

VERMONT PENSION INVESTMENT COMMITTEE

August 26, 2008

VPIC Members Present:

STEPHEN RAUH, CHAIR, VMERS Governor's Delegate, term expiring June 30, 2010
JEB SPAULDING, VICE-CHAIR, VT State Treasurer
JOSEPH MACKEY, VSTRS *Alternate*, term expiring June 30, 2011
WARREN WHITNEY, VSERS Representative, term expiring June 30, 2012
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2010
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010

VPIC Member(s) Absent

VACANT, VSTRS Representative, term expiring June 30, 2011
MICHAEL K. SMITH, Governor's Delegate, 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, 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
Marina Ushakova, City of Burlington
Tom Donegan, Dahab Associates
Investment Managers

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, August 26, 2008, meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Investment Consultant 2nd Quarter Review - NEPC

- **Quarterly Review**

Mr. Charlton, Mr. Kondry and Mr. Levell presented the Q2/08 report. They reported a total VPIC fund balance of \$3.20 billion in assets, which 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.

NEPC reiterated its long-standing and consistent message to the Committee, to reduce its domestic equity exposure to approximately 47-48% from the current weighted average at 58.3%, with the intention of improvement to the overall portfolio performance and to reduce the 85% or more risk to the portfolio, associated with the equity exposure.

NEPC also agreed to provide a second performance summary, which would include the historical performance of new managers.

The Committee agreed to reexamine the PIMCO Stocks Plus contract and discuss with the manager whether a move from the separately managed account to the commingled product was possible, and whether previous contracting issues could be resolved.

VSTRS:

The second quarter 2008 performance reported a market value fund balance at approximately \$1.495 billion and a gross quarterly return of (1.1)%, an under performance of the (0.7)% median public fund with assets over \$1B. The one-year return was reported at (5.6)% vs. the median public fund at (4.1)%, three-year return 6.6% vs. the median public fund at 7.4%, and a five-year return of 9.0% vs. 9.7%.

VSERS:

The second quarter 2008 performance reported a market value fund balance at approximately \$1.279 billion and a gross quarterly return of (1.0)%, an under performance of the (0.7)% median public fund with assets over \$1B. The one-year return was reported at (5.9)% vs. the median public fund at (4.1)%, three-year return 6.6% vs. the median public fund at 7.4%, and a five-year return of 8.84% vs. 9.7%.

VMERS:

The second quarter 2008 performance reported a market value fund balance at approximately \$313 million and a gross quarterly return of (1.0)%, an under performance of the (0.7)% median public fund. The one-year return was reported at (6.1)% vs. the median public fund at (4.4)%, three-year return 6.8% vs. the median public fund at 6.8%, and a five-year return of 8.7% vs. 8.9%.

BURLINGTON:

The second quarter 2008 performance reported a market value fund balance at approximately \$117 million and a gross quarterly return of (1.2)%, an under performance of the (0.7)% median public fund. The inception date of this municipal deposit was November 1, 2007; therefore, further performance data was calculated on anticipated returns if they had been a member. One-year return at (7.7)% vs. the median public fund at (4.4)%, three-year return at 6.2% vs. the median public fund at 6.8%, and a five-year return of 8.1% vs. 8.9%.

ITEM 2: Portfolio Asset Allocation Review

The Committee reviewed the *Asset Allocation Review* book, and asset allocation mixes handout provided by NEPC. The Committee discussed risk allocations, historical returns, prospective market attributes and expectations. NEPC expressed their previous recommendation to consider the alternative asset classes allocation, based on each systems' needs, as detailed in the third bar chart on page six (6) of the review book.

The Committee discussed hedge funds and private equity investments, and questioned what steps would be required, legally, legislatively, to guidelines, and policies, etc. that would allow the Committee to accomplish successful contracting and to permit making investments with top cortile managers in these areas.

The Committee discussed and agreed, there was currently a greater comfort level in investing in the area of private equity, but also a desire for more education in the area hedge funds.

The Committee also discussed and acknowledged that they employ and rely on an Investment Consultant that has consistently made these and other recommendations and that the Committee should either follow or find another consultant. Other members expressed their opinion that the Investment Consultant's role was to bring options and opportunities forward for the Committee to consider and the Committee is expected to make informed decisions based upon what was prudent to the systems' needs.

Ms. Pershing-Johnson agreed to work with Mr. Minot and NEPC to examine hedge fund, funds-to-funds, and other matters in preparation of potential Committee investments in these areas.

The Committee discussed when the timing would be appropriate to examine a unified asset allocation model, depending on each system's needs.

ITEM 3: Discuss and Act on ETI Proposals

• **New ETI-RFP Proposals and Contracting Matters**

Mr. Minot reviewed the proposal information.

Mr. Rauh and Mr. Altemus informed the VPIC that the Governor expressed to them his belief that VHFA met the criteria for economically targeted investments and his hope that the proposals would meet fiduciary criteria.

Mr. Rauh made a motion seconded by Mr. Mackey, to pass on the entire package of ETI proposals from Vermont Community Loan Fund, Vermont Housing Finance Agency, and Community Capital Management.

Mr. Whitney made a motion seconded by Mr. Rauh, to amend the original motion to invest \$5 million in Community Capital Management.

With unanimous Committee consent, *Mr. Rauh and Mr. Mackey withdrew the original motion.*

With unanimous Committee consent, Mr. Whitney withdrew his amendment.

