Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
November 22, 2005

Open Session Minutes

Committee Members Present:
John G. Milliken, Chairman
Mark B. Goodwin, Chairman, Finance/Planning Committee
J. Robert Bray, Executive Director

Staff:
J. J. Keever, Deputy Executive Director
Rodney W. Oliver, Director of Finance
Elaine Smith, Director, Department of Human Resources
Debra J. McNulty, Clerk

Guests:
Evelyn Small Traub, Troutman Sanders Mays & Valentine LLP
Robert G. Sanford, Aon Investment Consulting
George H. Whitmore, Account Vice President, UBS Financial Services, Inc.

Pursuant to call by Chairman Milliken, the Investment and Administrative Committee convened an open session on this date at 9:05 a.m., in the Authority's Library, World Trade Center, Norfolk, Virginia.

Mr. Whitmore distributed copies of the Portfolio Summary of the VPA Employer Funded Defined Benefit Pension Plan and he reviewed the investment performance of the various components of the pension plans for the third quarter. He reported that the Plan's portfolio value as of September 30, 2005 was $2.05 million and, as of Friday, November 18, the portfolio was valued at $2.11 million. The total third quarter return for 2005 was +5.01% versus +2.15% for the blended benchmark and annualized return since inception was +8.84% versus +4.69% for the blended benchmark.

Mr. Whitmore reported that the VPA defined benefit plan ranked in the top 26% for one year and top 16% since portfolio inception compared against a universe of investment managers managing portfolios in similar asset categories for the period ending September 30, 2005.

(Mr. Goodwin arrived at this time.)

Mr. Milliken asked Mr. Whitmore to prepare a summary of annualized returns since inception.

Mr. Whitmore continued with a description of the asset allocation that was revised in April 2005. He recommended that Rittenhouse, the large company growth portfolio, be replaced ("swapped") with GE Asset Management due to Rittenhouse's poor stock selections and overall annualized returns.

Mr. Whitmore compared the performance of Rittenhouse and GE Asset Management with the Russell 1000 Growth (the benchmark against which the Portfolio's performance is measured) that was outlined on the spreadsheets provided in the portfolio (the Capital Market Line Analysis and Market Capture Analysis of Gross Returns for the 3-year, 5-year, and 7-year periods ending September 30, 2005). He noted that in the Market Capture Analysis, GE matched Russell 1000 "dollar for dollar".

Mr. Whitmore explained that GE Asset Management has more flexibility in the types of stocks they buy and that they are a "bottom-up" manager, as described in the portfolio summary, compared with the "top down" managing style of Rittenhouse. Mr. Goodwin complimented Mr. Whitmore on a thorough presentation.

Action: Upon motion by Mr. Bray, seconded by Mr. Goodwin, the Investment and Administrative Committee approved the selection of GE Asset Management to replace Rittenhouse, as the Large Company Growth Fund Manager.

The Investment and Administrative Committee also reviewed features of the following VPA benefit plans that were summarized on spreadsheets that were distributed by Mr. Sanford of Aon Consulting. Mr. Sanford explained the difference between the two types of employees enrolled in each plan – participants covered by the Virginia Retirement System (VRS) and participants covered by the VPA Plan.

1. VPA Defined Benefit Pension Plan (100% paid by employer)
2. VPA Deferred Compensation Plan and VPA Matching Plan (administered by Great West)
3. VPA Retiree Medical Benefits

Mr. Goodwin was very impressed with the VPA benefits package and he commented that an employee who consistently pays into the VPA Deferred Compensation Plan could realize a significant income at retirement when combined with a pension benefits and Social Security.

Ms. Traub (who is also an attorney for the Virginia Retirement System) explained that one of the components of the VRS Plan is a 5% member contribution that the State currently pays on behalf of the employee, however, when an employee leaves the state system, the employee remains vested in those funds regardless of service time. In addition, the funds remain in the VRS account with earnings of 4% per year. She advised that the VPA Pension Plan does not have that component.

Mr. Sanford reported that the most important difference between the plans is that the state has automatic cost of living adjustments (COLAs) and the VPA Plan provides COLAs by Board action only. He advised that there had only been two COLAs since the Plan's inception. He noted that COLAs are a significant cost to VPA. Mr. Goodwin noted that Board-approved COLAs are more in line with private corporations.

Mr. Sanford reviewed components of the 2005 Benchmarking Study of Retirement Programs. Respondents for the study included Ceres Marine Terminal, and the ports of Canaveral, Georgia, Maryland, North Carolina, South Carolina, and Tampa. Mr. Sanford reported that VPA's benefits compared well with the competition.

Mr. Sanford reported that VPA did not compare well with the respondents in the area of employer subsidies for post-retirement medical benefits. Mr. Sanford summarized provisions in the Retiree Health Care Savings Plan that is provided to Virginia International Terminals, Inc. (VIT) employees. He advised that VIT's plan is a very simple plan whereby employees age 40 or older may contribute between $50 and $100 per month on an after-tax basis, with a flat $50 matching contribution by VIT. Mr. Sanford reported that the accumulated account balance may be used to reimburse retirees for medical expenses that would be deductible under IRS regulations. The employee contribution is 100% vested and the employer contribution is vested after seven (7) years if termination occurs for reasons other than retirement. The employer contribution is forfeited if not used for medical reasons. Mr. Sanford reported that VIT retirees are offered a choice of four New York Life funds and investment earnings accumulate tax-free. Withdrawals are tax-free if used for eligible medical expenses.

Ms. Traub described the Commonwealth's retiree medical plan that operates similar to an IRA, unlike VIT's after-tax savings, whereby a retiree would not pay taxes on withdrawals for health reasons. She advised that the state's plan is a "health reimbursement arrangement", that is a pool of money set up for medical expenses. Ms. Traub advised that there is an element of that in the VIT plan. Ms. Traub emphasized that the employee would only get earnings on employee savings. Mr. Goodwin questioned reimbursement of funds upon an employee's death. Mr. Sanford reported that the employee's funds would be reimbursed to a relative and the company's funds would be forfeited. Mr. Goodwin asked for a calculation of the costs associated with the proposed VPA plan. Mr. Oliver calculated that it would cost the Authority approximately $30,000 per year for all eligible employees. He added that 70% participation would cost $20,000 per year.

Mr. Goodwin remarked that VPA's benefit plans enable the Port to recruit good employees and he said they were excellent benefit programs.

Mr. Bray advised that staff would provide more detailed information on the proposal for the retirement health care savings plan at the next meeting of the Investment and Administrative Committee, scheduled for March 28, 2005.

There were no members of the press in attendance and no public comment. The meeting adjourned at 9:50 a.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board