

VERMONT PENSION INVESTMENT COMMITTEE

November 28, 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
KEVIN GAFFNEY, VSEA member (term expiring September 2009)
KAJ SAMSOM, VSEA Alternate (term expiring September 2009)
DICK JOHANNESSEN, VSERS Governor's Delegate
JON HARRIS, VSTRS (Active No. 25669), (term expiring July 1, 2011)
JAY KAPLAN, VSTRS, Association of Retired Teachers of Vermont, (term expiring July 1, 2008)
THOMAS CANDON, VSTRS, representing Commissioner of BISHCA
STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2010)
STEPHEN RAUH, VMERS Governor's Delegate

Members Absent:

W. JOHN MITCHELL, II, VMERS Employee Representative (term expiring July 1, 2008)
ROBERT HOOPER, VSEA member (term expiring September 2008)
JOE HEALY, Retired Vermont State Employees' Association (term expiring September, 2008)
JOSEPH MACKKEY, VSTRS (Active No. 29334), (term expiring July 1, 2009)
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2009)

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
Chris Levell, Dick Charlton, NEPC
Berry Bryant, DAHAB Associates
Marina Ushakova, Burlington Retirement Benefits Administrator
Jeff Sheran, Geoffrey Mullen, Oppenheimer Capital
Linda Deliduka, Retired VSTRS

CALL TO ORDER:

The Vice-Chairperson, Vaughn Altemus, called the Wednesday, November 28, 2007 meeting to order at 8:42 a.m., which was held at the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

Mr. Whitney arrived during the next item and assumed his role as Chair.

- ITEM 1:** **Fixed Income Portable Alpha Discussion and Presentation by RFP Finalist**
- **NEPC Intro & Review of Strategy, Including Pros & Cons**
 - **Presentation by Oppenheimer Asset Management**

Mr. Levell discussed portable alpha investments, including alpha from beta, and risks of derivatives or cost of beta, etc. Also discussed was the approach to contracting for futures, potential for losses, and market timing.

Mr. Sheran and Mr. Mullen provided a presentation.

ITEM 2: Investment Consultant

- **Quarterly Review**

Mr. Levell presented the Q3/07 report. He 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, noting that effective this quarter the VSTRS and VSERS plans have been compared to public funds with assets over \$1 billion

VSTRS:

The third quarter 2007 performance reported a market value fund balance at approximately \$1.7 billion and a gross quarterly return of 1.5%, an under performance of the 2.2% median public fund with assets over \$1B. The one-year return was 14.5% vs. the median public fund at 15.7%, three-year return 12.8% vs. the median public fund at 13.5%, and a five-year return of 14.2% vs. 14.2%.

VSERS:

The third quarter 2007 performance reported a market value fund balance at approximately \$1.4 billion and a gross quarterly return of 1.7%, an under performance of the 2.2% median public fund with assets over \$1B. The one-year return was 13.7% vs. the median public fund at 15.7%, three-year return 12.4% vs. the median public fund at 13.5%, and a five-year return of 13.8% vs. 14.2%.

VMERS:

The third quarter 2007 performance reported a market value fund balance at approximately \$336.5 million and a gross quarterly return of 1.7%, an under performance of the 2.1% median public fund. The one-year return was 13.7% vs. the median public fund at 15.1%, three-year return 12.6% vs. the median public fund at 12.8%, and a five-year return of 13.1% vs. 13.4%.

VPIC:

The third quarter 2007 performance reported a gross market value fund balance at approximately \$3.4 billion with an average gross quarterly return of 1.5%; one-year average return was 14.5%, and three-year average return at 12.8%, and five-year return of 14.2%.

- **Disclosure Needs as Impacted by New Investment Strategies**

Mr. Griffin provided a GAA/Portable Alpha/Discretionary Allocations spread sheet for the VPIC to consider, and for discussion regarding disclosure issues. Mr. Griffin recommended a ratification/amendment of the current statutes to provide broader latitude for the new investments. The Committee also discussed placing more disclosure information on the VPIC Web site, and for NEPC to include additional information in the quarterly report.

On a motion by Mr. Spaulding seconded by Mr. Candon, the Committee voted to delegate to the VPIC's Executive Committee to meet with the Attorney General's office to clarify and confirm the VPIC's investment authority as currently defined, to determine whether statutory language changes were needed or appropriate, and to bring a recommendation, if needed, to the full VPIC. *Motion carried 11 to 1.*

- **Follow-up on Previous Discussion of Evolving VPIC Asset Allocation**

Due to time constraints, discussion was postponed to the next quarterly meeting.

ITEM 3: Committee Action Items

A. Approve the Minutes of

- August 15, 2007 – Regular meeting
- Approve the Minutes of October 16, 2007 – Conference call meeting

On a motion by Mr. Kaplan seconded by Mr. Candon, the Committee unanimously voted to approve the minutes of August 15, 2007 and October 16, 2007 as submitted.

