

VERMONT PENSION INVESTMENT COMMITTEE

November 29, 2006

Members Present:

JEB SPAULDING, Chairman, VT State Treasurer
WARREN WHITNEY, VSERS Vice-Chairman, VSEA member (term expiring September, 2008)
ROBERT HOOPER, VSEA member (term expiring September 2008)
TOM GIFFIN, VSEA member (term expiring September 2007)
DAVID HERLIHY Representing LINDA McINTIRE, VSERS Commissioner of Human Resources
SUSAN ZELLER Representing JAMES REARDON, VSERS Commissioner of Finance & Mgmt
DICK JOHANNESSEN, VSERS Governor's Delegate
JOE HEALY, VSERS Retired Vermont State Employees' Association, (term expiring September 2007)
STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2007)
MARIE DUQUETTE, VMERS Governor's delegate
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2009)
JOSEPH MACKEY, VSTRS Active No. 29334 (term expiring July 1, 2009)
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:

JAY KAPLAN, VSTSR Association of Retired Teachers of Vermont, (term expiring July 1, 2008)
W. JOHN MITCHELL, II, VMERS Employee Representative (term expiring July 1, 2008)

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Bill Rice, Law and Policy Director
William Griffin, Chief Assistant Attorney General
Jaye Pershing-Johnson, Special Assistant Attorney General
Dick Charlton, NEPC
MICHELLE BLACK, VSEA Alternate (term expiring September 2007)
Jonathan Leopole, Burlington City
Joseph McNeil, McNeil, Leddy & Sheahan Law Offices
Mellon Capital Management personnel

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the Wednesday, November 29, 2006 meeting to order at 8:37 a.m., which was held in the 4th Floor Conference Room at 109 State Street, Montpelier, VT. Introductions followed.

ITEM 1: Investment Consultant Quarterly Review

Mr. Charlton appeared before the Committee to present the Q3/06 report. He reported a total fund balance of \$3.059 billion in assets. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The third quarter 2006 performance reported a market value fund balance at approximately \$1.506 billion and a gross quarterly return of 4.1%, an out performance of the 3.8% median public fund. The one-year return was 11.3% vs. the median public fund at 9.8%, three-year return 12.3% vs. the median public fund at 11.8%, and a five-year return of 9.4% vs. 9.0%.

VSERS:

The third quarter 2006 performance reported a market value fund balance at approximately \$1.261 billion and a gross quarterly return of 4.2%, an out performance of the 3.8% median public fund. The one-year return was 11.3% vs. the median public fund at 9.8%, three-year return 12.0% vs. the median public fund at 11.8%, and a five-year return of 9.3% vs. 9.0%.

VMERS:

The third quarter 2006 performance reported a market value fund balance at approximately \$293 million and a gross quarterly return of 4.3%, an out performance of the 3.8% median public fund. The one-year return was 11.7% vs. the median public fund at 9.8%, three-year return 11.8% vs. the median public fund at 11.8%, and a five-year return of 8.9% vs. 9.0%.

VPIC:

The third quarter 2006 performance reported a market value fund balance at approximately \$3.06 billion with an average gross quarterly return of 4.2%, an out performance of the 3.8% median public fund. The one-year average return was 11.4% vs. the median public fund at 9.8%, three and five-year returns were not available, based on the July 1, 2004 inception date.

ITEM 2: Fixed Income Portable Alpha Presentation – Mellon Capital Management

Earl Klecker, Managing Director–Client Services, and Michael Kotarski, Director–Business Development appeared before the Committee, along with Helen Potter, Managing Director–Asset Allocation, via conference call, to provide a presentation of a portable alpha overlay for the fixed income sector.

By consensus the Committee agreed the Investment/Search subcommittee should further work toward developing comprehensive fixed income sector portable alpha and other recommendations for the full VPIC's consideration.

ITEM 3: Committee Action Items

- A. Approve the Minutes of**
- August 15, 2006
 - October 10, 2006

On a motion by Mr. Jeffrey seconded by Mr. Mackey, the Committee unanimously voted to approve the minutes of August 15, 2006, and October 10, 2006, as submitted.

Mr. Candon and Mr. Healy left during the next item.

B. Municipality Participation in VPIC

At 11:31 a.m. on a motion by Mr. Healy seconded by Mr. Johannesen, the Committee unanimously voted to enter into executive session pursuant to Title 1 § 313 to discuss matters with legal counsel.

Mr. Griffin, Mr. Rice, Ms. Pershing-Johnson, Mr. Charlton, Mr. Minot and Mrs. Holden were invited into the executive session.

At 11:50 a.m. the Committee moved out of executive session.

