

VERMONT PENSION INVESTMENT COMMITTEE
September 28, 2010

VPIC Members Present:

STEPHEN RAUH, CHAIR
JEB SPAULDING, VICE-CHAIR, VT State Treasurer
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012
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:

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

VPIC Alternate Members Present:

JON HARRIS, VSTRS *Alternate*, term expiring June 30, 2011
KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012
KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

VPIC Alternate Member(s) Absent:

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

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

CALL TO ORDER:

The Chair, Steve Rauh, called the Tuesday, September 28, 2010, meeting to order at 8:32 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

Mr. Rauh welcomed Karen Paul, the Committee introduced themselves, followed by and Mrs. Paul providing a brief biography.

ITEM 1: **Agenda Approval and Announcements**

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

Mr. Wisloski advised the Committee he was planning an in-house meeting with Acadian during the week of October 18th and asked members to let him know, as timely as possible, what their schedule permitted for joining the meeting.

ITEM 2: **Minutes**

- **Approve the Minutes of August 24, 2010 – Regular Meeting**

On a motion by Mr. Altemus seconded by Mr. Jeffrey, the Committee unanimously voted to approve the minutes of minutes of August 24, 2010 – Regular Meeting, as discussed.

ITEM 3: Committee Action Items

- **Investment Guideline Amendments**

None

- **Municipal Pension Investment Procedures**

The Committee reviewed the procedures and discussed proposed amendments. **The Committee agreed** that Mr. Wisloski, Mr. Jeffrey, and Ms. Pershing Johnson would prepare a red-lined amendment proposal for the Committee's review at the October meeting.

ITEM 4: Discussion Items

- **Contract Updates**

Ms. Pershing Johnson advised the Committee the three hedge fund-of-fund contracts, Grosvenor, GAM, and Permal were under negotiation and that a November 30 funding date was planned.

Ms. Pershing Johnson asked what benchmark would be used to measure performance. The Committee discussed and questions whether the standard benchmark reference needed to be included in this type of contract.

The Committee agreed that NEPC would provide Ms. Pershing Johnson with some guidance/advise on which benchmark would be appropriate to use in the contract.

Mr. Spaulding pointed out the managers offered some type of benchmark in their presentations and that at a minimum that benchmark could be used for the contract, however, there was nothing to prevent the VPIC from asking NEPC to use more than one benchmark to track performance.

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

The Committee was advised of the most recent routine contract amendments completed, which included T Rowe Price and Acadian.

- **Oppenheimer Capital Visit**

Mr. Rauh provided a synopsis of the September 16th meeting with the vendor's representatives. He noted there would be a change in the Fund name and Fund Management to Allianz Capital, effective September 30th. Further discussed was the manager's option trading mandate, performance, prime broker issues, market volatility, and liquidity impacts.

- **VPIC Website – Asset Allocation**

The Committee viewed the current Website and Mr. Rauh provided site visit statistics for certain pages from the past 30 and 90 days. Further discussed were the disclosures with respect to the asset allocation. **The Committee agreed** additional Website footnotes should be added to define "risk parity" and to link readers to the Investment Guidelines. Mr. Wisloski agreed to add the information to the site.

- **High Yield FI Benchmark**

Mr. Rauh explained the purpose for reviewing the current high yield manager's benchmark appropriateness was initiated by the desire to be reflective of the quality bias of VPIC's two high yield managers and VPIC's decision to incorporate this bias in this asset class.

The Committee agreed to NEPC's proposal to list a second benchmark, *ML High Yield BB/B*, to future reporting.

- **Securities Lending Risk/Return Reporting**

Mr. Kondry reviewed the addition of the securities lending information included in the newest Flash Report.

- **Acadian Asset Management Update**

Mr. Kondry and Mr. Levell advised they would be conducting an on-site visit with Acadian, as timely as possible, and were confident the philosophy and strategic process remained intact, despite recent personnel departures. Mr. Kondry said the company remained in NEPC's search database and that NEPC did not recommend any changes. The Committee further briefly discussed performance and the manager's quantitative process.

- **Real Estate Update**

Mr. Kondry advised there was evidence of efforts in recovery and that there were no substantial changes to report. The Committee also discussed real estate industry trends and REIT funds.

ITEM 5: VPIC Portfolio Strategy Review

- **Active vs. Passive**
- **Portfolio Rebalancing**
- **Risk Budgeting**

Mr. Rauh complimented the Committee on the many recent steps taken to further diversify the portfolio, reduce equity exposure and improve the portfolio's risk profile.

The Committee discussed the talking points above and agreed to revisit and update active vs. passive analysis at least annually; to adhere to the semi-annual rebalancing procedure while acknowledging that due to monthly TRS and ERS benefit payment needs the portfolio was actively balanced; and to more broadly employ NEPC's risk budgeting information and/or strategy in to VPIC's decision making process with the goal to reduce volatility and increase diversification.

The Committee also briefly discussed NEPC's recommendation that the Committee consider eventually adding an active small cap growth manager.

ITEM 6: Director of Investment and Debt Management Report

Along with the Committee, Mr. Wisloski reviewed his written report.

ITEM 7: VPIC Governance

Mr. Rauh suggested the Committee discuss and examine how they should be using their time and what functions should be delegated to staff and NEPC. Mr. Charlton acknowledged the strides taken by the VPIC over the past few years with respect to governance.

The Committee agreed it would be prudent to meet with problem managers (if any), new managers, and those with complex strategies on a more regular basis.

Mr. Hooper left the meeting.

Mr. Rauh agreed to work with Mr. Wisloski to develop a more formal manager monitoring process for the Committee's consideration.

ITEM 8: VPIC Economic/Financial Market Dashboard

Mr. Wisloski distributed the Dashboard exhibit.

Mr. Gaffney left the meeting.

ITEM 9: Any Other Business to Come Before the Committee

None

ITEM 10: Adjournment

On a motion by Mr. Jeffrey seconded by Mr. Harris, the Committee unanimously voted to adjourn at 3:00 p.m.

Respectfully submitted,

Donna Holden, Clerk