

Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
September 28, 2010
Open Session Minutes

Committee Members Present:

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

Committee Members Absent:

John G. Milliken, Chairman

Commissioners Present:

Deborah K. Stearns, Vice Chairwoman
Manju Ganeriwala, State Treasurer/Commissioner

Staff:

J. J. Keever, Senior Deputy Executive Director, External Affairs
Rodney W. Oliver, Deputy Executive Director and CFO
Elaine Smith, Director of Human Resources
Debra J. McNulty, Clerk to the Board

Guests:

Jeffrey R. Allen, Assistant Attorney General
Michael Schooley, Aon Investment Consulting
George (Hobie) Whitmore, Scott & Stringfellow LLC

Pursuant to call by Vice Chairwoman Stearns, the Investment and Administrative Committee convened an open session on this date at 9:15 a.m., in the conference room of Virginia International Terminals, Inc. (VIT), 601 World Trade Center, Norfolk. Chairman Milliken was absent due to a business commitment.

The following items were discussed:

1. Review of Actuarial Valuation Report for VPA Defined Benefit Pension Plan as of June 30, 2010

Mr. Oliver referred to the Actuarial Valuation Reports for the VPA's post-retirement medical program and post-retirement Defined Benefit Pension program for the fiscal year ending June 30, 2010. He introduced Mr. Michael Schooley, Aon Consulting, who reviewed the financial information, liabilities and normal cost, and net Other Post-Employment Benefits (OPEB) obligation and estimates for both fiscal years.

Mr. Schooley reported that VPA had a better than expected asset return of 12%, over the long-term assumption of 7%. He reported that the funded ratio is currently at 60.22% and he noted that this is happening with pension funds throughout the country. Mr. Schooley reviewed the funding progress history (page 12) that is required by the Governmental Accounting Standards Board (GASB). Mr. Schooley advised that GASB will change the ruling in the next two years with regard to pension

liability funding. It was reminded by Mr. Oliver that there are fewer port police officers and the VPA marketing employees are now VIT employees and this affects the numbers. He also mentioned that VPA had taken a portion of the fund assets and moved them over to VIT's defined benefit plan in order to make the marketing employees whole. Mr. Bridges advised that VPA must strive to get the funding levels back up to 80-85%. Mr. Schooley said that a lot of organizations' funding levels are low and that VPA's funding mechanism is more aggressive than most public companies.

Mr. Oliver advised that cash is tight especially with the APM acquisition and that the financial team conducts review meetings every week. He said VPA could increase contributions but it will come at the expense of something else.

Mr. Bridges announced that the Investment and Administrative Committee is scheduled to meet again in November in order to come up with a plan. Ms. Stearns recommended reviewing statements going from the existing accounting standard to the new standard and an assessment of the numbers using a lower rate of return.

2. Review of VPA Employer Funded Defined Benefit/Pension Plan Performance through June 30, 2010

Mr. George Whitmore, Scott & Stringfellow, LLC, reviewed the VPA Employer Funded Defined Benefit/Pension Plan fact sheet/performance and he explained market factors that have affected the portfolio.

- Initial Funding in early January 2002 (inception date)
- Portfolio value as of June 30, 2010 was \$5.2M
- Q2 2010 total return (4th fiscal quarter, 2010): -7.05% versus -5.72% for the comparative index/benchmark (60% S&P 500, 40% Barclays Capital Intermediate Government/Credit)
- Fiscal 2010 Total Return: +12.55% versus +12.49% for the comparative index/benchmark
- Annualized Return since inception: +4.70% versus +3.30% for the comparative index/benchmark
- Portfolio Value as of Friday, September 24, 2010: \$5.812M (includes net deposits of \$176K since June 30)

Mr. Oliver reported that VPA's plan is currently funded about 68% since the change in markets as of June 30, 2010.

Mr. Whitmore reviewed the historical performance, asset allocation, and advisor summary. He recommended that the current asset allocation remain the same. Mr. Whitmore offered to provide an analysis on investment benchmarks by experts in the industry.

