

**VERMONT PENSION INVESTMENT COMMITTEE**  
**October 28, 2010**

**VPIC Members Present:**

STEPHEN RAUH, CHAIR

JEB SPAULDING, VICE-CHAIR, VT State Treasurer

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

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

**VPIC Member(s) Absent:**

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

**VPIC Alternate Members Present:**

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

**VPIC Alternate Member(s) Absent:**

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

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

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

**Also attending:**

Lestyn Mattison, Clerk

Steve Wisloski, Director of Investment and Debt Management

Jaye Pershing Johnson, Assistant Attorney General

Linda Deliduka, VSTRS Board Member

Dick Charlton, Kevin Kondry and Chris Levell, NEPC

**CALL TO ORDER:**

The Chair, Steve Rauh, called the Thursday, October 28, 2010, meeting to order at 8:31 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agenda Approval and Announcements****

The committee unanimously approved the agenda with the addition of an item requested by Treasurer Spaulding for the purpose of presenting a proposal by Independent Fiduciaries Services.

Mr. Altemus advised the committee that he had attended the National Council on Teacher Retirement (NCTR) Conference earlier in the month.

**ITEM 2:      **Minutes****

- **Approve the Minutes of September 28, 2010 – Regular Meeting**

**On a motion by Mr. Altemus seconded by Mr. Mackey, the committee unanimously voted to approve the minutes of September 28, 2010 – Regular Meeting, as discussed.**

**ITEM 3:      Committee Action Items**

- **Investment Guideline Amendments for Hedge FOFs**

Ms. Pershing Johnson proposed the adoption of amendments to the investment guidelines to include the new Hedge FOF commitment. Following a brief discussion, on a **motion by Mr. Altemus, seconded by Mr. Johannesen, the Committee unanimously approved the inclusion of the Hedge FOF amendments (5% to be funded by November 30) to the investment guidelines.**

- **Municipal Pension Investment Procedures**

As directed at the September meeting, Mr. Wisloski reviewed a red-lined document with proposed revisions to the Municipal Pension Investment Procedures. Mr. Spaulding suggested that a draft of the revised document be sent to the City of Burlington Employees Retirement System (the only municipal plan currently participating with VPIC) for comments, postponing approval by VPIC until the next meeting, pending receipt of Burlington's input.

- **ISS Proxy Voting Contract Renewal**

Mr. Wisloski reported that the ISS contract which provides proxy voting and terrorist nation monitoring services will expire in December. **Following a brief discussion, the Committee unanimously approved renewal of the contract as moved by Mr. Mackey and seconded by Mr. Johannesen.**

- **SSgA Russell 2500 Index Fund**

**Mr. Spaulding moved, seconded by Mr. Altemus to amend the asset allocation to retain a minimal investment in the SSgA Russell 2500 index fund. The vote was unanimous.**

**ITEM 4:      Discussion Items/Updates**

- **Contract Updates**

Ms. Pershing Johnson advised the Committee that initial negotiations for the three hedge fund-of-fund contracts, Grosvenor, GAM, and Permal are complete.

At 9:25 a.m., Mr. Jeffrey moved to go into Executive Session for the purpose of discussing potential litigation, seconded by Mr. Johannesen. Executive Session ended at 9:45 a.m. No action was taken.

- **Hedge Fund FOF Benchmarks—HFRI and 60/40**

As agreed at the September meeting, NEPC presented their recommendations for appropriate benchmarks for the Hedge FOF allocation. Based on their analysis and recommendation, the HFRI Fund of Funds Composite Index and a 60% S&P 500/40% Barclays Aggregate Index

(which mirrors the sources of funds, 60% large cap domestic equity and 40% core plus fixed income) were selected.

- **Single Strategy Hedge Fund Shadow Portfolio**

NEPC briefly discussed the Single Strategy Hedge Fund Shadow Portfolio which will help VPIC learn more about specific hedge fund strategies and how they perform in various market environments. It was agreed that NEPC will present specific suggestions at the November meeting so tracking can begin in Q1 2011. For the foreseeable future, VPIC will continue with its current 5% allocation to hedge fund-of-funds.

- **Investment Manager Monitoring Process**

Mr. Rauh presented a proposal for a more formal monitoring process for investment managers and requested that NEPC provide samples of the types of data that could be used to evaluate and monitor managers' performance. Working with Mr. Wisloski, Mr. Rauh will revise the proposed process and present it for the committee's review in November.

**ITEM 5:      FY 2010 Actuarial Reports**

The committee discussed the October 26, 2010 (FY 2010) actuarial reports relative to their investment implications. VPIC agreed to stay with its current practice of using the same asset allocation and risk profile for all three systems despite differences in funded status. At this time: VT State Employees funded status is 81.2%, VT State Teachers 66.5%, and VT Municipal Employees 92%.

**ITEM 6:      Active versus Passive Management Analysis**

As part 2 of a 3 part study, NEPC presented an analysis of benefits derived from active management at the *asset class level* as opposed to the *overall portfolio level* discussed in September.

Mr. Kondry summarized that active management on a collective basis has produced mixed results for VPIC. Mr. Rauh added that VPIC has addressed and appears to have successfully limited some of its volatility by restructuring the portfolio, reducing traditional equity exposure, diversifying fixed income management strategies and increasing alternative asset exposure. The active/passive management analysis studies help support future decision-making relative to the use of active and/or passive strategies. At the November meeting, the committee will explore this issue at the individual manager level.

**ITEM 7:      Presentation by Acadian Asset Management**

Jason Chalmers, Relationship Manager  
Jack Gastler, Public Fund Manager  
Patrick McCafferty, Portfolio Manager

Acadian manages approximately a 5% position in International Developed Equities for VPIC. Among topics discussed were recent key personnel changes, investment process and performance.

*Ms. Paul left the meeting.*

**ITEM 8: VPIC Economic/Financial Dashboard**

Mr. Wisloski and the committee reviewed the dashboard report. The possibility of prioritizing the positive/negative factors on the report was discussed.

**ITEM 9: Director's Report**

Mr. Wisloski presented his report to VPIC, noting that VPIC's custody contract with State Street will be expiring December 31, 2011. At 3:45 p.m., Mr. Spaulding made the motion, seconded by Mr. Jeffrey, to go into Executive Session for the purpose of discussing contract negotiations. Executive Session ended at 3:55 p.m. with no action taken.

*Mr. Altemus left the meeting.*

**ITEM 10: Other or New Business**

Mr. Spaulding presented information from Independent Fiduciary Services, a firm which provides audit services for retirement pensions and investments. No action was taken.

**ITEM 11: Adjournment**

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

Respectfully submitted,

Lestyn Mattison, Clerk