

VERMONT PENSION INVESTMENT COMMITTEE

August 15, 2006

Members Present:

JEB SPAULDING, Chairman, VT State Treasurer
WARREN WHITNEY, VSERS Vice-Chairman, VSEA member (term expiring September, 2006)
ROBERT HOOPER, 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
JOE HEALY, VSERS Retired Vermont State Employees' Association
STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2007)
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2009)
MARIE DUQUETTE, VMERS Governor's delegate
JOSEPH MACKEY, VSTRS Active No. 29334 (term expiring July 1, 2009)
JAY KAPLAN, VSTRS Association of Retired Teachers of Vermont, (term expiring July 1, 2008)
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

Members Absent:

WILLIAM HARKNESS, VSEA member (term expiring September 2007)
W. JOHN MITCHELL, II, VMERS Employee Representative (term expiring July 1, 2008)

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
NEPC – Dick Charlton, Ellen Griggs, Kevin Kondry, Bill Monagle
Bill Rice, Law and Policy Director
Bill Griffin, Chief Assistant Attorney General

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the Tuesday, August 15, 2006 meeting to order at 804 a.m., which was held in the 4th Floor Conference Room at 109 State Street, Montpelier, VT.

ITEM 1: Investment Consultant Quarterly Review

The NEPC team appeared before the Committee to present the Q2/06 report. They reported a total fund balance of \$2.924 billion in assets. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The second quarter 2006 performance reported a market value fund balance at approximately \$1.427 billion and a gross quarterly return of (0.1)%, an out performance of the (0.9)% median public fund. The one-year return was 10.4% vs. the median public fund at 9.3%, three-year return 11.9% vs. the median public fund at 11.3%, and a five-year return of 7.1% vs. 6.3%.

VSERS:

The second quarter 2006 performance reported a market value fund balance at approximately \$1.217 billion and a gross quarterly return of (0.4)%, an out performance of the (0.9)% median public fund. The one-year return was 10.6% vs. the median public fund at 9.3%, three-year return 11.7% vs. the median public fund at 11.3%, and a five-year return of 6.7% vs. 6.3%.

VMERS:

The second quarter 2006 performance reported a market value fund balance at approximately \$279 million and a gross quarterly return of (0.3)%, an out performance of the (0.9)% median public fund. The one-year return was 11.3% vs. the median public fund at 9.3%, three-year return 11.4% vs. the median public fund at 11.3%, and a five-year return of 6.7% vs. 6.3%.

The Committee discussed and agreed to the prudence in looking more closely at expanded investments in the emerging market sector.

Ms. Duquette left the meeting.

ITEM 2: Committee Action Items

A. Legal Opinion Regarding Delegation of Authority to Subcommittee

Mr. Spaulding advised the Committee an opinion from the Attorney General's Office confirmed the Investment/Search subcommittees, and all other subcommittee's of the VPIC, serve in an advisory capacity only, and that only the VPIC has the authority to make decisions and take fiduciary actions.

B. Investment/Search Subcommittee Report

▪ **Investment Guideline Amendments Approval**

On a motion by Mr. Whitney seconded by Mr. Altemus, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to approve the Investment Guideline amendments for PIMCO and Mellon Capital, as submitted.

▪ **Alternative Investment (Private Equity) Plan/Policy Recommendations**

Mr. Monagle reviewed the strategic plan, which perpetuated considerable in-depth discussion with the Committee.

On a motion by Mr. Whitney seconded by Mr. Johannesen, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to adopt the Alternative Investment (Private Equity) Plan, as submitted, and to authorize NEPC and the Investment/Search subcommittee to conduct searches for Private Equity managers, based on the approved Private Equity plan.

- **Commission Recapture Policy Recommendation**

On a motion by Mr. Jeffrey seconded by Mr. Candon, the Committee unanimously voted to accept the Investment Search subcommittee recommendation, as submitted, not to participate in a Commission Recapture program.

- **ETI Policy – Investing in VT - Recommendation**

On a motion by Mr. Reardon seconded by Mr. Jeffrey, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to adopt the ETI Policy #2-006, as submitted.

Ms. Duquette returned to the meeting.

- **Real Estate Sector Evaluation/Search Recommendation**

On a motion by Mr. Kaplan seconded by Mr. Harris, the Committee voted to accept the Investment Search subcommittee recommendation to adopt the Value Added Real Estate Sector recommendations as submitted, to unitize the real estate asset class across the three systems, and allocate approximately 1/3 of the total asset to the current open-ended value added real estate manager, and raise the funds through liquidation of BlackRock and reduction in UBS Realty allocation. *Motion passed, 13 – 2.*

On a motion by Mr. Kaplan seconded by Mr. Reardon, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to authorize the Investment Search subcommittee to visit with AEW Capital Management, a closed-ended value added real estate manager, and bring a potential investment recommendation to the VPIC in November.

