

**VERMONT PENSION INVESTMENT COMMITTEE**  
**May 26, 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

**VPIC Member(s) Absent:**

MICHAEL K. SMITH, Governor's Delegate, term expiring June 30, 2012

**VPIC Alternate Members Present:**

STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2010 – **later in the meeting**  
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  
ROBERT HOOPER, VSERS *Alternate*, term expiring June 30, 2012

**Also attending:**

Donna Holden, Clerk  
David Minot, Director of Finance and Investments  
Dick Charlton and Kevin Kondry, NEPC  
Bill Griffin, Chief Assistant Attorney General  
Jaye Pershing-Johnson, Assistant Attorney General  
Kevin Gaffney, VSERS, VSEA Member

**CALL TO ORDER:**

The Chair, Steve Rauh, called the Tuesday, May 26, 2009, meeting to order at 8:30 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agenda Approval****

Hearing no objections, the May 26<sup>th</sup> and May 27<sup>th</sup> agendas were accepted.

**ITEM 2:      **Minutes****

- **Approve the Minutes of April 7, 2009 and April 8, 2009 – Regular meetings**

**On a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted to approve the minutes of April 7<sup>th</sup> and April 8, 2009, as discussed.**

**ITEM 3:      **Committee Action Items****

- **Discuss and Adopt New Policies**
  - *Education Policy #4-009*

**Upon discussion, the Committee agreed** to defer action on this matter and requested that Assistant Attorney General, Jaye Johnson, DRAFT amended language for consideration.

- *Compliance with Waiver Requests Policy #2-009*

**On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee voted to adopt the Compliance with Waiver Requests Policy #2-009, as submitted. Mr. Whitney voted no.**

- *VPIC Members Contact with Vendors Policy #3-009*

**Upon discussion the Committee agreed,** to amend language in #4, #5, and eliminate section #8 in total.

**On a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted to adopt the VPIC Members Contact with Vendors Policy #3-009, as amended.**

*Mr. Jeffrey arrived during the next item.*

- **Discussion/Action RREEF America III**

Mr. Kondry reviewed the May 22, 2009 e-mail from Mr. Minot regarding the RREEF (value added) recapitalization plan, which included the proposal to offer preferred stock to current investors.

**The Committee unanimously agreed** not to take any action at this time and to hold a conference call if/when needed.

- **NEPC Risk Management Services Overview/Next Steps**

Mr. Kondry and Mr. Charlton reviewed the May 2009 NEPC *Risk Management* report. The Committee discussion included risk modeling, non-quantitative input, and whether it would be beneficial to look at macro scenarios, i.e. inflation, deflation, stagflation, terrorism, credit spreads, pandemics, etc.

Mr. Rauh recommended initiating an RFI to see what vendors and services were available

**On a motion by Mr. Whitney seconded by Mr. Altemus, the Committee unanimously voted to authorize initiation of an RFI, in cooperation with NEPC, to seek vendors to provide risk management services.**

Mr. Rauh agreed to work with the Treasurer's Office Staff to draft language for the proposal, which would then be shared with the Committee.

**ITEM 4: Updates/Discussion Items**

- **Revised Draft of Investment Guidelines**

Mr. Rauh advised that he and Mr. Altemus were the subcommittee that worked with the AG's Office to develop the revised Guidelines.

**The Committee agreed** not to review the materials at this time, but to forward comments to Ms. Pershing-Johnson by June 15<sup>th</sup>. The subcommittee agreed to follow-up with the AG's Office and present a final draft to the Committee for review at the August meeting.

- **State Street Manager Compliance Monitoring Service**

Mr. Rauh advised the Committee the approved contract amendment to add the monitoring services was not yet in place, at the request of the AG's Office due to the Guideline rewrite. Mr. Minot also advised that the Treasurer's Office and AG's Office were awaiting confirmation from State Street Bank regarding their services and compatibility with our guidelines.

Mr. Minot agreed to keep the Committee advised of the implementation.

- **NEPC Disclosures – Madoff Litigation, Pay-to-Play**

Mr. Charlton updated the Committee on the status of the Town of Fairfield litigation, which was a result of that entity's investment in a Madoff product prior to NEPC becoming their consultant. He said despite NEPC's recommendation to reduce their exposure to the product, the Town of Fairfield held the position and after experiencing very large losses decided to sue NEPC. Mr. Charlton assured the Committee that NEPC never performed a hedge fund search for the Town of Fairfield and never included Madoff products in any searches conducted for clients, based on the fund's attributes. Mr. Charlton also updated the Committee on his firm's stability and growth.

Mr. Charlton further assured the Committee that NEPC was not involved in any pay-to-play activities, and the firm does not make any political contributions. He said all of NEPC's income was generated strictly from client services. Mr. Charlton also advised that NEPC now includes queries in all searches regarding whether a firm has involvement in any third party pay-to-play arrangement.

**ITEM 5: Results of NEPC Performance Back Tests**

- **Plain Vanilla Index Asset Allocation vs. Public Fund Universe**
- **Performance of Median Public Fund over Multi-Year Periods**

Mr. Kondry and Mr. Charlton reviewed and discussed the May 2009 NEPC *Median Public Fund Rolling Return Analysis*, and *Active vs. Passive* reports.

