



**VERMONT PENSION INVESTMENT COMMITTEE  
NOVEMBER 28, 2017**

**VPIC Members Present:**

TOM GOLONKA, CHAIR  
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer  
ROBERT HOOPER, VSERS, term expiring June 30, 2020  
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018  
PETER AMONS, VMERS Representative, term expiring June 30, 2018  
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2019  
KAREN PAUL, (phone) Governor's Delegate, term expiring June 30, 2018

**VPIC Members Absent:**

**VPIC Alternate Members Present:**

KIMBERLY GLEASON, VMERS *Alternate*, term expiring June 30, 2018  
LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2019  
DAVID STARR, (phone) Governor's Delegate *Alternate*, term expiring June 30, 2020  
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2020

**VPIC Alternate Members Absent:**

**Also attending:**

Matt Considine, Director of Investments  
Katie Green, Investments Manager  
Andy Cook, Investments Analyst  
Jesse Moorman, David Borsykowsky, Attorney General's Office  
Margaret Belmondo, Will Forde, NEPC LLC  
Eileen O'Grady, Bob McDevitt, Unite Here  
Bobby Brown, Rockefeller & Co, Inc.

**CALL TO ORDER:**

The Chair called the Tuesday, November 28<sup>th</sup> meeting to order at 8:36 am, which was held in the Governor's Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      Agenda Approval and Announcements**

The Chair reviewed the agenda with the Committee and asked that an additional item be added to the agenda for the Committee to consider approving his attendance at an NEPC conference in January. Additionally, Linda Deliduka requested an item be added to the agenda regarding the addition of a potential future VSTRS representative to VPIC being added to the VPIC email distribution list.

**On a motion by Treasurer Pearce, seconded by Joe Mackey, the Committee unanimously approved the agenda as written with the additions requested by the Chair and Linda Deliduka.**

The Chair turned the meeting over to Treasurer Pearce at 8:37 A.M. The Chair requested approval of the Committee for him to attend the NEPC Public Fund Workshop in Tempe, Arizona in January 2018. He indicated that anticipated expenses for his attendance at the conference are not to exceed \$1,500.00.

**On a motion by Joe Mackey, seconded by Treasurer Pearce, the Committee unanimously approved The Chair's attendance at the NEPC Public Fund Workshop with expenses not to exceed \$1,500.00.**

At 8:39 A.M. Treasurer Pearce turned the meeting back over to the Chair.

Linda Deliduka stated that she and Joe Mackey have discussed with the VSTRS Chair, Jon Harris, a succession plan and would like a current VSTRS participant, Erin Carter, added to the VPIC distribution list for VPIC meeting materials.

**On a motion by Treasurer Pearce, seconded by Joe Mackey, the Committee unanimously approved Staff adding Erin Carter to the email distribution list to which VPIC meeting materials are sent, with the exception of any materials deemed confidential, such as contracting information.**

**ITEM 2:      Consent Agenda**

The Chair indicated the items in the Consent Agenda today were the minutes from the October 24<sup>th</sup> and October 30<sup>th</sup> VPIC meetings, as well as an amendment to the contract for the HarbourVest Dover IX fund, and the renewal of the annual subscription with Council of Institutional Investors.

**On a motion by Treasurer Pearce, seconded by Joe Mackey, the Committee unanimously approved the consent agenda as written.**

**ITEM 3:      Discussion Items and Updates**

- Vermont State Treasurer's Update

Treasurer Pearce updated the Committee that the actuarial reports for all three boards had been distributed, and discussions have been ongoing with the Legislature and Governor's Office regarding funding for each system for fiscal year 2019. She next noted that an education session related to actuarial data will be held in the Treasurer's Office, to which VPIC members will be invited on a first come basis such that a VPIC quorum is not achieved.

Treasurer Pearce spoke to a memo she distributed (attached) titled: *ESG Focus Area Recommendations to VPIC*. She reminded the Committee that the Treasurer's Office evaluates ESG issues on behalf of VPIC from a viewpoint of shareholder value and fiduciary responsibility. She highlighted past ESG related successes. Specifically, a 62% vote of ExxonMobil shareholders in 2017 requiring the company to report on the impacts of climate change to its business, which VPIC voted for. Next the Treasurer indicated that her office has added Human Rights as a new area of ESG focus. This would be in addition to several other areas of existing focus referenced in her memo.

