

VERMONT PENSION INVESTMENT COMMITTEE
February 23, 2010

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
VACANT, 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

VPIC Alternate Member(s) Absent:

JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011

Also attending:

Donna Holden, Clerk
Tim McCusker, NEPC Director of Traditional Research
Kevin Kondry and Chris Levell, NEPC
Jaye Pershing-Johnson, Assistant Attorney General
Linda Deliduka, VSTRS Board Member
Shannon Pons, Director, Babson Capital Management

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, February 23, 2010, meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Follow-up Discussion Items from Monday, February 22, 2010**

The Committee agreed that Mr. Rauh and Mr. Wisloski would continue fact finding regarding the Portfolio Risk Management option and report back to the Committee.

With the Committee's permission, items on the agenda were taken out of order.

ITEM 2: **Annual Asset Allocation Review**

- Asset Class Categories and Descriptions
 - Core and Core Plus Fixed Income
 - Portable Alpha Products
- Financial Market/Economic Backdrop
- Allocation Assumptions & Recommendations
- Benchmarks
- Real Estate Allocation

- Other Alternatives
- Market Scenario Stress Testing
- Factor Exposures
- Other Key Risk Exposures

Mr. Levell led a discussion of *NEPC's 2010 Capital Market Observations and Expectations & VPIC Asset Allocation Review* book.

Mr. Levell advised the Committee that the 2009 NEPC 5-7 year assumptions were reduced for 2010 lowering VPIC's expected return for its current portfolio allocation from 8.8% to 7.2% and the expected risk (asset volatility) from 11.2% to 9.8%. Mr. Levell reiterated NEPC's broad theme recommendation to reduce the VPIC's equity exposure and to increase alternative exposure.

Mr. Hooper left the meeting during the next discussion.

Mr. McCusker led the Committee in a discussion of the information contained in the *NEPC Portfolio Structure & Active Risk Analysis* book.

Upon conclusion of the presentation, the Committee discussed opinions regarding the frequency of changes to asset allocations and the merits of exploring options and timing regarding potential manager realignment within the portfolio. NEPC agreed to prepare further recommendations.

Mr. Hooper returned to the meeting.

Mr. Levell provided a PowerPoint presentation demonstrating four asset allocation scenarios, which included features such as reducing the current real estate allocation and reallocation of weightings within the sleeves, adding hedge funds, and adding hedge funds plus private equity.

The scenarios incrementally decreased the current total equity allocation weighting from the current 42.5% down to 30%, and current total fixed income allocation from 36% down to 33%, while alternatives and other investments increased from the current 7% and 14.5% to 20% and 17% respectively.

The scenarios also demonstrated upward incremental changes in the expected rates of return from the current 7.2% to 7.5%, while the standard deviation of asset return decreased from the current 9.8% to 9.2%. Upon discussion, a fifth scenario was created, which included private debt and decreased hedge fund exposure, which increased the expected rate of return to 7.5% and raised the standard deviation of returns to 9.9%.

The Committee discussed the implications of adopting an asset allocation that projected (over a 5-7 year period) an expected rate of return of 7.2%, which was less than the actuarial rate of return of 8.00% and 8.25%, however, with less risk. Discussion ensued with Mr. Levell creating an additional scenario reflecting attainment of an expected rate of 8.24% with a higher risk standard deviation of 12.1%. The scenario increased the total equity to 45%, decreased fixed income to 25%, decreased alternatives to 5%, and increased other investments to 25%.

The Committee agreed to move toward the asset allocation proposal that more accurately reflected the current real estate allocation of approximately 5% and to seek recommendations for NEPC regarding rearrangement/restructuring of current managers. The Committee also discussed authorizing NEPC to initiate a fund-of-funds hedge fund search.

