

Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
May 24, 2011
Open Session Minutes

Committee Members Present:

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

Commissioners Present:

Manju Ganeriwala, State Treasurer/VPA Commissioner

Staff:

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
Evelyn Small-Traub, Troutman Sanders, LLP
Mr. Jeffrey M. Harlow, Aon Investment Consulting
Michael Schooley, Aon Investment Consulting
Cory Myers, Hewitt EnnisKnupp, Inc., an Aon Company
Al 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., in the conference room of Virginia International Terminals, Inc. (VIT), 601 World Trade Center, Norfolk.

The following items were discussed:

1. Review of 1st Quarter 2011 VPA Employer Funded Defined Benefit/Pension Plan Performance

Mr. Whitmore reviewed the performance of The VPA Defined Benefit Plan as outlined in Wilmington Trust Fiduciary Services Company March 31, 2011 Quarterly Performance Monitor:

- Initial funding in early January 2002
- Portfolio Value as of March 31, 2011: \$6,814,304
- Q1 2011 Total Return (3rd Fiscal Q, 2011): +3.74% versus +3.78% for the tactical comparative index/benchmark, and +3.67% for the strategic benchmark
- Annualized return since inception: +6.57%, versus +4.68% for the tactical comparative index/benchmark and +4.62% for the strategic benchmark

Note: The VPA Defined Benefit Plan ranked in the top 24% for one year, top 46% for three years, top 26% for five years and top 4% since portfolio inception compared against a universe of investment managers managing portfolios in similar asset categories for the period ending March 31, 2011.

Mr. Whitmore reviewed the Historical Performance for fiscal year performance (ending June 30) and calendar year performance and he noted that for calendar year 2010 the portfolio exceeded the strategic (+11.84%) and tactical (+12.28%) benchmarks, coming in at +12.98%.

Mr. Whitmore reviewed the current asset allocation formula and he recommended no changes. He referred to the Advisor Summary – Q1 2011 (Q3 Fiscal) Total Return and Trailing 12-month Return and mentioned that he has had a lot of dialogue about the UBS GAM multi-asset fund with Rodney Oliver due to its relative underperformance for the trailing 3 and 5 year periods.

2. Review of 1st Quarter 2011 Deferred Compensation Plan and Performance Comparison of Core Funds

Mr. Meyers explained the merger history of Hewitt EnnisKnupp, Inc., an Aon Company, (HEK) and he advised that it has formed a balanced blend of firms that oversee the performance of the VPA Deferred Compensation 457 and Matching Plan 401(a). Mr. Meyers referred to Section 2 of the Performance Evaluation Report as of December 31, 2010, which provides an Executive Summary of the Plan Performance, Asset Allocation, and Observations and Recommendations. According to the Fund Evaluation Versus Policy Review Guidelines, Mr. Meyers recommended the following:

- Goldman Sachs High Yield A – Recommended being placed on “Watch List” due to underperformance over the last four calendar years
- Templeton World Fund – Recommended “Watch List” to monitor fund for any negative impacts on performance due to turnover in portfolio fund manager effective March 1.
- American Century Equity Growth Inv – Recommended “Terminate” fund due to continued periods of underperformance, changes in the management team and adjustments to the fund’s strategy. These funds would be “mapped” to Davis NY Venture which was just added to the Plan several years ago.

Mr. Meyers referred to the Executive Summary which also outlined the following observations and recommendations:

- HEK is currently reviewing the Plan’s investment fund line-up in an effort to identify any potential opportunities to transition to lower cost share classes. HEK is working with the record keeper on the availability of certain share classes and how potential changes may affect pricing of the Plans. **HEK will discuss its findings once this analysis has been completed.**
- Capital Research and Management Company (CRMC), the investment advisor to the American Funds Growth Fund of America, announced that the constraint on how much of the fund’s assets can be invested outside the United States and Canada was revised from 15 to 25 percent outside of the U.S., effective May 1, 2010. This increase in the fund’s allowable allocation has the potential to violate the Investment Policy Statement’s restriction that no more than 20 percent of domestic fund assets should be invested in

foreign equities. As of December 31, 2010, the fund held 17.4 of assets in foreign stocks.

- At the last meeting, the Committee approved HEK's recommendation that the MSCI ACWI ex-US be used as the more appropriate benchmark for the American Funds EuroPacific Growth Fund due to its increasing emerging markets exposure. The Investment Policy Statement for the Plans has been updated and performance analysis in this report utilizes the new benchmark.
- Vanguard Target Retirement Series – the Lifecycle funds – received “C” marks for Organizational Stability and Consistency of Style because they switched an international component of funds replacing it with an international stock index fund, which gave them a broader coverage of world markets.

Action: Upon motion by Mr. Bridges, seconded by Mr. Goodwin, the Investment and Administrative Committee approved the recommendation to terminate American Century Equity Growth Inv and map the funds to Davis NY Venture.

Mr. Calvo explained that Great-West would make those adjustments on their end as well and will coordinate the marketing and communication to the staff. He advised that there were 38 accounts that hold funds in American Century Equity Growth Inv, as of May 1, 2011.

