

VERMONT PENSION INVESTMENT COMMITTEE

August 15, 2007

Members Present:

WARREN WHITNEY, Chairman, VSERS, VSEA member (term expiring September, 2008) – **arrived later in meeting**
VAUGHN ALTEMUS, Vice-Chairman, VSTRS representing Commissioner of Education
JEB SPAULDING, VT State Treasurer
DAVID HERLIHY Representing LINDA McINTIRE, VSERS Commissioner of Human Resources
JAMES REARDON, VSERS Commissioner of Finance & Mgmt
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)
THOMAS CANDON, VSTRS representing Commissioner of BISHCA
STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2010)
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2009)
STEVE RAUH, VMERS Governor's Delegate

Members Absent:

TOM GIFFIN, VSERS, VSEA member (term expiring September 2007)
ROBERT HOOPER, VSEA member (term expiring September 2008)
JOE HEALY, VSERS Retired Vermont State Employees' Association, (term expiring September 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, Treasurer's Office Law and Policy Director
William Griffin, Chief Assistant Attorney General
Jaye Pershing-Johnson, Assistant Attorney General
Kevin Kondry, Chris Levell, Dick Charlton, NEPC

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the Wednesday, August 15, 2007 meeting to order at 1:05 p.m., which was held at the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

Mr. Spaulding welcomed members and guests. He advised the Committee that Mr. Whitney would be arriving later in the meeting, therefore, the Election of Officers, would be postponed until he arrived, later in the day.

ITEM 1: Investment Consultant Quarterly Review

Mr. Kondry and Mr. Levell presented the Q2/07 report. They reported a total VPIC fund balance of \$3.4 billion in assets. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The second quarter 2007 performance reported a market value fund balance at approximately \$1.6 billion and a gross quarterly return of 4.0%, an under performance of the 4.3% median public fund with assets over \$500M. The one-year return was 17.4% vs. the median public fund at 17.4%, three-year return 12.4% vs. the median public fund at 12.7%, and a five-year return of 11.7 % vs. 11.5%.

VSERS:

The second quarter 2007 performance reported a market value fund balance at approximately \$1.4 billion and a gross quarterly return of 3.7%, an under performance of the 4.0% median public fund. The one-year return was 16.5% vs. the median public fund at 16.8%, three-year return 12.0% vs. the median public fund at 11.8%, and a five-year return of 11.2% vs. 10.9%.

VMERS:

The second quarter 2007 performance reported a market value fund balance at approximately \$328.6 million and a gross quarterly return of 3.7%, an under performance of the 4.0% median public fund. The one-year return was 16.6% vs. the median public fund at 16.8%, three-year return 12.0% vs. the median public fund at 11.8%, and a five-year return of 10.4% vs. 10.9%.

VPIC:

The second quarter 2007 performance reported a gross market value fund balance at approximately \$3.4 billion with an average gross quarterly return of 3.8%; one-year average return was 16.8%, and three-year average return at 12.1%. The five-year return of was not available, based on the July 1, 2004 inception date.

NEPC was reminded that at the May 2007, meeting the Committee requested that NEPC measure the funds' performance against median public funds greater than \$1 billion in future reports.

NEPC was requested to conduct a study to determine how the plans' fees compared to other funds of similar size.

Mr. Candon requested the Committee's support, to which they agreed, that NEPC prepare a chronological history reflecting the asset allocations of three years ago and subsequent changes describing the amount moved from one asset class to another, the old manager and the new manager, and the resulting allocation "tube". Also requested was an appendix to show with each change the manager chosen and the resulting historical performance. Mr. Johannesen asked that historical and current "risk" also be included in the charts.

ITEM 2: **Committee Action Items**

A. **Approve the Minutes of May 31, 2007**

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Committee unanimously voted to approve the minutes of May 31, 2007, as submitted.

Mr. Whitney arrived at the meeting during the next item.

B. **Investment/Search Subcommittee Report**

Mr. Spaulding advised the VPIC of the new officer elections held by the Investment/Search Subcommittee, which seated him as Chair and Mr. Kaplan as Vice-Chair.

- **Manager Update**

Mr. Spaulding provided a report.

- **Emerging Markets Manager Selection/ Guideline "D" Amendment**

On a motion by Mr. Jeffrey seconded by Mr. Mackey, the Committee unanimously voted to approve a 4% emerging markets allocation to be funded with 2% from large cap domestic equities and 2% from international equities at 25% increments in six-month intervals, until the 4% is reached, and authorize the Treasurer's Office to enter into contract negotiations with Aberdeen, subject to appropriate on-site due diligence by NEPC and assigned Treasurer's Office Staff.

