

VERMONT PENSION INVESTMENT COMMITTEE

February 13, 2008

Members Present:

WARREN WHITNEY, Chairman, VSERS, VSEA member (term expiring September, 2008)
VAUGHN ALTEMUS, Vice-Chairman, VSTRS representing Commissioner of Education
JEB SPAULDING, VT State Treasurer
DAVID HERLIHY, VSERS Commissioner of Human Resources
JAMES REARDON, VSERS Commissioner of Finance & Management
KEVIN GAFFNEY, VSEA member (term expiring September 2009)
DICK JOHANNESSEN, VSERS Governor's Delegate
JON HARRIS, VSTRS (Active No. 25669), (term expiring July 1, 2011) – **via conference call**
JAY KAPLAN, VSTRS, Association of Retired Teachers of Vermont, (term expiring July 1, 2008)
JOSEPH MACKEY, VSTRS (Active No. 29334), (term expiring July 1, 2009)
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)
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)

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
William Griffin, Chief Assistant Attorney General
Kevin Kondry, Chris Levell, and Dick Charlton, NEPC
Linda Deliduka, Retired VSTRS

CALL TO ORDER:

The Chairperson, Warren Whitney, called the Wednesday, February 13, 2008 meeting to order at 8:45 a.m., which was held in the #335 Conference Room, Capital Plaza, 100 State Street, Montpelier, VT.

Mr. Reardon arrived during the next item. Mr. Lewis arrived during the next item.

ITEM 1: **Investment Consultant**

- **Quarterly Review**

Mr. Kondry presented the Q4/07 report. He reported a total VPIC fund balance of \$3.5 billion in assets, which currently included the three retirement systems and one municipality. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance, noting that the VSTRS and VSERS plans are compared to public funds with assets over \$1 billion.

NEPC agreed to add three additional tube charts for compression purposes, the first a peer ranking tube chart, the second of risk budgeting, and the third a chart listing pending/approved changes to the asset allocation. Mr. Spaulding advised the Committee of the recent steps taken to provide more disclosure, in the quarterly report and on the Website.

Mr. Reardon briefly left the meeting, and then later returned to the meeting, during this item.

VSTRS:

The fourth quarter 2007 performance reported a market value fund balance at approximately \$1.6 billion and a gross quarterly return of (1.6)%, an under performance of the (0.6)% median public fund with assets over \$1B. The one-year return was reported at 6.3% vs. the median public fund at 8.6%, three-year return 9.1% vs. the median public fund at 10.1%, and a five-year return of 12.6 % vs. 12.8%.

VSERS:

The fourth quarter 2007 performance reported a market value fund balance at approximately \$1.4 billion and a gross quarterly return of (1.3)%, an under performance of the (0.6)% median public fund with assets over \$1B. The one-year return was reported at 6.4% vs. the median public fund at 8.6%, three-year return 9.2% vs. the median public fund at 10.1%, and a five-year return of 12.3% vs. 12.8%.

VMERS:

The fourth quarter 2007 performance reported a market value fund balance at approximately \$333.2 million and a gross quarterly return of (1.4)%, an under performance of the (0.6)% median public fund. The one-year return was reported at 6.3% vs. the median public fund at 8.4%, three-year return 9.6% vs. the median public fund at 9.6%, and a five-year return of 11.8% vs. 12.1%.

BURLINGTON:

The fourth quarter 2007 performance reported a gross market value fund balance at approximately \$126 million and gross quarterly return of (3.1)%, an under performance of the (.7)% median public fund. The one-year return was reported at 5.5% vs. the median public fund at 8.4%, three-year return 8.9% vs. the median public fund at 9.5%, and a five-year return of 11.3% vs. 12.2%.

When asked, NEPC supported asking the Investment Search Subcommittee to consider their focus on private equity and hedge fund type investment strategies to add alpha to the portfolio and better align itself with other over \$1billion peers.

- **Evolution of Asset Allocation**

Mr. Charlton provided an *Evolution of Asset Allocation* presentation, prepared by NEPC and dated February 13, 2008, which demonstrated the historical and anticipated benefits of including and applying alternatives and portable alpha strategies to several types of portfolios.

ITEM 2: **Committee Action Items**

A. **Approve the Minutes of**

- **November 28, 2007 – Regular meeting**

On a motion by Mr. Jeffrey seconded by Mr. Johannesen, the Committee unanimously voted to approve the minutes of November 28, 2007 as submitted.

B. **Investment/Search Subcommittee Report**

- **Investment Manager Update**

Mr. Spaulding provided an oral report.

- **Acadian Section B Guideline Approval**

On a motion by Mr. Jeffrey seconded by Mr. Johannesen, the Committee unanimously voted to approve the Acadian Asset Management request to change their benchmark from the MSCA EAFE Value Index to the MSCI EAFE IMI Index effective April 1, 2008, as recommended by the Investment/Search Subcommittee.

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

The Committee discussed the proposal and acknowledged the funding would, pursuant to the adopted ETI Policy and based on this type of investment, be from the real estate sector.