Ms. Pershing-Johnson advised the Committee the VPIC was not a qualified pension plan but a statutorily created investment vehicle for the benefit of the three qualified pension plans, and/or any other statutorily authorized entity, therefore did not require an IRS ruling.

On a motion by Mr. Jeffrey seconded by Mr. Johannesen, the Committee voted 11-2 to approve the *Draft Motion Regarding Burlington for VPIC Consideration* as presented by the Chair, which was stated as follows:

That the VPIC approve investing funds for the Burlington Retirement System pursuant to 3 V.S.A. § 523(a), and contingent upon:

- 1.) A legal opinion from the Burlington municipal attorney clarifying the authorization for Burlington to enter into an agreement for the VPIC to invest their retirement funds.**
- 2.) Approval by the Vermont Municipal Employees' Retirement Board of Trustees**
- 3.) Any costs to VPIC or the State being recovered through fees paid by Burlington.**
- 4.) Final approval by the VPIC of an agreement between Burlington and the VPIC.**

Sample - Draft Municipal Investment Model for VPIC consideration and requiring final approval of the VPIC.

1) The Vermont Municipal Employees Retirement Board of Trustees must approve a request from a municipality interested in having their retirement funds managed by the VPIC.

2) A participating municipality would be offered the choice of one of the three asset allocations used by the VPIC (VSERS, VSTRS, VMERS). There is no representation on the VPIC, but the municipality will receive standard quarterly reports and will be welcome to attend any meetings, as any member of the public is.

3) The participating municipality agrees that, beyond reasonable cash flow distributions, there would be a minimum initial investment commitment of one year... possibly with one year renewable contracts.

4) There would be both a general procedures document to ensure equal treatment of any interested municipality and an individual contract with a participating municipality. Both documents would make it clear that VPIC would not incur any liabilities for the municipalities funded status, benefit issues, previous investment decisions, etc. The relationship is purely for investment of their funds.

5) All costs to the VPIC, individual systems, or State would be recovered through fees to the municipality.

Mr. Jeffrey left during the next item.

C. Investment/Search Subcommittee Report

- GB, FI and HY Investment Manager Update

Mr. Whitney provided information regarding the prior day's manager presentations.

- Real Estate Investment Recommendation

On a motion by Mr. Whitney seconded by Mr. Harris, the Committee unanimously voted to accept the Investment Search Subcommittee recommendation to invest \$20 million into the AEW Value Investors II, LP close-ended real estate investment, subject to satisfactory due diligence, documentation, and successful contract negotiations.

- Private Equity Investment Recommendation

On a motion by Ms. Duquette seconded by Mr. Spaulding, the Committee voted to accept the Investment Search Subcommittee recommendation to invest \$10 million into the Newstone Capital Partners, LLC mezzanine fund, subject to satisfactory due diligence, documentation, and successful contract negotiations. Motion passed.

- Small Cap Manager Recommendation

At 1:24 p.m. on a motion by Mr. Hooper seconded by Mr. Altemus, the Committee unanimously voted to enter into executive session pursuant to Title 1 § 313 to discuss matters with legal counsel.

Mr. Griffin, Mr. Rice, Ms. Pershing-Johnson, Mr. Minot and Mrs. Holden were invited into the executive session.

At 1:29 p.m. the Committee moved out of executive session.

On a motion by Mr. Whitney seconded by Ms. Duquette, the Committee unanimously voted to accept the Investment Search Subcommittee recommendation, pursuant to an NEPC recommendation, to terminate Longwood Capital, and put the funds in the SSgA Russell 2000 growth index product using the SSB&T transition management services.

Mr. Spaulding advised the Committee that contracts would be dependent upon successful negotiations and approvals.

D. Policy Committee Report

- Policy on Investments in Terrorist or Genocide Linked Countries

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee voted to adopt policy #3-006, as submitted with the amendments to item 2 discussed.

ITEM 4: Committee Discussion Items

A. Director of Finance and Investments Report

Mr. Minot reviewed his report.

ITEM 5: Any New or Other Business to Come Before the Board

Mr. Spaulding advised the Committee the Treasurer's Office policy regarding talking to financial media personnel is to not speak to the press.

Mr. Spaulding suggested the annual window for ETI proposals be arranged for the May meeting presentations.

On a motion by Mr. Mackey seconded by MR. Altemus, the Committee unanimously voted to authorize the Treasurer's Office to develop an ETI-RFP proposal schedule.

Adjournment

On a motion by Mr. Harris seconded by Ms. Duquette, the Board unanimously voted to adjourn at 2:10 p.m.

Next Meeting Date:

February 13, 2007 – Investment/Search Subcommittee

February 14, 2007 – Full VPIC meeting

Respectfully submitted,

Donna Holden, Clerk