



**VERMONT PENSION INVESTMENT COMMITTEE
FEBRUARY 23, 2016**

VPIC Members Present:

TOM GOLONKA, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018
KAREN PAUL, Governor's Delegate, term expiring June 30, 2018
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2019

VPIC Member(s) Absent:

VACANT, VMERS Representative, term expiring June 30, 2018

VPIC Alternate Members Present:

JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2016
LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017
DAVID STARR, Governor's Delegate *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

MEL HAWLEY, VMERS *Alternate*, term expiring June 30, 2016

Also attending:

Matt Considine, CFA, Director of Investments
Nick Foss, Investments Analyst
Katie Green, Investments Manager
Jaye Pershing-Johnson and Jesse Moorman, Attorney General's Office
Doug Moseley and Chris Levell, NEPC LLC

CALL TO ORDER:

The Chair, Mr. Golonka, called the Tuesday, February 23rd meeting to order at 8:30 am, which was held in the Pavilion Auditorium, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval and Announcements

The Chair, Mr. Golonka, reviewed the agenda with the Committee and asked if any members of the Committee would like to add or amend any agenda items.

On a motion by Karen Paul, seconded by Joe Mackey, the Committee unanimously approved the agenda as written.

ITEM 2: Consent Agenda

The Chair, Mr. Golonka, indicated the items in the Consent Agenda today were the minutes, and routine contract amendments and renewals.

On a motion by Vaughn Altemus, seconded by Karen Paul, the Committee unanimously approved the consent agenda as written.

ITEM 3: Governor Peter Shumlin

The Governor Peter Shumlin addressed the VPIC in support of divestment from Exxon Mobil and coal companies.

The Chair, Mr. Golonka, noted to the Governor that the VPIC has limited resources (3 Investments Staff employees) and asked if he would be willing to devote more resources to VPIC in order to accomplish divestment. Mr. Golonka did note that VPIC is a very deliberative body and will evaluate all the facts that the Governor has brought forth.

The Treasurer thanked the Governor for coming to the VPIC and presenting today, and reinforced her position that she is committed to engaging in a collaborative and positive effort to review all the various information presented by the advocates for divestment, independent investment professionals, nonprofits, and others, in a full vetting of the coal investments and the issues of climate change.

Mr. Altemus noted to the Governor that a number of VPIC's investment managers invest in a multi-asset class strategy, which would be problematic if the VPIC adopted the divestment recommendation from the Governor.

Ms. Paul stated that she had requested a discussion on coal last May and then again in July. The discussion was then framed as a greater debate on the entire issue of fossil fuel divestment. Ms. Paul noted that there is wide agreement in the investment community that coal is not a recommended investment and the outlook over the longer-term is not encouraging. She further noted that she agrees with the Governor that VPC should be open to finding a way to approach coal divestment while still ensuring we satisfy our fiduciary responsibilities.

Finally, the Treasurer thanked the Governor for coming and again noted that she is committed to a full vetting of the issues. Ms. Pearce also stated that she believes the best work gets done when all groups are brought together, in a collaborative effort, and that the final answer is not predetermined.

Mr. Golonka noted that he would be in touch with the Governor's office with a process on how this new proposal will be evaluated by the Board.

ITEM 4: Discussion Items and Updates

- **Vermont State Treasurer's Update**

The Treasurer, Ms. Pearce, presented the Treasurer's Report to the Committee. Ms. Pearce notified the Committee that they are discussing a change in the amortization schedule for VSTRS, which should decrease the unfunded liability and improve the funding ratio. This change has been presented to the Government Operations Committee, Appropriations, and Joint Fiscal, and would be beneficial to both participants and taxpayers if enacted. Treasurer Pearce also notified the Committee that a Miscellaneous Retirement Bill has been completed and includes such items as interpretation on death benefits and disability reform, as well as language on increased rates for VSERS employees. Treasurer Pearce also wanted to thank the VSERS employees for being willing to step up to the plate and invest in their retirement future. Finally, Treasurer Pearce mentioned current resolutions in process for this proxy season, which include resolutions with First Energy (*request report that quantifies potential financial losses on stranded coal assets*), Chevron (*request setting of greenhouse gas targets*), and Exxon (*carbon asset risk*).

