

**VERMONT PENSION INVESTMENT COMMITTEE**  
**November 24, 2008**

**VPIC Members Present:**

STEPHEN RAUH, CHAIR, VMERS Governor's Delegate, term expiring June 30, 2010  
JEB SPAULDING, VICE-CHAIR, VT State Treasurer - **Arrived later in the meeting**  
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2011  
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2010  
MICHAEL K. SMITH, Governor's Delegate, term expiring June 30, 2012

**VPIC Member(s) Absent:**

WARREN WHITNEY, VSERS Representative, term expiring June 30, 2012

**VPIC Alternate Members Present:**

STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2010  
ROBERT HOOPER, VSERS *Alternate*, term expiring June 30, 2012  
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010

**VPIC Alternate Member(s) Absent:**

JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011

**Also attending:**

Donna Holden, Clerk  
David Minot, Director of Finance and Investments  
Bill Rice, Law and Policy Director  
Bill Griffin, Chief Assistant Attorney General  
Jaye Pershing-Johnson, Assistant Attorney General  
Dick Charlton, Chris Levell and Kevin Kondry, NEPC  
Kevin Gaffney, VSERS Board of Trustees  
Linda Deliduka, Association of Retired Teachers  
Investment Managers and Custodian Bank Representatives

**CALL TO ORDER:**

The Chair, Steve Rauh, called the Monday, November 24, 2008, meeting to order at 8:31 a.m., which was held in the 4<sup>TH</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agendas Approvals****

Upon discussion and hearing no objections, Mr. Rauh declared the agendas approved.

**ITEM 2:      **Committee Action Items****

- **October 30, 2008 Approval of Minutes**

**On a motion by Mr. Johannesen seconded by Mr. Mackey, the Committee unanimously voted to approve the minutes of October 30, 2008, with a future amendment from Mr. Minot.**

*Mr. Spaulding arrived at the meeting during the next item.*

**ITEM 3:      **NEPC Manager Introductions****

Mr. Levell and Mr. Kondry reviewed the PIMCO and Wellington mandates and performance.

**ITEM 4: Investment Management Presentation**

- **PIMCO (Stocks Plus and All Asset)**

Robert Arnott, Chairman, Research Affiliates and Portfolio Manager/Sub-Advisor to All Asset Fund, Scott Millimet, Executive Vice President, Account Management, and Libby Cantrill, Account Management, appeared before the Committee to discuss the Q3/08 report. The **All Asset Fund** portfolio is an actively managed, tactical, multi-market mutual fund strategy was reported to have a market value of approximately \$179.7 million with a Q3/08 return of (7.5)% compared to the CPI + 5% benchmark of (.5)%, and the one-year return was (5.7)% vs. 3.7%, for the benchmark. Due to the May 2006 inception date of this manager the three and five-year returns were not available.

The **StocksPLUS** portfolio, an actively managed, enhanced large-cap equity strategy was reported to have a market value of approximately \$304.4 million with a Q3/08 return of (12.5)% compared to the S&P 500 Index of (8.4)%, and the one-year return was (28.7)% vs. (22.0)%, for the benchmark. Due to the December 2005 inception date of this manager the three and five-year returns were not available.

- **Wellington Asset Management**

Timothy McCormack, Vice President and Equity Portfolio Manager, and David Eikenberry, Senior VP, Partner, and Director of Institutional Relationship Management, and Scott Elliott, Director of Asset Allocation Strategies, appeared before the Subcommittee to provide the Q3/08 report. The **small cap** value portfolio was reported to have a market value of approximately \$123.9 million with a Q3/08 return of 2.1% compared to the Russell 2000 Value Index of 5.0%, one-year return was (9.1)% vs. (12.3)%, and a three-year return at 4.5% vs. 2.0% for the benchmark. Due to the December 2008 inception date of this manager the five-year return was not available. No returns were available for the Wellington (**FI**) diversified alpha strategy - **DAS** fund of approximately \$69.5 million funded in July 2008, or the Wellington (**GAA**) opportunistic investment fund - **OIF** of \$141.1 million, funded in August 2008.

**ITEM 5: Discuss Manager Presentations**

The Committee discussed the presentations, their confidence with the management of the portfolios, the strategies, and firms. NEPC agreed to prepare and present at the February meeting, a recommendation regarding modifications in some of the portfolio's current investment strategies.

