

## VERMONT PENSION INVESTMENT COMMITTEE

April 7, 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 – **via conference call**  
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2010  
MICHAEL K. SMITH, Governor's Delegate, term expiring June 30, 2012 – **arrived later in the meeting**

### **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  
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:**

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

### **Also attending:**

Donna Holden, Clerk  
David Minot, Director of Finance and Investments  
Elizabeth Peirce, Deputy Treasurer  
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  
Don Robinski, VSERS, VSEA Alternate Board Member  
Kevin Gaffney, VSERS, VSEA Member  
Allen Coker, Adam Mantin, Brad Regier, Scott Waterstredt, Tuck School of Business, Dartmouth College

### **CALL TO ORDER:**

The Chair, Steve Rauh, called the Tuesday, April 7, 2009, 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.

Personally, and on behalf of the Committee, Mr. Rauh extended condolences to Mr. Regier for the recent loss of an infant twin son, Jacob.

### **ITEM 1:      **Agenda Approval****

Hearing no objections, the April 7<sup>th</sup> and April 8<sup>th</sup> agendas were accepted.

### **ITEM 2:      **Minutes****

- **Approve the Minutes of February 10, 2008 and February 11, 2008 – Regular meetings**
- **Approve the Minutes of March 25, 2008 – Conference call meeting**

**On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to approve the minutes of February 10<sup>th</sup>, February 11<sup>th</sup>, and March 25, 2009, as submitted.**

*During the next item Mr. Mackey left the meeting, Mr. Harris became the voting member.*

**ITEM 3:      Committee Action Items**

- **Ratify Waiver Requests from Post Advisory**

Mr. Minot reviewed the content of the waiver requests and recommendation to grant the requests.

**On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to approve the Post Advisory waiver requests, as submitted.**

- **Ratify Waiver Request from PIMCO Stocks Plus**

Mr. Minot reviewed the content of the waiver request and recommendation to grant the request.

**On a motion by Mr. Johannesen seconded by Mr. Spaulding, the Committee unanimously voted to approve the PIMCO Stocks Plus waiver request, as submitted.**

*Mr. Mackey returned to the meeting, Mr. Harris stepped down.*

- **Reconsider 11/25/08 Action re: Managers Selected for RE Funding**

The Committee reviewed its 11/25/08 action, and discussed changes in the Morgan Stanley Real Estate organization. Also reviewed was the March 24, 2009, NEPC memo recommending the VPIC not to move forward with funding a MS global real estate product. Also discussed were the other real estate investment options available, including investment in the TA Realty fund, increasing the RREEF allocation, or to do nothing at this time.

**On a motion by Mr. Altemus seconded by Mr. Johannesen, the Committee unanimously voted to reconsider its action of November 25, 2008, regarding funding of new real estate investments and not to proceed with the \$10 million investment in Morgan Stanley Fund IV.**

**The Committee agreed** to return to this item later in this meeting, or at the next day's meeting.

- **Approve NEPC Contract Extension**

Mr. Rauh advised the Committee the current contract with NEPC would expire on June 30, 2009, and was subject to another one-year renewal (to 6/30/2010) before the investment consultant services were required to be re-bid, that pursuant to Administrative Bulletin 3.5.

**On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to authorize the Chair to sign a one-year extension of the NEPC investment consultant services contract, as discussed.**

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

**ITEM 4:      Discussion Items**

- **Risk Management Overview**

Mr. Rauh provided a PowerPoint presentation regarding his views on risk management.

- **Tuck Student Project Presentation**

Allen Coker, Adam Mantin, Brad Regier, Scott Waterstredt, Tuck School of Business, Dartmouth College, appeared before the Committee to provide a PowerPoint presentation of their findings and recommendations.

- **NEPC Risk Management Presentation**

Chris Levell, NEPC, also provided a PowerPoint presentation containing NEPC's perspective on risk management.

**ITEM 5:      Asset Allocation**

- **Allocations for Individual Pension Plans and Burlington**
- **Rebalancing Plan**

The Committee discussed the asset allocation proposed February 11<sup>th</sup> and NEPC's recommendation to consider further positioning of the portfolio to hedge against inflation. The Committee discussed options to replace the previously expected Bridgewater allocation in the GAA sector. The Committee also discussed possibly increasing the high yield and/or global bond allocations, and initiating a dedicated allocation to bank loan, TIPS and commodities. NEPC agreed to prepare scenarios including several options for the April 8<sup>th</sup> meeting, and have modeling software available for the discussion.

