

**VERMONT PENSION INVESTMENT COMMITTEE**  
**April 26, 2011**

**VPIC Members Present:**

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

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

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

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

**VPIC Member(s) Absent:**

None

**VPIC Alternate Members Present:**

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:**

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

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

**Also attending:**

Steve Wisloski, Deputy State Treasurer

Monica Chiren, Clerk

Jaye Pershing Johnson, Assistant Attorney General

Dick Charlton, NEPC LLC

Chris Levell, CFA, NEPC LLC

Kevin Kondry, NEPC LLC

Linda Deliduka, VRTA *Alternate* Representative, VSTRS Board of Trustees

Ignacio Galaz, PIMCO

Ryan Korinke, CFA, PIMCO

Chris Filley, AllianceBernstein

Matt Considine, CFA

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, April 26, 2011 meeting to order at 8:32 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:**      **Agenda Approval, Announcements, and Minutes of March 22, 2011 Regular Meeting**

Mr. Wisloski announced that Donna Holden, longstanding VPIC Clerk, had accepted a position with the Agency of Transportation and that Monica Chiren would take over the Clerk's responsibilities.

**The Committee approved the Agenda.**

**On a motion by Mr. Altemus, seconded by Mr. Johannesen, the Committee unanimously approved the minutes of the March 22, 2011 Regular Meeting.**

**ITEM 2:      Committee Action Items**

Per the terms of the Committee's Travel and Education Policy, Mr. Mackey requested approval to travel to the Public Funds Summit East, July 18-20 in Newport, Rhode Island. Mr. Mackey estimated the cost for mileage, hotel, meals and the conference registration fee at \$4,000, or \$1,500 if the registration fee was waived.

**On a motion by Mr. Hooper, seconded by Mr. Johannesen, the Committee unanimously approved Mr. Mackey's travel for approximately the dollar amounts specified.**

Mr. Rauh advised the Committee to contact Mr. Wisloski for information regarding the June and September PIMCO client conferences at PIMCO's headquarters in Newport Beach, California.

**ITEM 3:      Review of Contracts**

Ms. Pershing Johnson provided a status update on the contract amendments extending PIMCO All-Asset and Mellon Global Asset Allocation for five (5) years through March 31, 2016: the PIMCO amendment is complete; and one final point is being negotiated with Mellon and is expected to be resolved.

Mr. Wisloski reported that State Street Custody contract negotiations are ongoing, and requested that the Committee approve an expenditure not to exceed \$15,000 to conduct due diligence on foreign exchange transaction pricing.

**On a motion by Mr. Hooper, seconded by Mr. Altemus, the Committee unanimously approved an amount not to exceed \$15,000 for foreign exchange transaction pricing analysis.**

**ITEM 4:      Review of Managers on NEPC's Watch List**

Mr. Levell reported that Mellon (Global Asset Allocation) and Post Advisory (high yield bonds) had been added to NEPC's "hold" list, which means these firms are no longer on NEPC's targeted manager list, in both cases due to the loss of key personnel. Acadian remained on the "watch" list due to multiple staff departures over the past year. NEPC did not recommend changes at this point.

**ITEM 5: Investment Manager Monitoring**

Mr. Rauh reviewed the investment manager monitoring process and matrix. Mr. Mackey expressed a desire to have active managers visit VPIC in person at least every two years, both to be reminded of their specific strategies and advised of changes and to improve VPIC's general investment education. Mr. Charlton stated that ongoing investment manager due diligence is one of NEPC's responsibilities.

**ITEM 6: Review of NEPC Flash Report for March 31**

Mr. Kondry reviewed VPIC's flash report for periods ending March 31. VPIC's participating systems total returns were positive 3.4% to 3.5% for the first three months of the year, compared to 5.9% for the S&P 500 Index and 0.4% for the Barclays Aggregate. Most of VPIC's active managers performed well relative to their benchmarks.

