

VERMONT PENSION INVESTMENT COMMITTEE

February 10, 2009

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

None

VPIC Alternate Members Present:

STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2010
JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010
ROBERT HOOPER, VSERS *Alternate*, term expiring June 30, 2012

VPIC Alternate Member(s) Absent:

None

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Chris Levell and Kevin Kondry, NEPC
Bill Griffin, Chief Assistant Attorney General
Jaye Pershing-Johnson, Assistant Attorney General
Linda Deliduka, Association of Retired Teachers, VSTRS
Barry Bryant, Dahab Associates
Bradley Regier, Tuck School of Business, Dartmouth College
Scott Waterstredt, Tuck School of Business, Dartmouth College
Jim Reardon, VSERS Ex-Officio Board Member

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, February 10, 2009, meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval**

Hearing no objections, the 2/10 and 2/11 agendas were accepted with the intention of adding an executive session at the end of the 2/10 agenda.

ITEM 2: **Minutes**

- **Approve the Minutes of November 24, 2008 and November 25, 2008 – Regular meetings**
- **Approve the Minutes of December 16, 2008 – Conference call meeting**

On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to approve the minutes of November 24th, November 25th, and December 16, 2008, as submitted.

ITEM 3: Committee Action Items

- **Discuss/Approve Travel Policy #9-005**

The Committee was advised that based on an Attorney General's finding, members of the Committee were subject to reimbursement for travel consistent with the State's Administrative Bulletin 3.4.

On a motion by Mr. Mackey seconded by Mr. Whitney, the Committee unanimously voted to reaffirm adoption of the amended Travel Policy #9-005.

- **Discuss/Approve Revised ETI Policy & VT Manager Program Policy**

Mr. Rauh advised the Committee that based on earlier discussions he was recommending that VPIC amend the Economically Targeted Investment Program Policy #2-006 to remove the "annual" RFP process.

On a motion by Mr. Mackey seconded by Mr. Spaulding, the Committee unanimously voted to approve the amended ETI Policy #2-006, as presented.

The Committee reviewed and discussed the DRAFT Vermont Manager Program Policy #1-009. The Committee agreed to the recommendation that investments be limited to not more than 10% total assets under management, as defined in item 6. The Committee also discussed and agreed to add language regarding the custody of assets.

On a motion by Mr. Spaulding seconded by Mr. Smith, the Committee unanimously voted to approve the Vermont Manager Program Policy #1-009, with the 10% total assets under management condition, an addition of custody of assets language, and to authorize Mr. Rauh to work with staff to initiate a timely RFI process.

- **Ratify Execution of New Contract with RiskMetrics**

Mr. Rauh advised the Committee of his execution of the new contract with RiskMetrics to provide proxy voting services.

On a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee unanimously voted to ratify execution of the RiskMetrics contract, as discussed.

- **Ratify Real Estate Redemption Strategy**

Mr. Minot advised the Committee that in the past the VPIC's philosophy with respect to real estate dividend distributions was to automatically reinvest these into the portfolio. He said given current market conditions, real estate redemption requests were not obtainable, therefore, in an effort to raise cash to fund recently approved real estate mandates current core real estate managers were advised, until further notice, that all dividends would be redeemed in cash directly to the VPIC custodian for deposit.

On a motion by Mr. Mackey seconded by Mr. Rauh, the Committee unanimously voted to ratify the change in core real estate redemptions, as discussed.

The Committee discussed whether, given current market conditions, it would be useful to also "strip" dividends and/or interest payments as a way to raise cash to meet liabilities and cash needed for rebalancing

without requiring securities sales. Mr. Minot agreed to prepare a forecast of liabilities and portfolio areas where redemption of dividends could be considered, along with a list of “pros/cons” with the information.

ITEM 4: Discussion Items

- **Report of VHFA Sub-Committee**

Mr. Minot advised the Committee that he and Mr. Smith met with VHFA personnel in response to the VPIC’s directives, the legislative request for VPIC consider a VHFA investment, and the VHFA’s response to the 2008 ETI RFP. Mr. Minot explained that VHFA proposed a \$10 to \$20 million debt private placement to fund mortgage loans to multi-family housing projects and that he and Mr. Smith asked VHFA to work with its investment banker to furnish relevant market prices of securities information to justify the proposed pricing of this debt instrument. Upon receipt and review of this information Mr. Smith and Mr. Minot agreed to further brief the VPIC.

The Committee discussed the potential for precedent setting if they made this type of direct (not subject to external investment management) investment, which fell outside VPIC’s Investment Guidelines, and that several other requests for direct investments could come forward.

The Committee agreed by consensus, for the subcommittee to continue gathering information from VHFA.

- **PIMCO Stocks-Plus Transition from SMA to Commingled Fund Update**

Mrs. Pershing-Johnson advised the Committee she was still waiting for information from the manager.

- **Bridgewater All-Weather/Pure Alpha Update**

Mrs. Pershing-Johnson advised the Committee she was still gathering clarification from the manager regarding the investment structure.

The Committee reviewed their actions to date, and that they had approved an investment in the Bridgewater All Weather product, however, they had not yet approved the “Pure Alpha” portion of the investment. They agreed the objective was for the AG’s Office to determine whether contracting was possible before a decision was made in the pure alpha/hedge fund area.