When prompted, NEPC recommended and the Committee agreed, to continue a close watch on the Mellon Global Asset allocation performance.

Mr. Spaulding expressed his opinion that the actuarial rate of return assumptions of 8% (VSERS), 8% (VMERS), and 8.25% (VSTRS) are very similar, and the individual system allocations are also nearly identical, therefore he was in favor of a single asset allocation for the three systems, and Burlington by default.

Mr. Smith reiterated, based on his perspective, his three goals would be to 1.) simplify the portfolio so that a part-time board could understand and manage it; 2.) lower the costs; and 3.) improve the returns. He expressed his interest and encouraged a healthy discussion regarding active vs. passive management to explore his objectives.

Mr. Spaulding suggested that the portfolio structure wouldn't have to be "all or nothing" with respect to indexing and felt a review of each asset class would be useful to reach a conclusion. Mr. Rauh also suggested the thorough review of each manager in the asset classes should include tracking errors, volatility, benchmarks, etc.

*Mr. Mackey left the meeting. Mr. Harris became the voting member.*

**ITEM 6:      Updates/Discussion**

- **VT Manager Program RFI**

Mr. Rauh reported 215 Vermont managers, including seven banks, received the RFI letter, of which nine vendors submitted responses to the inquiry. Mr. Rauh and Mr. Spaulding volunteered to review the proposals received, along with NEPC.

- **Manager/Vendor Contact Policy – J. Spaulding**

The Committee reviewed the DRAFT *VPIC Member Contact with Vendors* policy #3-009. Mr. Rauh emphasized the purpose of the policy is to share information. **The Committee agreed** to forward comments to Mrs. Holden and to move this policy to an action item at the May meeting.

- **Guideline Revision Project**

Ms. Pershing-Johnson advised the Committee the AG's Office was close to releasing a DRAFT revision to the sub-committee, Mr. Altemus and Mr. Rauh, for comments and preparation for presentation to the Committee at the May meeting.

- **PIMCO Stock-Plus Transition to Commingled Fund**

Ms. Pershing-Johnson advised the Committee that she recently received a document from PIMCO's legal counsel with comments. She agreed to continue working toward consensus with the manager.

- **International and Domestic Proxy Voting Policy**

See the Director of Investment's Report. Mr. Minot agreed to contact RiskMetrics to review the domestic policy.

- **VHFA Sub-Committee**

See the Director of Investment's Report. Mr. Minot agreed to remind VHFA that their proposal was nearly a year old, and to advise that the Committee would make a final decision at the May meeting.

- **VPIC/NEPC Process Improvement Project**

Mr. Rauh reported that he, Mr. Spaulding and Mr. Mackey had discussed a potential roadmap outlining steps the Committee might take in coming months to play a much more proactive role in defining the portfolio. He indicated that limited work had been done to-date, and he expects to have more to report at the May meeting.

- **Travel and Conference Opportunities**

**The Committee members discussed and agreed** that each host Board was responsible for the cost of travel and conferences. Mr. Level advised that the NEPC conference would be May 20 & 21<sup>st</sup>, at the Weston.

Ms. Pershing-Johnson advised that the Committee should adopt an education policy, which would help resolve many questions. Mrs. Holden agreed to distribute a DRAFT policy for remarks, and discussion at the May meeting.

**ITEM 7:      Director of Finance and Investments Report**

Mr. Minot reviewed his written report.

**ITEM 8:      - CONTINUED - Committee Action Items**

- **Discuss/Approve Policy Compliance Waiver Requests**

The Committee reviewed and discussed the DRAFT policy #02-009. Mr. Rauh advised the Committee he was in support of VPIC adopting a policy. The policy proposed would grant the Director of Finance and Investments authority to approve investment manager requests, up to the \$1 million dollar amount, requests of over \$1 million to \$3 million would be discussed with the VPIC Chair, and requests of over \$3 million would come to the Committee for review.

Upon discussion, Mr. Griffin and Ms. Pershing-Johnson agreed to work with Mr. Rauh and Mr. Minot to develop acceptable language.

**ITEM 9: Any Other Business to Come Before the Committee**

None

**Adjournment**

Hearing no other business, and without objection, the Chair declared the meeting adjourned at 4:31 p.m.

Respectfully submitted,

Donna Holden, Clerk