The Investment Committee Meeting came to order at 1:00 pm. There was no quorum and Eleanor Baker, Chair, will send all action items to the Board of Trustees to approve and ratify at the July 2010 Board of Trustees meeting.

**Asset Allocation & Scenario Analysis**

Kelly Cummings, NEPC, presented the asset allocation review for the Managed Investment Pool, Pension Plan, and Operating Cash Fund.

- The review provided information on:
  - NEPC’s 2010 Capital Market Expectations and Observations
  - Capital Asset Allocation (Mean Variance – Risk/Return Analysis)
  - Risk Budgeting
  - Scenario Analysis
  - Liquidity Analysis
- NEPC believes that there are limits to the use of mean variance and that risk budgeting, scenario analysis and liquidity analysis should be considered when conducting an asset allocation review.
- NEPC’s 2010 5-7 Year Return Forecast projects lower returns than 2009 for most asset classes and projects volatility for most asset classes to decrease as well. NEPC’s scenario analysis portrayed how various asset allocation options for each plan might perform in six different scenarios: base case, expansion, overextension, stagflation, recession, and delev-flation (an NEPC derived scenario of low/negative inflation at first followed by rapid inflation over a complete business cycle).

**Pension Plan**

- The Plan is well funded and diversified. The Plan’s liabilities have a short duration due to its frozen status.
- Consideration should be given to selecting a new asset allocation that better hedges the Plan’s two biggest risks:
  - Equity Risk – reduce the Plan’s allocation to equity
  - Interest Rate Risk – extend the duration of Plan assets to better match liabilities.

**Recommendation**

- Consider alternative mixes to meet goals and objectives
  - Reduce equity risk
  - Further diversify the hedge fund allocation

**Asset Allocation Options**
• Mix A – Restructures the hedge fund category.
• Mix B – 5% reduction in Equity and the corresponding increase in bonds.
• Mix C – Further reduction in equity from Mix B and the implementation of a dramatic Long Duration program.

The Investment Committee recommends the Mix B Asset Allocation which includes:
• the reduction of the equity target allocation from 50% to 45%
• an increase in the fixed income asset allocation from 15% to 20%
• restructuring the hedge fund category and introducing a trading hedge fund

Managed Investment Plan (Endowment)
• Based on an analysis of the Managed Investment Pool, NEPC found that even though the Plan maintains a 55% allocation to equity, the allocation accounts for roughly 88% of the Plan’s volatility.

Recommendation
• Various risks can be reduced while maintaining a reasonable rate of return by:
  o Reducing equities and increasing the allocation to the Commonfund Multi-Strategy Bond Fund
  o Restructuring the hedge fund category and increasing the hedge fund allocation.
• NEPC strongly recommends Mix C to maintain similar return expectations while marginally reducing volatility. In scenario analysis Mix C performs well in good markets and protects better than most other asset mixes in down markets.

Asset Allocation Options
• Mix A: Right sizes real estate (decrease timber target allocation by 2%) and increases allocation to equities (emerging markets) and restructures the hedge fund category.
• Mix B: Reduces equity and increases allocation to hedge funds.
• Mix C: Reduces equity, increases allocation to bonds and hedge funds.
• Mix D: Reduces equity and initiates an allocation to TIPS (Treasury Inflation-Protected Securities)

The Investment Committee recommends the Mix C Asset Allocation which includes:
• the reduction of the equity target allocation from 55% to 50%
• an increase in the fixed income asset allocation from 10% to 15%
• restructuring the hedge fund category and introducing a trading hedge fund

Operating Cash
• NEPC recommends no changes to the target asset allocation strategy approved for the Operating Fund.
• NEPC does recommend aligning the current asset allocation of the Fund to the target allocation over time.
  o An additional hedge fund of fund (Permal) was funded on May 1st from the Cash Pool.
  o NEPC recommends transferring $10 million to the PIMCO Low Duration Fund from the Cash Pool.
The Investment Committee agreed with NEPC’s recommendation of increasing the investment in the PIMCO Low Duration Fund by an additional $10 million from the Cash Pool to continue to align the current asset allocation with the approved target allocations.

1st Quarter Performance Review
- Jay Roney, NEPC presented April Investment Performance Flash Reports for The Managed Investment Pool, The Pension Plan, and The Operating Funds.
  - The Managed Investment Pool had a net of fees return on investment for the month ending 4/30/2010 of 1.1% and 21.1% fiscal year-to-date. As of March 31, 2010, the Plan ranked in the 18th and 8th percentiles of the ICC Endowment Universe, over the last five and seven years, respectively. Over the trailing seven years ending March 31, 2010, the Plan achieved the 8th percentile by taking similar risk as the median endowment, resulting in a top quartile Sharpe ratio.
    - NEPC handed out material on the John Hancock Timber Fund and noted that performance is in-line with expectations.
  - The Pension Plan had a net of fees return on investment for the month ending 4/30/2010 of 1.3% and 25.2% fiscal year-to-date. As of March 31, 2010, the Plan ranked around median in the ICC Total Fund Universe over all trailing time periods. Over the trailing seven years ending March 31, 2010, the Plan achieved a median return while taking less risk than the median Total Fund, resulting in a median Sharpe ratio.
    - Principal Real Estate Fund has had poor absolute performance since inception, but they are performing in-line with their benchmark.
  - The Operating Funds had a net of fees return on investment for the month ending 4/30/2010 of 0.5% and 6.5% fiscal year-to-date.

Other Miscellaneous Business
NEPC discussed the recent administrative turnover at Mesirow.

NEPC and UMS staff will research ideas in the small cap equity and hedge fund space.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk