

VERMONT PENSION INVESTMENT COMMITTEE
August 28, 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
STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Member(s) Absent:

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2016 – via telephone
THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

VPIC Alternate Member(s) Absent:

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2016
KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2016

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer
Matt Considine, CFA, Director of Investments
Katie Green, Investments Manager
Bill Griffin, Attorney General's Office
Richard Charlton, Chris Levell, Doug Moseley, and Sean Ruhmann, NEPC LLC
Jeff Briggs, VSERS Board Member
Linda Deliduka, VSTRS Alternate Board Member
Barry Bryant, City of Burlington
Kathleen Menard, Retired Teacher
Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, August 28, 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 July 24, 2012
Regular Meeting****

The Chairperson, Mr. Rauh briefly reviewed the agenda. Mr. Rauh acknowledged Mr. Altemus' request that they discuss the two articles that were included in the Board packet at some point during the meeting. There were no announcements.

On a motion by Mr. Altemus, seconded by Mr. Mackey, the Committee unanimously approved the minutes of the July 24, 2012, Regular Meeting, as submitted.

ITEM 2: Director of Investments Report and Action Items

- **Custody Transition**
- **Private Equity Funding Source**
- **Example of Terror Nations Reporting**
- **Review July Flash Report**

Mr. Considine indicated to the Committee the liquidation of the Securities Lending portfolio has been completed, but noted they are still waiting for Deutsche Bank to complete paperwork which would allow the final \$830.00 in collateral to be returned.

Mr. Considine indicated last week when the packets were sent out there were no downgrades, but, yesterday, one security held by PIMCO had been downgraded and, since it was below the maximum value for which a Director approval can be granted, PIMCO was given permission to retain the holding. In response to an inquiry Mr. Considine indicated he will research downgrades and the ratings utilized.

Mr. Considine indicated to the Committee the assets under management were up approximately 1.7% to \$3.49 billion as of July 31, 2012. Mr. Considine indicated the total assets are 3.2% below the “high water” mark. Mr. Considine reviewed with the Committee the portfolio asset allocation update indicating as of August 31, 2012 VPIC’s portfolio allocation by major asset class is projected to be 32.9% equities, 35.7% fixed income, 11.3% alternatives and 20.0% multi-strategy, compared to target allocations of 33.5%, 35%, 11.5% and 20% respectively.

Mr. Considine indicated to the Committee the annual attendance and educational report for Fiscal Year 2012 has been submitted, and indicated the final version included the conference attendance as Mr. Hooper requested.

Mr. Considine indicated the custody transition has gone quite well and that they are very happy with the new team.

(Ms. Pearce arrived during this agenda item.)

Mr. Considine inquired of the Committee what source the private equity funding should come from. Mr. Considine indicated an option would be moving index products into the equity sleeve.

On a motion by Mr. Rauh, seconded by Mr. Mackey, the Committee unanimously reaffirmed the Committee’s original decision to obtain the funds from equities following NEPC’s recommendation and to allow Mr. Considine the discretion to decide the specific source of funds, with a focus being from index funds.

Mr. Considine reviewed Terror Nation reporting with the Committee. Mr. Considine indicated there is a huge report that is provided monthly, and he would be happy to provide it to anyone who would like to see it.

The Committee reviewed the Up/Down Analysis report. There was a discussion about the benchmark that is used. There was a discussion how the portfolio strategy will behave in up and down market environments.

Ms. Green reviewed with the Committee the Fee Study report and answered all questions posed by the Committee members. Ms. Green reviewed with the Committee the *Average Alpha – Price Performance Review* handout. Mr. Rauh indicated it would be interesting to revisit this in the next quarter, also.

Ms. Green reviewed with the Committee the *Socially Responsible Fund Analysis*. The Committee further discussed this item. Mr. Mackey thanked Ms. Green for the preparation of this material in response to his inquiry. Mr. Considine indicated they will research what is excluded from typical socially responsible index funds.

Mr. Moseley indicated to the Committee the July flash report would be provided after lunch.

ITEM 3: Discussion Items/Updates

- **Vermont State Treasurer's Update**
- **BERS Meeting Update**
- **Contract Updates**
- **2013 VPIC Meeting Schedule**
- **NEPC Investment Manager Watch List Update**

Ms. Pearce indicated the custody transition went smoothly. Ms. Pearce indicated they will be using the new VPAS system for the first time with the 2012 actuarial valuation. Ms. Pearce indicated it looks like it will go well. There was a brief discussion about the recent revisions to GASB and Moody's reporting.

Mr. Rauh indicated the meeting with the Burlington Employees Retirement System went very well. Mr. Bryant indicated he advised Burlington to extend the contract for one year from October and then they would make a decision early next year if they desired a five-year contract. Mr. Wisloski indicated the Burlington contract will expire October 31st. Mr. Rauh indicated they will put this item on the next agenda for follow up.

Mr. Griffin provided the update on the HarbourVest contract.

Mr. Rauh reviewed with the Committee the 2013 meeting schedule. Mr. Rauh indicated this schedule seems to be working so they would not change it. Ms. Pearce indicated she will look into the parking issue while legislature is in session.

Mr. Moseley indicated Post Advisory was on NEPC's managers watch list because of recent personnel changes.

(A recess was taken from 10:00 a.m. to 10:10 a.m.)

(Mr. Ruhmann from NEPC arrived during the break.)

ITEM 4: Real Estate Allocation

- **Current Strategy**
- **Role of Real Estate in VPIC Portfolio**
- **Options to Consider**

Mr. Ruhmann introduced himself to the Committee and provided a brief background of his experience. Mr. Ruhmann provided an overview of institutional quality real estate. Mr. Ruhmann reviewed the five buckets of real estate which included core, value-add, opportunistic, real estate debt and REITs. Mr. Ruhmann provided the Committee a real estate market update. Mr. Ruhmann reviewed with the Committee the real estate portfolio construction and the real estate policy-allocation impact. NEPC answered all the questions posed by the Committee. The Committee discussed the different mixes NEPC presented. It was decided NEPC would present cleaner options to be discussed at the next meeting.

(A luncheon recess was taken at 12:30 p.m. to 1:05 p.m.)

(Mr. Ruhmann and Mr. Gaffney were not present for the afternoon session.)

ITEM 5: Q2 Portfolio and Investment Manager Performance Review

Mr. Moseley provided the Committee the Q2 Portfolio and Investment Manager Performance Review, and went into more detail with the Teachers' portfolio. NEPC answered the questions posed by the Committee.

Mr. Moseley reviewed with the Committee the July Flash Report.

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

ITEM 6: Economic and Financial Market Dashboard

The Committee discussed the economic and financial market dashboard. The Committee discussed the positive and negative factors on the economic and financial market dashboard. The Committee reviewed the charts on the dashboard.

ITEM 7: Other or New Business

None.

ITEM 8: Adjournment

The Chair, Mr. Rauh, declared the meeting adjourned at 2:44 p.m.

Respectfully submitted,

Monica Chiren, Clerk