Mr. Whitney made a motion seconded by Mr. Mackey, to invest \$5 million in Community Capital Management, pending further investment manager information from Mr. Minot.

With unanimous Committee consent, Mr. Whitney withdrew his motion and Mr. Mackey withdrew his second.

Mr. Whitney made a motion seconded by Mr. Mackey, to invest \$5 million in Community Capital Management.

With unanimous Committee consent, Mr. Whitney withdrew his motion and Mr. Mackey withdrew his second.

Mr. Rauh made a motion seconded by Mr. Whitney, that the manager of Community Capital Management be invited to appear before the Committee to make a finalist presentation.

Mr. Minot advised the Committee he would fund the investment from the core fixed income sector, if the manager was ultimately selected.

The Committee discussed and agreed they would review the existing ETI policy before the next RFP cycle to determine modifications or its continued Committee support.

The Committee authorized Mr. Minot to seek further information from the Vermont Housing Finance Agency including features that lend itself to pricing options, expected rate of return, exit strategy, and total loss exposure.

The Committee confirmed there would be no investment in the Vermont Community Loan Fund.

- **Green Asset Partners**

Mr. Spaulding reviewed the Committee's prior motion and back-up.

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to proceed with the 2-13-08 motion to invest \$2 million (from real estate funds) in Green Asset Partners (GAP), contingent upon the manager reaching the remaining conditions of raising \$15M in funds to receive the first \$1M, and another \$5M in funds from other investments to receive the second \$1M, and affirming the 6% rate of return before the proposed 80/20% split.

Mr. Minot advised the Committee the manager expected to close on the first \$10 million in October, and would leave the fund open for one-year to raise the balance of funds.

ITEM 4: Executive Session

At 1:35 p.m. on a motion by Mr. Whitney seconded by Mr. Mackey, the Committee unanimously voted to enter into executive session, pursuant to Title 1 § 313 to discuss legal matters.

Mr. Griffin, Mr. Minot, Ms. Pershing-Johnson, Mrs. Holden, Ms. Cloud, Mr. Kondry, Mr. Levell, Ms. Deliduka, Mr. Donegan, and Ms. Ushakova were invited into the executive session.

At 1:40 p.m. the Board exited executive session.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to authorize the Attorney General's Office to pursue legal remedies to recover losses related to Countywide holdings, and to enter into whatever legal contracts may be required.

ITEM 5: **Manager Presentation**

- **Mellon Capital Management**

Earl Kleckner, Managing Director, Client Services appeared before the Committee to provide the Q2/08 report. The *global asset allocation* portfolio was reported to have a market value of approximately \$163.1 million with a Q2/08 return of (1.9)% compared to the 60% MSCI World/40% CITI WGBI index of (2.0)%, the one-year return was (10.5)% vs. (3.7)% for the benchmark; Due to the May 2006 inception date the three and five-year return were not available.

Mr. Kleckner also provided an overview of the investment strategy, historical performance, and client account review.

- **Oppenheimer Capital**

Tom Scerbo, Managing Director and Account Manager, and Jeff Sheran, Senior Vice President appeared before the Committee to provide the Q2/08 report. The *domestic core fixed income with alpha overlay* portfolio was reported to have a market value of approximately \$74.6 million with a Q2/08 return of (0.4)% compared to the LB Aggregate Index of (1.0)%. Due to the March 2008 inception date the one, three, and five-year return were not available.

Mr. Sheran also provided a brief overview of the "beta bonds-alpha options" investment strategy, historical performance, and client account review.

Mr. Spaulding left the meeting during the next item.

ITEM 6: **Discuss Manager Presentations**

Mr. Levell summarized the presentations. The Committee discussed the prudence in eventually increasing the Oppenheimer allocation to approximately \$120 million (and Wellington to \$120 million), to reach the adopted 1/3, 1/3, 1/3 fixed income allocation model.

Mr. Whitney left the meeting during the next item.

ITEM 7: **Discuss Proposed Annual Agenda Cycle**

- **Education Sessions**
- **Manager Review Meetings**

The Committee discussed and agreed to implement the proposed schedule, with the understanding items may be added or reassigned, depending on Committee needs. NEPC agreed to the asset-liability review scheduled annually for February.

The Committee discussed: video conferencing, conference calls, development of a more comprehensive executive summary report for managers to submit on a regular basis.

ITEM 8: Agenda Items for October and November VPIC Meetings

The Committee discussed and agreed to see Logan Circle and Post Advisory at the October meeting, and PIMCO Stocks Plus and All Asset funds, Wellington small cap, DAS and Opportunistic mandates at the November meetings.

ITEM 9: Director of Finance and Investments Report

- **State Street Bank – Transition Management**
- **State Street Bank – Compliance Services**

Mr. Minot reviewed his report.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to authorize amendment to the State Street Bank custody contract to include transition management services, as recommended by Mr. Minot.

On a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee unanimously voted to authorize amendment to the State Street Bank custody contract to include the monthly investment compliance review service for separately managed accounts at a cost of \$1,200/per account/per year, with the cost to be prorated based on assets, as recommended by Mr. Minot.

The Committee discussed the securities lending practices and the voting of proxies during the lending periods.

ITEM 10: Any Other Business to Come Before the Committee

Mr. Mackey advised the Committee he was planning on attending the September 15-17, 2008 Commodities Portfolio Management conference, at no cost to the Committee.

Adjournment

At 5:13 p.m. the Chair declared the meeting adjourned.

Respectfully submitted,

Donna Holden, Clerk