**ITEM 6: ETI Investment Program**

- **VHFA Single Family PAC**

Mr. Minot reviewed the 2008 RFP process, and responses. He advised that at the Committee's request he contacted this entity to seek further information, however, the agency had not responded to a request regarding the pricing of issues within their proposal.

**On a motion by Mr. Mackey seconded by Mr. Spaulding, the Committee unanimously voted to appoint an ad-hoc subcommittee of Mr. Smith and Mr. Minot, to continue working on fact-finding with VHFA, and bring a report to the Committee.**

- **VT Manager Program Proposal**

Mr. Rauh suggested as an ETI investment the Committee consider developing a Vermont Manager Program similar to the approach used to manage the tobacco funds.

NEPC agreed to create a report of Vermont managers and Mr. Minot will obtain a list of all Vermont domiciled registered investment advisers from BISHCA.

**ITEM 7: Carryover Discussion Items from Oct 30<sup>th</sup> Meeting**

- **Securities Lending Program**

The Committee reviewed the conclusions reached at the October 30, 2008, meeting with respect to this topic. Mr. Charlton advised that no other clients, to date, had left the securities lending program.

Mr. Minot agreed to continue monitoring the program and to send updates to the Committee monthly.

Mr. Minot provided amendment language to include in the October 30, 2008, minutes, under Item 6, which read:

*Insert before the final sentence:*

‘Due to price degradation in the Quality D portfolio, which has a portfolio market price of approximately 96% of amortized cost (contributions adjusted for amortized principal), customers are constrained from withdrawing funds in cash and 100% on the dollar. State Street policy is that withdrawals at this time are only being provided with in-kind securities which in aggregate would realize in a sale an approximate 4% discount under current market conditions.’

**On a motion by Mr. Johannesen seconded by Mr. Smith, the Board unanimously voted to accept the amendment language for the October 30, 2008 minutes, as discussed.**

- **Rebalancing**

**On a motion by Mr. Johannesen seconded by Mr. Mackey, the Committee unanimously voted to forgo any interim rebalancing, and to adhere to the Policy’s schedule, which would be February.**

- **Proxy Voting RFP and Voting Guidelines**

Mr. Minot advised that pursuant to Bulletin 3.5, non-investment management services were required to be competitively bided. He said the RFP was released and that a new contract would include a review and possible re-write of the domestic guidelines along with development of international guidelines.

**The Committee agreed** to defer further discussion on the existing proxy voting guidelines until after the RFP process was completed, and development or review of the existing and new policies were completed.

- **VPIC Member Contact with Managers**

The Committee discussed the prudence of having a list of common expectations of Committee member with respect to contacting managers. Mr. Spaulding agreed to develop the list for consideration.

- **Investment Policy Guidelines**

Mr. Minot reported that NEPC provided results of an informal survey of other public pension plans, which resulted in most commonly two types of guidelines. The first type an open document with no restrictions, and the second similar to Vermont's, which has broad section A guidelines and exceptions listed in section B.

Mr. Rauh, Ms. Pershing-Johnson, and Mr. Minot agreed to work together to develop amendments to the current guidelines.

*Mr. Smith left the meeting during the next item.*

**ITEM 8: Private Equity/Hedge Fund Update & Discussion**

Mr. Levell updated the Committee on the status of current hedge fund performance and predictions of the strategy's future. For educational and information purposes, discussion ensued.

**ITEM 9: Director of Finance and Investments Report**

**At 4:15 p.m. on a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted to enter into executive session, pursuant to Title 1 § 313 to discuss Bridgewater contract negotiations.**

Mr. Charlton, Mr. Levell, Mr. Kondry, Ms. Deliduka, Mr. Gaffney, Mr. Griffin, Ms. Pershing-Johnson, and Mrs. Holden were invited into the executive session.

**At 4:40 p.m. the Committee exited executive session.**

**The Committee agreed** to authorize Mr. Minot and Ms. Pershing-Johnson to pursue further fact-finding with Bridgewater.

Mr. Minot reviewed his November 2008 written report.

**ITEM 10: Any Other Business to Come Before the Committee**

Mr. Spaulding distributed a copy of the Council of Institutional Investors' letter seeking cooperate governance reform, and asked the Committee to consider granting their support and approval for adding Vermont's signature to the letter.

**Adjournment**

Hearing no objection, **the Chair declared the meeting adjourned at 5:02 p.m.**

Respectfully submitted,

Donna Holden, Clerk