

# VERMONT PENSION AND INVESTMENT COMMITTEE

August 17, 2005

## **Members present:**

JEB SPAULDING, Chairman, VT State Treasurer  
WARREN WHITNEY, Vice-Chairman, VSEA member (term expiring September, 2006)  
LINDA McINTIRE, Commissioner of Human Resources  
ROBERT HOOPER, VSEA member (term expiring September 2006)  
CATHERINE SIMPSON, VSEA Alternate (term expiring September 2005) - **arrived later in the meeting**  
DICK JOHANNESSEN, VSERS Governor's Delegate  
STEVE GOLD, representing JAMES REARDON, Commissioner of Finance & Management – **arrived later in the meeting**  
  
STEVEN JEFFREY, Employee Representative (term expiring July 1, 2007)  
DAVID LEWIS, Employer Representative (term expiring July 1, 2006) – **arrived later in the meeting**  
JOSEPH MACKEY, Active No. 29334 (term expiring July 1, 2009)  
JAY KAPLAN, Association of Retired Teachers of Vermont, (term expiring July 1, 2008)  
JON HARRIS, Active No. 25669 (term expiring July 1, 2007)  
THOMAS CANDON, representing Commissioner of BISHCA  
VAUGHN ALTEMUS, representing Commissioner of Education

## **Members absent:**

W. JOHN MITCHELL, II, Employee Representative (term expiring July 1, 2008)  
MARIE DUQUETTE, VMERS Governor's delegate  
JANICE ABAIR, Retired Vermont State Employees' Association  
WILLIAM HARKNESS, VSEA member (term expiring September 2005)

## **Also attending:**

Donna Holden, Clerk  
David Minot, Director of Finance and Investments  
Bill Rice, Director of Law and Policy  
Bill Griffin, Chief Assistant Attorney General  
Dick Charlton, Kevin Kondry, and Ellen Griggs, New England Pension Consultant  
David Grundy, Association of Retired Teachers of Vermont  
Stanley Amadon, Association of Retired Teachers of Vermont

## **CALL TO ORDER:**

The Chairperson, Jeb Spaulding, called the meeting to order at 8:13 a.m. in the Montpelier Room at the Capitol Plaza, 100 State Street, Montpelier, VT. Mr. Spaulding welcomed members, guests, and staff.

### **ITEM 1:      **Board Action Items****

- A.      Approval of Minutes – July 12, 2005 regular meeting

**On a motion by Mr. Altemus seconded by Mr. Jeffrey, the Committee unanimously voted to approve the minutes of the July 12, 2005 meeting, as corrected.**

*Mr. Gold arrived during the next item.*

- B.      Continuation of Contracting Issues re; Large Cap Implementation

Mr. Minot reviewed his 8/17/05 memo regarding the status of large cap contracting issues for SSgA, PIMCO StocksPLUS, and T. Rowe Price.

**Mr. Johannesen made a motion seconded by Mr. Whitney, to approve entering into an SSgA separately managed account contract.**

**Mr. Whitney made a motion seconded by Mr. Kaplan, to amend the main motion to add that the transition be at the weightings previously approved by the Boards. Motion to amend unanimously approved.**

**The main motion, as amended, was approved.**

**Mr. Candon made a motion seconded by Mr. Johannesen, to approve entering into a PIMCO StocksPLUS separately managed account contract, and associated commodity agreement documents, pursuant to the appropriate administrative approvals, with the transition weighted as previously approved by the Boards.**

**Mr. Kaplan made a motion seconded by Mr. Mackey, to amend the main motion to add that any member who wanted to see the final PIMCO contract prior to the Chair's signature would be sent the document electronically upon request.**

**Mr. Whitney made a motion seconded by Mr. Kaplan, to call the question. Motion passed.**

**The amendment to the main motion failed, 6-6.**

**The main motion was approved.**

The Committee discussed and agreed, if approved, the Policy Committee could work on development of a contract procedures policy.