NEPC will provide a written report on the subjective and objective criteria used in the due diligence process.

On a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee unanimously voted to adopt the Emerging Markets Section D Guideline amendments, as presented by NEPC.

NEPC will provide manager specific, Section B Guideline amendments, if requested by the manager, prior to award of the new emerging markets contract.

- **Core Fixed Income Recommendation/Guideline “A” & “B” Amendments**
- **GAA Asset Allocation Recommendation/Guideline “D” Amendment**

On a motion by Mr. Mackey seconded by Mr. Jeffrey, the Committee unanimously voted to adopt the NEPC restructuring plan of the fixed income sector to 1/3 PIMCO All Asset (from the GAA sector), 1/3 Core Plus, and 1/3 Portable Alpha fixed income manager, and authorize a search for a portable alpha fixed income manager.

On a motion by Mr. Candon seconded by Mr. Altemus, the Committee unanimously voted to ask the Attorney General’s Office and NEPC to work together to clarify the Guideline regulations, and to examine the statutory definitions of Title 3, section 521 for compliance, and to report back to the VPIC if there were any problems, and to bring statutory amendment recommendations if needed.

On a motion by Mr. Jeffrey seconded by Mr. Kaplan, the Committee unanimously voted to approve the Fixed Income, Section B page 2, 11, and 24, as amended by the Investment subcommittee, and presented by NEPC.

On a motion by Mr. Kaplan seconded by Mr. Whitney, the Committee unanimously voted to approve the Fixed Income, Section A Guideline amendments on page 16-18, as amended by the Investment subcommittee, and presented by NEPC, and the GAA Section A Guideline amendments on page 23, as amended by the subcommittee.

The Committee will address the Section D Guidelines, which authorize an increased allocation of 10% to 15% for the Global Asset Allocation sector, and authorize a new manager search at the November meeting.

ITEM 3: Election of VPIC Officers

Mr. Spaulding opened the floor to nominations for Chairman.

Mr. Jeffrey nominated Warren Whitney.

Hearing no other nominations, the Committee unanimously elected Warren Whitney to serve as Chairman for a term of two years, until 2009.

Mr. Spaulding surrendered the role of Chair to Mr. Whitney. Mr. Whitney thanked the Committee for their support, and opened the floor to Vice-Chair nominations.

Mr. Kaplan nominated Vaughn Altemus.

Hearing no other nominations, the Committee unanimously elected Vaughn Altemus to serve as Vice-Chairman for a term of two years, until 2009.

ITEM 4: (Continued) Committee Action Items

C. VPIC Act 50 Evaluation Process

On a motion by Mr. Mackey seconded by Mr. Reardon, the Committee unanimously voted to recommend to the Treasurer that he initiate an RFP for a qualified independent party to perform a review of the VPIC, pursuant to the Act 50 requirements.

D. Municipality Participation in VPIC Update

Mr. Spaulding distributed an August 14, 2007, letter from Jonathan P.A. Leopold, Jr., regarding Burlington's position and desire to invest their retirement portfolio with the State's funds through the VPIC.

On a motion by Mr. Spaulding seconded by Mr. Jeffrey, the Committee voted to move forward and approved the 8/8/07 DRAFT contract/agreement and procedures with Burlington to invest its assets through the VPIC. Motion passed, 11 yes, 2 no.

E. Green Mountain Capital Update/Discussion re: Partnership Extension

Mr. Spaulding invited VPIC members to join him, and Mr. Minot, to hear the presentation following the meeting.

ITEM 5: Committee Discussion Items

A. Director of Finance and Investments Report

None

ITEM 6: Any New or Other Business to Come Before the Committee

Bill Griffin advised the VPIC of a class action against TYCO that was initiated by an out-of-state firm, with a September 28 deadline to participate. The Board Chairs will confer with their individual Boards and advise the AG's Office.

Mr. Spaulding made a motion seconded by Mr. Candon, to authorize the affected boards' Chairs to work with Attorney General's Office in an effort to proceed with appropriate legal course to achieve as much money as possible.

Upon discussion, Mr. Spaulding withdrew the motion, Mr. Candon withdrew the second.

Adjournment

On a motion by Mr. Jeffrey seconded by Mr. Johannesen, the Board unanimously voted to adjourn at 4:05 p.m.

Next Meeting Date:

November 27, 2007 – Investment Search Subcommittee meeting
November 28, 2007 - Full VPIC meeting

Respectfully submitted,

Donna Holden, Clerk