



**VERMONT PENSION INVESTMENT COMMITTEE
MARCH 22, 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 (PHONE), VSERS Representative, term expiring June 30, 2016
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2019
STEVE JEFFREY, VMERS Representative, term expiring June 30, 2018

VPIC Member(s) Absent:

VPIC Alternate Members Present:

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017
DAVID STARR (PHONE), Governor's Delegate *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

MEL HAWLEY, VMERS *Alternate*, term expiring June 30, 2016
JEFF BRIGGS, VSERS *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
Robb Kidd, Sierra Club
Austin Davis, 350VT
Tom Boswell

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, and hearing no objection, indicated the agenda was approved 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 Beth Pearce, seconded by Steve Jeffrey, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Bob Hooper, Joe Mackey, and Steve Jeffrey – Yes) to accept the consent agenda as written.

ITEM 3: Discussion Items and Updates

▪ **Vermont State Treasurer's Update**

Treasurer Pearce updated the Board on the Miscellaneous Retirement Bill's progress through the legislature, which will include a number of items, such as increased contribution rates. Treasurer Pearce also noted the current discussions between appropriations and government operations on changes that could be made to the amortization schedules of the State and Teacher's pension systems. Finally, Treasurer Pearce updated the Committee on the Divestment Sub-Committee planning meeting, which took place last week.

▪ **February Flash Report**

Mr. Moseley reviewed with the Committee members the February 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 4: 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 February 29th, the VPIC composite AUM was at \$3.6 billion and the allocation was in line with their target allocations. Mr. Considine informed the Committee that March is the first of two semi-annual rebalancing periods, and also noted that the portfolio should be in line with the new target allocations VPIC has chosen by April or May. Mr. Considine noted that the only areas of the portfolio that would be out of line with their target weights would be public equities, which would be the result of using it as a buffer for funding private equity capital calls. Mr. Considine provided a number of manager and contract updates, and answered any questions from the Committee members.

Mr. Considine informed the Board that the Mondrian Global Fixed Income fund, which is scheduled to be liquidated, had open forward positions due to expire in April. Mr. Considine provided a number of options to the Committee on how to deal with these positions.

On a motion by Vaughn Altemus, seconded by Joe Mackey, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Bob Hooper, Joe Mackey, and Steve Jeffrey – Yes) to accept Staff’s recommendation on the second method of handling forward foreign exchange positions on the Mondrian Global Fixed Income portfolio.

ITEM 5: Portfolio Structure Review

▪ **Commodity Review**

Ms. Green reviewed with the Committee the PIMCO Vermont State Retirement System Commodities presentation, and answered any questions. Investments Staff recommended to the Board that they retain the long-only commodity allocation.

The Treasurer, Ms. Pearce, reiterated her position that the central banks are controlling inflation, so inflation surprises are unlikely in the near future, and that commodities are event driven. Ms. Pearce supported the idea of slowly working-out of commodities over a number of quarters and addressing inflation risk with other real assets, such as real estate. In addition, Ms. Pearce noted that if commodities are retained in the portfolio that the allocation be invested in the Pinnacle Natural Resources fund.

Mr. Moseley reiterated his position that the Committee retain the long-only commodity allocation and revisit the decision in one year. Mr. Moseley noted that if the Pinnacle strategy was one that the Committee wanted to add to the portfolio that it be funded from the current hedge fund allocation.

The Committee reviewed the Pinnacle fee schedule.

On a motion by Beth Pearce, seconded by Joe Mackey, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Bob Hooper, and Joe Mackey – Yes/ Steve Jeffrey - No) to exit the Schrodgers portfolio over a period of four to five quarters (20-25% per quarter).

On a motion by Beth Pearce, seconded by Karen Paul, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Bob Hooper, and Joe Mackey, and Steve Jeffrey – Yes) to transition the funds from the Schroder termination to the Pinnacle lp fund.

On a motion by Joe Mackey, seconded by Beth Pearce, the Committee unanimously approved a motion to select the PNR3YR Pinnacle share class.

On a motion by Joe Mackey, seconded by Steve Jeffrey, the Committee unanimously approved a motion to deposit funds from the Schroder termination into SSgA index funds (60% equity/40% fixed income) if no contract is completed, or there is a timing issue.

▪ **Policy Summary**

The Committee reviewed the current structure for establishing sub-committees. Ms. Pearce provided a summary to the Committee on the VPIC Sub-Committee Planning meeting, which was held the previous week.

ITEM 6: VPIC ESG Sub-Committee Discussion

The Chair, Mr. Golonka, asked the Committee to help determine a charge that VPIC can give to the VPIC ESG Sub-Committee. Mr. Golonka also asked the Committee to discuss appointments to the ESG Sub-Committee and noted that all three individual retirement boards have chosen their Chair's to be members of the Sub-Committee.

The following VPIC members were mentioned as possible appointees:

1. Tom Golonka
2. Beth Pearce
3. Karen Paul
4. Linda Deliduka

The Committee discussed the charge, which was provided in a document to the Committee, and included the following items:

1. Scope and anticipated timeline for review
2. ESG Policy, divestment and constructive engagement
3. Indexing and Commingled funds – issues and limitations
4. Fees and fiduciary responsibility
5. Staffing levels and outside consultants
6. Budget for subcommittee to properly investigate
7. Alternatives for VPIC to consider
8. Look at other entities studies similar to VPIC
9. Implications of divestments effect on diversification
10. Goals of divestment with measurable outcomes

Public Comment was allowed after Item 6:

Robb Kidd delivered public comment.

Austin Davis delivered public comment.

On a motion by Beth Pearce, seconded by Vaughn Altemus, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Steve Jeffrey, Bob Hooper, and Joe Mackey – Yes) to accept the charge and members to the VPIC ESG Sub-Committee.

ITEM 7: Private Equity and Real Estate Program Reviews

Mr. Moseley and Mr. Levell reviewed the *NEPC Private Equity and Real Estate Program Review* document with the Committee. NEPC answered any questions from the Committee.

Mr. Moseley encouraged the Committee to begin the RFP process to locate an international real estate manager in order to diversify VPIC's real estate allocation.

On a motion by Steve Jeffrey, seconded by Joe Mackey, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Steve Jeffrey, Bob Hooper, and Joe Mackey – Yes) to instruct NEPC and Staff to initiate the RFP process for the August meeting for international real estate.

ITEM 8: NEPC/Staff Deliverables for Upcoming Meetings

- Updated Flash Report (*NEPC*)
- Watch List Protocol (*NEPC*)

ITEM 9: Future Agenda Topics/New or Other Business

None.

Item 10: Public Comment

Tom Boswell delivered public comment.

Item 11: Executive Session (if needed)

On a motion by Beth Pearce, seconded by Steve Jeffrey, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Karen Paul, Steve Jeffrey, Bob Hooper, and Joe Mackey – Yes) to enter into executive session for the purpose of discussing contract matters.

The Committee entered executive session at 11:45am

The Committee exited executive session at 12:05pm

The Committee adjourned at 12:06pm

Adjournment

Respectfully submitted,
Nick Foss
Investments Analyst