during this item.)

There was a discussion whether the Committee should track these products for another three to six months before a decision was made. The Committee discussed what options were available to it.

On a motion by Ms. Pearce, seconded by Mr. Hooper, the Committee discussed whether to move 3% to the AQR product based on the recommendation of NEPC and based on the presentations today. The funding source of this move would be 1% from PIMCO StocksPLUS, 1% from Acadian International Developed Equity and 1% from Mondrian International Developed Equity. Ms. Pearce, Mr. Johannesen and Mr. Hooper voted aye. Mr. Mackey and Mr. Golonka voted nay. The motion did not pass.

Mr. Rauh indicated this item will be put on the August agenda for further discussion and review and possible action.

ITEM 7: Review/Approve Guideline Amendments

Ms. Johnson reviewed the *Proposed Amendments to Investment Guidelines* with the Committee.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously agreed to accept the changes to the Investment Guidelines as presented, along with Ms. Johnson clarifying the foreign currency paragraph.

(Mr. Johannesen left the meeting at this time.)

ITEM 8: Consider Tabled Motion to Switch Current Position in Mellon Global Alpha I to Mellon Global Expanded Alpha I

On a motion by Mr. Hooper, seconded by Mr. Mackey, the Committee unanimously agreed to take the motion off the table relative to switching from the Mellon Global Alpha I product to the Mellon Global Expanded Alpha I product.

On a motion by Mr. Hooper, seconded by Mr. Mackey, the Committee unanimously agreed to shift its current allocation held in the Mellon Global Alpha I product to the new Mellon Global Expanded Alpha I product.

ITEM 9: Contract Updates and Custody RFP Process

Ms. Johnson provided an update to the Committee concerning the contracts. Mr. Wisloski indicated the Treasurer's Office will handle the RFP for the custodian services and will report back to the Committee once they have a recommendation. It was discussed if any VPIC member wanted to participate in the process they would be welcomed to do so. Mr. Wisloski indicated there might need to be a special VPIC meeting or teleconference in mid to late September in order to approve the custodian.

ITEM 10: Review June 2011 Flash Report

Mr. Moseley reviewed the June 2011 flash report with the Committee. Mr. Moseley indicated the three composites were down 0.6% for the month of June. The fiscal year-to-date returns were as follows: 20.5% for VSTRS, 21.1% for VSERS, 21.0% for VMERS and 21.0% for BERS, in all cases gross of fees. There was a discussion about asset class performance.

ITEM 11: Review of Managers on NEPC's Watch List

Mr. Levell indicated they have already discussed the Mellon update and that there was nothing new to report concerning Acadian. **Mr. Levell indicated there have been**

replacements in Post Advisory and that he will do a write-up concerning that to present at the next meeting.

The Committee briefly discussed the work that has progressed relative to a paperless meeting. **Mr. Golonka and Mr. Considine will work with Mr. Moseley to see how this process can be implemented.**

ITEM 12: Portfolio Structure Work Plan

The Committee discussed increasing the portfolio's exposure to emerging market currency. It was discussed currently the emerging market currency exposure is limited to the 6% emerging market equity allocation with Aberdeen. It was discussed the 3% emerging market debt allocation managed by Wellington is in a currency hedged product. **It was decided that Wellington would be invited to the August meeting to discuss several currency unhedged or partially hedged alternatives that they manage.**

ITEM 13: VPIC Economic/Financial Market Dashboard

The Committee discussed the Economic and Financial Markets Dashboard and set its 12-month forward expectation for U.S. GDP at 2.0%, and for CPI at 3.0%.

ITEM 14: Director of Investments Report

Mr. Considine indicated a stay has been filed with the court until the end of the year concerning the Deutsche Bank re: Tribune stock.

Mr. Considine provided an update of the completion of the buyout of the minority investor by Mondrian in that Mondrian Investment Partners has reached an agreement to purchase the minority interest in the company held by Hellman and Friedman.

Mr. Considine indicated as of the close of market July 18, 2011 the Quality D Liquidity Pool net asset value (NAV) was \$1.0, the Duration Pool NAV was \$0.9748 and the overall Quality D NAV was \$0.9933, a decrease from \$0.9948 last month. Mr. Considine indicated the "underwater" amount increased to \$1.8 million from \$1.7 million. It was indicated the "breakeven" timeframe increased from 12.4 months from 11.7 months previously. Mr. Considine indicated as of July 29th VPIC's asset allocation is projected to be 36.6% equities, 37.2% fixed income, 10.9% alternatives, and 15.2% multi-strategy, compared to target allocations of 36%, 37%, 12% and 15% respectively. VPIC's assets under management decreased to \$3.397 billion as of June 30, 2011. The Committee discussed the raising of the debt ceiling and the effect it would have on Vermont.

Mr. Wisloski advised the Committee enclosed in their VPIC packet was the VPIC Meeting Attendance Report for Fiscal Year 2011, which is required by statute.

Mr. Wisloski advised the Committee that CalPERS reported its fiscal year 2011 total return as 20.7%, compared to 20.9% for VPIC over the same period. It was indicated that based upon report asset allocation VPIC's portfolio was estimated to have one-third less volatility than CalPERS portfolio.

ITEM 15: Other or New Business

None.

ITEM 16: Adjournment

On a motion from Mr. Hooper, seconded by Ms. Pearce, the Committee unanimously voted to adjourn at 4:45 p.m.

Respectfully submitted,

Monica Chiren, Clerk