**On a motion by Treasurer Pearce, seconded by Vaughn Altemus, the Committee unanimously approved the Treasurer's Office Staff to act on behalf of the VPIC to engage companies on the topic areas outlined in the Treasurer's memo titled, *ESG Focus Area Recommendations to VPIC*.**

- **NEPC's Update**

Mr. Forde presented the *October 2017 Preliminary Investment Summary* to the Committee. Mr. Forde and Ms. Belmondo responded to questions posed by the Committee.

**ITEM 4: Director of Investments Report**

Mr. Considine reviewed the Director of Investments Report with the Committee. He reviewed a conference call that Staff held with Guggenheim Investments related to a recent article that alleged self-dealing by the firm. He requested the Committee consider adding Guggenheim Investments to the VPIC Watch List.

**On a motion by Joe Mackey, seconded by Treasurer Pearce, the Committee unanimously approved the addition of Guggenheim Investments to the VPIC Watch List.**

Mr. Considine also provided a brief organizational update for State Street Global Advisors. David Borsykowsky next updated the Committee on the status of contracting negotiations with all recently approved VPIC managers.

Lastly, Mr. Considine requested the Committee consider adding Pinnacle Natural resources, LP to the VPIC Watch List due to performance concerns.

**On a motion by Vaughn Altemus, seconded by Treasurer Pearce, the Committee unanimously approved the addition of Pinnacle Natural Resources, L.P. to the VPIC Watch List.**

**ITEM 5: Portfolio Investment Review FY1Q18**

Ms. Belmondo and Mr. Forde reviewed with the Committee the *First Fiscal Quarter 2018 report*. They both responded to questions posed by the Committee. A discussion regarding the performance and strategy of Pinnacle Investments ensued.

**ITEM 6: NEPC/Staff Deliverables for Upcoming Meetings**

- The Committee requested that Staff work with NEPC to develop a review of various fixed income allocation options that would best fit the three sub-plans' asset/liability profiles. The Committee requested that the review include a joint recommendation by Staff and NEPC for an allocation to fixed income specific to each sub-plan, which could possibly take the form of a long term glide path.
- The Committee requested that Staff work with NEPC to review the benchmarks being used to compare performance for each VPIC investment manager.

**ITEM 7: Future Agenda Topics/New or Other Business****ITEM 8: Public Comment**

Bobby Brown of Rockefeller & Co, Inc. introduced himself and indicated that he had been attending various Investment Committee meetings along the East Coast, and was in attendance purely to observe the Committee.

Eileen O'Grady of Unite Here introduced herself as well as Bob McDevitt who is the President of Unite Here's Local 54 from Atlantic City, NJ. They indicated the reason for their attendance was in response to VPIC's recent decision to make an investment with Brookfield Asset Management. Specifically, Unite Here's concerns were with Brookfield's investment in the Hard Rock Hotel Las Vegas and labor issues with that particular property.

**ITEM 9: Adjournment**

**Treasurer Pearce moved, and Vaughn Altemus seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 11:12 AM.**

Respectfully submitted,  
**Investments Staff**

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**TO:** Vermont Pension Investment Committee  
**FROM:** Beth Pearce, State Treasurer  
**RE:** ESG Focus Area Recommendations to VPIC  
**DATE:** November 28, 2017

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The Treasurer's Office is requesting authorization from VPIC to pursue, where feasible, co-filer opportunities and sign-on letters for VPIC as noted below. These recommendations are consistent with the VPIC Proxy Policy Statement and the VPIC and Treasurer's efforts on the Carbon Asset Risk Project, per the resolution adopted by VPIC on September 24, 2013.

This list will provide the Treasurer's Office with authorization to move forward with plans to co-file shareholder resolutions or endorse letters sent to companies directly, where feasible. All resolutions will request that companies fulfill the request at reasonable cost and omitting proprietary information.

