

**VERMONT PENSION INVESTMENT COMMITTEE**  
**September 27, 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

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

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

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

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

Jaye Pershing Johnson, Attorney General's Office

Christopher Levell and Doug Moseley, NEPC LLC

Linda Deliduka, VSTRS Alternate Representative

Hugh Costello, Melinda Newman and Bill Matthews, Post Advisory Group

Kingman Penniman and Justin Monteith, KDP Asset Management, Inc.

Monica Chiren, Clerk

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, September 27, 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 August 23, 2011  
Regular Meeting****

**The Committee approved the Agenda with the addition of reviewing the August Flash Report.**

Mr. Hooper announced that he was invited to a conference representing Burlington, and that Burlington would cover the costs. He indicated he would provide a copy of the invitation to Ms. Johnson.

**On a motion by Mr. Jeffrey, seconded by Mr. Mackey, the Committee unanimously approved the minutes of the August 23, 2011, Regular Meeting, as amended.**

**ITEM 2: Discussion Items/Updates**

- **Contract Updates**
- **NEPC Manager Watch List Updates: Mellon, Acadian, Post Advisory and GAM**
- **Flash Report**

Ms. Johnson advised the Committee the contracts have been signed with Mellon, Allianz and Wellington.

Mr. Moseley advised the Committee Mellon, Acadian, Post Advisory and GAM still remain on the watch list. Mr. Moseley indicated Post will be here this afternoon, and that they will discuss the other three firms in more detail during the Manager Review. It was indicated the events of August will be discussed further later on in the meeting.

Mr. Moseley reviewed the August 2011 Flash Report with the Committee. Mr. Moseley indicated the three composites were at (3.3)% for the month of August. The year-to-date returns were as follows: 2.3% for VSTRS, 2.4% for VSERS, 2.4% for VMERS and 2.4% for BERS, in all cases gross of fees.

Mr. Considine advised the Committee about the outcome of his meeting with Allianz. The Committee discussed Allianz's performance during past and present markets. There was a discussion about the sovereign debt.

**ITEM 3: Action Items**

- **Discuss/Approve Brandywine Guideline Amendment**
- **Discuss/Approve BERS Contract Amendment/Renewal**
- **Discuss/Approve Custodian Selection**

**Ms. Pearce made a motion, seconded by Mr. Mackey, that the Committee approve the proposed changes to the Brandywine Guidelines with the clarification provided.**

**After further discussion by the Committee Ms. Pearce amended her motion to be that the Committee approve the proposed changes to the Brandywine Guidelines as long as they are conceptually consistent with what was discussed, and to delegate staff to work out the final details with Brandywine. Mr. Johannesen seconded the motion. The motion passed.**

**On a motion by Mr. Mackey, seconded by Ms. Pearce, the Committee agreed to extend the Burlington contract to October 31, 2012, and that the contract would include the new municipal investment procedure, the slight increase in fees, and the updated contact information. Mr. Hooper abstained from the vote. The motion passed.**

**On motion by Mr. Altemus, seconded by Mr. Johannesen, the Committee voted unanimously to enter Executive Session at 9:30 a.m. pursuant to Title 1, § 313 for the purpose of discussing contracts.**

The Committee exited Executive Session at 10:05 a.m.

**On a motion by Mr. Hooper, seconded by Mr. Altemus, the Committee unanimously agreed to authorize the Treasurer to negotiate and adopt a contract for custodian services with JP Morgan, with a transition period to be worked out by staff.**

Mr. Mackey disclosed his family relations that worked for both State Street and JP Morgan.

**On a motion by Mr. Jeffrey, seconded by Mr. Altemus, the Committee unanimously agreed to authorize the Treasurer to extend the custodian and other services contract with State Street until such time as the contract with JP Morgan was in place, and such extension is not to go past June 30, 2012.**

**ITEM 4:      Comprehensive Manager Reviews/Active Risk**

Mr. Moseley and Mr. Levell led the Committee through the *Comprehensive Manager Review*. The Committee discussed the manager's risk and reward profile and the manager's contribution to the total portfolio.

**Mr. Moseley indicated he would double-check the numbers for PIMCO All Asset on page 24 of the *Manager Risk & Return Charts* handout.**

Mr. Moseley and Mr. Levell reviewed the *Active Risk Budgeting* document with the Committee. The Committee assessed the risk reduction benefits of the beta and alpha diversification in the portfolio. The Committee also discussed managers with high alpha correlations. The Committee discussed small cap growth.

(A luncheon recess was taken from 12:10 p.m. to 12:45 p.m.)

(Ms. Johnson and Mr. Golonka were not present at this time.)