- **BlackRock Conversion Recommendation**

On a motion by Mr. Johannesen seconded by Ms. Duquette, the Committee unanimously voted to accept the Investment Search subcommittee recommendation, as submitted, to instruct the Treasurer's Office staff to notify the BlackRock Fund of a planned liquidation of assets, and for staff to take whatever action is necessary to extend or enter into a contract that will allow the timely exit strategy.

- **Small Cap Manager Updates**

On a motion by Mr. Harris seconded by Mr. Candon, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to place Longwood on a watch list for six months due to performance issues, and for the Investment Search subcommittee to visit with the manager again in six months.

NEPC assured the VPIC would be notified immediately if any other troublesome developments occurred.

C. Approve the Minutes of May 31, 2006

On a motion by Mr. Mackey seconded by Mr. Whitney, the Committee unanimously voted to approve the minutes of May 31, 2006, as submitted.

D. Authorize Custodian RFP

Mr. Spaulding advised the Committee the custodian contract would expire on December 31, 2006, and the RFP was drafted and ready for release.

On a motion by Mr. Spaulding seconded by Mr. Kaplan, the Committee unanimously voted to authorize NEPC to initiate and conduct the custodian RFP, and for the Investment/Search subcommittee to review proposals, conduct finalist interviews, and bring a recommendation to the VPIC on October 10, 2006.

E. Policy Committee Report

- **Investment Policy Regarding Sudan and Other Terrorism Sponsoring Nations**

Mr. Jeffrey advised the Committee the Policy Subcommittee had not met to date; however, would meet and have a recommendation for the November meeting. Mr. Spaulding strongly encouraged policy development and adoption as timely as possible.

Mr. Reardon left the meeting.

F. Membership in the Council of Institutional Investors (CII)

On a motion by Mr. Harris seconded by Mr. Hooper, the Committee voted to have the VPIC join the CII. *Motion passed, 12-2.*

G. Municipal Participation in VPIC

Mr. Spaulding reviewed the working committee's progress and proposals.

On a motion by Mr. Lewis seconded by Mr. Candon, the Committee voted to adopt the model policy presented with the caveat that an interested municipality has an actuarial study and individual investment consultant, and the proposed Burlington implementation motion be accepted.

Discussion ensued. **Mr. Hooper made a motion to move the question. Motion passed.**

The original motion failed 8-6.

On a motion by Mr. Whitney seconded by Mr. Kaplan, the Committee voted to ask the Attorney General's Office to solicit an opinion from the IRS as to the implications to the VPIC's (and VMERS, VSTRS, and VSERS) qualified pension plan status by permitting investments by municipalities. Motion passed.

Mr. Jeffrey made a motion seconded by Ms. Duquette, to accept *in concept* the model plan, and draft Burlington motion with the addition of #5 which included verification from the IRS as to the continued qualified pension plan status for the VPIC, VMERS, VSTRS, and VSRES.

Mr. Hooper objected to the motion, which was overruled by the Chair. Mr. Hooper challenged the Chair's ruling. The Chair called a five-minute recess to consult with the Committee Parliamentarian.

Mr. Mackey, Mr. Kaplan, and Mr. Hooper left the meeting.

Mr. Jeffrey made a motion seconded by Mr. Whitney, to table this motion to the next quarterly VPIC meeting. Motion passed, 9-2.

The Committee agreed, the Treasurer's working committee should not continue with any further work on the legislative alternative until an IRS ruling is received.

ITEM 3: Committee Discussion Items

A. Director of Finance and Investments Report

Mr. Minot reviewed his report.

B. Legal Opinion Regarding Delegation of Authority to Subcommittees

The August 3, 2006 memo from Assistant Attorney General, Jaye Pershing Johnson, was distributed which stated the VPIC could not designate its decision-making authority to a subcommittee.

C. Investment Legal Counsel RFP Update

Mr. Spaulding advised the Committee the Treasurer's Office conducted an RFP and received four responses. He said the AG's Office determined because of statutory language the VPIC does not have the authority to hire outside counsel, however, the AG's Office or the Treasurer's Office may hire the outside counsel. Mr. Spaulding further noted there was also the option of eventually requesting a legislative change to the statute permitting the VPIC to contract with outside counsel.

Mr. Griffin advised the Committee the AG's Office, upon request by the VPIC, would enter into a contract for one year with a specialized investment legal counsel, with the option for a one-year extension.

On a motion by Mr. Spaulding seconded by Mr. Harris, the Committee voted to request the AG's Office, with any interested VPIC members, to interview selected Investment Legal Counsel RFP respondents, and if appropriate enter into an appropriate contract. *Motion passed 10-1.*

ITEM 4: Any New or Other Business to Come Before the Board

Items discussed included informative e-mail distribution, meeting schedules, etc.

Adjournment

On a motion by Mr. Harris seconded by Mr. Altemus, the Board unanimously voted to adjourn at 2:40 p.m.

Next Meeting Date:

October 10, 2006

Respectfully submitted,

Donna Holden, Clerk