*The Committee took a brief recess from 10:05 to 10:15 a.m.*

**ITEM 7: Asset Allocation Review**

Mr. Rauh described a proposed asset allocation work plan, which grouped NEPC's recommendations into four broad categories and then ranked them in order of importance to be discussed at future VPIC meetings as follows:

1. April 26, 2011 – Core fixed income
2. May 2011 – Discuss reducing equity in favor of global asset allocation (GAA) and additional inflation hedges
3. July 2011 – Emerging markets and developed currency hedging
4. September 2011 – Discuss illiquid investment options

Core fixed income was deemed the most important topic as PIMCO's core plus mandate, at 13% of assets, was the largest single fund in VPIC's portfolio. To that end, NEPC presented two recommendations:

1. Move 6.5% of VPIC's portfolio from PIMCO Core Plus to PIMCO's Unconstrained Bond Strategy
2. Change the Allianz Structured Alpha and Wellington Diversified Alpha Strategies (DAS) beta sources from the Barclays Aggregate to 10 Year T-Notes and 10 Year T-STRIPS, respectively

**ITEM 8: PIMCO Unconstrained Bond Strategy Presentation**

Mr. Galaz and Mr. Korinke of PIMCO presented their firm's Unconstrained Bond Strategy, which, compared to Core Plus, allows the manager to be tactical in a volatile rate environment. Specifically, the strategy enables diversification away from U.S. interest rate risk by pursuing (1) credit and "safe spread" products, (2) global bonds (e.g., Canadian and Australian) and (3) currency exposure. Fees for the Unconstrained strategy would be 60bps on the first \$200 million, versus under 30bps for the Core Plus strategy.

**On a motion by Mr. Mackey, seconded by Mr. Altemus, the Committee unanimously voted to move 50% of the PIMCO Core Plus portfolio to PIMCO's Unconstrained Bond strategy, subject to successful contract negotiations.**

**The Committee agreed to rename the "Core Plus Bonds" category, representing 18% of the portfolio's assets, to "Diversified Bonds."**

**On a motion by Mr. Jeffrey, seconded by Mr. Johannesen, the Committee unanimously voted to change the Wellington DAS beta source to the 10 Year T-STRIPS pool effective July 1, 2011.**

**The Committee asked NEPC to further discuss implementation of a 10 Year T-Notes beta source for Allianz at the May 24 meeting.**

*The Committee took a brief recess from 2:00 to 2:15 p.m.*

**ITEM 9: Travel Request to PIMCO Client Conference**

Mr. Hooper expressed an interest in being VPIC's representative to the PIMCO client conference at its Newport Beach, CA headquarters.

**On a motion by Mr. Mackey, seconded by Mr. Altemus, the Committee unanimously approved \$2,800 in travel expenses for Mr. Hooper to attend the PIMCO Client Conference.**

Ms. Pearce inquired as to whether Mr. Hooper planned to remain part of VPIC through September. Mr. Wisloski offered to coordinate Mr. Hooper's reservation with PIMCO.

**ITEM 10: Director of Investment and Debt Management Report**

Mr. Wisloski reported that four securities were downgraded in the Brandywine and one in the PIMCO Core Plus portfolios; that the duration pool declined from 33.2% to 29.1% of VPIC's overall Quality D securities lending pool and was projected to decline another 68% over 12 months; that asset allocation remained within 0.4% of target for VPIC's major asset classes; and that VPIC's assets under management increased to \$3.366 billion as of March 31.

**ITEM 11: VPIC Financial Market Dashboard**

The Committee discussed the Economic and Financial Markets Dashboard and, based upon increased global uncertainty and signs of moderating U.S. growth, reduced its 12-month forward expectation for U.S. GDP from 3.0% to 2.5%, and held its CPI expectation steady at 3.0%.

**ITEM 12: RREEF America III Real Estate Conference Call**

The Committee listened to RREEF's first quarter 2011 investor teleconference. RREEF reported substantially improved performance of 6.9% during the first quarter, and 24.3% during the past 12 months, with a current NAV of \$33.66 and a target share value of \$59 to \$64.

**On a motion by Mr. Mackey, seconded by Mr. Altemus, the Committee voted unanimously to allow Mr. Wisloski to vote VPIC's proxy approving new board members of RREEF.**

**ITEM 13: Other or New Business**

**Mr. Altemus asked the Committee to consider using iPads in lieu of paper presentation materials.**

**Mr. Hooper inquired as to which other public funds, if any, use a select-and-ultimate methodology to determine assumed actuarial rates of return.**

The Committee was reminded that the first item on the May 24 meeting agenda, at 8:30 a.m., would be joint votes via teleconference with VSTRS, VSERS and VMERS regarding the adoption of FY2013 assumed rates of return.

**ITEM 14: Adjournment**

**Hearing no further business, the Committee adjourned at 3:45 p.m.**

Respectfully submitted,

Monica Chiren, Clerk