**ITEM 5:      NEPC Introduction to Presentations**

Mr. Moseley advised the Committee the two managers that were presenting today were Post Advisory and KDP. Mr. Moseley indicated Post Advisory was on the watch list and

they would address the personnel changes. Mr. Moseley indicated KDP was not on the watch list, but that they would address their underperformance.

(Mr. Costello, Ms. Newman and Mr. Matthews entered the meeting at this time.)

**ITEM 6: High Yield Manager Presentation by Post Advisory Group**

The representatives from Post Advisory Group were introduced and presented a brief overview of their firm. Mr. Costello addressed the recent personnel changes. Ms. Newman discussed the philosophy and performance of Post.

(Ms. Johnson entered the meeting at 1:30 p.m.)

The representatives from Post Advisory Group addressed all the questions and concerns as presented by the Committee.

(Mr. Costello, Ms. Newman and Mr. Matthews left the meeting at this time.)

(A recess was taken from 1:55 p.m. to 2:20 p.m.)

**ITEM 7: Portfolio Structure Work Plan – Illiquid Investment Options (Real Estate, Private Equity/Debt)**

The Committee briefly discussed this item, but decided to postpone further discussion of this item until the October meeting due to the time available.

(Mr. Penniman and Mr. Monteith entered the meeting at this time.)

**ITEM 8: High Yield Manager Presentation by KDP**

The representatives from KDP were introduced and presented a brief overview of KDP. Mr. Penniman discussed the performance of KDP. The representatives from KDP addressed all the questions and concerns as presented by the Committee. Mr. Penniman discussed his opinion of the Greece, Spain and Italy issues.

(Ms. Paul left the meeting at 3:01 p.m.)

(Mr. Penniman, and Mr. Monteith left the meeting at this time.)

(Ms. Deliduka left the meeting at this time.)

(A recess was taken from 3:45 p.m. to 3:50 p.m.)

**ITEM 9: Discuss Presentations of Post Advisory Group and KDP**

Mr. Moseley and Mr. Levell reviewed the presentations with the Committee. The Committee decided there would be no action taken relative to either manager at this time.

**ITEM 10: VPIC Economic/Financial Market Dashboard**

The Committee discussed the Economic and Financial Market Dashboard and set its 12-month forward expectation for U.S. GDP at 1.0%, and for CPI at 2.5%. The Committee discussed the issues in Europe and the US debt crisis.

(Mr. Hooper left the meeting at 4:20 p.m.)

**ITEM 11: Director of Investments Report**

- Up-Market/Down-Market Capture Reports

Mr. Considine indicated that he would continue to follow-up with the downgrade in securities in the PIMCO portfolio. Mr. Considine indicated they have already dealt with Brandywine and the proposed changes to the guidelines.

Mr. Considine indicated as of the close of market September 19, 2011 the Quality D Liquidity Pool net asset value (NAV) was \$1.0000, the Duration Pool NAV was \$0.9592 and the overall Quality D NAV was \$0.9928, unchanged from last month. Mr. Considine indicated the Liquidity Pool's percentage increased to 82.3% from 78.4% of VPIC's invested amounts, and the Duration Pool decreased to 17.7% from 21.6%, compared to August. Mr. Considine indicated the "underwater" amount increased to \$2.2 million from \$1.98 million. It was indicated the "breakeven" timeframe increased to 18.6 months from 13.4 months the month previous. Mr. Considine indicated as of September 30<sup>th</sup> VPIC's asset allocation is projected to be 33.3% equities, 37.2% fixed income, 11.4% alternatives, and 18.1% multi-strategy, compared to target allocations of 33%, 37%, 12% and 18%, respectively. VPIC's assets under management decreased to \$3.34 billion as of August 31, 2011.

The Committee discussed the mid-cap equity allocation.

**Mr. Mackey made a motion, seconded by Mr. Johannesen, that the Committee agree to allocate 0.5% to SSgA S&P 400 Mid-Cap Index and to reduce Champlain Partners to 1.5%. After a friendly amendment by Mr. Jeffrey the Committee agreed to allocate 0.5% to SSgA S&P 400 Mid-Cap Index, and to keep Champlain Partners at 2.0% and to reduce Real Estate to 4.5%. The motion passed.**

Mr. Considine reviewed the charts he prepared concerning the up and down capture analysis of the VPIC portfolio. The Committee discussed how it would like to see the report presented. Mr. Considine indicated he would continue to explore different ways to present this information.

**ITEM 12: Other or New Business**

None.

**ITEM 13: Adjournment**

**On a motion from Mr. Jeffrey, seconded by Ms. Pearce, the Committee unanimously voted to adjourn at 4:50 p.m.**

Respectfully submitted,

Monica Chiren, Clerk