

**VERMONT PENSION INVESTMENT COMMITTEE**  
**November 23, 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 – **arrived later in the meeting**

**VPIC Member(s) Absent:**

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

**VPIC Alternate Members Present:**

JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011  
VAUGHN ALTEMUS, *Alternate* Governor's Delegate, term expiring June 30, 2010  
STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2010 – **arrived later in the meeting**

**VPIC Alternate Member(s) Absent:**

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

**Also attending:**

Donna Holden, Clerk  
Stephen Wisloski, Director of Investment and Debt Management  
Dick Charlton, Kevin Kondry and Chris Levell, NEPC  
Bill Griffin, Chief Assistant Attorney General  
Jaye Pershing-Johnson, Assistant Attorney General  
Linda Deliduka, VSTRS Board Member  
Kevin Gaffney, VSERS Board Member  
Charlie Stebbins and Rod Norman, JP Morgan  
Cate O'Hara and Suresh Krishnamurthy, State Street Corporation  
Pat Donohoe, John Muir, State Street Bank & Trust Company

**CALL TO ORDER:**

The Chair, Steve Rauh, called the Monday, November 23, 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/Announcements****

Hearing no objections, the November 23<sup>rd</sup> and November 24<sup>th</sup> agendas were accepted.

Mr. Rauh congratulated Mr. Whitney on his impending retirement scheduled for December, 2009, and thanked him for his service. Mr. Whitney expressed his appreciation for the opportunity to serve on the Committee since 2005 and the VSERS Board for over 15 years. He also advised the Committee he would continue to serve on the VPIC for a short while longer pending election of his replacement by the VSERS Board.

**ITEM 2:      **Minutes****

- **Approve the Minutes of October 29, 2009 – Regular meetings**

**On a motion by Mr. Mackey seconded by Mr. Spaulding, the Committee voted to approve the minutes of October 29, 2009, as submitted. Mr. Whitney abstained.**

**ITEM 3: Investment Consultant 3<sup>rd</sup> Quarter 2009 Review**

Mr. Kondry and Mr. Levell presented the Q3/2009 report. They reported a total VPIC fund balance of \$2,880,766,891 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 third quarter 2009 performance reported a market value fund balance of approximately \$1.32 billion and a gross quarterly return of 14.2%, an out-performance compared to the 10.9% median for the total public funds universe. The one-year return was reported at 1.4% vs. the median large public fund at 1.3%, three-year return (1.2)% vs. the median large public fund at (0.3)%, and a five-year return of 3.9% vs. 4.2%.

**VSERS:**

The third quarter 2009 performance reported a market value fund balance of approximately \$1.15 billion and a gross quarterly return of 14.0%, an out-performance compared to the 10.9% median for the total public funds universe. The one-year return was reported at 2.9% vs. the median large public fund at 1.3%, three-year return (0.8)% vs. the median large public fund at (0.3)%, and a five-year return of 4.0% vs. 4.2%.

**VMERS:**

The third quarter 2009 performance reported a market value fund balance of approximately \$306 million and a gross quarterly return of 14.3%, an out-performance compared to the 10.9% median for the total public funds universe. The one-year return was reported at 4.0% vs. the median public fund at 1.3%, three-year return (0.6)% vs. the median public fund at (0.3)%, and a five-year return of 4.3% vs. 4.2%.

**BURLINGTON:**

The third quarter 2009 performance reported a market value fund balance at approximately \$101 million and a gross quarterly return of 15.0%, an out-performance compared to the 10.9% median for the total public funds universe. The one-year return was reported at 2.1% vs. the median public fund at 1.3%. 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 (1.0)% vs. the median public fund at (0.3)%, and a five-year return of 3.8% vs. 4.2%.

**ITEM 4: Committee Action Items**

- **Discuss/Approve VPIC Meeting Schedule Beginning FY 2011**

**On a motion by Mr. Whitney seconded by Mr. Altemus, the Committee unanimously voted to adopt a new monthly (fourth Tuesday) meeting schedule, to be effective July 2010.**

The Committee acknowledged the *Meeting Schedule/Format Policy #2-005* would be amended at a later date to reflect the July 2010 initiation date of the new schedule.

- **Discuss/Approve Funding Schedule for Commodities**

The Committee discussed whether dollar-cost-averaging of the funding into volatile markets should be a business practice and/or policy of the VPIC. The Committee agreed the matter would be better addressed on a case-by-case basis. NEPC recommended that based on the fairly small allocation for this mandate (commodities) it would be preferable to do it all at once.

**The Committee agreed** to proceed with full funding of the contract on January 1<sup>st</sup>.

- **Discuss/Approve Revised Policy 2-009 – Guideline Waivers**

Ms. Pershing-Johnson explained the proposed changes to the policy, which would be consistent with the newly adopted Guidelines.

**On a motion by Mr. Mackey seconded by Mr. Altemus, the Committee unanimously voted to approve the revised language for Policy 2-009, Contract Compliance.**

- **Discuss/Approve Revised CMO Description in Guidelines**

**On a motion by Mr. Rauh seconded by Mr. Mackey, the Committee unanimously voted to approve the revised language for CMOs under Core Plus Fixed Income in the *Investment Policy and Investment Manager Guidelines* and for the PIMCO Core Plus contract as needed.**

**ITEM 5: Committee Discussion Items**

- **Contract Update**

Ms. Pershing-Johnson advised the Committee all of the recently approved contracts were negotiated, with two (EMD and TIPS) to be funded on December 1<sup>st</sup>, and the final one remaining (commodities) to be funded January 1<sup>st</sup>. She also noted that all of the actively managed account contracts, approximately 13, would also be amended to eliminate the cross reference to the Guidelines and to include manager responsibilities and specific manager investment guidelines into each contract.

