

**VERMONT PENSION INVESTMENT COMMITTEE**  
**May 27, 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  
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2010

**VPIC Member(s) Absent:**

WARREN WHITNEY, VSERS Representative, term expiring June 30, 2012  
MICHAEL K. SMITH, Governor's Delegate, term expiring June 30, 2012

**VPIC Alternate Members Present:**

STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2010  
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010  
ROBERT HOOPER, VSERS *Alternate*, term expiring June 30, 2012 – **arrived later in the meeting**

**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  
Dick Charlton and Kevin Kondry, NEPC  
Bill Griffin, Chief Assistant Attorney General  
Jaye Pershing-Johnson, Assistant Attorney General  
Kevin Gaffney, VSERS, VSEA Member  
Marina Collins, Burlington Employees' Retirement Administrator

**CALL TO ORDER:**

The Chair, Steve Rauh, called the Wednesday, May 27, 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: NEPC Q1 2009 Update**

Mr. Kondry and Mr. Charlton presented the Q1/2009 report. They reported a total VPIC fund balance of \$2.229 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 first quarter 2009 performance reported a market value fund balance of approximately \$1.019 billion and a gross quarterly return of (7.4)%, an under-performance compared to the (5.1)% median for large public funds with assets over \$1B. The one-year return was reported at (31.5)% vs. the median large public fund at (24.6)%, three-year return (8.8)% vs. the median large public fund at (5.7)%, and a five-year return of (1.6)% vs. 0.1%.

**VSERS:**

The first quarter 2009 performance reported a market value fund balance of approximately \$897.1 million and a gross quarterly return of (6.8)%, an under-performance compared to the (5.1)% median

for large public funds with assets over \$1B. The one-year return was reported at (30.6)% vs. the median large public fund at (24.6)%, three-year return (8.6)% vs. the median large public fund at (5.7)%, and a five-year return of (1.5)% vs. 0.1%.

**VMERS:**

The first quarter 2009 performance reported a market value fund balance of approximately \$231.9 million and a gross quarterly return of (6.2)%, an under-performance compared to the (2.7)% median for public funds. The one-year return was reported at (30.1)% vs. the median public fund at (25.9)%, three-year return (8.3)% vs. the median public fund at (6.4)%, and a five-year return of (1.3)% vs. 0.0%.

**BURLINGTON:**

The first quarter 2009 performance reported a market value fund balance at approximately \$80.8 million and a gross quarterly return of (7.3)%, an under-performance compared to the (5.7)% median for public funds. The one-year return was reported at (31.7)% vs. the median public fund at (25.9)%. The inception date of this municipal deposit was November 1, 2007; therefore, further performance data was achieved prior to it joining VPIC. Burlington reported a three-year return of (9.4)% vs. the median public fund at (6.4)%, and a five-year return of (2.2)% vs. 0.0%.

*Mr. Hooper arrived during the next item.*

**ITEM 2: NEPC Risk Parity Manager Introductory Comments**

Mr. Charlton and Mr. Kondry reviewed the firm profiles and discussed April 2009 *Risk Parity Manager Search* book.

**ITEM 3: Risk Parity Manager Presentation**

**AQR (Applied Quantitative Research):** Cliff Asness, Founding Principal/Managing Partner, Jeremy Getson, VP, Client Strategies, and Christopher Palazzolo, Associate Client Strategies, appeared before the Committee to discuss the *Global Risk Premium Fund* risk parity product.

**ITEM 4: Risk Parity Manager Presentation**

**Putnam Investments:** Jeffrey Knight, Managing Director Head of Global Asset Allocation and Eric Roberts, Managing Director, Account Manager appeared before the Committee to discuss the *Putnam Total Return* risk parity product.

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

**ITEM 5: Discussion of Presentations/Action**

Along with NEPC the Committee discussed characteristics of the firms and compatibility with other managers within the current portfolio.

Ms. Pershing-Johnson advised the Committee it appeared contracting could be achievable with less controversy with one of the vendors vs. the other due to its feeder holding company structure, side letter provisions, etc; however, both fund offered capacity for negotiations.

**On a motion by Mr. Hooper seconded by Mr. Mackey, the Committee unanimously voted to authorize the Attorney General's Office to pursue initial contract negotiations with AQR, with the provision if the AG's Office's was not successful then to pursue negotiations with Putnam.**

*Mr. Spaulding returned to the meeting during the next item.*

**ITEM 6: Vermont Manager Program**

- **Review Search Book**
- **Next Steps**

Mr. Rauh discussed his thoughts regarding "start-up" accounts for VT Managers and potential "carve-outs" for funding from the Core Fixed Income, Core Plus Fixed Income, High Yield Fixed Income, and Small/Smid Core Equity strategies.

The Committee was referred to the core and core plus fixed income search books prepared by NEPC and once again reviewed the information, which was also used on May 26<sup>th</sup> to select a potential Logan Circle replacement manager. Mr. Charlton advised that NEPC was in support of Dwight Asset Management, which could act as a proxy for an index fund in the core fixed income space. The Committee also discussed that funding could eventually be generated from the successor manager selected to replace Logan Circle.

**On a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee unanimously voted to invite Dwight Asset Management to the August meeting to provide a presentation regarding management of a portion of the fixed income portfolio.**

Mr. Charlton advised that NEPC preferred to see the Logan Circle successor manage the portfolio as a **core plus** strategy, at least initially.

Mr. Kondry reviewed the small/smids cap core equity manager search materials.

**On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to invite Champlain Investment Partners to the August meeting to provide a presentation regarding management of a portion of either the small or mid cap core equity portfolios.**

Mr. Kondry reviewed the high yield fixed income manager search materials.

**On a motion by Mr. Spaulding seconded by Mr. Altemus, the Committee unanimously voted to invite KDP Asset Management, Inc. to the August meeting to provide a presentation regarding management of a portion of the high yield fixed income portfolio.**

**ITEM 7: Carryover Discussion/Action Items from May 26**

None

**ITEM 8: Director of Finance and Investments Report**

Mr. Minot reviewed his written report, which included information regarding contracts, securities lending, proxy voting policy, Post Advisory Guideline Report on investment guideline waivers, and the FY '08 VPIC Audit.

**The Committee agreed** the AG's Office should continue seeking contract negotiations regarding potential replacement of the separately managed PIMCO Stocks PLUS account with a commingled trust.

- **Action – VHFA Proposal**

Mr. Minot distributed a May 12, 2009, letter from VHFA Executive Director, Sarah Carpenter, which was in addition to the May 13, 2009, information included in the Director's report.

Mr. Spaulding advised the Committee that in his capacity as State Treasurer he was an ex-officio member of the VHFA Board, and therefore would abstain from any vote regarding this matter.

**On a motion by Mr. Hooper seconded by Mr. Johannesen, the Committee unanimously voted to send a letter of appreciation to VHFA and to advise that the VPIC would decline investment at this time.**

The Committee thanked Mr. Minot for his service to the VPIC and wished him well in his new endeavors.

**ITEM 9: Agenda Items for August Meeting**

- Overall Portfolio Review
- VPIC Retreat
- Proxy Voting Guidelines
- LDI – Liability Driven Investments
- VT Manager Finalist Interviews
- Timing for Alternative Investments, Hedge Funds & ETIs

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

Mr. Altemus disclosed that Al Neubert, Executive Director of Index Business Association, had invited him to be a member of the Advisory Board and to once again serve as a panelist at the Super Bowl of Indexing in Phoenix, AZ.

**Adjournment**

**On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to adjourn at 3:55 p.m.**

Respectfully submitted,

Donna Holden, Clerk