

VERMONT PENSION INVESTMENT COMMITTEE

August 25, 2008

VPIC Members Present:

STEPHEN RAUH, CHAIR, VMERS Governor's Delegate, term expiring June 30, 2010
JEB SPAULDING, VICE-CHAIR, VT State Treasurer
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010
JOSEPH MACKEY, VSTRS *Alternate*, term expiring June 30, 2011

VPIC Member(s) Absent

VACANT, VSTRS Representative, term expiring June 30, 2011
MICHAEL K. SMITH, Governor's Delegate, term expiring June 30, 2012
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2010
WARREN WHITNEY, VSERS Representative, term expiring June 30, 2012

VPIC Alternate Members Present:

STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2010

VPIC Alternate Members Absent:

ROBERT HOOPER, VSERS *Alternate*, term expiring June 30, 2012

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Bill Rice, Law and Policy Director
Dick Charlton, Kevin Kondry, Doug Moseley, Chris Levell, NEPC
Bill Griffin, Chief Assistant Attorney General
Jaye Pershing-Johnson, Assistant Attorney General
Alice Cloud, Retirement Office
Linda Deliduka, Association of Retired Teachers
Real Estate Investment Managers

CALL TO ORDER:

The Chair, Steve Rauh, called the Monday, August 25, 2008, meeting to order at 8:35 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

Mr. Rauh advised the Board of the death of Mr. Kaplan. Mr. Mackey shared some reflections of Mr. Kaplan's contributions to the Vermont State Teachers' Board and Vermont Pension Investment Committee.

ITEM 1: Approval of Minutes

- **May 29, 2008**
- **July 16, 2008**
- **July 17, 2008**

On a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted to approve the minutes of May 29, 2008, July 16, 2008, and July 17, 2008, as submitted.

ITEM 2: Approve Agendas for Aug 25-26 Meeting

Hearing no objections, Mr. Rauh declared the agendas approved.

ITEM 3: Real Estate Manager Overview - NEPC

Mr. Moseley reviewed the NEPC recommendation to diversify the VPIC real estate assets by transitioning to a 35% core, 55% value-added, and 10% opportunistic portfolio. He also reviewed the real estate manager search process to date. The Committee reviewed the *August 2008 Real Estate Manager Search Finals* book provided by NEPC, which included firm descriptions, investments strategies, and NEPC's commentary for the four finalists.

ITEM 4: Real Estate Manager Finalist Presentation

- **Transwestern Investment Co.**

Stephen Quazzo, CEO and Managing Principal, and Douglas Lyons, Managing Director, appeared before the Committee to discuss the Aslan Realty Partners IV, a closed-ended, value-added, *domestic* product.

- **RREEF**

Susan Barlow, Managing Director and Head of Global Client Relations, Terry Doyle, Client Relations Director, and Benjamin Young, Managing Director and CIO of the Global Real Estate Opportunity Funds, appeared before the Committee to discuss the RREEF Global Opportunities Fund III, a closed-ended, value-added, *global* product.

- **Morgan Stanley**

John Kessler, Managing Director and Global Chief Operating Officer, appeared before the Committee to discuss the Morgan Stanley Real Estate Fund VII Global, a closed-ended, *opportunistic, global* product.

- **TA Associates Realty**

Richard Egan, Partner/CFO, and Blair Lyne, Partner, appeared before the Committee to discuss Fund IX, a closed-ended, value-added, *domestic* product.

ITEM 5: Discuss/Act on Real Estate Managers

Mr. Moseley summarized the presentations with respect to the NEPC asset allocation recommendation. The Committee discussed the 55/35/10% NEPC recommendation to determine whether there was agreement to the 3-4 year plan to transition to an approximate 1/3 core, 2/3 value-added, 10% opportunistic structure.

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to approve the NEPC recommendation to transition to a 55% value-added, 35% core, and 10% opportunistic real estate portfolio, over the next 3-4 year period as outlined on page one (1) of the VPIC August 2008 *Real Estate Manager Search Finals*..

The Committee further discussed funding considerations of either two managers at \$10 million each, or all four managers at \$5-7 million each, legal considerations, and potential contracting issues.

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to invest \$30 million with TA Associates Realty IX, and \$30 million with Transwestern Aslan Realty Partners IV.

Mr. Minot recommended a real estate cash position be maintained to be prepared for any potential cash calls on the total commitments, and that he work with NEPC to determine the appropriate levels.

On a motion by Mr. Mackey seconded by Mr. Spaulding, the Committee unanimously voted to invest \$10 million with Morgan Stanley Real Estate Fund VII Global, subject to successful relationship fee negotiations, and \$10 million with RREEF Global Opportunities Fund III, with all funds to be invested in the most appropriate vehicles.

The Committee acknowledged the money for funding the new real estate initiatives would come for the current core real estate investments.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to eventually equalize the long-term positions of the core managers, via the funding of the new investments.

ITEM 6: Discuss/Act on Revised Policies and Investment Guidelines

The Committee reviewed the proposed policy amendments. Policies #2-005 and #9-005 were discussed and further amendments were suggested. Policy #1-006 was deleted. **The Committee agreed to postpone action and to address the complete packet of policies at the October meeting.**

Along with NEPC, the Committee, Mr. Griffin, and Ms. Pershing-Johnson discussed the purpose of the Guidelines. **The Committee agreed** they were designed to guide both the VPIC and managers, once selected.

Mr. Charlton agreed to provide examples of guidelines from other states for Committee review. Ms. Pershing-Johnson discussed types of conflicts that arise during contract negotiations.

Mr. Rauh asked NEPC and the Attorney General's Office to consult on recommendations to be brought to the Committee at a later date.

The Committee reviewed the proposed Investment Guideline amendments to Sections A, B and D. Amendments to page A-10 and A-25 were requested, and to eliminate references to the Investment/Search Subcommittee throughout the document. In addition, Section B-30 would need to be completed and adopted once the contract was completed. Further, it was suggested that product names be added to the manager names in Section B, as defined in Section D.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to approve the amendments to the Guidelines Sections A, B and D, as discussed.

ITEM 7: Discuss Possible Opportunistic Investment in Credit Markets and Determine Next Steps

Mr. Levell led the Committee in a review and discussion of the *2008 Credit Opportunities Overview*, prepared by NEPC. Mr. Levell advised the Committee they had a fair amount of credit exposure currently, and should stay the course, however, if the Committee was inclined there were managers that could maximize on credit opportunity exposure.

Mr. Levell also suggested that some managers be permitted a defined amount, i.e. 5%, be available in an “opportunistic bucket”, which would allow the manager to exercise discretion and permit nimbleness for the manager to enter into market areas that would produce alpha.

ITEM 8: Any Other Business to Come Before the Committee

None

Adjournment

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to adjourn at 5:05 p.m.

Respectfully submitted,

Donna Holden, Clerk