3. Review of VPA 457 and 401(a) Defined Contribution Plans through June 30, 2010

Mr. Al Calvo, of Great-West Retirement, was unable to attend today's meeting. Mr. Oliver reviewed the plan overview as follows:

- Plan assets were at \$4.64M as of June 30, 2010
- Plan assets grew by \$0.02M (0.4%) from January 1 to June 30, 2010
- Contributions were \$0.26M from January 1 to June 30, 2010
- From January 1 to June 30, 2010, there were 219 participants

Mr. Oliver reviewed the percentage of assets by asset class (page 8) and he reported that the percentage of assets in conservative funds is higher than in 2007. Employees are being more conservative and stock funds have come down in value. On page 13 of the report, the Contribution History graph shows that contributions are lower than in 2008 and 2009 and Mr. Oliver explained that the move of marketing department staff to VIT as a result of the reorganization and fewer police officers affects those numbers.

Mr. Oliver referred to the last section of the report by Advised Assets Group (page 5 of 14) and he announced that there were no changes as all funds are rated above or neutral in the VPA Deferred Compensation Plan.

4. Approval of an amendment to the VPA 457 Deferred Contribution Plan to allow the withdrawal of rollover contributions.

Mr. Oliver presented the Fourth Amendment to the VPA Deferred Compensation Plan that would allow a participant to request a withdrawal of all or a portion of the value of rollover contributions of the Participant's Contribution Account in accordance with amendments to Section 2.07(d), Article IV and Article VI. Mr. Oliver explained that the VPA 457 Plan currently does not allow withdrawal of rollover funds, however, the 401(a) Plan allows withdrawals. This amendment would allow transfer of funds from the deferred compensation plan to transfer out to a Roth IRA.

Mr. Oliver explained this would give employees more flexibility in their investment choices. Mr. Oliver advised that the law was changed with regard to IRA contributions and he also mentioned that the rollover funds in the 457 Plan are the assets of the employees and not the VPA.

Action: Upon motion by Mr. Bridges, seconded by Mr. Goodwin, the Investment and Administrative Committee approved the Fourth Amendment to the Deferred (457) Compensation Plan.

5. Approval of Recommendation for Amendment to VPA Defined Benefit Pension Plan and Trust to permit the Authority, pursuant to authorization of the Board of Commissioners, to purchase additional pension service in accordance with the Severance Policy adopted by management, in lieu of paying severance for retirement eligible employees.

Mr. Oliver explained that the Eighth Amendment to VPA's Defined Benefit Pension Plan and Trust permits employees who are severed from employment to use benefits. He explained that VRS allows this and it would give particular employees who are close to full or early retirement an advantage to use severance money to buy retirement time.

Mr. Oliver requested that the Investment and Administrative Committee approve the Eighth Amendment for recommendation by the full VPA Board as it would involve a potential financial

impact to the Authority. He advised that it is subject to risks on the investments within VPA's retirement plan. Mr. Goodwin asked Mr. Oliver to explain how it would be done and why now. Mr. Oliver advised that there are no current employees who would utilize this option but that there was an employee about six months ago that was terminated and VPA did not have a severance policy. Mr. Oliver reported that the VPA has since established a severance policy similar to what VRS offers and this amendment would provide consistency with what the state offers. Mr. Oliver advised that the employee turn-over rate at VPA is very low and that this applies only to severance. Mr. Schooley reported that costs will be minimal.

Action: Upon motion by Mr. Bridges, seconded by Mr. Goodwin, the Investment and Administrative Committee approved recommending the adoption of the Eighth Amendment to the Defined Benefit Pension Plan and Trust, by the full Board.

Ms. Stearns announced that the Investment and Administrative Committee will look forward to more in-depth recommendations from Mr. Schooley and an investment forecast from Mr. Whitmore. Mr. Goodwin advised that he would like to see how benchmarks are determined. Mr. Oliver advised that the 60/40 benchmark has been the same since the Plan's inception.

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

Respectfully submitted,

Debra J. McNulty
Clerk to the Board