Column B	C	D	E	F	G	H	I	J
	Current Allocation	RE lower	HF+PE	Just HF	Blank	PE	Mix F	Mix G
Large Cap Equities	18.5%	15%	13%	15%	0%	15%	15%	15%
Small/Mid Cap Equities	8.0%	6%	4%	5%	0%	5%	10%	5%
Int'l Equities	12.0%	12%	9%	10%	0%	12%	10%	12%
Emerging Int'l Equities	4.0%	6%	4%	5%	0%	6%	10%	6%
Total Equity	42.5%	39%	30%	35%	0%	38%	45%	38%
Core Bonds	18.0%	20%	15%	15%	0%	17%	10%	17%
Global Bonds	8.0%	8%	7%	7%	0%	7%	2%	7%
High-Yield Bonds	5.0%	5%	5%	5%	0%	5%	10%	5%
EMD	2.0%	3%	3%	3%	0%	3%	3%	3%
TIPS	3.0%	3%	3%	3%	0%	3%	0%	3%
Total Fixed Income	36.0%	39%	33%	33%	0%	35%	25%	35%
Real Estate	7.0%	5%	5%	5%	0%	5%	5%	5%
Private Equity	0.0%	0%	0%	0%	0%	0%	0%	0%
Private Debt	0.0%	0%	5%	0%	0%	5%	0%	0%
Hedge Funds Low Vol	0.0%	0%	0%	0%	0%	0%	0%	0%
Hedge Funds Mod Vol	0.0%	0%	10%	10%	0%	0%	0%	5%
Total Alternatives	7.0%	5%	20%	15%	0%	10%	5%	10%
Global Asset Allocation	12.5%	15%	15%	15%	0%	15%	25%	15%
Commodities	2.0%	2%	2%	2%	0%	2%	0%	2%
Total Other	14.5%	17%	17%	17%	0%	17%	25%	17%
Expected Return	7.2%	7.2%	7.5%	7.4%	0.0%	7.5%	8.24%	7.4%
Standard Deviation of Asset Return	9.8%	9.8%	9.2%	9.5%	0.0%	9.9%	12.1%	9.8%

On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to adopt the new revised allocation proposal as represented in column D of the presentation, to follow-up with a conference call with NEPC to discuss the implementation/restructuring recommendations for the portfolio, and to authorize NEPC to initiate a database search for fund-of-fund hedge fund management, to be addressed at the April 20th or 21st meeting.

The Committee further agreed based on upcoming searches not to try to hold a meeting in Boston in May.

The asset allocation proposed and agreed to was:

	<u>CURRENT</u>	<u>NEW</u>
Large Cap Equities	18.5%	15%
Small/Mid Cap Equities	8%	6%
International Equities	12%	12%

Emerging International Equities	<u>4%</u>	<u>6%</u>
Total Equity	42.5%	39%
Core Bonds	18%	20%
Global Bonds	8%	8%
High Yield Bonds	5%	5%
Emerging Market Debt	2%	3%
TIPS	<u>3%</u>	<u>3%</u>
Total Fixed Income	36%	39%
Real Estate	7%	5%
Private Equity	0	0
Private Debt	0	0
Hedge Funds – Low Vol	0	0
Hedge Funds – Mod Vol	<u>0</u>	<u>0</u>
Total Alternatives	7%	5%
Global Asset Allocation	12.5%	15%
Commodities	<u>2%</u>	<u>2%</u>
Total Other	14.5%	17%

ITEM 3: Director of Investment and Debt Management Report

- **Securities Lending Update**
- **Green Mountain Capital**
- **State Street Desk Top**

The Committee reviewed the written report provided.

ITEM 4: Discuss/Approve Proxy Voting Guidelines

On a motion by Mr. Mackey seconded by Mr. Spaulding, the Committee unanimously voted to adopt the new International Proxy Voting Guidelines, as presented, and Domestic Proxy Voting Guidelines, and amendments as presented.

ITEM 5: Any Other Business to Come Before the Committee

None

ITEM 6: Adjournment

Hearing no objection, Mr. Rauh declared the meeting adjourned at 2:59 p.m.

Respectfully submitted,

Donna Holden
Clerk