- **Potential Meeting Cycle**

In response to the Chair's request that Staff review the current agenda cycle, a proposed agenda cycle was presented to the Committee with an eight meeting schedule. Staff felt that by cutting the number of meetings down to eight per year would allow for more flexibility, higher quality deliverables, and fee savings.

On a motion by Beth Pearce, seconded by Karen Paul, the Committee unanimously approved a motion to accept the agenda cycle as presented.

On a motion by Beth Pearce, seconded by Karen Paul, the Committee unanimously approved a motion to request the Treasurer's Office to negotiate with NEPC to adjust the fees accordingly.

- **January Flash Report**

Mr. Moseley reviewed with the Committee members the January Flash report. NEPC responded to the questions posed by the Committee members.

- **NEPC Investment Manager Watch List: Schroder**

Mr. Moseley indicated that Schroder remains on the NEPC Watch List.

ITEM 5: Director of Investments Report

Mr. Considine reviewed the Director of Investments Report with the Board. He outlined the Portfolio Asset Allocation table and notified the board that, as of January 31st, the VPIC composite AUM was at \$3.6 billion and the allocations were in line with their target allocations. Mr. Considine noted that the BERS transition has largely been completed; pending audited

financial statements from illiquid managers. Mr. Considine noted that Staff had met with three managers during the month; however there have been no significant changes to be mentioned. Finally, Mr. Considine provided an update to the Committee on current contracts in progress.

The Committee discussed how they would like to respond to the Governor's request on divestment. After discussing the Governor's remarks, the Committee decided that a subcommittee should be created with appointments by the Chair. The subcommittee would include a member from each of the retirement boards, and would work with all interested parties to provide a recommendation to the VPIC.

On a motion by Beth Pearce, seconded by Karen Paul, the Committee approved a motion with one Member dissenting (Joe Mackey) to create a subcommittee on divestment that would include VPIC members chosen by the Chair and a member from each of the retirement boards.

ITEM 6: NEPC 4Q15/Calendar Year Performance Review

Mr. Moseley reviewed with the Committee the *VPIC Fourth Quarter Investment Performance Analysis* document. Both Mr. Moseley and Mr. Levell responded to the questions posed by the Committee.

A brief lunch was taken from 12:15 – 12:45

ITEM 7: Annual Asset Allocation/Portfolio Structure Review

Both NEPC and Staff reviewed with the Committee the *VPIC Asset Allocation Presentation*. Both Staff and NEPC responded to the questions posed by the Committee members.

The Committee accepted NEPC and Staff's recommendation to increase private equity to a 5% allocation, as well as increase real estate to an 8% allocation. In addition, the Committee accepted the recommendation to reclassify the hedge fund category as "Absolute Return Strategies" and add Mellon and Allianz to the category with Grosvenor. Finally, the Committee accepted the recommendation to change the Allianz beta to cash.

On a motion by Beth Pearce, seconded by Vaughn Altemus, the Committee unanimously approved a motion to eliminate the Global Asset Allocation category and terminate the PIMCO All-Asset fund and reallocate the funds to high yield, TIPS, and public equity.

On a motion by Beth Pearce, seconded by Vaughn Altemus, the Committee unanimously approved a motion to shift 1% from absolute return fixed income to diversified fixed income and eliminate global bonds.

The Committee discussed whether to terminate Schroder and transition the assets to Pinnacle Asset Management LP, but Staff requested the Board allow them the time to analyze this option and present their findings at the next regularly scheduled VPIC meeting.

On a motion by Joe Mackey, seconded by Beth Pearce, the Committee unanimously approved a motion to not rebalance the Schroder fund back to the 3% policy target during the regularly scheduled March rebalance.

ITEM 8: NEPC/Staff Deliverables for Upcoming Meetings

- **NEPC/Staff Commodity Analysis**
- **Update the Private Equity Pacing Plan**
- **Initiate a Real Estate Manager search**
- **Conduct Education regarding the Private Debt asset class**

ITEM 9: Future Agenda Topics/New or Other Business

None.

ITEM 10: Public Comment

None.

Item 11: Adjournment

On a motion by Joe Mackey, seconded by Beth Pearce, the Committee unanimously approved a motion adjourn the meeting at 2:40PM.

Respectfully submitted,
Nick Foss
Investments Analyst