B. Investment/Search Subcommittee Report

- **Investment Manager Update**

Mr. Spaulding provided an oral report.

- **ETI Manager – Investment Update/Recommendation**

None

- **GAA Allocation Increase recommendation/Guideline “D” Amendment**

Mr. Spaulding reviewed the July 24, 2007, Investment Search Subcommittee recommendation to increase the GAA allocation from 10% to 15%, with funds allocated at 2% from large cap equities, 1% from international equity, and 2% from fixed income.

On a motion by Mr. Spaulding seconded by Mr. Jeffrey, the Committee voted to accept the Investment/Search Subcommittee recommendation to increase the GAA asset allocation from 10% to 15%, with the funding to come from a reduction of 2% from domestic large cap equity, 1% from international equity, and 2% from core fixed income, and to notify the Boards in writing of the recommendation. *Motion carried 11 to 1.*

Mr. Spaulding advised the VPIC that three finalists were selected from the previously approved, advertised, GAA manager search and would be interviewed by the Investment Search Subcommittee before the February quarterly meeting.

- **Technical Correction to PIMCO Stocks Plus Guideline B**

Mr. Levell explained that due to an internal rating system at PIMCO, the manager had requested an amendment to their Section B guidelines.

Mr. Jeffrey made a motion seconded by Mr. Altemus, to approve the Section B Guidelines, and amend the contract as needed.

Mr. Kaplan made a motion seconded by Mr. Reardon, to table further discussion indefinitely. *The motion failed, 6 to 6.*

The original motion failed. 8 yes, 3 no, 1 abstained.

Mr. Minot and NEPC will clarify the request and prepare information for the February meeting.

C. Approval of UBS Real Estate Conversion to REIT

Ms. Pershing-Johnson advised the Committee that a conversation with the manager was ongoing regarding contracting matters. Mr. Griffin advised that the manager's reluctance to accept the indemnity clause in the standard state contract was a major issue.

Mr. Reardon advised that the Secretary of Administration would not sign a contract in the absence of the language.

Mr. Reardon made a motion seconded by Mr. Altemus, to select option two as stated in the Attorney General's memo dated November 20, 2007, to cash out of the annuity contract with UBS by November 30, 2007, unless the manager agrees to the state's standard contract's provisions and then the Treasurer's Office may proceed with option one of the memo.

Upon discussion, Mr. Kaplan made a motion to call the question seconded by Mr. Jeffrey. *Motion passed 10 to 2.*

The original motion passed, 9 to 3.

Mr. Harris made a motion seconded by Mr. Altemus, to authorize NEPC to initiate a search for a real estate manager replacement.

Upon discussion, **Mr. Harris withdrew his motion and Mr. Altemus withdrew his second.**

On a motion by Mr. Harris seconded by Mr. Johannesen, the Board unanimously voted to refer the real estate matter to the Investment Search Subcommittee for review and for NEPC to provide an analysis, in the event a UBS contract is not agreed upon, and to bring a recommendation to the full VPIC at the February meeting.

D. Discuss/Act on Fixed Income Portable Alpha Investment

On a motion by Mr. Spaulding seconded by Mr. Reardon, the Committee voted to reallocate \$75 million from core plus fixed income to the Oppenheimer Structured Alpha – US Core fixed Income product, subject to standard contract and documentation completion, and further to direct the Investment Search Subcommittee to interview one or two additional fixed income portable alpha managers identified by NEPC and bring a recommendation for further action back to the VPIC. *Motion passed, 11 to 1.*

Mr. Spaulding left the meeting.

E. Emerging Markets Investment

- **Section B Guideline Approval**

On a motion by Mr. Jeffrey seconded by Mr. Altemus, the Committee unanimously voted to accept the first exemption request as stated, to remove the second exemption, and to direct the Treasurer's Office to address the matter of the second exemption in contract language.

ITEM 4: Committee Discussion Items

A. VPIC Act 50 Evaluation Process Update

Mrs. Holden advised the Committee that any member not available during the previous scheduled interviews with Mr. Monk and Mr. Gordon, and still wishes to interview, should contact her for an appointment on Friday, November 30, 2007.

B. Director of Finance and Investments Report

- Burlington Participation and Funding Update
- Fixed Income Transition Update
- Real Estate Investment Update
- Terrorist & Genocide Policy Update

Mr. Minot provided an oral report.

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

None

Adjournment

On a motion by Mr. Jeffrey seconded by Mr. Reardon, the Committee unanimously voted to adjourn at 4:15 p.m.

Next Meeting Date:

February 12, 2008 – Investment Search Subcommittee meeting
February 13, 2008 - Full VPIC meeting

Respectfully submitted,

Donna Holden, Clerk