

**VERMONT PENSION INVESTMENT COMMITTEE**  
**August 23, 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, 2013  
STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

**VPIC Member(s) Absent:**

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

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

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

None

**Also attending:**

Steve Wisloski, Deputy Vermont State Treasurer  
Matt Considine, CFA, Director of Investments  
Bill Griffin, Attorney General's Office  
Richard M. Charlton, Christopher Levell and Doug Moseley, NEPC LLC  
Linda Deliduka, VSTRS Alternate Representative  
Barry Bryant, Consultant City of Burlington  
Maura Neely, David Eikenberry, Isaac Kruschek, Wellington Management Company, LLP  
Monica Chiren, Clerk

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, August 23, 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 July 26, 2011  
Regular Meeting****

**The Committee approved the Agenda.**

**On a motion by Mr. Mackey, seconded by Mr. Johannesen, the Committee unanimously approved the minutes of the July 26, 2011, Regular Meeting.**

**ITEM 2: Market Update/Dashboard**

- **Impact of US Credit Downgrade on VPIC Guidelines/Manager Contract**

Mr. Levell reviewed the *Market Update and Observations* handout with the Committee. Mr. Levell indicated the real test will be when they review the August Flash. Mr. Levell indicated they should weather the storm better than others. There was a discussion concerning the emerging markets.

**Mr. Levell indicated he will provide the country mix of the emerging market mix.**

(Linda Deliduka arrived during this item.)

There was a discussion about treasuries and gold. There was a discussion about currency and the US Dollar. There was a discussion about the debt crisis in Europe. There was a discussion about the redefinition of the CPI. It was discussed S&P's downgrade of the US Treasury debt will not have a material impact on guideline compliance for VPIC's fixed income managers. Mr. Wisloski indicated he reviewed the guidelines with Ms. Pershing Johnson after the downgrade happened. It was discussed the only possible effect of the Treasury downgrade would be on the requirements that managers maintain a certain minimum average credit quality.

**ITEM 3: Select Risk Parity Manager to Complement AQR**

Mr. Moseley reviewed the *Risk Parity Search Summary* handout. Mr. Moseley reviewed the pros and cons of the three candidates (Putnam, PanAgora and PIMCO) that presented at the July meeting. The Committee reviewed a comparison and contrast of the three candidates in association with AQR. It was the recommendation of NEPC that rather than add a second risk parity manager, VPIC should increase AQR's allocation to 8% with the funds coming from large-cap domestic and international developed market equities.

(Mr. Jeffrey left the room for five minutes.)

**On a motion by Ms. Pearce, seconded by Mr. Johannesen, the Committee agreed to move 3% to the AQR product based on the recommendation of NEPC. 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, Mr. Gaffney, and Mr. Altemus voted aye. Mr. Mackey and Mr. Golonka voted nay. The motion passed.**

**ITEM 4: Contract Updates and Custody RFP Update**

Mr. Griffin provided an update to the Committee concerning the contracts. Mr. Wisloski indicated the Treasurer's Office has issued an RFP for the custodian services and that the responses are due by September 1<sup>st</sup>. It was indicated Mr. Mackey would review the responses with the Treasurer's Office. There was a discussion whether a special VPIC meeting or teleconference would be needed in order to approve the custodian. Mr. Wisloski indicated he will keep the Committee updated.

**ITEM 5: iPad Project Update**

Mr. Considine and Mr. Golonka reviewed with the Committee the steps that have been taken to provide the documents to the Committee via a website. Mr. Considine indicated he will send the email with the website address and password to the Committee again. There was a discussion what capabilities would be available at the website and what capabilities might be helpful. Mr. Rauh indicated they will keep this item alive to see how they progress in the future.

**ITEM 6: NEPC Manager Watch List Updates**

Mr. Moseley reviewed the *Overview of NEPC Manager Rating System* with the Committee. Mr. Moseley reviewed the reasons why Mellon Capital Management, Post and Acadian were still on the watch list. Mr. Moseley indicated GAM was now on the watch list due to personnel changes. It was related that Mellon presented to VPIC in June, and that Post is currently scheduled to present at the September VPIC meeting, and that NEPC is going to meet with Acadian for an update during 3Q. It was decided no action would be taken at this time relative to the managers on the watch list. The Committee discussed the reasoning behind having a watch list.

Mr. Considine advised the Committee of his recent visits with Acadian and AQR while he was in Boston.

**ITEM 7: NEPC Introduction to Emerging Market Debt-Currency Exposure**

Mr. Moseley reviewed the *Emerging Markets Local Currency Exposure and Wellington Product Change* memo with the Committee in preparation for the Wellington presentation. Mr. Moseley led the Committee in a discussion and indicated that NEPC recommends that VPIC transition its existing account in Wellington's Emerging Markets Debt product to the Wellington Opportunistic Emerging Markets Debt product in order to gain greater exposure to local market sovereign, corporate and currency exposure.

**ITEM 8: Wellington Emerging Market Debt Presentation**

(Mr. Eikenberry, Ms. Neely and Mr. Kruschek entered the meeting at this time.)

The representatives from Wellington were introduced and presented a brief overview of Wellington. Information was provided concerning the Opportunistic Emerging Markets

Debt product. The representatives from Wellington addressed all the questions and concerns as presented by the Committee.