**1. Human Rights**

**Request:**

Allow the Treasurer's office to participate in the Investor Alliance for Human Rights on behalf of VPIC. The representation and involvement will be in accordance with the VPIC proxy voting guidelines. <http://www.iccr.org/our-issues/human-rights/investor-alliance-human-rights>

**Outcome:**

Increase involvement of the VPIC in engaging companies to discuss human rights issues as they pertain to the companies' business model and operations in an effort to increase shareholder value and improve the human condition.

**2. Public Policy & Lobbying Review – Climate & Energy**

**Request:**

Resolutions generally request that the Board conduct a comprehensive review of the company's positions, oversight and processes related to public policy advocacy on energy policy and climate change. This would include an analysis of political advocacy and lobbying activities, including indirect support through trade associations and other organizations.

Reviews generally would include:

- Review and confirm company positions and regulations are in-line with the reductions stipulated by the Intergovernmental Panel on Climate Change (IPCC)

- Board oversight exists for the company's public policy advocacy on climate;
- Direct/indirect expenditures for issue ads designed to influence climate change legislation and elections;
- Engagement with climate scientists and other stakeholders involved with policy discussions
- Proposed actions as a result of this review

**Outcome:**

Increase disclosure of companies' influence, participation and funding of climate positions with organizations and through legislation.

**3. Carbon Asset Risk – Disclosure of Risk Mitigation Options****Request:**

Integrate the Task Force on Climate-related Financial Disclosures' (TCFD) Sector Specific Disclosure Recommendations in disclosing the impacts of climate change on their organization. When conducting the 2-degree scenario planning the TCFD's recommendations for information to disclose on the methodology and outcome of specific metrics should be followed.

**Outcome:**

Prepare and publish publicly an annual report, with board oversight, analyzing the resilience of the company's portfolio to demand scenarios consistent with meeting the globally agreed upon 2-degree target or lower. This should lead to increased transparency of financial risks associated with a company's business model under a 2 degree or lower target scenario through reporting in an annual publication.

**4. Mutual Fund Proxy Voting****Request:**

Allow the Treasurer's office staff to promote responsible proxy voting policies by mutual fund companies.

**Outcome:**

Mutual Fund companies will allow investors to review their proxy voting record on specific resolutions and will explain any incongruence on the company's voting record and their public positions on climate. The Board of Directors will issue a report on proxy voting and climate change to shareholders.

**5. Sustainability Reporting****Request:**

Organizations should address sustainability risks and opportunities including quantitative goals for relevant issues related to greenhouse gas emissions, water conservation, waste minimization, energy efficiency and other environmental and social impacts the Board deems relevant to Company business.

**Outcome:**

Report annually on sustainability risks and opportunities, including quantitative targets or goals for the relevant issues.

**6. Setting Climate Goals****Request:**

Organizations should describe their key climate-related targets (GHG emissions, water usage, energy usage, etc.) or provide key metrics used to measure and manage climate-related risks and opportunities. These targets or metrics should be in line with the Task Force on Climate-related Financial Disclosures (TCFD) Sector Specific Disclosure Recommendations.

**Outcome:**

Create and report on specific, quantitative, time-bound goals to assess and manage relevant climate-related risks/opportunities.

**7. Defend Rule 14a-8****Request:**

The Treasurer's office staff would like the VPIC's permission to work with institutional investor advocacy groups and peers to fight legislation, rulemaking, or SEC legal bulletins that would weaken shareholder rights.

The shareholder proposal process is structured and administered under SEC Rule 14a-8. There is legislation in front of Congress called the Financial CHOICE Act that would severely weaken shareholder rights. One such example in the bill is a proposed increase in the ownership requirement for filing to 1% of shares for a three-year period. The current standard is \$2,000 worth of shares or 1% of the company's stock for 1 year. In this example, at Wells Fargo one would need to own \$2.6 billion in equity before filing a proposal.

**Outcome:**

Stop legislation, rulemaking, or SEC staff legal bulletins that would weaken shareholder rights.

