VERMONT PENSION INVESTMENT COMMITTEE
May 26, 2010

VPIC Members Present:
STEPHEN RAUH, CHAIR, VMERS Governor's Delegate, term expiring June 30, 2010
JEB SPAULDING, VICE-CHAIR, VT State Treasurer
DICK JOHANNESEN, 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
Kevin Kondry and Chris Levell, NEPC
Jaye Pershing-Johnson, Assistant Attorney General
Jason Powell, Student Intern, Attorney General's Office
Linda Deliduka, VSTRS Board Member
Christopher Palazzolo and Mike Mendelson, AQR Capital Management, LLC
Libby Cantrill and Marc Seidner, PIMCO

CALL TO ORDER:

The Chair, Steve Rauh, called the Wednesday, May 26, 2010, meeting to order at 8:33 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Follow-Up Discussion from Tuesday, May 25, 2010**

- **ACWI ex US and Cap Weighted Index Funds**

Mr. Kondry explained there would be a total minimum annual fee of $150K, for an aggregate of 6 basis points, for the four index mandates at SSgA, however, the fee for the two new index accounts would be at 3 basis points for the Cap Weighted S&P 500 and 7 basis points for the ACWI ex US.

The Committee discussed the Investment Guideline restriction regarding tobacco and the rationale for leaving two other index accounts as separately managed, security lending accounts rather than being consistent in the type of vehicles. They also discussed the prudence in investing $300 million with SSgA, an operating division of State Street Bank and Trust Company.

The Committee agreed to table further discussion pending receipt of information from SSgA regarding other questions.

- **Actuarial Valuation**

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to recommend to the relevant Boards that each systems' actuarial investment return assumption be adjusted incrementally to a rate near the lower end of the range of reasonable investment return expectations, to begin by lowering the assumption for the VSERS and VSTRS by 5 basis points in FY 2012 and then by 10 basis points annually thereafter; and by lowering the assumption for the VMERS rate by 5 basis points annually beginning in FY 2012 until the assumptions are the same for all three systems, and then by 10 basis points thereafter, in tandem with the VSERS and VSTRS.

The Committee acknowledged the plan would be reviewed periodically.

Mr. Rauh agreed to prepare a background report to accompany the recommendation to the Boards, which would then require a joint meeting of the VPIC and Retirement Boards to achieve a joint resolution.

ITEM 2: **NEPC Q1/10 Quarterly Review**

Mr. Kondry and Mr. Levell presented the Q1/2010 report. They reported a total VPIC fund balance of **$3.019** 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 2010 performance reported a market value fund balance of approximately **$1.369** billion and a gross quarterly return of 3.9%, performing above the total public funds median ranking in the 32nd percentile. The one-year return was reported at 41.9% ranking in the 8th percentile, three-year return (1.6)% ranked in the 79th percentile, and a five-year return of 3.9% reported in the 76th percentile of the median public fund universe.

VSERS:
The first quarter 2010 performance reported a market value fund balance of approximately **$1.214** billion and a gross quarterly return of 4.0%, performing above the total public funds median ranking in the 21st percentile. The one-year return was reported at 42.3% ranking in the 7th percentile, three-year return (0.9)% ranked in the 61st percentile, and a five-year return of 4.2% reported in the 54th percentile of the median public fund universe.

VMERS:
The first quarter 2010 performance reported a market value fund balance of approximately **$330** million and a gross quarterly return of 4.0%, performing above the total public funds median ranking in the 22nd percentile. The one-year return was reported at 42.6% ranking in the 7th percentile, three-year return (0.7)% ranked in the 55th percentile, and a five-year return of 4.7% reported in the 39th percentile of the median public fund universe.

BURLINGTON:
The first quarter 2010 performance reported a market value fund balance of approximately **$105** million and a gross quarterly return of 3.9%, performing above the total public funds median ranking in the 33rd percentile. The one-year return was reported at 43.6% ranking in the 4th percentile of the median public fund. 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 (1.3)% ranked in the 71st percentile, and a five-year return of 4.0% reported in the 68th percentile of the median funds universe.

The Committee reviewed the April Flash Report, and a new Performance Analysis presentation.

ITEM 3: (continued) ACWI ex US and Cap Weighted Index Funds

Mr. Kondry reported SSgA Russell 2000 Growth Index is available as a commingled product, with and without lending, and the Equal Weight account was also available as a commingled account; however, only with lending. He also confirmed that participation in the Securities Lending program was not reflected performance as income from securities lending is earned and distributed outside of the commingled fund.

On a motion by Mr. Johannesen seconded by Mr. Altemus, the Committee unanimously voted to enter into contracts with SSgA for ACWI ex US and S&P 500 Cap Weighted index products, in commingled, non-securities lending accounts, subject to successful contract negotiations, and with funding per the April 20th approved asset allocation.

Mr. Wisloski advised the approximate funding mechanics for the ACWI would be: 1% from Acadian and 1% from Mondrian International Equity; and for the S&P 500 Cap Weighted, approximately 2.4% from T Rowe Price and .6% from the S&P Equal Weighted product.

ITEM 4: Management Strategy Visit and Disclosure

Mr. Spaulding advised the VPIC that the former Treasurer of North Carolina, Richard Moore, who now works for Relational Investors, visited with him and Mr. Wisloski recently. He explained the company's basic structure and mandate with respect to economically targeted investments, and corporate governance.

Mr. Mackey stated he also had frequent contact with many types of managers and products, however, in his opinion the Committee and integrity of the process were better served when managers were filtered through the Investment Consultant and not brought forward individually through and by Committee members.

Mr. Hooper left the meeting during the next item.

ITEM 5: Investment Manager Presentation – AQR Global Risk Premium Fund

Christopher Palazzolo, Vice President, and Mike Mendelson, Principal and Director of Global Trading Strategies, of AQR Capital Management, LLC appeared before the Committee to discuss the risk parity investment strategy.

ITEM 6: Investment Manager Presentation – PIMCO Core Plus

Libby Cantrill, Vice President and Account Manager, and Marc Seidner, Executive Vice President and Generalist Portfolio Manager, appeared before the Committee to discuss the core bond, StocksPlus, and All Asset portfolios, and "Plus" alpha strategy.

Mr. Seidner advised the Committee that the StocksPlus and CorePlus portfolios have more of an overlap, benefiting from the similar alpha drivers, than that of the All Asset portfolio as its alpha is primarily based on the asset allocation and strategy. Ms. Cantrill added, however, that each mandate would also be uniquely managed based on their respective benchmarks.

ITEM 7: Discussion

On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Committee unanimously voted to implement the 2.5% increase in funding allocation to AQR, as defined in the *NEPC implementation mix for new target* recommendation, and adopted on April 20, 2010.

Mr. Wisloski advised that the funds would primarily come from T Rowe, large cap equity.

ITEM 8: Any Other Business to Come Before the Committee

None

ITEM 9: Adjournment

On a motion by Mr. Mackey seconded by Mr. Spaulding, the Committee unanimously voted to adjourn at 5:06 p.m.

Respectfully submitted,

Donna Holden, Clerk