**Mr. Jeffrey made a motion seconded by Mr. Harris, to approve entering into a core-enhanced contract with T. Rowe Price, and the transition weighted as previously approved by the Boards. Motion passed.**

C. VSERS Real Estate Contracts

The Committee discussed general contracting procedures with Mr. Griffin who distributed a four-page outline of the proposed (Transwestern) contract language.

**Mr. Hooper made a motion seconded by Mr. Whitney, to approve entering into subscription agreements with REFF America, and Transwestern, for the purpose of real estate contracts. Motion passed.**

D. VEDA/VOF – Letter of Intent/Conditions

Mr. Minot reviewed the VEDA/VOF investment plan. He explained pre-VPIC the VSERS approved an investment of \$500K, subject to 12 conditions; however, the Vermont Opportunity Fund was seeking a letter of intent from the Board without the conditions listed.

The Committee discussed and unanimously agreed not to accept the VOF request to alter the prior approval with conditions. The Chair felt there was no formal VPIC action required.

E. PruTimber Assignment of Contract Control

**On a motion by Mr. Candon seconded by Mr. Altemus, the Committee voted to approve transfer of Prudential's interest to Hancock Natural Resources Group.**

*Mr. Lewis arrived during the next item.*

F. Assignment of Authority to Director of Finance & Investments

**Mr. Jeffrey made a motion seconded by Mr. Gold, to assign authority to the Director of Finance & Investments to perform the same functions to transact business for the VPIC as assigned for the individual retirement Boards.**

**Mr. Hooper made a motion seconded by Mr. Mackey, to amend the main motion to add subject to revision at any time pursuant to Committee recommendation and/or action.**

**Mr. Kaplan made a motion seconded by Mr. Hooper, to table action on this item until the Policy Sub-Committee met and creates a policy regarding authority. Motion passed.**

G. Committee on Committee's Recommendations and Appointments

The Committee reviewed the August 10, 2005 meeting notes.

**On a motion by Mr. Kaplan seconded by Mr. Harris, the Committee voted to create 3 ongoing sub-committees; Executive Committee, Policy Committee, and Investment/Search Committee, with assignments to be made by the Board Chairs.**

The Committee agreed that all members of the VPIC would be notified of sub-committee meetings. Mr. Rice will verify whether the sub-committee meetings would require public warnings.

**ITEM 2: Board Discussion Items**

- A. Asset Allocations, Investment Guidelines, Manager Line-up Review
- B. Investment Consultant Q2/2005 Reports

Mr. Charlton provided a state of the economy perspective. The Committee reviewed the individual plan's current and target asset allocations, manager summaries, and plan performance.

**VMERS:**

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the second quarter 2005 performance. They reported the market value of the fund balance at approximately \$245.7 million and a gross quarterly return of 2.4%, an out performance of the 2.2% median public fund. The one-year return was 8.1% vs. the median public fund at 9.0%, three-year return 8.2% vs. the median public fund at 9.3% and a five-year return of 4.6% vs. 3.8%.

**VSERS:**

Mr. Charlton, Mr. Kondry, and Ms. Griggs reviewed the second quarter 2005 performance. They reported the market value of the fund balance at approximately \$1.117 billion and a gross quarterly

return of 1.8%, an under performance of the 2.2% median public fund. The one-year return was 8.9% vs. the median public fund at 9.0%, three-year return 9.6% vs. the median public fund at 9.3% and a five-year return of 3.0% vs. 3.8%.

**VSTRS:**

Mr. Charlton, Ms. Griggs and Mr. Kondry reviewed the second quarter 2005 performance. They reported the market value of the fund balance at approximately \$1.331 billion and a gross quarterly return of 1.8%, an under performance of the 2.2% median public fund. The one-year return was 10.1% vs. the median public fund at 9.0%, three-year return 10.4% vs. the median public fund at 9.3% and a five-year return of 4.8% vs. 3.8%.

