



**VERMONT PENSION INVESTMENT COMMITTEE
DECEMBER 23, 2014**

VPIC Members Present:

STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016
THOMAS GOLONKA, VMERS Representative, term expiring June 30, 2016
KAREN PAUL (PHONE), Governor's Delegate, term expiring June 30, 2018

VPIC Alternate Members Present:

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

VPIC Alternate Member(s) Absent:

STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2016

Also attending:

Stephen Wisloski, Deputy Treasurer
Matt Considine, 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. Rauh, called the Tuesday, December 23rd meeting to order at 8:30 am, which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval and Announcements

The Chair, Mr. Rauh, reviewed the agenda with the Committee and indicated the agenda was approved as written.

Mr. Considine informed the Board that he would be attending the NEPC Public Funds Workshop in January for two days.

Treasurer Pearce informed the Board that she would be leaving at 9:30AM for a different meeting, but would return afterwards and deliver the Treasurer's Report at that time.

ITEM 2: Consent Agenda

- **Previous VPIC Meeting Minutes**

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes and indicated the consent agenda was approved as written.

ITEM 3: Director of Investments Report and Action Items

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 November 31st, the VPIC composite AUM was at \$4 billion and the allocations were in line with their target allocations. Mr. Considine informed the Board that the September re-balance was fully completed and that the termination and transition of funds from T. Rowe Price to the SSgA Cap Weighted fund was on schedule and would be completed by the end of the month. Mr. Considine also informed the Board that due to the liquidation of the T. Rowe Price position, the cash flows and capital calls for the month would be funded from that fund. During the month staff conducted meetings with both VPIC's high yield manager Guggenheim Investment Partners, and Siguler Guff, which is one of VPIC's real estate managers and which is focused on distressed portions of the real estate market. Finally, Mr. Considine noted that the contract for the SSgA Barclays Aggregate Fixed Income Fund was completed, and that the fund would receive a 1% allocation from VPIC's PIMCO Core Plus position by the middle of January.

Jaye Pershing-Johnson entered the meeting at 9:20AM

ITEM 4: Discussion Items and Updates

- **Vermont State Treasurer's Update**
- **November Flash Report**
- **NEPC Investment Manager Watch List: PIMCO, Schroder**

NEPC reviewed with the Committee members the November Flash report. NEPC responded to the questions posed by the Committee members.

NEPC discussed with the Committee the estimated transition costs that would be associated with a potential decision by VPIC to shift assets from PIMCO to a different unconstrained bond fund manager. NEPC recommended to the Committee that they move to the GAM Unconstrained product, because it is an NEPC recommended product and PIMCO continues to be on the NEPC Watch List. Treasurer Pearce said that she would like to see more background and research behind NEPC's recommendation to move to the GAM product.

Mr. Moseley noted that he had met with VPIC's commodity manager Schroder this month. He shared that their asset outflows had subsided (which was perceived to be in part due to some

internal management changes) as well as his opinion that Schroder would likely be removed from NEPC's Watch List early next year.

Treasurer Pearce left the meeting at 9:30AM

ITEM 5: Review of VPIC Hedge Fund Allocation

NEPC reviewed with the Committee the *VPIC Hedge Fund Program Review* and answered questions from the Committee. Mr. Moseley recommended to the Committee that they consider moving to one hedge fund manager, because switching to two managers would not provide any meaningful benefit to the portfolio's risk-return characteristics and fees. Mr. Moseley also provided information to the Committee on the fraud that occurred at Contrarian, which is one of the funds held by VPIC's hedge fund-of-funds manager Permal.

Deputy Treasurer Wisloski suggested to the Committee that the hedge fund asset class be removed from the VPIC portfolio completely, because of the complexity of their strategies, high fees, and lack of alpha.

Mr. Moseley responded to the Committee that hedge fund strategies open up a different opportunity set that is not captured any other part of the VPIC portfolio, and this helps improve the VPIC portfolios risk-return profile.

Mr. Moseley asked that the Committee vote today on whether to terminate Permal, or move to one manager in VPIC's hedge fund allocation, because of the extended time-frame for redemptions that arises from the lack of liquidity within that asset space.

On a motion by Tom Golonka, seconded by Joe Mackey, the Committee unanimously agreed to terminate Permal and GAM and consolidate the assets with Grosvenor in the first half of calendar 2015, and authorized the Chair to sign any administrative documents that may arise to facilitate this transaction.

Treasurer Pearce entered the meeting at 11:20AM

Treasurer Pearce delivered the Treasurer's Report, which updated the Board on legislative issues and a number of shareholder resolutions that the Treasurer would like VPIC to be involved in. Treasurer Pearce also asked to put a motion before the Committee on a number of resolutions the Treasurer's Office would like to pursue.

On a motion by Vaughn Altemus, seconded by Bob Hooper, the Committee unanimously agreed to support the Exxon Mobil shareholder resolution.

On a motion by Tom Golonka, seconded by Bob Hooper, the Committee unanimously agreed to allow the Treasurer's Office to explore and pursue shareholder resolutions on palm oil and greenhouse gas emissions on behalf of the VPIC.

On a motion by Joe Mackey, seconded by Tom Golonka, due to concerns over changes at PIMCO and because NEPC believes GAM is better positioned in the unconstrained bond

fund space, the Committee unanimously agreed to transition the VPIC's assets in the PIMCO Unconstrained Bond strategy to the GAM Commingled Unconstrained Bond fund in the first half of calendar year 2015, and authorized the Chair to sign any administrative documents that may arise to facilitate this transaction.

ITEM 6: Annual VPIC Self-Evaluation/Governance Review

The Committee discussed and shared their opinions on the meeting format, VPIC's decision making and investment process, availability of educational opportunities, and the performance of the Chair.

Mr. Golonka proposed to the Committee the possibility of creating a sub-committee that would be able to create a structured system with a documented process to evaluate the Chair on an ongoing basis.

ITEM 7: Economic and Financial Market Dashboard

Mr. Foss reviewed with the Committee the economic and financial market dashboard. The Committee discussed the positive and negative factors on the economic and financial market dashboard.

ITEM 8: Future Agenda Topics

Mr. Rauh shared upcoming VPIC agenda topics and asked for feedback from the Committee members.

ITEM 9: New or Other Business/Public Comment

None.

ITEM 10: Adjournment

On a motion by Ms. Pearce, seconded by Mr. Mackey, the Committee unanimously approved to adjourn the meeting at 1:10 p.m.

Respectfully submitted,

**Nick Foss
Investments Analyst**