**8. Support the Boardroom Accountability Project<sup>1</sup>****Request:**

The Proxy Access Bylaw Amendments campaign that was launched in 2014 called "Boardroom Accountability Project" received considerable support from institutional investors and had great success over the last three proxy seasons. Today more than 425 companies have proxy access bylaws in place, including over 60% of the S&P 500. This access enables eligible long-term shareholders to nominate their own director candidates in a company's proxy statement.

Moving forward with the campaign, NYC Pension Funds launched "Boardroom Accountability Project 2.0" to engage with companies to make their boards "more diverse, independent, and climate-competent, so that they are in a position to deliver better long-term returns for investors."<sup>1</sup> The Treasurer's office requests VPIC to allow Staff to engage through sign-on letters, co-filing resolutions, and company direct engagement in this Campaign to encourage Board diversity.

**Outcome:**

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<sup>1</sup> <https://comptroller.nyc.gov/services/financial-matters/boardroom-accountability-project/boardroom-accountability-project-2-0/>

Reporting by companies on their Boards' race, gender and expertise, released as a board matrix to ensure standardization of the information that is easy to analyze.

## 9. Insurance Company Oversight of Climate Risks

### a. AIG Engagement Campaign on Climate Scenario Analysis

**Request:** AIG to implement climate scenario analysis in line with the Task Force on Climate-related Financial Disclosures recommendations<sup>2</sup>.

**Outcome:** Disclose the findings of the analysis in a public report.

**Why AIG?** AIG is a major global brand-name insurer with a new CEO, Brian Duperrault, who is not afraid to discuss climate related issues publicly. Focusing investor attention and limited resources on one global brand-name insurer could help effect broader industry impacts.

### b. Establish More Effective Board Oversight of Climate Risks

**Request:** Insurance companies are exposed to climate change risks through both their underwriting and investments. In 2016 a Ceres report found 40 of the largest insurers held nearly \$500 billion in oil/gas, coal and electric/gas utility assets. Given the long-term impacts of climate change, request insurance board members take steps necessary to establish more effective board oversight of the company's policies and programs addressing the risks and opportunities posed by climate change in line with the Task Force on Climate-related Financial Disclosures recommendations for the insurance industry (dual reporting as insurers and asset owners; scenario analysis beyond 2 degrees Celsius).

**Outcome:** By the 2019 annual meeting outline steps taken or planned to achieve effective board oversight.

**Focus Companies:** Those who have not disclosed any form of board oversight of climate change and currently have minimal to no sustainability disclosure overall.

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<sup>2</sup> <https://www.fsb-tcfd.org>



CONSENT AGENDA

ROUTINE CONTRACT AMENDMENTS AND RENEWALS

The Treasurer's Office Director of Investments recommends that the Committee adopt the following resolutions as part of the consent agenda:

Amend Investment Management Contract with HarbourVest Dover IX.

WHEREAS, the Committee entered into a contract dated February 22, 2016, with HarbourVest Partners, LLC (the "Contractor") for investment management services; and

WHEREAS, the current term of the contract allows the maximum amount of capital that may be invested by those funds in power, energy, oil and gas, natural resource, real estate, debt, or infrastructure assets of 5% of aggregate commitments to those funds.

NOW THEREFOR, the Committee hereby authorizes the Contractor to invest a maximum amount of capital of 10% of aggregate commitments to those funds in power, energy, oil and gas, natural resource, real estate, debt, or infrastructure assets.

FURTHER, the Chair, or in his absence the Vice-Chair, is, upon the advice of counsel, authorized to execute the contract.

Amend Subscription Agreement with Council of Institutional Investors.

WHEREAS, since 2007, the VPIC has been a member of the Council of Institutional Investors, a nonprofit association of pension funds, other employee benefit funds, endowments and foundations with combined assets of over \$3 trillion, whose mission is education and advocacy, on behalf of members, for effective corporate governance, shareowner rights and related investment issues; and

WHEREAS, VPIC's membership in the Council of Institutional Investors expires on December 31, 2017, unless renewed; and

WHEREAS, the fee for VPIC's continued membership in the Council of Institutional Investors for calendar year 2018 is \$5,000.00.

NOW THEREFORE, the Committee hereby resolves to authorize expenditure of \$5,000.00 for renewal of its annual membership in the Council of Institutional Investors for calendar year 2018.