(Ms. Pearce, Mr. Wisloski and Mr. Griffin were not present for a portion of the presentation.)

**Ms. Neely indicated to the Committee she would get the figures of how half core and half local perform compared to the Opportunistic product. Wellington indicated they will provide information how the transfer will occur and confirm the fees attached to this product.**

(Mr. Eikenberry, Ms. Neely and Mr. Kruschek left the meeting at this time.)

(A luncheon recess was taken from 12:03 p.m. to 1:00 p.m.)

(Mr. Golonka was not present for the afternoon session.)

**ITEM 9: Discussion/Action Regarding Wellington Presentation**

The Committee discussed the Wellington presentation. NEPC recommended that VPIC move its current Emerging Markets Debt investment into the new Opportunistic product in order to increase its exposure to emerging market currencies.

**On a motion by Mr. Mackey, seconded by Mr. Jeffrey, the Committee agreed to move the current Emerging Markets Debt investment with Wellington into the new Wellington's Opportunistic Emerging Markets Debt product. The motion carried.**

**Mr. Johannesen requested that NEPC also keep track of the product they are moving out of for comparison purposes.**

**ITEM 10: Discuss/Approve Brandywine Guideline Amendments**

Mr. Considine reviewed the Brandywine Guidelines. It was the decision of the Committee there would be further clarification received concerning the guidelines, and then they would be reviewed again at the September VPIC meeting.

**ITEM 11: Discuss/Approve BERS Contract Amendment/Renewal**

The Committee discussed the BERS Contract. There was a discussion whether to extend the contract for a short period of time at this time.

**On a motion by Ms. Pearce, seconded by Mr. Altemus, the Committee agreed to extend the BERS contract until December 31, 2011 contingent upon the custodian contract being completed and a cost analysis being done. The motion carried.**

Mr. Rauh indicated they will add the BERS contract to the October agenda.

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

**ITEM 12: NEPC Q2 and Fiscal Year Performance Review**

Mr. Moseley presented the Q2 report. Mr. Moseley briefly went through the Market Review. Mr. Moseley reviewed the information for the Vermont State Employees' Retirement System in detail. NEPC answered all questions posed by the Committee.

(Ms. Pearce and Mr. Wisloski left the room briefly during this item.)

There was a discussion about the risk allocation. NEPC agreed to provide the median numbers. The single strategy hedge fund shadow portfolio was not reviewed.

**ITEM 13: Review July 2011 Flash Report**

Mr. Moseley reviewed the July 2011 flash report with the Committee. Mr. Moseley indicated the three composites were at 0.5% for the month of July. The fiscal year-to-date returns were as follows: 0.5% for VSTRS, 0.5% for VSERS, .05% for VMERS and 0.5% for BERS, in all cases gross of fees. There was a discussion about how many managers VPIC had. There was a discussion about managers being added and dropped, and possibly looking into streamlining the managers.

**Mr. Considine requested an analysis indicating which managers are contributing to risk versus value.**

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

Mr. Wisloski inquired whether the Flash Report contained the core plus. **Mr. Moseley indicated he will send out a revised July Flash Report once he incorporates that information.**

**ITEM 14: Review of Up/Down Market Analysis**

Mr. Considine reviewed the charts he prepared concerning the up and down analysis of the market. There was a discussion whether the charts could be combined into one chart. There was a discussion it looked like things were heading in the right direction.

(There was a break from 3:28 p.m. to 3:35 p.m.)

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

**ITEM 15: Director of Investments Report**

Mr. Considine indicated there has been a downgrade in securities in the PIMCO and Brandywine portfolios. Mr. Considine indicated as the guidelines indicate each of the managers notified him as soon as they found out about the downgrades. Mr. Considine

indicated each manager would like a waiver to hold the securities and as they fall below the dollar limit they would like a “Director approved waiver”, which he has granted.

Mr. Considine reviewed the investment manager total return and alpha attribution as contained in Appendix A-1 through A-4.

Mr. Considine indicated as of the close of market August 14, 2011 the Quality D Liquidity Pool net asset value (NAV) was \$0.9999, the Duration Pool NAV was \$0.9668 and the overall Quality D NAV was \$0.9928, a decrease from \$0.9933 last month. Mr. Considine indicated the “underwater” amount increased to \$1.98 million from \$1.8 million. It was indicated the “breakeven” timeframe increased to 13.4 months from 12.4 months the month previously. Mr. Considine indicated as of July 29<sup>th</sup> VPIC’s asset allocation is projected to be 35.8% equities, 37.7% fixed income, 11.1% alternatives, and 15.3% multi-strategy, compared to target allocations of 36%, 37%, 12% and 15% respectively. VPIC’s assets under management increased to \$3.454 billion as of July 31, 2011.

**ITEM 16: 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 1.0%, and for CPI at 2.5%. Mr. Levell indicated he believed the riots in Europe should be considered a negative factor.

**ITEM 17: Other or New Business**

None.

**ITEM 18: Adjournment**

**On a motion from Mr. Mackey, seconded by Mr. Altemus, the Committee unanimously voted to adjourn at 4:05 p.m.**

Respectfully submitted,

Monica Chiren, Clerk