

VERMONT PENSION INVESTMENT COMMITTEE
November 25, 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 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
JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010

VPIC Alternate Member(s) Absent:

None

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
Linda Deliduka, Association of Retired Teachers, VSTRS
Kevin Gaffney, VSERS Board of Trustees
Barry Bryant, Dahab Associates – City of Burlington
Marina Ushakova, City of Burlington

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, November 25, 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 3rd Quarter Review - NEPC**

Mr. Charlton, Mr. Kondry and Mr. Levell presented the Q3/08 report. They reported a total VPIC fund balance of \$2.892 billion in assets, which included assets of the three retirement systems and one municipality. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The third quarter 2008 performance reported a market value fund balance of approximately \$1.359 billion and a gross quarterly return of (9.7)%, an under performance compared to the (9.0)% median public fund with assets over \$1B. The one-year return was reported at (16.8)% vs. the median public fund at (14.9)%, three-year return 2.0% vs. the median public fund at 2.7%, and a five-year return of 6.2% vs. 6.7%.

VSERS:

The third quarter 2008 performance reported a market value fund balance of approximately \$1.144 billion and a gross quarterly return of (9.9)%, an under performance compared to the (9.0)% median public fund with assets over \$1B. The one-year return was reported at (16.6)% vs. the median public fund at (14.9)%, three-year return 1.8% vs. the median public fund at 2.7%, and a five-year return of 5.9% vs. 6.7%.

VMERS:

The third quarter 2008 performance reported a market value fund balance of approximately \$282 million and a gross quarterly return of (10.1)%, an under performance compared to the (8.0)% median public fund. The one-year return was reported at (16.8)% vs. the median public fund at (14.2)%, three-year return 1.8% vs. the median public fund at 2.7%, and a five-year return of 5.7% vs. 6.5%.

BURLINGTON:

The third quarter 2008 performance reported a market value fund balance at approximately \$105 million and a gross quarterly return of (9.7)%, an under performance compared to the (8.0)% median public fund. The inception date of this municipal deposit was November 1, 2007; therefore, further performance data was achieved prior it joining VPIC. One-year return at (18.1)% vs. the median public fund at (14.2)%, three-year return at 1.1% vs. the median public fund at 2.7%, and a five-year return of 5.4% vs. 6.5%.

When queried, Mr. Levell advised the Board NEPC would ultimately like to expand the portfolio to round-out the GAA space with a risk parity manager, lower overall equity exposure, increase alternatives, and add a “real asset” sector, which could include products such as TIPS, commodities, and other private real asset investments.

ITEM 2: Discuss/Approve Expansion of Post Advisory/Logan Circle FI Mandates

- **Permit bank loans**
- **Permit leveraged loans and other types of debt**
- **Legal issues**
- **Limitation on allocation**

Mr. Minot reviewed two Post Advisory proposals for management of bank loan portfolios with either scenario requiring its own specific mandate and contract. The first was for a separately managed account with a minimum portfolio deposit of \$75M and fees at .75 bp, or the second investment in a limited partnership with a minimum deposit of \$500K and fees at .75 bp plus incentives.

Mrs. Pershing-Johnson advised the Committee that justification and an open competitive waiver for a sole source contract with Post would be required to initiate a new separate mandate and contract vs. adding to an existing mandate.

On a motion by Mr. Rauh seconded by Mr. Johannesen, the Committee unanimously voted to authorize NEPC to initiate a database search for a bank loan manager for an investment in the range of \$50 to \$100 million, and to be completed for discussion at the February meeting.

The Committee agreed to hold a conference call with Logan Circle in mid December to review their strategy, execution, outlook and opportunities in their market view.

The Committee agreed to review a minimum of six managers at the December conference call meeting, with respect to the bank loan search, with the intention of selecting two finalists for interviews at the February meeting.

Mr. Charlton advised the Committee that on behalf of their clients, NEPC was holding discussions with Mellon regarding changes in the manager's approach to the mandate's strategy. He advised to temporarily stay the course, pending further feed-back.

NEPC agreed to continue to collect information from Bridgewater to be sent to Mr. Minot for review with the Attorney General's Office.

In an effort to identify potential contracting issues and/or Vermont contracting road blocks, NEPC agreed to provide the Attorney General's Office with sample contracts reached in other states for funds-to-funds, hedge funds, and private equity contracts.

With the Committee's permission items on the agenda were taken out of order.

ITEM 3: Committee Discussion Items

- **Annual Review of Key Service Providers**
 - **State Street Bank & Trust Company (Custodian Services)**

Prior to a positive review and support of the entity's performance, Mr. Charlton disclosed the essence of NEPC's working relationship with SSB&T. Along with Mr. Minot, Committee members, Mr. Griffin, and Mr. Bryant also contributed perspectives to the review. Mr. Rice advised that the securities litigation component of the contract was still being developed.

Mr. Minot advised he was still working on the contract amendment approved at the August 26th meeting to include manager guideline monitoring.