On a motion by Mr. Spaulding seconded by Mr. Jeffrey, the Committee voted to approve the investment of \$2 million in Green Asset Partners (GAP), with the provisions recommended by the Treasurer's Office, a negotiation of the contract to a preferred 6% return before the proposed 80/20% split, and subject to a favorable review of the manager's returns and attributions by NEPC. Motion carried 12-1.

- **Portable Alpha New Manager Recommendation**

Mr. Spaulding reminded the VPIC of the 1/3 portable alpha fixed income strategy, and the Subcommittee's January 15, 2008, decision to make a recommendation for a \$75 million investment in Wellington's Diversified Alpha Strategy product to accompany the previously VPIC approved \$75 million investment in Oppenheimer.

The Committee was advised that approximately \$65 million remained in the 1/3 fixed income portable alpha allocation and would remain undesignated and invested in the Logan Circle core plus strategy until the VPIC acted on additional investment.

Mr. Griffin commented on some details of the February 11, 2008, Jaye Johnson memorandum and considerations for a potential Wellington contract matters.

On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to approve the investment of \$75 million of the remaining allocation to the Wellington Diversified Alpha Strategy product.

- **GAA New Manager Recommendation**

Mr. Spaulding advised the VPIC of the GAA manager search process.

Mr. Griffin distributed a February 13, 2008 memorandum prepared by Jaye Pershing-Johnson regarding potential contractual matters. The Committee acknowledged that the contract concerns raised by the AG's Office should be negotiated by the AG and Treasurer's Office, and a relationship discount should be sought during contract negotiations.

Mr. Griffin confirmed that an investment in commingled funds permits the manager to be unrestrained.

On a motion by Mr. Spaulding seconded by Mr. Kaplan, the Committee unanimously voted to approve the investment of 5% of the GAA allocation to the Wellington Opportunistic Investment product, move the current 5% PIMCO GAA manager to the fixed income sector to be funded by the Logan Circle portfolio, and wait until after the April education meeting to allocate the remaining 10% to reach the 15% GAA policy, as recommended by the Investment/Search subcommittee.

- **PIMCO Section B Guideline Discussion/Acknowledgement**

Mr. Spaulding reported that the PIMCO Stocks Plus manager was no longer requesting a change to the Guidelines, but requested the Subcommittee and VPIC acknowledge receipt of the PIMCO memo. Without objection, the Committee agreed to support the language provided.

C. Executive Committee Report

• Asset Allocation Definition – Statutory Language Recommendation

The Committee reviewed the January 15, 2008, memorandum from Mr. Spaulding regarding the language change proposals.

Mr. Spaulding made a motion seconded by Mr. Jeffrey, to approve the recommendation of the Executive Committee to seek a statutory revision of “asset allocation” as outlined in option two of the January 15, 2008, Treasurer’s Office memorandum, with the addition of “...or investment vehicles” at the end of the definition.

Mr. Kaplan called the question.

The motion was unanimously passed.

ITEM 3: Any New or Other Business to Come Before the Committee

A. VSTRS Large Cap Managers Asset Allocation Distribution Change

On a motion by Mr. Kaplan seconded by Mr. Mackey, the Committee unanimously voted to reallocate the large cap assets to be consistent with the VSERS and VMERS allocations of 40%, 40%, 20% to T Rowe, PIMCO, and SSgA respectively.

B. Index Management Association Membership

On a motion by Mr. Altemus seconded by Mr. Kaplan, the Committee unanimously voted to join the Index Management Association for a free one-year membership.

Mr. Altemus will provide further information to the VPIC.

ITEM 4: Committee Discussion Items

A. Director of Finance and Investments Report

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Committee unanimously voted to accept the Director’s report.

B. VPIC Act 50 Evaluation Process Update

Mr. Spaulding reported the Monk/Clark VPIC report was submitted to the Legislature. He said he believed the Legislature may be waiting for a recommendation to act upon.

Mr. Spaulding distributed a 2/12/08 DRAFT Pre-Post VPIC Analysis prepared by Ms. Pearce, which confirmed an annual savings in excess of \$1.2 million and hypothetical total asset gains of \$45.5 million. Other features of the report included staff and Board member hours, investment performance, etc.

Mr. Spaulding reiterated his position that the VPIC should be smaller and a completely separate entity from the Retirement Boards', balanced and represented by the appropriate stake holders, i.e. a seven member Investment Committee of one each VMERS, VSERS, and VSTRS representative, two governor appointees, and the Treasurer, with an independent Chair elected by the Committee. He also said alternates or substitute members for each stakeholder group would also be elected/appointed and expected to attend all meetings. The Committee also discussed that an educational component for the independent chair and members should be a pre-requisite and considered in the appointment/election of members, with new member training.

Among other issues discussed were transition, division of fiduciary responsibility, actuarial assumptions and rates of return. The Committee agreed the concept of the proposal to be distributed among the VPIC seeking feedback.

Adjournment

On a motion by Mr. Jeffrey seconded by Mr. Candon, the Committee unanimously voted to adjourn at 2:55 p.m.

Next Meeting Date:

April 8, 2008 – Full VPIC educational meeting
May 28, 2008 – Investment Search Subcommittee meeting
May 29, 2008 – Full VPIC meeting

Respectfully submitted,

Donna Holden, Clerk