

Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
September 22, 2009
Open Session Minutes

Committee Members Present:

John G. Milliken, Chairman
Mark B. Goodwin, Chairman, Finance/Planning Committee
Jerry A. Bridges, Executive Director

Commissioners Present:

Deborah K. Stearns, Vice Chairwoman
Stephen M. Cumbie
Marvin S. Friedberg

Staff:

J. J. (Jeff) Keever, Senior Deputy Executive Director, External Affairs
Rodney W. Oliver, Deputy Executive Director and CFO
Elaine Smith, Director of Human Resources
Linda G. Ford, Director, Port Promotion
Debra J. McNulty, Clerk to the Board

Guests:

Jeffrey R. Allen, Assistant Attorney General
Larry McNamara, Aon Investment Consulting
Alfredo Calvo, Great-West Retirement Services
George (Hobie) Whitmore, Scott & Stringfellow LLC

Pursuant to call by Chairman Milliken, the Investment and Administrative Committee convened an open session on this date at 9:00 a.m., at the Virginia Inland Port in Front Royal. Mr. Peter Frost, with *The Daily Press* was also in attendance.

The following items were discussed:

1. Approval of a Seventh Amendment to the VPA Defined Benefit Pension Plan and Trust with regard to eligibility for the Pre-Retirement Death Benefit.

Mr. Oliver explained that the amendment would allow for a pre-retirement death benefit for employees who moved over from VPA to VIT during the reorganization. He explained that VPA realized the oversight after the recent death of a VIT employee who transferred from VPA. The amendment would provide the employee's spouse with the death benefit and would also cover the VPA employees who were moved to VIT. Mr. Bridges said this would be in keeping with the Authority's promise to keep transferred employees "whole" with regard to pension benefits. Mr. Oliver advised that the amendment would be retroactive.

Action: Upon motion by Mr. Bridges, seconded by Mr. Goodwin, the Investment and Administrative Committee approved the seventh amendment to the VPA Defined Benefit Pension Plan and Trust, for the sole purpose of determining eligibility for the Pre-Retirement Death Benefit.

2. Review of VPA Employer Funded Defined Benefit/Pension Plan through June 30, 2009 Plan

Mr. Whitmore briefly reviewed highlights of the VPA Employer Funded Defined Benefit/Pension Plan Portfolio Summary, as follows:

- Initial funding in early January 2002
- Portfolio Value as of June 30, 2009: \$4,206,867
- Q2 2009 Total Return (4th Fiscal Q,2009): +13.33% versus +10.13% for the comparative index/benchmark (60% S&P 500, 40% Barclays Capital Intermediate Govt/Credit)
- **FY 2009 Annual Return: -18.32% versus -14.12% for the benchmark**
- Annualized Return since inception: +3.69% versus +1.75% (corrected 2.40% typo in report) for the benchmark
- Portfolio Value as of September 15, 2009: \$4,699,735 (includes net deposits of \$15.5k since June 30, 2009)

Mr. Whitmore reviewed historical performance for fiscal years and calendar years (2002-2009) and reviewed the strategic asset allocation. He advised no changes at this time for the following allocation:

- 50% Diversified Equity
- 20% Multi Asset
- 25% Diversified Bonds
- 5% GIC/Money Market

The Advisor Summary was presented and Mr. Whitmore reported that he and Rodney Oliver are scheduled to review each manager and the portfolio allocation before the next meeting of the Investment and Administrative Committee scheduled for November 24th.

Mr. Whitmore also reviewed a graph from J.P. Morgan Asset Management that reflected market insights of corporate defined benefit plans and endowments such as asset allocation, funding status, and pension return assumptions for S&P 500 companies.

At this time, Mr. Whitmore explained that the VPA employer funded defined benefit/pension plan annual return assumption for the fiscal year ending June 30, 2009, was 8%. Mr. Whitmore recommended that the Committee approve a more conservative assumption of 7.5% due to the anticipated slow-growth environment that is forecast for the next several years. Mr. Oliver agreed that VPA should use the 7.5% assumption for FY2010 and he advised that VPA would be required to bring up the contributions.