**ITEM 6: Finalize Asset Allocation**

- **Consider Broader Use of Passive Strategies**
- **TIPS/Commodities/ EM Debt**
- **Review Portable Alpha Strategy**
- **Identify Potential Slots for VT Managers**

Mr. Kondry and Mr. Charlton reviewed and discussed the May 2009 NEPC *VPIC Asset Allocation Modeling* report.

**The Committee discussed and agreed**, both Mix A and Mix B were improved diversification and provided inflation protection, with the higher level in Mix B.

**On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to adopt Mix B as the asset allocation for the three retirement systems and by extension Burlington, the participating municipality.**

|   | Current Policy | Current Allocation 3/31/09 | Mix A        | Mix B              |
|---|----------------|----------------------------|--------------|--------------------|
| Cash                                    | 0%             | 0%                         | 0%           | 0%                 |
| Large cap equity                        | 23%            | 24%                        | 19%          | 18.5%              |
| Small/Mid cap equity                    | 12%            | 11%                        | 8%           | 8%                 |
| International equity                    | 11%            | 11%                        | 14%          | 12%                |
| Emerging Int'l equity                   | 4%             | 3%                         | 4%           | 4%                 |
| <b>TOTAL EQUITY</b>                     | <b>50%</b>     | <b>49%</b>                 | <b>45%</b>   | <b>43% (42.5%)</b> |
| Core bonds                              | 17%            | 22%                        | 18%          | 18%                |
| High-Yield bonds                        | 5%             | 6%                         | 5%           | 5%                 |
| Global bonds                            | 4%             | 5%                         | 5%           | 8%                 |
| Emerging Market Debt                    | 0%             | 0%                         | 0%           | 2%                 |
| TIPS                                    | 0%             | 0%                         | 0%           | 3%                 |
| <b>TOTAL FIXED INCOME</b>               | <b>26%</b>     | <b>33%</b>                 | <b>28%</b>   | <b>36%</b>         |
| Real Estate                             | 7%             | 8%                         | 7%           | 7%                 |
| Private equity                          | 2%             | 0%                         | 0%           | 0%                 |
| Hedge Funds                             | 0%             | 0%                         | 0%           | 0%                 |
| <b>TOTAL ALTERNATIVES</b>               | <b>9%</b>      | <b>8%</b>                  | <b>7%</b>    | <b>7%</b>          |
| Risk Parity                             | 5%             | 0%                         | 2.5%         | 2.5%               |
| PIMCO All Asset                         | 0%             | 0%                         | 7.5%         | 5%                 |
| Mellon GA 1                             | 5%             | 5%                         | 5%           | 2.5%               |
| Wellington GAA                          | 5%             | 5%                         | 5%           | 2.5%               |
| Commodities                             | 0%             | 0%                         | 0%           | 2%                 |
| <b>TOTAL MULTI Strategy</b>             | <b>15%</b>     | <b>10%</b>                 | <b>20%</b>   | <b>15% (14.5%)</b> |
| <b>Expected Return</b>                  | <b>9.4%</b>    | <b>9.1%</b>                | <b>9.0%</b>  | <b>8.8%</b>        |
| <b>Expected Risk (Asset Volatility)</b> | <b>13.5%</b>   | <b>12.6%</b>               | <b>12.2%</b> | <b>11.2%</b>       |
| <b>Sharpe Ratio</b>                     | <b>.48</b>     | <b>.48</b>                 | <b>.50</b>   | <b>.52</b>         |

The Committee discussed implementation of the asset allocation plan, which included initiation of RFPs to fill the empty buckets, rebalancing, etc.

**On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to authorize the Treasurer's Office, in cooperation with NECP and the AG's Office, to develop a plan for transition to the updated asset allocation, and to authorize initiation of any necessary RFP searches, which should include passive and active managers in each category.**

**The Committee agreed** the *Investment Guidelines* would need to be updated and inclusive of the new asset classes.

Mr. Rauh reminded the Committee of the plan to consider adding VT Managers to asset classes where appropriate, and were to be discussed at the May 27, meeting.

**The Committee agreed** to receive additional educational information in the new asset classes.

**ITEM 7:      Comprehensive Manager Reviews**

Mr. Kondry and Mr. Charlton reviewed and discussed the April flash report and May 2009 NEPC *Manager Review* book.

**On a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted that at the next rebalancing all manager allocations are to be made consistent across all four systems.**

A topic of discussion included the portable alpha products and managers, which the Chair indicated would be a topic of further discussion at a later meeting.

Mr. Kondry advised the Committee of the NEPC recommendation to replace Logan Circle with another manager to “in-kind” work out the \$174,032,000 portfolio. Mr. Spaulding pointed out this was also an opportunity to consider a VT Manager for some part of the assets.

**The Committee agreed** the manager information contained in the two search books (core plus fixed income and core fixed income) could be used to select the manager. Also discussed was whether some part of the assets would eventually be moved into a VT Manager or indexed product.

Along with Mr. Kondry the Committee reviewed the core plus fixed income and core fixed income search books.

**On a motion by Mr. Mackey seconded by Mr. Whitney, the Committee unanimously voted to select BlackRock, PIMCO, and Income Research and Management as finalists for interviews.**

NEPC agreed to provide each manager with a copy of the portfolio.

The Committee agreed to hold a special meeting in June for interviews, on a date to be determined.

**ITEM 8:      Any Other Business to Come Before the Committee**

None

**Adjournment**

Hearing no other business, and without objection, the Chair declared the meeting recessed at 4:35p.m.

Respectfully submitted,

Donna Holden, Clerk