

VERMONT PENSION INVESTMENT COMMITTEE

May 31, 2007

Members Present:

JEB SPAULDING, Chairman, VT State Treasurer
WARREN WHITNEY, VSERS Vice-Chairman, VSEA member (term expiring September, 2008)
DAVID HERLIHY Representing LINDA McINTIRE, VSERS Commissioner of Human Resources
ROBERT HOOPER, VSEA member (term expiring September 2008)
JAMES REARDON, VSERS Commissioner of Finance & Mgmt
JOE HEALY, VSERS Retired Vermont State Employees' Association, (term expiring September 2007)
DICK JOHANNESSEN, VSERS Governor's Delegate
JOSEPH MACKKEY, 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
STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2007)
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2009)

Members Absent:

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

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Bill Rice, Treasurer's Office Law and Policy Director
William Griffin, Chief Assistant Attorney General
Kevin Kondry, Chris Levell, Dick Charlton, NEPC

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the Thursday, May 31, 2007 meeting to order at 8:42 a.m., which was held at the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Investment Consultant Quarterly Review

Mr. Kondry presented the Q1/07 report. He reported a total VPIC fund balance of \$3.26 billion in assets. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The first quarter 2007 performance reported a market value fund balance at approximately \$1.593 billion and a gross quarterly return of 2.4%, an out performance of the 2.2% median public fund with assets over \$500M. The one-year return was 12.8% vs. the median public fund at 11.4%, three-year return 11.0% vs. the median public fund at 11.1%, and a five-year return of 9.7% vs. 9.3%.

VSERS:

The first quarter 2007 performance reported a market value fund balance at approximately \$1.346 billion and a gross quarterly return of 2.2%, an out performance of the 2.1% median public fund. The one-year return was 11.9% vs. the median public fund at 10.9%, three-year return 10.7% vs. the median public fund at 10.2%, and a five-year return of 9.5% vs. 8.8%.

VMERS:

The first quarter 2007 performance reported a market value fund balance at approximately \$320 million and a gross quarterly return of 2.2%, an out performance of the 2.1% median public fund. The one-year return

was 12.2% vs. the median public fund at 10.9%, three-year return 10.8% vs. the median public fund at 10.2%, and a five-year return of 8.9% vs. 8.8%.

VPIC:

The first quarter 2007 performance reported a market value fund balance at approximately \$3.259 billion with an average gross quarterly return of 2.26%, one-year average return was 12.3%, three and five-year returns were not available, based on the July 1, 2004 inception date.

The Committee agreed by consensus that NEPC should, in future reports, measure each fund's performance against median public funds greater than \$1 billion.

ITEM 2: NEPC 3-5 Year Investment Strategy & Asset Allocation Outlook

- **How can we balance asset allocation disciplines with the flexibility to address changing market environment?**

Mr. Charlton led the Committee in a review of the information contained in the May 22, 2007, Greenwich Associates *Alternatives...or Pop Hit?* Also distributed and reviewed was the May 31, 2007, *Industry Asset Allocation Trends & NEPC Investment Strategy*.

Mr. Charlton reminded the Committee of NEPC's emphasis over the past several years, which encouraged clients of: relaxation of constraints, financial engineering/capital efficiency, liability-driven investments (LDI), and better beta. Mr. Charlton concluded with the statement "diversification is your friend."

The Committee discussed the process for amendments to the *Investment Guidelines*. The consensus was that Section A (General Guidelines) should be as fluid and as broad as possible to permit the Committee to invest in a variety of investment options when possible, with recognition that a decision to invest in a strategy not clearly defined in the Guidelines would be acknowledged, permitted, and the Guidelines amended as appropriate and when needed.

ITEM 3: Committee Action Items

A. Executive Session

At 11:15 a.m. on a motion by Mr. Kaplan seconded by Mr. Jeffrey, the Committee unanimously voted to enter into executive session pursuant to Title 1 § 313 to discuss contractual matters.

At 11:39 a.m. the Committee exited executive session.

B. Approve the Minutes of April 10, 2007

On a motion by Mr. Whitney seconded by Mr. Altemus, the Committee unanimously voted to approve the minutes of April 10, 2006, as submitted.

C. Terrorist/Genocide Investment Policy Follow-up

Mr. Spaulding provided an update on the status of Policy compliance and due diligence and verified the divestiture of schlumberger, a company identified at the February meeting as being held and on the Sudan Investment Divestiture list. Mr. Spaulding will provide additional information regarding the monitoring the managers, at a later meeting.

D. Investment/Search Subcommittee Report

- **Real Estate Manager Update**

Mr. Kaplan provided a report.

- **Emerging Markets Allocation/Guidelines/Search**

On a motion by Mr. Jeffrey seconded by Mr. Johannesen, the Committee unanimously voted to accept the Investment/Search subcommittee recommendation to implement a dedicated asset allocation of 4% to emerging markets funded with 2% from international equities and 2% from large cap domestic equities, subject to asset allocation changes presented and accepted by the individual Boards, and that a manager search be initiated, and if a manager is selected the dedicated allocation be funded at 25% every six months until the full 4% is reached.

- **Core Fixed Income: Portable Alpha Recommendation**

On a motion by Mr. Hooper seconded by Mr. Healey, the Committee unanimously voted to accept the Investment/Search subcommittee recommendation that it reconsider its motion of April 10 to allocate 50% of the current fixed income assets to the Delaware Core Plus product.

Without objection and by consensus the VPIC withdrew the motion of April 10 to initiate a change in the fund allocations in the fixed income asset class, pending a comprehensive review of the sector with NEPC.

- **International Manager Weighting Modification**

No action.

D. Municipality Participation in VPIC Update

Mr. Griffin briefed the Committee on the status of the negotiations.

E. Election of VPIC Officers for 7/1/07 Effective Date

The Committee agreed to hold elections at the August 15, 2007 meeting.

ITEM 4: Committee Discussion Items

A. Director of Finance and Investments Report

Mr. Minot provided a brief report to the Committee.

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

Mr. Spaulding distributed section 10 of Act 50, the creation of the VPIC. The Committee agreed to hold the election of officers at the August 15, 2007, meeting.

Mr. Jeffrey advised the Committee of the appointment of Mr. Stephen Rauh to the vacant position on the VMERS Board.

Mr. Spaulding agreed to have a letter sent to each Board regarding the proposed change in asset allocation.

Adjournment

On a motion by Mr. Kaplan seconded by Mr. Jeffrey, the Board unanimously voted to adjourn at 12:30 p.m.

Next Meeting Date:

August 14, 2007 – Investment Search Subcommittee meeting
August 15, 2007 - Full VPIC meeting

Respectfully submitted,

Donna Holden, Clerk