

VERMONT PENSION INVESTMENT COMMITTEE
January 25, 2011

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, VT State Treasurer

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

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

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

VPIC Member(s) Absent:

NONE

VPIC Alternate Members Present:

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

VPIC Alternate Member(s) Absent:

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

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

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

Also attending:

Lestyn Mattison, Clerk

Steve Wisloski, Deputy State Treasurer

Bill Griffin, Chief Assistant Attorney General

Jaye Pershing Johnson, Assistant Attorney General

Chris Levell, NEPC LLC

Kevin Kondry, NEPC LLC

Shaun Levesque, Schroders

Eric Nelson, Schroders

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, January 25, 2011 meeting to order at 8:34 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval, Announcements, and Minutes of December 21, 2010 Regular Meeting**

Mr. Altemus announced that he would need to leave at 11:00 a.m. for approximately one hour for testimony to the House Education Committee. Ms. Pearce announced that she also needed to leave at 11:00 a.m. for a Municipal Bond Bank meeting. Mr. Hooper announced that he needed

to leave at 3:00 p.m. for a meeting in Rutland. Finally, Mr. Rauh announced that Ms. Paul was unable to attend due to a schedule conflict and that Mr. Golonka was unable to attend due to illness.

On a motion by Mr. Hooper seconded by Mr. Jeffrey, the Committee unanimously voted to approve the Agenda and minutes of the December 21, 2010 Regular Meeting.

ITEM 2: Election of Vice Chair

Mr. Altemus nominated Ms. Pearce to replace Jeb Spaulding as Vice Chair, which nomination was seconded by Mr. Johannesen.

Hearing no other nominations, Ms. Pearce was unanimously elected Vice Chair.

ITEM 3: Annual Evaluation of Chair

The Committee reviewed the memorandum prepared by Ms. Mattison describing the statutory and VPIC policy basis for the annual evaluation of the VPIC chair and the recording of VPIC's discussion during the December 21, 2010 meeting regarding the Chair's performance.

Mr. Jeffrey, seconded by Mr. Mackey, moved to approve the Annual Evaluation as written. The motion carried unanimously.

ITEM 4: Review of Contracts

The Committee reviewed the list of VPIC manager and vendor contracts and termination dates.

Ms. Pearce, seconded by Mr. Altemus, moved to renew the PIMCO All-Asset and Mellon Capital Management contracts expiring March 31, 2011 for an additional five (5) years, contingent upon NEPC's analysis, to be presented at the February 22 meeting, that the fees are reasonable. The motion carried unanimously.

Mr. Hooper, seconded by Ms. Pearce, moved to direct NEPC to conduct a study of all VPIC manager fees, to ensure VPIC was receiving "most favored nation" status per VPIC's contracts and that the fees otherwise were reasonable. The motion carried unanimously.

ITEM 5: Annual Agenda Cycle

The Committee reviewed the annual agenda cycle. The Chair asked Mr. Wisloski to have ISS/Riskmetrics prepare a summary of VPIC's proxy voting activity for calendar year 2010 for the February 22 meeting. Mr. Johannesen asked for an analysis of how often VPIC's votes against management's recommendation were successful.

Mr. Hooper, seconded by Mr. Altemus, moved to adopt the annual agenda cycle, with corrections as noted during the discussion. The motion carried unanimously.

ITEM 6: December Flash Report

Mr. Gaffney arrived at 9:30 a.m.

Mr. Kondry reviewed the December flash report with the Committee. VPIC realized preliminary returns during calendar year 2010 as follows: 14.7% for VSTRS, 15.1% for VSERS, 15.0% for VMERS and 15.0% for BERS, in all cases returns are gross of fees. Mr. Kondry expected that these returns compared favorably with similar-sized public funds, and reported that rankings versus VPIC's peer group would be available at the February 22 meeting.

Mr. Rauh directed Mr. Wisloski to sweep the de minimis cash balance from real estate and directed NEPC to remove the "Real Estate Cash" line item from the flash report. Mr. Johannesen requested that NEPC add an overall "VPIC Composite" line item to both the flash report and NEPC's multiple sectors market update.

ITEM 7: Standards of Conduct and Education Policy

Ms. Pershing Johnson reviewed the redlined Standards of Conduct with the Committee, and the Committee discussed several hypothetical situations for clarification.

On a motion by Mr. Hooper, seconded by Mr. Johannesen, the Committee unanimously voted to approve the Standards of Conduct with edits as noted.

Mr. Altemus left at 11:00 a.m.

Ms. Pearce left at 11:15 a.m., and identified Mr. Wisloski as her designee per 3 V.S.A. § 522(a)(5) for the remainder of the meeting.

Ms. Pershing Johnson reviewed the redlined Education Policy with the Committee. The Committee discussed several points of clarification in the policy and requested that educational materials (such as books) be excluded from the \$10 gift limitation.

On a motion by Mr. Jeffrey, seconded by Mr. Johannesen, the Committee voted 4-1 to approve the Education Policy with edits as noted.

Mr. Rauh asked that the Treasurer's Office prepare a draft budget for VPIC for the February 22 meeting.

ITEM 8: Asset Allocation Discussion

Mr. Levell reviewed NEPC economic outlook and client recommendations. NEPC expects lower returns and higher volatility over the next five to seven years, but higher returns over the next 30 years. Specifically, NEPC sees opportunities in local currency emerging market debt (due to long-term dollar weakness), distressed lending, and real assets.

Based upon VPIC's current asset allocation, NEPC expects five to seven year returns of 6.1% annualized, down from 7.3% last year, and volatility of 9.7%, increased from 9.4% last year.

Over 30 years, NEPC expects VPIC portfolio returns of 7.9% annualized, with a standard deviation of 9.7%.

Mr. Altemus returned at 11:45 a.m.

ITEM 9: Schrodgers' Commodity Portfolio Presentation

Mr. Levesque and Mr. Nelson reviewed the strategy, philosophy, and performance of the Schrodgers' Commodity Portfolio, as well as the outlook for the portfolio's "hard close" to new investment. The portfolio pursues a long-only, unleveraged, and non-index constrained investment strategy, and during 2010 returned 17.1% versus its benchmark return of 15.6% (benchmark is the average of four indices: Rogers International Commodity Index, DJ UBS, S&P GSCI and RJ CRB).

The hard close, at approximately \$10 billion of invested assets, is due to Schrodgers' desire not to own too much of the market (e.g., more than 10%) in any particular commodity. As existing fund investors redeem shares; other existing investors will be allowed to add funds via queue.

Mr. Hooper left at 3:15 p.m.

ITEM 10: Director of Investment and Debt Management Report

Mr. Wisloski reviewed the contents of the Director's report, including current and projected asset allocation, the State Street securities lending program status, and updated assets under management. Mr. Wisloski also reported that Mr. Rauh voted not to dissolve Aslan III Realty Partners, based upon their discussion and upon recommendations from the manager and NEPC.

ITEM 11: VPIC Financial Market Dashboard

Mr. Wisloski reviewed the Economic and Financial Markets Dashboard, in particular the continued improving trends in GDP, payrolls and equity markets. These trends are balanced by increasing interest rates and commodity prices, as well as a resumed decline in housing prices. The Committee increased its 12-month forward expectation for GDP to 3.5% from 3.0% last month, but held its projection for CPI constant at 2.0%.

ITEM 11: Other or New Business

No other or new business was identified.

ITEM 12: Adjournment

Hearing no objections, the meeting was adjourned at 4:30 p.m.

Respectfully submitted,

Lestyn Mattison, Clerk