The Committee agreed, if the AG’s Office was successful with reaching outstanding contracting matters (expected by March 1st) that Bridgewater would come before the Committee to review their product and strategy at the April meeting. However, if not, NEPC would invite previously seen risk parity managers due to their strong recommendation and support for adding the asset class to the portfolio.

- **Proposed Revision of Investment Guidelines**

Mrs. Pershing-Johnson reviewed the DRAFT Statement of Investment Policy. She said the Policy would be a “Committee Policy” with appendices incorporated by reference. Further discussed was the need for contracts to be amended regarding their Guideline references.

Mr. Altemus agreed to continue work on the Guideline re-write project with Mr. Rauh and Mrs. Pershing-Johnson.

- **AG Review of Private Equity/Hedge Fund Sample Contracts**

Mrs. Pershing-Johnson reviewed the matrix developed upon review of the research materials, which outlined critical areas of consideration and potential contracting pitfalls.

ITEM 5: Director of Finance and Investments Report

The Committee reviewed and discussed Mr. Minot's written report.

The Committee agreed that future quarterly portfolio performance reports should (at a minimum) also include a footnote that detailed the securities lending exposure and returns as part of the portfolio returns, and that the information could be provided by either by NEPC or by staff.

Mr. Minot agreed to request that in addition to developing international proxy voting guidelines, RiskMetrics review the domestic proxy voting guidelines, which were developed approximately five years ago.

Mr. Mackey, Mr. Johannesen, Mr. Spaulding and Mr. Hooper agreed to work on a proxy voting policy sub-committee.

- **Waiver Requests**

On a motion by Mr. Mackey seconded by Mr. Whitney, the Committee unanimously voted to approve PIMCO's request to continue holding their exposures in GMAC and Lehman, as described in the January 16, 2009, correspondence.

Mr. Minot asked the Committee for guidance in developing a policy regarding the granting of waiver requests, and whether the Committee preferred internal approvals followed by reports to the VPIC, or whether all requested waivers should be brought forward for Committee action. Mr. Minot will develop a proposal for a VPIC operational Policy.

ITEM 6: Preview of Wednesday's Asset Allocation Discussion

Mr. Rauh reviewed his intentions with respect to the discussion items scheduled for Wednesday, and encouraged the Committee to read the materials provided.

ITEM 7: Investment Consultant 4th Quarter Review - NEPC

Mr. Kondry and Mr. Levell presented the Q4/08 report. They reported a total VPIC fund balance of \$2.378 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 fourth quarter 2008 performance reported a market value fund balance of approximately \$1.106 billion and a gross quarterly return of (17.4)%, an under-performance compared to the (13.8)% median for public funds with assets over \$1B. The one-year return was reported at (30.1)% vs. the median public fund at (25.9)%, three-year return (4.9)% vs. the median public fund at (2.6)%, and a five-year return of 0.4% vs. 2.1%.

VSERS:

The fourth quarter 2008 performance reported a market value fund balance of approximately \$949.8 million and a gross quarterly return of (16.7)%, an under-performance compared to the (13.8)% median for public funds with assets over \$1B. The one-year return was reported at (29.6)% vs. the median public fund at (25.9)%, three-year return (4.9)% vs. the median public fund at (2.6)%, and a five-year return of 0.4% vs. 2.1%.

VMERS:

The fourth quarter 2008 performance reported a market value fund balance of approximately \$236.3 million and a gross quarterly return of (16.3)%, an under-performance compared to the (12.9)% median for public funds. The one-year return was reported at (29.4)% vs. the median public fund at (24.8)%, three-year return 4.9% vs. the median public fund at (2.5)%, and a five-year return of 0.4% vs. 2.2%.

BURLINGTON:

The fourth quarter 2008 performance reported a market value fund balance at approximately \$87.4 million and a gross quarterly return of (17.5)%, an under-performance compared to the (12.9)% median for public funds. The one-year return was reported at (30.3)% vs. the median public fund at (24.8)%. The inception date of this municipal deposit was November 1, 2007; therefore, further performance data was achieved prior it joining VPIC, reported at a three-year return of (5.9)% vs. the median public fund at (2.5)%, and a five-year return of (0.3)% vs. 2.2%.

ITEM 8: NEPC Asset-Liability Study

The Committee reviewed and discussed the February 10, 2009 Asset/Liability Study, prepared by NEPC.

ITEM 9: Executive Session

At 3:35 p.m. on a motion by Mr. Smith seconded by Mr. Mackey, the Committee unanimously voted to enter into executive session, pursuant to Title 1 § 313, to discuss contractual matters.

Mr. Altemus, Mr. Hooper, Mr. Harris, Mr. Jeffrey, Mr. Griffin, and Mrs. Pershing-Johnson were invited into the executive session.

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

Mr. Smith made a motion to initiate an RFP for a new investment consultant to replace NEPC. The motion failed, due to the lack of a second.

ITEM 10: Any Other Business to Come Before the Committee

None

Adjournment

On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to adjourn at 4:44 p.m.

Respectfully submitted,

Donna Holden, Clerk