*Mr. Gold left the meeting.*

*Catherine Simpson arrived at the meeting.*

C. Legal/Contract Issues Surfacing With New Investment Products

Issues were discussed during previous items.

D. VEDA/VOF Investment Interest

No discussion or action was taken on this item.

**ITEM 3: Committee Education**

A. NEPC Large Cap Vision and Strategy

The Committee reviewed and discussed the New England Pension Consultant's 8/15/05 *Large Cap Space Structuring* book distributed.

B. Large Cap Satellite Manager Proposal: Bridgewater

James L. Haskel, Director Portfolio Strategy, and Joel P. Whidden, Director Fund Marketing, appeared before the Committee.

The consensus of the Committee was interest in moving in the direction of the product described, contingent upon further information.

**ITEM 4: Any Member NEW Business or OTHER Business to Come Before the Committee**

**On a motion by Mr. Jeffrey seconded by Mr. Harris, the Committee voted to initiate an Investment Consultant RFP.**

**ITEM 5: Adjournment**

**On a motion by Mr. Jeffrey seconded by Mr. Harris, the Committee unanimously voted to adjourn at 3:20 p.m. until August 18, 2005 at 8:00 a.m.**

**VERMONT PENSION AND INVESTMENT COMMITTEE**  
August 18, 2005

**Members present:**

JEB SPAULDING, Chairman, VT State Treasurer  
WARREN WHITNEY, Vice-Chairman, VSEA member (term expiring September, 2006)  
CATHERINE SIMPSON, VSEA Alternate (term expiring September 2005)  
LINDA McINTIRE, Commissioner of Human Resources  
DICK JOHANNESSEN, VSERS Governor's Delegate  
JANICE ABAIR, Retired Vermont State Employees' Association – **arrived later in the meeting**  
MARIE DUQUETTE, VMERS Governor's delegate  
JOSEPH MACKEY, Active No. 29334 (term expiring July 1, 2009)  
JAY KAPLAN, Association of Retired Teachers of Vermont, (term expiring July 1, 2008)  
VAUGHN ALTEMUS, representing Commissioner of Education

**Members absent:**

JAMES REARDON, Commissioner of Finance & Management  
ROBERT HOOPER, VSEA member (term expiring September 2006)  
WILLIAM HARKNESS, VSEA member (term expiring September 2005)  
STEVEN JEFFREY, Employee Representative (term expiring July 1, 2007)  
DAVID LEWIS, Employer Representative (term expiring July 1, 2006)  
W. JOHN MITCHELL, II, Employee Representative (term expiring July 1, 2008)  
THOMAS CANDON, representing Commissioner of BISHCA  
JON HARRIS, Active No. 25669 (term expiring July 1, 2007)

**Also attending:**

Donna Holden, Clerk  
David Minot, Director of Finance and Investments  
Dick Charlton, Kevin Kondry, and Ellen Griggs, New England Pension Consultant  
Larry Lecours, Association of Retired Teachers of Vermont

**CALL TO ORDER:**

The Chairperson, Jeb Spaulding, called the meeting to order at 8:10 a.m. in the Montpelier Room at the Capitol Plaza, 100 State Street, Montpelier, VT.

**ITEM 1:      **NEPC Small Cap Investment Manager Review****

The Committee reviewed and discussed the New England Pension Consultant's 8/18/05 *Existing Small Cap Manager Review* book distributed.

*Ms. Abair arrived during the next item.*

**Wellington Management Co. – Small Cap Value:** Stephen O'Brien, Portfolio Manager and Nancy Welling, Director Public Funds Business Development appeared before the Committee. The small cap value equity portfolio market value reported was approximately \$85.9 million with a Q2/2005 return of

7.6% compared to the Russell 2000 Value Index of 5.1%. One-year performance was 21.0% vs. the benchmark of 14.4%. The manager's inception date was September 2003, therefore, three and five-year performance rates were not available.

