

Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
March 28, 2006
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
Grant D. Verhaeghe, Aon Investment Consulting
Les Thompson, Great-West Retirement Services
Catherine Pfeilsticker, Great-West Retirement Services
George H. Whitmore, UBS Financial Services, Inc.

Members of the Press:

Gregory Richards, *The Virginian-Pilot*

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 Virginia International Terminals, Inc. (VIT) Conference Room, 601 World Trade Center, Norfolk, Virginia.

The following items were discussed:

1. Review of Performance Analysis Report for Defined Contribution Plans

Mr. Sanford introduced Mr. Grant Verhaeghe, with Aon Investment Consulting, who presented the VPA Deferred Compensation and Matching Plans Performance Analysis Report for year-end December 31, 2005.

Mr. Verhaeghe reviewed the three changes to the fund lineup that went into effect July 25, 2005. The Goldman Sachs High Yield A fund was chosen to replace the MFS High Income Fund, Legg Mason Value FI was added to replace MFS Capital Opportunities, and Buffalo Small Cap was added to replace AIM Small Cap Growth.

He reported that the Plan's investment options experienced fairly strong absolute returns for the most recent quarter, and for 2005 as a whole. The Plans' best performing options on an absolute basis were the American Funds Europacific Growth Fund, the American Funds Growth Fund of America, and the Templeton World Fund, which each posted strong double digit returns.

The worst performer for the year on an absolute basis was the PIMCO Total Return Fund, whose 2.4% return matched its benchmark return for 2005.

Mr. Verhaeghe reported that 12 of the Plan's 16 investment options outperformed their respective benchmarks for the most recent quarter, while 12 also outperformed for 2005. He noted that Great West Guaranteed Fixed Fund received an "Exception" ("E") for Diversification rating because the assets are invested in the Great West general account and are subject to the company's creditworthiness. Mr. Verhaeghe explained that the ratings are subject to swift changes according to the market. He advised that participants are using all of the options very well and that there has been positive development in the lifestyle funds.

Mr. Verhaeghe recommended that the Plan maintains all of the current investment options.

2. Review of 457 and 401(a) Defined Contribution Plans for Year-End, December 31, 2005

Mr. Les Thompson and Catherine Pfeilsticker, with Great-West Retirement Services, attended their first meeting of the Committee. Mr. Thompson advised that Ms. Kim Kyle is planning to retire and that he would be reporting to the Committee until a replacement for Ms. Kyle had been assigned.

Mr. Thompson reviewed the results of the Defined Contribution Plans for year-end December 31, 2005. Assets for the year-end were \$2.49 million, an increase of \$490,000 (24.5%) from December 2004. Contributions for the year amounted to \$450,000 for a net investment gain, less distributions, of \$190,000. Mr. Thompson noted the difference between assets and contributions and Ms. Smith advised that there were several retirees who had transferred funds. Mr. Sanford advised that the match was higher in 2005 versus 2004. Mr. Thompson reported that there were 219 participants at year-end – 118 employees in the 401(a) Plan and 101 employees in the 457 (match) Plan. He noted that large cap and profile funds are very well utilized and that International funds also performed very well.

3. Approval of a new trading restriction offered by Great-West Retirement Services regarding market timing and excessive trading procedures

Mr. Thompson explained that he had consulted with Ms. Kyle prior to the meeting and it was determined that Great-West would recommend selection of the default option with regard to restrictions on market timing and excessive trading procedures. He advised that the first option offered by Great-West is the most advantageous restriction for this type of trading. The option will go into effect on April 30, 2006, and there was no action required by the Investment and Administrative Committee.

The following is Option 1 (default option) of the three trading restrictions offered:

“Prevent the individual from making transfers to the restricted fund(s) via any method (including the Web, voice response unit, call center, facsimile or paper forms) for as long as the applicable fund determines. Restricted individuals are permitted to make transfers from the restricted fund(s) to other available investment options. The restriction will be automatically removed in accordance with the time frames provided by the fund.”

4. Review of 4th Quarter Investment Performance – Defined Benefit Plan

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 plan for 4th quarter 2005. He reported that the Plan’s portfolio value as of December 31, 2005 was \$2.19 million. The total 2005 calendar year return was +6.80% versus +3.65% for the blended benchmark and annualized return since inception was +8.72% versus +4.77% for the blended benchmark. Mr. Whitmore reported that the portfolio value as of Friday, March 24, 2006, was \$2.337 million.

Mr. Whitmore provided a historical performance for fiscal years and calendar years 2002 to present. He advised that asset allocations are performing well since the April 2005 revisions to the Plan. It was reminded by Mr. Whitmore that his firm replaced a large cap manager in November and that the new manager is known as a “bottom up” manager – one that analyzes stocks versus the industry.

5. Further Discussion of Potential Post-Retirement Medical Plan for VPA Pension Plan Participants

It was reminded by Mr. Sanford that the Committee had reviewed a proposal at the November meeting to introduce a model for a post-retirement medical plan similar to the VIT plan that is currently administered by New York Life. At that time, the Committee had agreed to review further information at the March meeting. Mr. Sanford advised that he was notified by New York Life that they are not interested in submitting a proposal to VPA due to the size of the agency. He noted that they have agreed to review the proposal a second time.

Mr. Sanford reported that he had also looked at other companies that were not insurance companies and could find no one who was interested in the proposal. The Principal Plan Group also declined. Mr. Thompson advised that the proposal is a “work in progress” and that he would continue to research the matter.

Mr. Goodwin agreed that VPA was too small an agency compared with VIT’s 400+ employees. Mr. Milliken asked if VPA could be included in VIT’s plan. Ms. Traub advised that VPA is a governmental agency and that it would involve fiduciary risks to both VPA and VIT. Mr. Oliver asked if it would be feasible under the Virginia Retirement System (VRS) Plan. Ms. Traub advised that the Commonwealth’s plan is a health insurance credit whereby employees contribute to a health insurance trust fund for their medical expenses. The fund is managed by the Investment Division of VRS.

Mr. Milliken asked Ms. Traub if VPA could be added to the VRS plan. Ms. Traub advised that due to the statutes she was not sure how it would work. Mr. Oliver asked Mr. Whitmore if UBS Financial could provide a plan. Mr. Whitmore explained that UBS does not have an annuity structure to offer for that type of plan. He said that he too had called around to other companies and that there was not a lot of interest. Ms. Traub mentioned that there were also tax implications. Mr. Bray suggested that VPA explore establishing a health insurance credit similar to the Commonwealth's for discussion at the next meeting of the Investment and Administrative Committee scheduled for September 26, 2006.

There were no comments from the public. The meeting adjourned at 9:30 a.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board