

VERMONT PENSION INVESTMENT COMMITTEE

August 24, 2010

VPIC Members Present:

STEPHEN RAUH, CHAIR

JEB SPAULDING, VICE-CHAIR, VT State Treasurer

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2011

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

VPIC Member(s) Absent:

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

VPIC Alternate Member(s) Absent:

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

VACANT, *Alternate* Governor's Delegate, term expiring June 30, 2012

VACANT, *Alternate* VMERS Representative, term expiring June 30, 2014

Also attending:

Donna Holden, Clerk

Steve Wisloski, Director of Investment and Debt Management

Chris Levell, NEPC

Bill Griffin, Chief Assistant Attorney General

Jeff Martell, South Burlington Police Sergeant

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, August 24, 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 and Announcements**

Hearing no objection, the Committee unanimously approved the agenda, as discussed.

Mr. Altemus advised the Committee he received approval from the Teacher's Retirement Board to attend the Annual NCTR Conference, October 9-14, in San Antonio, Texas.

Mr. Wisloski advised that representatives from Oppenheimer Capital would be visiting on September 16, 2010, from 9:00 to 11:00 a.m.

ITEM 2: **Minutes**

- **Approve the Minutes of July 27, 2010 – Regular Meeting**
- **Approve the Minutes of July 29, 2010 – Special Meeting**

On a motion by Mr. Mackey seconded by Mr. Johannesen, the Committee unanimously voted to approve the minutes of minutes of July 27, 2010 – Regular Meeting, as submitted.

On a motion by Mr. Mackey seconded by Mr. Jeffrey, the Committee voted to approve the minutes of minutes of July 29, 2010 – Special Meeting, as submitted.

ITEM 3: Committee Action Items

• **Hedge Fund-of-Funds: Allocation, Funding Source, Manager Selection**

Mr. Levell provided fee information for the three potential managers. The Committee also discussed risk and return assumptions (based on an equity and bond 60/40 funding split), funding strategies and sources, along with other legal and contracting considerations.

On a motion by Mr. Spaulding seconded by Mr. Jeffrey, the Board unanimously voted to approve a 5% allocation to a hedge funds-of-funds investment, funded at a 60/40 split from equity and fixed income, and of the allocation to invest 40% (\$60 million) in Permal, 40% (\$60 million) in Grosvenor, and 20% (\$30 million) in GAM.

The new asset allocation and funding for the new mandate would be:

	<u>OLD</u>	<u>NEW</u>
Large Cap Equities	15%	12%
<i>PIMCO StocksPlus</i>	4%	3% ~
<i>T. Rowe Price</i>	5%	3% ~
<i>S&P Cap Weighted Index</i>	3%	3%
<i>S&P Equal Weighted Index</i>	3%	3%
Mid Cap Equities	2%	2%
<i>Champlain Partners</i>	2%	2%
Small/Mid Cap Equities	4%	4%
<i>SSgA Russell 2000 Index</i>	2%	2%
<i>Wellington SCV</i>	2%	2%
International Equities	12%	12%
<i>Acadian</i>	5%	5%
<i>Mondrian</i>	5%	5%
<i>ACWI US Index (NEW)</i>	2%	2%
Emerging International Equities	6%	6%
<i>Aberdeen</i>	6%	6%
Total Equity	39%	36%
Bonds	20%	18%
<i>PIMCO Core Plus</i>	15%	13% ~
<i>OpCap Structured Alpha</i>	2.5%	2.5%
<i>Wellington DAS</i>	2.5%	2.5%
High Yield Bonds	5%	5%
<i>Post Advisory</i>	4.25%	4.25%
<i>KDP Asset Management</i>	.75%	.75%
Global Bonds	8%	8%
<i>Brandywine</i>	4%	4%
<i>Mondrian GFI</i>	4%	4%

Emerging Market Debt	3%	3%
<i>Wellington EMD</i>	<i>3%</i>	<i>3%</i>
TIPS	3%	3%
<i>Barclays TIPS</i>	<i>3%</i>	<i>3%</i>
Total Fixed Income	39%	37%
Real Estate	5%	5%
<i>Morgan Stanley Prime Prop</i>		
<i>UBS Trumbull</i>		
<i>RREEF America III</i>		
<i>Transwestern/Aslan III</i>		
Private Equity	0	0
Private Debt	0	0
Hedge Funds	0	5%
<i>Permal</i>	0	<i>2% ~</i>
<i>Grosvenor</i>	0	<i>2% ~</i>
<i>GAM</i>	0	<i>1% ~</i>
Commodities	2%	2%
<i>Schroders</i>	<i>2%</i>	<i>2%</i>
Total Alternatives	7%	12%
Risk Parity	5%	5%
<i>AQR</i>	<i>5%</i>	<i>5%</i>
Global Asset Allocation	10%	10%
<i>PIMCO All Asset</i>	<i>5%</i>	<i>5%</i>
<i>Wellington GAA</i>	<i>2.5%</i>	<i>2.5%</i>
<i>Melon GAA</i>	<i>2.5%</i>	<i>2.5%</i>
Total Multi-Strategy	15%	15%

On a motion by Mr. Spaulding seconded by Mr. Altemus, the Committee unanimously voted to amend the Investment Guidelines, Appendix J, Asset Allocation Table.

The Committee asked NEPC to monitor and provide performance information in the future of direct hedge fund investments vs. the performance of the managers just hired.

Mr. Wisloski advised the remaining small balance in the SSgA SMID (Russell 2500) account would be liquidated and closed by the September 30th rebalancing.

- **Terrorism/Genocide Screening List**

The Committee reviewed the proposed expanded list of companies participating in countries identified as terrorism and genocide linked countries.