3. Review of Actuarial Valuation Report as of July 1, 2009 for the VPA Defined Benefit Pension Plan.

Mr. McNamara referred to page 12 of the report outlining the effects of Plan changes for VPA sworn and non-sworn participants, before and after the VIT asset rollover, and he explained that future estimated contributions are needed to make up the 7.5% assumption rate. He reported that additional benefits for VPA employees transferred to VIT, and early retirement incentives with

additional years of service, have increased the recommended contributions to \$692,898. Mr. McNamara also reviewed the effects of assumption changes reflecting 8% versus 7.5% for the new mortality assumptions that have increased contributions by about \$10,000. He advised that 8% was a common interest rate for pension plans but that the trend is moving towards 7.5%. The new rate would result in about \$90,000 of additional costs for the VPA Plan for VPA sworn and non-sworn participants (page 13) and \$12,000 for VRS sworn participants (page 14).

Mr. Oliver confirmed that he has budgeted for the new assumption (mortality) rate change from 8% to 7.5%. He noted that assets decreased rather than increased which amounts to an additional \$100,000 in costs that has also been included in the budget. Mr. Bridges confirmed that VPA has the funds to support the new assumption rate.

Mr. Oliver explained how VPA went from being \$1.1 million overfunded last year to \$1.8 million underfunded and that, after a sizeable contribution at the end of the fiscal year, the plan is currently \$1.3 million underfunded.

Action: Upon motion by Mr. Goodwin, seconded by Mr. Bridges, the Investment and Administrative Committee approved the change to the actuarial assumption return rate from 8% to 7.5%.

Mr. McNamara continued with a review of the Actuarial Report and referred to the reconciliation of assets for July 1, 2008 to July 1, 2009 (page 6). He explained that assets dropped from \$5.2 million to \$4.2 million. The net rate of return was (21.9%).

Mr. McNamara summarized contributions for VPA sworn and non-sworn participants and reviewed recommended contributions for July 1, 2009. He explained that recommended contributions after all changes were \$793,799 for the VPA sworn and non-sworn employees and \$317,364 for the VRS employees. These numbers are shown on pages 13 and 14 of the report. He also reviewed the impact of the changes – after VIT asset rollover and new mortality rate – for both groups that were outlined in pages 12-14.

Mr. McNamara recommended a review next year of the funding method for the seven remaining VRS sworn participants. He noted that the Financial Statement Information for FYE June 30, 2008 and June 30, 2009 (pages 15 and 16) demonstrate how VPA went from being overfunded to underfunded.

4. Overview of VPA 457 and 401(a) Defined Contribution Plans through June 30, 2009

Mr. Calvo provided the Plan Review for VPA for the period from January 1, 2009 to June 30, 2009 and reviewed highlights from the report, as follows:

- Plan assets were at \$3.84 million as of June 30, 2009 (\$4.23 million as of September 1)
- Plan assets grew by \$0.16 million (4.3%) from January 1, 2009 to June 30, 2009
- Contributions were \$0.31 million from January 1, 2009 to June 30, 2009
- From January 1, 2009 to June 30, 2009 there were 241 participants

Mr. Calvo reported that Great-West saw contributions fall slightly below last year because it seems employees are tightening their budgets. He reported that he is seeing a very slow movement from assets back to equities. The number of loans from the Plan has stabilized and there are not many loans outstanding or hardship withdrawals.

Mr. Calvo reviewed the assets by asset class and reported that a majority of funds are remaining in the fixed funds and funds of funds class. It was reminded by Mr. Calvo that the Committee had approved replacing the profile series with the Vanguard targeted funds and he referred to page 9 of the report that outlines the assets by investment option. Mr. Calvo said employees seem to be in a “wait and see” mode as demonstrated by the majority of funds in the fixed fund accounts.

Mr. Calvo explained that he spoke with employees recently about the managed account services that Great-West offers. Mr. Oliver announced that, in the past 60 days, there have been meetings with employees about the defined contribution and defined benefit plans.

Mr. Calvo referred to the Fund Performance Review that was prepared by Advised Assets Group (tab 5) and he noted that the following funds have been rated “neutral” which, he said, should not be a major cause of concern:

Templeton World A
American Century Equity Growth Inv
Vanguard Target Retirement 2045

In conclusion, Mr. Calvo referred to the April 13, 2009 letter from the President and CEO of Great-West Life & Annuity Insurance Company, affirming the organization’s financial strength.

There were no public comments and the meeting adjourned at 10:00 a.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board