Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
March 27, 2007
Open Session Minutes

Committee Members Present:
John G. Milliken, Chairman
Mark B. Goodwin, Chairman, Finance/Planning Committee
Jerry A. Bridges, Executive Director

Staff:
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 (Richmond)
Grant D. Verhaeghe, Aon Investment Consulting (Raleigh, NC)
Al Calvo, Great-West Retirement Services
Denise Fortune, Great-West Retirement Services (Regional Director)
George H. Whitmore, UBS Financial Services, Inc.

Pursuant to call by Chairman Milliken, the Investment and Administrative Committee convened an open session on this date at 5:40 p.m., in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia.

The following items were discussed:

1. **Review of 4th Quarter (Oct-Dec 2006) Investment Performance**

Mr. Whitmore distributed copies of the VPA Employer Funded Defined Benefit/Pension Plan Portfolio Summary prepared by UBS Fiduciary Trust Company and reported on the following information, as outlined on the fact sheet:

- Initial funding in early January 2002
- Portfolio value as of December 31, 2006: $3.186M
- 4th Quarter 2006 Total Return (2nd fiscal quarter): +5.49% versus +4.41% for the comparative index/benchmark (Represented by 60% S&P 500 and 40% Lehman Bros. Gov/Credit)
- Fiscal 2007 Total Return (1st, 2nd fiscal quarters): +9.28% versus +9.09% for the benchmark
- Annualized return since inception: +9.69% versus + 6.01% for the benchmark
- Portfolio Value as of Friday, March 23, 2007: $3.284M

Mr. Whitmore reported that the multi-asset portfolio had a great two quarters – up 20%. He reviewed the list of account managers and noted that GE Capital was added to the portfolio in November 2005 and has also performed very well.

2. Review of 2006 Investment Performance/Issues with Respect to 457 and 401(a) Plans

Mr. Verhaeghe distributed copies of the VPA Deferred Compensation (457) and Matching (401a) Plans Performance Analysis Report dated December 31, 2006, and prepared by Aon Investment Consulting. He referred to page 9, the "Fund Evaluations Versus Standard Review Guidelines", and page 10, the Executive Summary, which describes comments and exceptions for each fund, and reported that Aon recommended a "retain" on all asset managers for both balances (457) and 401a).

Mr. Verhaeghe noted that American Funds Washington Mutual underperformed for several of the rolling three year periods under review and, for the fourth quarter of 2006, investment returns ranked in the bottom quartile of a large cap value universe. He advised that Aon would closely monitor the fund's performance. He also noted that Royce Low-Priced Stock fund has underperformed as of late due to its "small cap core" style. Aon will also monitor that fund.

Mr. Verhaeghe reported that historically Great-West Profile Funds are falling short of benchmarks. Aon's report indicates that the Great West Profile Series lifestyle funds are consistently more volatile than their respective custom benchmarks. However, he reported that Great-West continues to make adjustments to the underlying fund lineup, and that each of the Profile funds, excluding the Aggressive Profile, outperformed their respective benchmarks for the three-year period ending December 31, 2006.

Mr. Verhaeghe referred to the "Performance Analysis" (page 17) that demonstrates manager versus benchmark resulting in returns through December 2006. He advised that, for the 10-year profile, 8 of 9 funds performed well, with the exception of American Funds Washington Mutual A, and for the 7-year profile, 9 of 11 funds outperformed the benchmark.

3. Review of Defined Contribution Plans

Mr. Calvo, accompanied by Ms. Denise Fortune, distributed copies of the Plan Review (Defined Contribution) for VPA for the period ending December 31, 2006. According to the plan overview (page 4), total assets increased by $760,000 from December 2005 to December 2006. Mr. Calvo reported that there are currently 106 participants in the VPA Defined Contribution program with 87 employees making contributions into the 457 (Deferred Compensation) plan.

Mr. Calvo reviewed the assets by class (page 7) and assets by investment option (page 9). He referred to the last two pages of the report that indicated the <u>Fund Operating Expenses</u> for each investment option (last column). Mr. Calvo also referred to footnote #7 – "The fund operating expense for the Profile Portfolio options is in addition to the pro-rated fund operating expenses of each underlying portfolio in which they invest. The weighted fund operating expenses are as follows: Aggressive Profile 1.05%; Moderately Aggressive Profile 1.00%; Moderate Profile .87%; Moderately Conservative Profile .79%; and Conservative Profile .73%." He explained that the information is available to employees on the Great-West website.