On a motion by Mr. Spaulding seconded by Mr. Mackey, the Board unanimously voted to adopt the expanded Terrorism and Genocide linked countries list, as presented by Mr. Wisloski.

- **Burlington Contract Renewal**
- **Meeting with Burlington Employees' Retirement System Board**

On a motion by Mr. Mackey seconded by Mr. Jeffrey, the Board unanimously voted to authorize a one-year renewal of the Burlington Pension Plan's participation in the Trust Fund.

Mr. Rauh briefed the Committee on the content of the July 29, 2010 meeting with the Burlington Retirement Board.

ITEM 4: Discussion Items

- **Contract Updates**

Mr. Rauh advised the Committee the Cap Weighted and ACWI contracts were completed. Mr. Wisloski announced the mandates would be funded for September 1, 2010.

- **Routine Contract Amendments Executed by the Chair**

The Committee reviewed the list provided.

- **Actuarial Assumed Rate of Return**

Mr. Spaulding advised the Committee the three Retirement Boards agreed to accelerate their 5-year experience study cycle to a consolidated schedule and to provide the reports next year.

The Committee agreed to revisit the issue at a later date.

- **Acadian Asset Management Update**

Mr. Levell reported their planned on-site visit was rescheduled, therefore, a report would be provided next month.

The Committee agreed to defer making a decision on whether to hold an in-house meeting with the manager, until after receiving NEPC's on-site due diligence report.

- **Real Estate Update**

Mr. Levell advised the Committee of NEPC's impressions regarding improvements in real estate investments. A brief discussion ensued regarding the risk/benefits of investing in real estate investment trusts (REITs).

ITEM 5: Director of Investment and Debt Management Report

Along with the Committee, Mr. Wisloski reviewed his written report. He also advised the PIMCO liquidation account was nearly closed, after approximately nine-months, with a 5.57% return for that period.

ITEM 6: Securities Lending

Mr. Wisloski recommended, for the time being, that the Committee retain its position in the Quality D securities lending program, and continue to watch its on-going performance.

Mr. Rauh discussed potential portfolio risk/rewards and imbedded conflicts of interest within securities lending participation.

Mr. Levell discussed other considerations including revenue sharing, changes to the lending program pool with the withdrawal of defined contribution plan assets (and some governmental defined benefit plans), collateral pool changes, etc. and NEPC's position in support of participating in securities lending.

At 11:40 a.m. on a motion by Mr. Spaulding seconded by Mr. Mackey, the Committee unanimously voted to enter into executive session to discuss contractual matters.

Mr. Griffin, Mr. Levell, Mr. Wisloski, and Mrs. Holden were invited into the executive session.

At 12:15 p.m. the Committee exited the executive session.

ITEM 7: NEPC Q2 Performance Report

Mr. Levell presented the Q2/2010 report. He reported a total VPIC fund balance of **\$2.880** 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 2010 performance reported a market value fund balance of approximately **\$1.298** billion and a gross quarterly return of (3.5)%, performing above the total public funds median ranking in the 16th percentile. The one-year return was reported at 18.0% ranking in the 4th percentile, three-year return (4.0)% ranked in the 57th percentile, and a five-year return of 2.0% reported in the 45th percentile of the median public fund universe.

VSERS:

The second quarter 2010 performance reported a market value fund balance of approximately **\$1.159** billion and a gross quarterly return of (3.7)%, performing above the total public funds median ranking in the 21st percentile. The one-year return was reported at 17.9% ranking in the 5th percentile, three-year return (3.4)% ranked in the 42nd percentile, and a five-year return of 3.1% reported in the 36th percentile of the median public fund universe.

VMERS:

The second quarter 2010 performance reported a market value fund balance of approximately **\$321** million and a gross quarterly return of (3.7)%, performing above the total public funds median ranking in the 21st percentile. The one-year return was reported at 18.4% ranking in the 2nd percentile, three-year return (3.1)% ranked in the 32nd percentile, and a five-year return of 3.4% reported in the 26th percentile of the median public fund universe.

BURLINGTON:

The second quarter 2010 performance reported a market value fund balance of approximately **\$102** million and a gross quarterly return of (3.6)%, performing above the total public funds

median ranking in the 18th percentile. The one-year return was reported at 19.1% ranking in the 2nd 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 (4.1)% ranked in the 59th percentile, and a five-year return of 2.8% reported in the 45th percentile of the median funds universe.

The Committee was also provided the July Flash Report.

Mr. Gaffney left the meeting.

ITEM 8: VPIC Economic/Financial Market Dashboard

- How do we see the risk level? What are the different types of risk?
 - Political risk:* Taxes – how do changes affect the portfolio
World stability – conflicts, nuclear expansion, etc
 - Domestic risk:* Demographics
 - Economic risk:* Growth, GDP
 - Monetary risk:* Interest rates
 - Market risk:* Liquidity and what's the fall-out
 - Punditry risk:* Opinions and publicity of risk

- What is the difference between risk and uncertainty?

- If the risk is high, what should the strategy be with respect to the portfolio?
 - Hunker-down and muddle through, or is uncertainty opportunity*
 - Diversification and positioning for multiple and/or global scenarios*

- What are some of the positive factors and what are some of the negative factors of the current market environment?
 - Positive:**
 - Volatility – there is opportunity in volatility
 - Corporate profits and revenue growth
 - Buying power
 - Globalization/emerging markets
 - Negative:**
 - High unemployment
 - Downward pressure on wages

ITEM 9: Any Other Business to Come Before the Committee

None

ITEM 10: Adjournment

On a motion by Mr. Mackey seconded by Mr. Jeffrey, the Committee unanimously voted to adjourn at 4:15 p.m.

Respectfully submitted,

Donna Holden, Clerk