(Ms. Ganeriwala arrived at this time.)

Mr. Meyers reviewed the Cost Analysis provided on page 37 of the report. He reported that PIMCO, Goldman Sachs, and Royce funds are all above their peer group averages and that he and Mr. Calvo are monitoring those funds.

Mr. Meyers distributed a hand-out that listed the Core Fund Line-Up Comparative Performance as of March 31, 2011. He reported that there was strong performance across all funds, with 9 of 11 funds having outperformed the benchmark index. Mr. Meyers also reviewed the performance of the Lifecycle Funds (Vanguard). He advised that Sections 4 and 5 of the report outline the underlying investments and data on each of the Vanguard Target funds.

3. Review of VPA 457 and 401(a) Defined Contribution Plans

Mr. Calvo presented the Plan Review for VPA for the period through March 31, 2011. He noted that the Great-West team ran the entire “rolling data” which covered the period April 1, 2010 through March 31, 2011. He reported that plan assets at March 31, 2011 were \$5.96 million compared with \$5.59 million at December 31, 2010. Mr. Calvo skipped to the last page of the report to report that Great-West's ratings are unchanged with the exception of one downgraded rating by Fitch.

Mr. Calvo reviewed the Assets by Investment Option graph which shows that the single largest investment fund choice for employees is the Great-West Guaranteed Fixed Fund product. He also

noted that 35 percent of the contributions by asset class are in the Funds of Funds (Vanguard - target date).

Mr. Calvo reported that the amount of loans was reduced by half (page 26). He advised that the Roth contribution was made available this quarter and that he had made presentations to VPA employees to market the plan. Mr. Calvo advised that a few people have enrolled in the Roth 457 plan.

Mr. Calvo referred to the Performance Summary, prepared by Advised Assets Group, which listed several “neutral” ratings – American Funds Growth Fund, Davis NY Venture, American Century Equity Growth, and Goldman Sachs High Yield.

At this time, Chairman Milliken presented a Ninth Amendment to the VPA Defined Benefit Pension Plan and Trust for approval by the Committee. He explained that the amendment provides the Executive Director Creditable Service toward the determination of his Basic Accrued Benefit under the Plan, and in accordance with his new Employment Agreement that had been adopted by the Board. The Chairman noted that the full Board would also need to approve the amendment in Public Session.

Action: Upon motion by Mr. Milliken, seconded by Mr. Goodwin, the Investment and Administrative Committee approved the Ninth Amendment to the VPA Defined Benefit Pension Plan and Trust.

4. Review of proposed changes to the VPA Defined Benefit Pension Plan and consideration of Resolution 11-9, to adopt changes

Ms. Traub explained that the Virginia Retirement System (VRS) made changes to its pension plan effective July 1, 2010, and she presented a comparison of the provisions of VRS Plan 1, VRS Plan 2, and VPA’s Defined Benefit Plan. Ms. Traub presented Resolution 11-9, which would authorize amendments to the VPA Defined Benefit Plan, applicable to new hires effective July 1, 2011, that parallel changes that were made to the VRS plan. The resolution outlines the following changes to the Plan:

- to amend the definition of final average compensation from a 36 month average to a 60 month average;
- to increase the normal retirement age from age 65 to the social security retirement age applicable to the member;
- to change the earliest unreduced retirement age from age 50 with at least 30 years of service credit to when age and service equal 90 (e.g. age 60 with 30 years of service credit); and
- to change the earliest reduced retirement age from age 55 with at least five years of service credit or 50 with at least 10 years of service credit to age 60 with 5 years of service.

Ms. Ganeriwala asked if VPA staff would be contributing 5% share like state employees. Mr. Oliver explained that VPA employees are not part of the 5% contribution share and that VPA is not

recommending an employee contribution. He advised that the VPA Plan does not have automatic COLA's like the state and he mentioned that state employees will receive a 5% pay increase and then a 5% payroll contribution level.

Ms. Ganeriwala asked about the total payroll contribution for VPA's pension plan. Mr. Oliver confirmed that it was about \$1 million per year. Mr. Goodwin said he had no problem with the proposed changes and he also remarked that it was good that VPA does not give automatic COLAs.

Ms. Ganeriwala said she approves a 5% salary increase with employees having to pay 5% of their pension contribution as it will be cost beneficial to the employees at retirement. Mr. Oliver explained that VPA matches 3% for employees up to 6% of their contribution.

Chairman Milliken suggested that the Investment and Administrative Committee meet at another time when everyone can dedicate more time to focus on pension plan issues:

- Employees contributing to Defined Benefit Plan
- COLAs
- Long-term financial health of the Defined Benefit Plan, etc.

Ms. Ganeriwala said she would like to attend that meeting.

Chairman Milliken presented Resolution 11-9 for approval by the Investment and Administrative Committee.

Action: Upon motion by Mr. Bridges, seconded by Mr. Goodwin, the Investment and Administrative Committee approved Resolution 11-9, authorizing amendments to the VPA Defined Benefit Plan, that would become effective for new hires, July 1, 2011.

There were no public comments and the meeting adjourned at 9:55 a.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board