**Rothschild Asset Management – Small/Mid Cap Value:** T. Radey Johnson, CEO and Small/Mid Cap Team Leader, and Mary Jane Cullinan, Marketing Director, appeared before the Committee. The small/mid cap value equity portfolio market value reported was approximately \$70.2 million with a Q2/2005 return of 3.5% compared to the Russell 2500 Value Index of 5.3%. One-year performance was 14.4% vs. the benchmark of 17.4%; three-year return 14.4% vs. the benchmark of 16.1%, and a five-year of 17.2% vs. 15.8% for the benchmark.

**Lazard Asset Management – Small Cap Core:** Daniel Breslin, Senior Vice President, and Tom Franzese, Director, appeared before the Board. The small cap core equity portfolio market value reported was approximately \$26.1 million with a Q2/2005 return of 2.0% compared to the Russell 2000 Index of 4.3%, 1-year performance was 9.0% vs. the benchmark of 9.4%; three-year return 11.4% vs. the benchmark of 12.8%, and a five-year of 12.3% vs. 5.7% for the benchmark.

**Longwood Investment Advisors – Small Cap Growth:** Robert A. Davidson, CIO and Managing Director, and Sara Leggat, Research Analyst, appeared before the Board. The small cap growth equity portfolio market value was approximately \$67.6 million with a Q2/05 return of 3.9% vs. the Russell 2000 Growth Index of 3.5%. One-year performance was 21.0% vs. 14.4% for the benchmark. The manager's inception date was during the first quarter of 2004, therefore, three and five-year performance rates were not available.

*Linda McIntire left the meeting.*

**J & W Seligman – Small Cap Growth:** Dorothy Buckley, Managing Director Institutional Client Services and Rick Ruvkun, Managing Director and Portfolio Manager, appeared before the Board. The small cap growth portfolio market value was reported at approximately \$76.3 million with a Q2/2005 return of 1.5% vs. the Russell 2000 Growth index of 3.5%; one-year return was 2.5% vs. the benchmark of 4.3%, three-year return 8.2% vs. the benchmark of 11.4%, and five-year return (3.3%) vs. (4.5%).

**ITEM 2: Board Discussion/Action Items**

A. NEPC Observations/Recommendations

The Committee reviewed and discussed the managers, performance, etc., and consultant recommendation to split the total small cap asset allocation 50% to Longwood, and 50% to Wellington.

B. Possible Committee Action

**Mr. Whitney made a motion seconded by Mr. Kaplan, to retain three categories of small cap investments with allocations to Longwood (growth), Wellington (value), and Lazard (core).**

**Mr. Kaplan made a motion seconded by Mr. Whitney to call the question. Motion failed.**

Mr. Whitney clarified the intent of his motion included that funds with value managers would stay in the value class, and funds in the small cap growth sector would go with the growth manager.

**Mr. Spaulding made a motion seconded by Mr. Altemus, to amend the main motion to split the total current small cap allocations between Longwood and Wellington, and initiate an RFP for a mid or SMID cap manager.**

**Mr. Spaulding withdrew his motion. Mr. Altemus withdrew his second.**

Ms. Griggs suggested the Committee move a portion of the funds into a mid-cap index fund with the fund's custodian (SSgA), and decide at a later date what further course of action is desirable.

**Ms. Duquette made a motion seconded by Mr. Mackey, to revise VPIC's current small cap allocation to retain Longwood and Wellington, and move a portion of the assets to a Russell 2500 mid cap index fund at SSgA, with the transition of the total asset to be divided by one-thirds each. Motion passed unanimously.**

**ITEM 3: Any Member NEW or OTHER Business to Come Before the Committee**

None.

**NEXT MEETING**

October 11, 2005 – Education/Business meeting.

November 28 & 29, 2005 – Quarterly Investment meeting.

**ITEM 4: Adjournment**

**On a motion by Mr. Kaplan seconded by Mr. Johannesen, the Committee unanimously voted to adjourn at 3:45 p.m.**

Respectfully submitted,

Donna Holden, Clerk