

VERMONT PENSION INVESTMENT COMMITTEE

May 25, 2010

VPIC Members Present:

STEPHEN RAUH, CHAIR, VMERS Governor's Delegate, term expiring June 30, 2010
JEB SPAULDING, VICE-CHAIR, VT State Treasurer
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2010
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2011
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

VPIC Member(s) Absent:

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

VPIC Alternate Member(s) Absent:

JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011
KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

Also attending:

Donna Holden, Clerk
Steve Wisloski, Director of Investment and Debt Management
Dick Charlton, Kevin Kondry and Chris Levell, NEPC
Jaye Pershing-Johnson, Assistant Attorney General
Bill Griffin, Chief Assistant Attorney General
Linda Deliduka, VSTRS Board Member

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, May 25, 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: **Agenda Approval/Announcements**

Mr. Rauh advised the Committee two additional items; governance structure and class action litigation, would be added to the agenda. Hearing no objections, the May 25th and 26th agendas were accepted with the additional items.

Mr. Rauh advised the Committee that he and Mr. Jeffrey had been reappointed by the VMERS Board to serve the statutory four-year term on the VPIC. No other member announcements were disclosed.

ITEM 2: **Minutes**

- 2.1 **Approve the Minutes of April 20, 2009 – Regular meeting**
- 2.2 **Approve the Minutes of April 21, 2009 – Regular meeting**

On a motion by Mr. Altemus seconded by Mr. Johannesen, the Committee unanimously voted to approve the minutes of April 20, 2010, as submitted.

On a motion by Mr. Johannesen seconded by Mr. Hooper, the Committee unanimously voted to approve the minutes of April 21, 2010, as submitted.

ITEM 3: Committee Action Items

3.1 Amendment to Policy #2-005 Meeting Schedule/Format

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to adopt the Policy #2-005 amendment, as presented.

The Committee discussed and agreed that it was appropriate for information discussed during a public meeting to be disclosed if requested. They affirmed if asked by the press, the Chair would have authority to discuss, with discretion, the results of Committee decisions, manager searches, etc.

3.2 Contract Amendment Approval for Risk Metrics – Genocide and Terrorism Monitoring Services

On a motion by Mr. Hooper seconded by Mr. Johannesen, the Committee unanimously voted to approve the contract amendment for 0312293, as discussed.

The Committee discussed and agreed that Mr. Wisloski would provide a comprehensive review at the July meeting of the RiskMetrics contract for proxy voting services and the genocide monitoring services contract with respect to the VPIC's policy.

3.3 Investment Guideline Amendment

- Appendix H – Contract Summaries of Portable Alpha Investments – (new language)
- Appendix I – Contract Summaries of Alternative Investments – (new language)
- Appendix J – Asset Allocation Table – (update)

On a motion by Mr. Johannesen seconded by Mr. Mackey, the Committee unanimously voted to approve the Investment Guideline amendments for Appendix H, I, and J, as discussed.

The Committee agreed to the posting of the current approved version to the Web, for staff to distribute the current version to the Committee, and further acknowledged the document was fluid and that further amendments would be forthcoming, as needed.

The Committee also discussed whether a template should be created and distributed to managers on a regular basis seeking a confirmation statement of contract and guideline compliance would be prudent.

ITEM 4: Discussion Items/Updates

4.1 Contract Updates

- **PIMCO StocksPlus**

Ms. Pershing-Johnson reported the new transition contract to institutional shares was completed with internal signatures nearly completed.

Mr. Wisloski advised the investment would be implemented within the next two weeks.

- **SSB&T Securities Lending Agreement**

Ms. Pershing-Johnson advised the Committee that negotiations to address legal risks of the securities lending program would now take place in the context of a larger agenda of business issues to be discussed with State Street Bank and Trust Company regarding the custodial contract.

- **Investment Consultant Contract**

Ms. Pershing-Johnson advised that she was revising a contract draft after a recent meeting with Treasurer's Office staff.

4.2 Routine Contract Amendments Executed by Chair

The Committee reviewed the list with no comment.

4.3 Hedge Fund-of Fund Update

Mr. Kondry advised that four managers were currently selected for consideration. Legal documents would be forwarded to Ms. Pershing-Johnson as timely as possible.

The Committee agreed to visit with three managers at their July 27, 2010 meeting, with the potential selection of at least two managers for a 2.5% investment each.