The Committee thanked Ms. Pershing-Johnson and Treasurer's Office staff for their work and timeliness of getting the contracts in place.

- **Real Estate Update**

Mr. Kondry reviewed the NEPC November 23, 2009 *Real Estate Update* book, distributed.

- **Private Equity Legal Issues and Possible Funding Proposal**

Ms. Pershing-Johnson reviewed her November 19, 2009 memo regarding Private Equity Investing. **The Committee agreed** there were a number of issues that would typically prevent successful contracting. NEPC agreed to share the information with their research team to investigate whether there are ways to negotiate any of the terms.

The Committee also discussed whether it was worth the Committee's and Attorney General's Office time to continue to pursue the matter, given the small amount of a potential allocation. They also discussed the potential of investing in a separately managed account with a third-party middleman.

**The Committee agreed** to conduct another educational meeting with NEPC, "middleman" firms, other public entities, private equity or hedge fund managers, etc. to discuss how potential contracting issues could be overcome.

Ms. Pershing-Johnson also agreed to continue looking at the transition of the PIMCO StocksPlus account to a commingled trust account.

- **Mellon Global Alpha Performance Review**

Mr. Kondry reviewed the NEPC November 23, 2009 *Mellon Global Alpha Update* book, distributed. NEPC recommendation was to hold the Mellon Global Alpha 1 investment.

**ITEM 6:      Demonstration of NEPC Desktop by State Street**

Cate O'Hara and Suresh Krishnamurthy, Senior Vice President at State Street Corporation appeared before the Committee to provide a presentation of the "Desk Top" product, being utilized by NEPC to provide more in depth analytics including portfolio risk.

*Mr. Johannesen arrived at the meeting.*

**ITEM 7:      Securities Lending Program Review**

- **NEPC Program Overview**
  - **Investment Objective/Risk Profile**

Mr. Kondry reviewed the NEPC November 23, 2009 *Securities Lending Overview* book, distributed. He said NEPC recommended the VPIC stay in securities lending program with an evaluation of which program best suits the VPIC's preference and risk tolerance.

Ms. Pershing-Johnson also reviewed her November 19, 2009 memo regarding the State Street Bank & Trust Company security lending program and comparison of the Quality A and Quality D funds.

- **Discussion with State Street Bank Representatives**
  - **Program Performance**
  - **Discuss Possible Changes in Program**
  - **Review Guideline Language**

Pat Donohoe, Vice President Client Relations, and John Muir, Vice President Securities Finance appeared before the Committee to provide an update on the securities lending program(s) and VPIC's participation and performance.

Mr. Muir confirmed it was possible to carve out only the accounts that were available for lending. He also confirmed the borrower or party holding a stock on loan would have the right to vote proxies. He said the Quality D fund Investment Guidelines were changed in April 2009, which primarily included a shortening of the duration of investments in Quality D to increase/improve liquidity and to prohibit investment in mortgage backed securities.

Mr. Wisloski confirmed the VPIC voted in May 2006 to transfer from the Quality A plan to the Quality D program.

Mr. Muir shared limited information regarding pending State of Missouri litigation regarding securities litigation.

Mr. Muir agreed to provide a spreadsheet detailing statistics of VPIC's individual separately managed accounts including the funds available, on loan, income received, etc. He agreed to work with Mr. Wisloski to establish the criteria to create the spreadsheet.

**On a motion by Mr. Mackey seconded by Mr. Whitney, the Committee unanimously voted to adopt the amended *Investment Guideline Securities Lending* language proposed, striking the term “short-term instruments” in paragraph one under Program Guidelines.**

**The Committee agreed** the AG's Office and Treasurer's Office staff should move forward with any amendments needed in custodian contract to clarify the management of the Securities Lending program.

**ITEM 8: Risk Management**

- **Core Plus Fixed Income Process Review**

The Committee reviewed and discussed the historical information prepared by Mr. Griffin in his August 6, 2009 memo.

Mr. Charlton complemented the Committee on its decisions and movement over the past one to two years, and advised that in the absence of alternative asset classes in the portfolio, the Committee had to accept higher risk to seek the returns needed to meet their actuarial rate of return. He said VPIC affirmed and accepted some of the NEPC recommendations, which were geared to gain as much return as possible from the asset classes in the portfolio, including the “anchor” of core bonds. He said from the consultant's perspective, and considering the constraints surrounding the portfolio, they were very pleased with the performance of the portfolio.

**The Committee agreed** that Mr. Wisloski should closely monitor and develop an in-depth understanding of the “plus” component of the PIMCO Core Plus contract. It also discussed the possibility of eventually expanding the AQR (or similar) mandate.

NEPC agreed to add hedge fund information to their private equity information requested earlier in the meeting.

- **Review Responses to Portfolio Risk Management RFI and Determine Next Steps**

The Committee reviewed the matrix of information developed in response to the RFI. **The Committee agreed** to invite a couple of the firms to provide an educational component and selected MCSI Barra, and Northfield. Mr. Wisloski will invite them to the February meeting.

**ITEM 9: Recess Meeting for the Day**

**Hearing no objection, Mr. Rauh declared the meeting recessed at 4:32 p.m.**

Respectfully submitted, *Donna Holden*, Clerk