Ms. Fortune stated that one of the biggest issues is that employees are not saving enough for retirement. She advised that plan sponsors are moving toward the opt-out for managed accounts whereby employees are automatically enrolled. Ms. Fortune said there is a 95% "stick rate" for employees who are automatically enrolled. She advised that the Commonwealth of Virginia is considering the automatic enrollment plan and she advised that Great-West can also administer the automatic enrollment program for VPA.

Ms. Traub reported that the General Assembly will look at expanding automatic enrollment to other participating employers. She explained that the legislature recently changed the law to allow automatic enrollment for the Virginia Retirement System, however, the language is not broad enough for other agencies.

Mr. Calvo announced that Great-West will be making presentations to employees to boost enrollment. He advised that, currently, there are 54 employees who are not participating.

4. **Review of VPA Retiree Health Plan Valuation**

Mr. Sanford referred to his letter to Mr. Oliver, dated January 23, 2007 (copy distributed), which reports that Aon Employee Benefits Consulting had completed their valuation of the postretirement health plan for employees of Virginia Port Authority in accordance with GASB 45. This pronouncement will become effective in FY08. The VPA plan allows retirees to continue on the VPA health plan for medical coverage until age 65, with the employee paying both the employer and employee portion of the premium. The actuarial liability is a result of the higher premiums that both the VPA and active employees incur because health claims for people who are retired will be higher than the active employees. He reviewed the summary of valuation results and the discount rates for the plan.

Mr. Sanford advised that there were a number of issues that need to be resolved should VPA explore the option of pre-funding the plan. Ms. Traub referred to enabling legislation for political subdivisions, and noted that under the recent language amendments approved by the General Assembly for the Virginia Retirement System there is some question as to whether VPA is allowed to pre-fund the plan.

Mr. Oliver asked Ms. Traub to provide him with some information regarding a possible language amendment for the next General Assembly session before the VPA Board meeting scheduled for May 22.

5. **VPA Pension Plan Compliance with Pension Protection Act**

It was reminded by Ms. Traub that she reviewed provisions of the Pension Protection Act at the last meeting of the Investment and Administrative Committee. Regarding the implementation of past service credit, she suggested that the Committee revisit the subject after the review of VPA's retirement program.

Mr. Milliken asked Mr. Oliver to introduce the subject of a comprehensive study of VPA's retirement program (Item #6 on agenda) and recommended that the Committee postpone detailed discussions until the next meeting.

Mr. Oliver presented a scenario of four retirement options for further discussion/consideration by the Virginia Port Authority. Mr. Goodwin mentioned that companies are faced with certain liabilities when offering defined benefit plans, however, the need to attract and retain good employees with a defined benefit plan is also important.

Mr. Oliver stated that he thought VPA should have taken a more in-depth look at the defined benefit plan 10 years ago. He mentioned that he had been approached by several board members who had questioned the structure of VPA's defined benefit plan.

Mr. Milliken advised that further discussion is needed and that the Committee needed more time to review the options in more detail. Ms. Smith said that she had thoroughly reviewed the options presented. She advised that she has had lots of feedback from administrators and employees. Ms. Traub mentioned that sworn officers are one of the more challenging groups and would involve their special supplement.

Ms. Smith advised that, when interviewing state employees for employment at VPA, they are not willing to accept employment with the agency because their service is not transferable. She said, in addition, there are a lot of other good benefits under VRS that the VPA plan cannot offer. Regarding the sworn officers, if VPA goes back under VRS, the VPA could maintain a separate supplemental benefit plan for sworn officers. Mr. Sanford agreed.

Ms. Smith said the VRS plan would be a much easier plan to administer as VRS could easily administer the plan for all retirees. She advised that another retiree plan, under the current structure of the VPA plan, would be a nightmare to administer as more employees retire. It was Ms. Smith's opinion that the average employee would have a more secure retirement under a VRS defined benefit plan rather than a defined contribution plan.

Mr. Milliken announced that the Investment and Administrative Committee would meet in July to further discuss the matter.

There were no public comments and the meeting adjourned at 6:20 p.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board