

VERMONT PENSION INVESTMENT COMMITTEE
August 19, 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
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:

VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010
STEVEN JEFFREY, VMERS *Alternate*, 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
Stephen Wisloski, Director of Investment and Debt Management
Dick Charlton, Chris Levell and Bill Monagle, NEPC
Bill Griffin, Chief Assistant Attorney General
Jaye Pershing-Johnson, Assistant Attorney General
Linda Deliduka, VSTRS Board Member
Don Robisky, VSERS Member

CALL TO ORDER:

The Chair, Steve Rauh, called the Wednesday, August 19, 2009, meeting to order at 8:36 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

Mr. Rauh distributed a copy of the August 2009 *Fortune Magazine* article regarding BlackRock, as discussed during the Barclays presentation on August 18, 2009.

ITEM 1: VHFA

Mr. Rauh reported that, upon further consideration, that his offer to VHFA to bring the matter of their private placement investment to PIMCO's attention was not the proper way to have handled this matter and that he should have brought the matter to VPIC for re-consideration, given that the Committee had previously voted not to proceed with VHFA's proposal. **The Committee agreed** they had voted not to invest in the VHFA program for several reasons, not the least of which was that VHFA did not meet the investment standards as defined in the ETI Policy, and did not want to establish a precedent of interfering with a manager's investment decisions.

On a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee voted not to revisit the VHFA proposal because it did not meet VPIC investment requirements. Motion passed 4-0-1. Mr. Spaulding abstained.

Mr. Wisloski will contact VHFA to convey the action taken by VPIC.

Mr. Smith arrived during the next item.

Mr. Jeffrey arrived during the next item.

ITEM 2: NEPC 2nd Quarter Review

Mr. Charlton and Mr. Levell presented the Q2/2009 report. They reported a total VPIC fund balance of \$2.506 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 second quarter 2009 performance reported a market value fund balance of approximately \$1.139 billion and a gross quarterly return of 16.1%, an out-performance compared to the 10.9% median for large public funds with assets over \$1B. The one-year return was reported at (19.8)% vs. the median large public fund at (18.7)%, three-year return (4.2)% vs. the median large public fund at (3.0)%, and a five-year return of 1.3% vs. 2.3%.

VSERS:

The second quarter 2009 performance reported a market value fund balance of approximately \$1.010 billion and a gross quarterly return of 16.3%, an out-performance compared to the 10.9% median for large public funds with assets over \$1B. The one-year return was reported at (18.7)% vs. the median large public fund at (18.7)%, three-year return (3.7)% vs. the median large public fund at (3.0)%, and a five-year return of 1.4% vs. 2.3%.

VMERS:

The second quarter 2009 performance reported a market value fund balance of approximately \$265.9 million and a gross quarterly return of 16.0%, an out-performance compared to the 10.9% median for public funds. The one-year return was reported at (18.2)% vs. the median public fund at (16.6)%, three-year return (3.6)% vs. the median public fund at (2.3)%, and a five-year return of 1.5% vs. 2.4%.

BURLINGTON:

The second quarter 2009 performance reported a market value fund balance at approximately \$89.9 million and a gross quarterly return of 16.2%, an out-performance compared to the 10.9% median for public funds. The one-year return was reported at (19.8)% vs. the median public fund at (16.6)%. 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 (4.4)% vs. the median public fund at (2.3)%, and a five-year return of 0.8% vs. 2.4%.

The Committee discussed and agreed the semi-annual rebalancing policy was prudent.

ITEM 3: Portfolio Performance and Investment Strategy Review

- Review Updated Asset Allocation Model and Risk Budget Reflecting Portable Alpha Strategies
- Review Appropriateness of Benchmarks
- Discuss Portfolio Performance vs. Market Benchmarks and Public Funds
 - NEPC Median Performer Studies

- Sources of Excess Portfolio Volatility/Risk
 - Role of Asset Allocation, Manager Tracking Error and Leverage

NEPC provided, and along with the Committee, reviewed and discussed a number of handouts, including: *Linked Median Public Funds vs. Stated Median Public Fund*, *New Policy Index vs. ICC Linked Public Fund Medians Rolling Return Analysis*, *New Policy Index Calendar Year Performance Comparison*, *Equity Risk, Worst Case Analysis Beta/Alpha*, and *VPIC Benchmark Analysis*.

Mr. Spaulding left the meeting.

ITEM 4: NEPC Presentations

- **Opportunities in the Public-Private Investment Program (PPIP)**

Along with the Committee, Mr. Levell reviewed and discussed the *NEPC Term Asset-Backed Securities Loan Facility (TALF) and Public-Private Investment Program (PPIP)* handout.

Mr. Levell explained the PPIP was a conduit for banks and lenders to sell troubled loans, and to provide price rationalization and liquidity to troubled securitized bond markets. The potential returns were reported at 15%-25%, depending on fund manager, with an investment term of 8 to 10 years.

NEPC advised the PPIP program was the best opportunity, on a risk adjusted basis, of all government programs.

Mrs. Pershing-Johnson indicated, to the best of her knowledge, contracting terms for this investment would be difficult to accept. Based on this information and the need for nimbleness **the Committee agreed** the option would not be pursued.

Mr. Spaulding returned to the meeting.

- **Real Estate Update & Opportunities in Private Equity – Economist July 11, 2009**

Mr. Monagle discussed the status of the RREEF III and Transwestern real estate portfolios. He continued with a review and discussion of the *NEPC Private Equity Investment Perspectives* handout. Mr. Monagle advised that NEPC's recommendation would be in the areas of distressed, mezzanine, and secondaries.

The Committee discussed and agreed an evaluation of the fund's cash flow, growth, commitments, etc. would have to be reviewed before a new commitment to a private equity investment plan was initiated. The matter of contracting issues, which have arisen in the past, would also have to be addressed and considered.

The Committee agreed to move forward with exploring private equity options again and for Mr. Monagle and Mrs. Pershing-Johnson to develop the list of contractual "show stoppers", which would be presented to potential managers before there was further development of an investment plan or determination of portfolio percentage commitment. The Committee also acknowledged the newly adopted asset allocation mix would have to be amended to include the option.

Mr. Smith left the meeting.

- **Liability Driven Investment (LDI) Strategies**

Along with the Committee, Mr. Levell review and discussed the *NEPC Liability Driven Investing (LDI)* handout.

ITEM 5: Risk Management

- **CalPers Article – *New York Times* July 24, 2009**

A copy of the article was provided in the packet.

- **Core Plus Fixed Income – Process Review**
 - Role of FI in Portfolio
 - Benchmark Selection
 - Asset Allocation Modeling – Risk/Return Assumptions
 - Guidelines/Contract
 - Monitoring – VPIC, Staff, NEPC
 - VPIC Decision Process

The Committee agreed to postpone this item to a meeting at a future date.

ITEM 6: Any Other Business to Come Before the Committee

None

ITEM 7: Adjournment

On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to adjourn at 4:22 p.m.

Respectfully submitted,

Donna Holden, Clerk