4.4 Real Estate Update

Mr. Kondry provided a report on the current status of the core managers, which he revealed saw slight gains during the most recent prior quarter. The Committee also discussed the status of the RREEF and Transwestern investments, which Mr. Kondry reported remained distressed and have limited recovery prospects.

4.5 Fixed Income Benchmarks

Mr. Charlton discussed the potential and reasoning for a move away from the Barclay's Aggregate Index benchmark to other standards available.

4.6 VPIC Governance

Mr. Mackey, Mr. Spaulding volunteered to work on a job description, review process, compensation, succession plan, and recommendation for appointment. The Committee agreed to continue the discussion at the end of the meeting.

4.7 NEPC Annual Client Conference

Mr. Mackey, Mr. Johannesen, Mr. Altemus, Mr. Hooper, Mr. Rauh, and Mr. Wisloski attended the conference. They briefly discussed their impressions of the conference.

4.8 Securities Litigation Update

At 10:45 a.m. on a motion by Mr. Altemus seconded by Mr. Mackey, the Committee unanimously voted to enter into executive session, pursuant to Title 1 § 313, to discuss legal matters.

Mr. Griffin, Ms. Pershing-Johnson, Ms. Deliduka, Mr. Kondry, Mr. Charlton, Mr. Wisloski, and Mrs. Holden were invited into the executive session.

At 11:00 a.m. the Committee exited executive session.

ITEM 5: Director of Investment and Debt Management Report

5.1 Securities Lending Update

Mr. Wisloski reviewed his written report. **The Committee agreed** to continue further discussion at a later date regarding how to proceed with respect to this investment option, as a result of negotiations with SSB&T.

5.2 Asset Allocation Implementation Update

The Committee reviewed and agreed to the schedule as outlined in Mr. Wisloski's May 25, 2010 report which proposed funding the increased investment in AQR on July 31, the Cap-weighted S&P 500 Index Fund investment on July 31, and ACWI ex-US Index Fund investment on August 31.

ITEM 6: Review/Action: ACWI (ex US) and S&P 500 Vendor Searches

The Committee reviewed the data provided. Mr. Kondry suggested, and **the Committee agreed**, to wait until later this day or tomorrow before making a decision so that further information regarding fees could be received. He said the Committee would also have to decide on whether to have a commingled vs. separately managed account and whether or not to include securities lending.

ITEM 7: Actuarial Assumed Rate of Return Discussion/Proposal

7.1 Buck Consultant Analysis

7.2 NEPC Financial Market Returns Analysis

Mr. Spaulding reminded the Committee of the current statutory requirement mandating responsibility for changes to the actuarial rate of return through a joint agreement between the VPIC and the Boards of the retirement systems. He said the goal was to protect the integrity of the systems and benefits of the members and beneficiaries. Mr. Spaulding recommended a gradual reduction of 10 basis points per year for 10 years to 7.25% would be prudent. The Committee discussed whether setting a 7.25% rate was appropriate or using a range would better serve the purpose. The Committee agreed information regarding the funding ratio of each system was a factor and would be impacted by a change to the rate.

Members of the Committee and others expressed their opinions of how to achieve a reduction on the assumed rate of return. Mr. Jeffrey advised from the VMERS perspective, they would wait for the state and teacher's system to catch up to the VMES rate of 8% before lowering their rate.

The Committee discussed initiating reductions of the State and Teacher systems' 8.25% assumed rates of return by five basis points in year one, and 10 basis points in each year thereafter, with the VMERS Board beginning reductions of five basis point per year and each year thereafter, until the systems reach an equal rate (in six years at 7.70%) and then continue with 10 basis point reductions in tandem until the systems have reached the lower end of the reasonable range of an assumed rate of return.

Mr. Rauh left the meeting. Mr. Spaulding assumed the role of Chair.

Mr. Spaulding announced he attended the Milken Global Conference in California as a guest speaker regarding defined contribution retirement funds.

ITEM 8: VPIC Governance (CONTINUED)

At 2:30 p.m. on a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee unanimously voted to enter into executive session, pursuant to Title 1 § 313, to discuss a personnel matter.

Mr. Charlton, Mr. Kondry, Mr. Levell, Ms. Deliduka, Ms. Pershing-Johnson, Mr. Wisloski, and Mrs. Holden were invited into the executive session.

At 2:55 p.m. the Committee exited the executive session.

ITEM 9: Recess Meeting for the Day

At 2:56 p.m., hearing no objection, the Vice Chair declared the meeting recessed until 8:30 a.m., Wednesday, May 26, 2010.

Respectfully submitted,

Donna Holden, Clerk