

VERMONT PENSION INVESTMENT COMMITTEE

February 15, 2006

Members Present:

JEB SPAULDING, Chairman, VT State Treasurer
WARREN WHITNEY, Vice-Chairman, VSEA member (term expiring September, 2006)
LINDA McINTIRE, VSERS Commissioner of Human Resources
JAMES REARDON, VSERS Commissioner of Finance & Management
DICK JOHANNESSEN, VSERS Governor's Delegate
ROBERT HOOPER, VSEA member (term expiring September 2006)
MARIE DUQUETTE, VMERS Governor's delegate
JON HARRIS, VSTRS Active No. 25669 (term expiring July 1, 2007)
VAUGHN ALTEMUS, VSTRS representing Commissioner of Education
THOMAS CANDON, VSTRS representing Commissioner of BISHCA
JOSEPH MACKEY, VSTRS Active No. 29334 (term expiring July 1, 2009)
JAY KAPLAN, VSTSR Association of Retired Teachers of Vermont, (term expiring July 1, 2008)

Members Absent:

STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2007)
W. JOHN MITCHELL, II, VMERS Employee Representative (term expiring July 1, 2008)
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2006)
WILLIAM HARKNESS, VSEA member (term expiring September 2007)
JOE HEALY, VSERS Retired Vermont State Employees' Association

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Ellen Griggs, Kevin Kondry, Dick Charlton, New England Pension Consultants
Bill Rice, Treasurer's Office Law & Policy Director

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the meeting to order at 8:10 a.m. on Wednesday, February 15, 2006, which was held in the 4th Floor Conference Room at 109 State Street, Montpelier, VT.

ITEM 1: Investment Consultant Quarterly Review

Ms. Griggs briefed the Committee on recent quarterly activity including large cap, small cap, global bonds, and international equity management transitions to new accounts, changes in management at a specific real estate manager, etc. Mr. Charlton provided a state of the economy perspective. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The fourth quarter 2005 performance reported a market value fund balance at approximately \$1.378 billion and a gross quarterly return of 1.9%, an under performance of the 2.0% median public fund. The one-year return was 5.6% vs. the median public fund at 6.9%, three-year return 13.7% vs. the median public fund at 13.3% and a five-year return of 5.5% vs. 5.1%.

VSERS:

The fourth quarter 2005 performance reported a market value fund balance at approximately \$1.174 billion and a gross quarterly return of 2.2%, an out performance of the 2.0% median public fund. The one-year return was 6.6% vs. the median public fund at 6.9%, three-year return 13.5% vs. the median public fund at 13.3% and a five-year return of 4.8% vs. 5.1%.

VMERS:

The fourth quarter 2005 performance reported a market value fund balance at approximately \$263.9 million and a gross quarterly return of 2.6%, an out performance of the 2.0% median public fund. The one-year return was 7.8% vs. the median public fund at 6.9%, three-year return 12.8% vs. the median public fund at 13.3% and a five-year return of 5.6% vs. 5.1%.

Mr. Charlton provided an educational presentation and distributed a booklet dated February 15, 2006, entitled *Non-Traditional Asset Class Diversification*.

ITEM 2: Committee Action Items

A. Approve the Minutes of: November 29 & 30, 2005 and December 15, 2005

On a motion by Mr. Kaplan seconded by Mr. Whitney, the Committee voted to approve the minutes of November 29 & 30, 2005, as submitted. Mr. Reardon abstained.

On a motion by Mr. Kaplan seconded by Mr. Whitney, the Committee unanimously voted to approve the minutes of December 15, 2005, as submitted.

B. Executive Subcommittee Report

□ Subcommittee Selection and Composition

Mr. Spaulding reviewed the Executive Subcommittee minutes of December 21, 2006. The Committee reviewed and discussed the proposed *Subcommittee Selection and Composition Policy # 1-006*.

Mr. Harris made a motion seconded by Ms. Duquette, to accept #1 of the proposed policy.

Mr. Whitney made a motion seconded by Mr. Reardon, to amend the main motion to discuss policy #1-006 in its entirety. *Motion passed.*

The Board discussed and agreed to #1 of the policy.

Mr. Hooper made a motion seconded by Ms. Duquette, to amend the ending of the #2, #3, and #4 of the policy to read ...with designated seats to be filled by a process agreed to by each of the full Boards, and in the event a Board is unable to reach consensus on representation the seat(s) shall be appointed by the Chair.

Upon discussion, **Mr. Hooper withdrew his motion and Ms. Duquette withdrew her second.**

Mr. Kaplan made a motion seconded by Mr. Whitney, to amend the ending of #2, #3, and #4 of the policy to read ...elected by each Board or appointed by the Chair in the event of a deadlock. *Motion passed.*

Item #5 was discussed and by consensus the Committee agreed to change the word “however” to and, and to removed the end of the last sentence after “etc.”

Discussion ensued regarding policy #7-005 and the number of recommendations to be brought before the VPIC.

Mr. Hooper made a motion seconded by Mr. Altemus, to amend policy #7-005 to add “... a minimum of three...” to item #5.

Mr. Hooper moved to lay the motion on the table until the end of the next VPIC meeting. *Motion passed.*

On a motion by Ms. Duquette seconded by Mr. Harris, the Committee unanimously voted to adopt the Policy #1-006, as corrected.

C. Investment/Search Subcommittee Report

□ Investment Guideline Approval

On a motion by Mr. Whitney seconded by Mr. Kaplan, the Committee unanimously voted to approve the all sections of *Statement of Investment Policy Guidelines* dated February 2006, as submitted.

□ VSTRS High Yield 5% Allocation Recommendation

On a motion by Mr. Whitney seconded by Mr. Kaplan, the Committee unanimously voted to recommend a VSTRS asset allocation modification to include a 5% High Yield allotment.

On a motion by Mr. Candon seconded by Mr. Whitney, the Committee unanimously voted to approve funding of the high yield allocation from the current core fixed income space, changing core fixed income from 2% to 18%, and high yield from 0% to 5%.

□ GAA Investment Recommendation

On a motion by Mr. Whitney seconded by Mr. Hooper, the Committee unanimously voted to recommend a VSTRS, VSERS, and VMERS 10% asset allocation amendment to add a Global Asset Allocation with investments of 50% to PIMCO and 50% to Mellon, and funded by 5% from equities and 5% from global fixed income.

□ North Atlantic Venture Fund Update

Mr. Minot briefed the Committee on the NAVF status as presented to the Investment/Search subcommittee on February 14, 2006, including a 2007 closeout return of \$6.6 million in addition to prior distributions of approximately \$1.7 million.

ITEM 3: Committee Discussion Items

- A. Director of Finance and Investments Report
- ❑ Contract and RFP Update
 - ❑ State Street Transition Report
 - ❑ Commission Recapture Update

Mr. Minot reviewed his written report.

ITEM 4: Other Business

The VPIC directed Mr. Minot to work with the Investment Consultant and/or directly with the cap weighted index and Russell 2500 SMID index mangers to receive some, if any, of the alpha earned on indexed investments, as discussed by Mr. Neubert in his presentation on February 14, 2006.

Mr. Kaplan disclosed he was currently a member of the NEA, AARP, and NCTR and attends conferences paid for by these organizations.

Mr. Reardon advised the Committee his newly appointed designee would be Susan Zeller, Deputy Commissioner of Finance and & Management.

Adjournment

On a motion by Mr. Whitney seconded by Mr. Reardon, the Board unanimously voted to adjourn at 1:30 p.m.

Next Meeting Date:

April 11, 2006

Respectfully submitted,

Donna Holden, Clerk