- **ISS/Risk Metrics (Proxy Voting and Terrorist/Genocide Monitoring)**

Mr. Minot advised the Committee of the currently posted RFP for proxy voting services.

- **VPIC Self-Evaluation**

NEPC complemented the Committee on their reorganization and committee size.

The NEPC staff left the meeting. Mr. Johannesen left the meeting during the next item.

- **Annual Review of Key Service Providers – CONTINUED**
- **VPIC Self-Evaluation – CONTINUED**
 - NEPC

At 12:22 p.m. on a motion by Mr. Johannesen seconded by Mr. Smith, the Committee unanimously voted to enter into executive session pursuant to Title 1 § 313, to discuss manager evaluations.

Mr. Minot, Mrs. Deliduka, Mr. Rice, Mr. Griffin, Mrs. Pershing-Johnson, Mr. Gaffney, and Mrs. Holden were invited into the executive session.

At 1:10 p.m. the Committee exited executive session.

The Committee agreed that manager-by-manager reports should include a “what helped/what hurt” section within the report each quarter, and that Mr. Minot would advise NEPC of the request for a complete and thoughtful analysis. Also requested was an up-market, down-market capture analysis.

ITEM 4: Committee Action Items

- **Discuss/Approve VPIC Membership in Investor Network on Climate Risk**

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee voted to authorize a committee of three appointed by the Chair to participate in the Investor Network on Climate Risk (INCR) and its Global Warming Shareholders Campaign on behalf of the VPIC, including the sponsorship or co-sponsorship of shareholder resolutions on the topic, and to report semi-annually at the May and November meeting on activities and results of participation. Motion failed. Mr. Spaulding, Mr. Hooper, and Mr. Mackey voted yes. Mr. Smith, Mr. Altemus, and Mr. Rauh voted no.

Mr. Smith left the meeting.

ITEM 5: Committee Discussion Items - CONTINUED

- **VPIC Education Plan**

The Committee discussed topics of interest for future educational meetings, which included commodities, new strategies, and outside evaluation of the portfolio.

- **February Agenda Planning**

The Committee agreed the February meeting would focus heavily on asset allocation, investment styles, and how the portfolio was poised for future scenarios, and volatility.

ITEM 6: Committee Action Items - CONTINUED

- **Discuss/Approve Proposed Real Estate Funding Schedule**

On a motion by Mr. Mackey Seconded by Mr. Hooper, the Committee unanimously voted to defer investment in the TA Realty Associates Fund IX and Transwestern/Aslan Realty Partners IV until further notice, and to proceed with the previously approved \$10 million global mandate investments in each of Morgan Stanley Fund VII and RREEF Opportunistic Fund III.

- **Discuss/Approve Green Mountain Capital Final Contract Extension to December 31, 2009**

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to approve the final GMC contract extension until December 31, 2009.

- **Discuss/Approve Clarification to Contract Amendment Language**

Upon discussion **the Committee agreed** not to take action.

- **Discuss/Approve Policy on Investment in Terrorist or Genocide Linked Countries (Policy 3-006) – Policy sunsets January 1, 2009**

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to extend the policy for another year, to December 31, 2009.

- **Discuss/Act on CII Governance Advocacy Letter**

On a motion by Mr. Spaulding seconded by Mr. Hooper, the Committee unanimously voted to authorize the Chair to sign the CII Governance Advocacy letter on behalf of the VPIC.

- **Mr. Spaulding asked the Committee to reconsider its earlier vote on VPIC Membership in Investor Network on Climate Risk**

On a motion by Mr. Hooper seconded by Mr. Spaulding, the Committee voted to authorize a committee of three (members or alternates) to be appointed by the Chair, to participate in the Investor Network on Climate Risk (INCR) and its Global Warming Shareholders Campaign on behalf of the VPIC, including the sponsorship or co-sponsorship of shareholder resolutions on the topic, and to report to the VPIC quarterly on activities and results of participation. *Motion passed.* Mr. Altemus abstained.

Mr. Rauh appointed Mr. Spaulding, Mr. Hooper, and Mr. Smith to the sub-committee.

- **Discuss/Approve ETI Policy (Policy 2-006)**

On a motion by Mr. Spaulding seconded by Mr. Altemus, the Committee unanimously voted to table further discussion on the ETI Policy until the February meeting.

Mr. Minot advised the Committee that he was notified by Green Asset Partners they would be suspending further fund raising, at this time.

Mr. Spaulding made a motion seconded by Mr. Altemus to notify Green Asset Partners that the VPIC had withdrawn its previously discussed commitment.

- **Discuss/Approve VPIC Operating Policies**

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to approve the operating policies, as amended and submitted, with the exception of Policy #9-005, pending further information from the Attorney General's Office.

ITEM 7: Any Other Business to Come Before the Committee

None

Adjournment

On a motion by Mr. Spaulding seconded by Mr. Hooper, the Committee unanimously voted to adjourn at 3:06 p.m.

Respectfully submitted,

Donna Holden, Clerk