



**VERMONT PENSION INVESTMENT COMMITTEE
AUGUST 25, 2015**

VPIC Members Present:

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

VPIC Alternate Member(s) Absent:

MEL HAWLEY, 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, Chris Levell, and Richard Charlton, NEPC LLC
Adam Greshin
Maeve McBride, 350VT

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, August 25th 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.

Treasurer Pearce informed the Committee that she would have to briefly leave at 10:00AM for a meeting, but would return shortly afterwards.

Mr. Starr notified the Committee that he has taken a full-time job with an out-of-state firm. As such, he will make a decision soon as to whether he will be able to continue his role as the Governor's delegate on VPIC.

ITEM 2: Consent Agenda

- **Previous VPIC Meeting Minutes**

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes and, after pausing for Committee comment, 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 Committee. He outlined the Portfolio Asset Allocation table and notified the Committee that, as of July 31st, the VPIC composite AUM was at \$4 Billion and the allocations were in line with their target allocations. Mr. Considine informed the Committee that Staff would rebalance in September using August data, and as a result of the recent market volatility, VPIC would likely be re-balancing towards risk assets. Mr. Considine informed the Committee that Staff conducted a conference call with VPIC's high yield manager Guggenheim Investment Partners to review strategy and second quarter performance. Mr. Considine notified the Committee of recent compliance issues involving (i) Guggenheim Investment Partners, which resulted from an affiliated party transaction in conflict with the investment guidelines and a settlement notice for an SEC investigation; and (ii) PIMCO, which received a Wells notice issued by the SEC. Mr. Considine assured the Committee that there has been open dialogue between Staff and both managers in regards to these issues, and that Staff continues to monitor them closely. Finally, Mr. Considine ended by requesting a vote from the Committee to authorize the Chair to sign an extension of the Acadian Asset Management contract.

On a motion by Beth Pearce, seconded by Bob Hooper, the Committee unanimously agreed by roll call (*Beth Pearce, Joe Mackey, Vaughn Altemus, Bob Hooper, Tom Golonka, Karen Paul – Yes Vote*) to extend the Acadian Asset Management contract and authorize the Chair to execute the contract.

Mr. Considine notified the Committee that the Burlington Employee's Retirement System would be withdrawing its funds from the VPIC portfolio. The target for full withdrawal is December 31, 2015, which is negotiable. Mr. Considine noted that a work plan is currently being developed by Staff and that he would present it for review to the VPIC at the September meeting.

- **Siguler Guff DREOF II --Additional Offering**

Mr. Moseley reviewed with the Committee the *NEPC Private Markets Investment Due Diligence Research Report – Siguler Guff DREOF II Fund* document. NEPC responded to questions posed by the Committee members. Mr. Moseley recommended that the Committee allocate \$10 million

to the Siguler Guff DREOF II Fund, which would expand VPIC's relationship with Siguler Guff from \$40 million to \$50 million. Mr. Moseley noted that this additional allocation supports NEPC's recommendation that VPIC increase its target real estate allocation from 6% to 8%. The Committee decided to delay any decision until after the asset allocation discussion later that afternoon.

Mr. Rauh noted that there had been discussion on changing the date of the September VPIC meeting from the 22nd to the 29th, in order to be respectful of the religious holiday.

On a motion by Joe Mackey, seconded by Beth Pearce, the Committee unanimously agreed by roll call (*Beth Pearce, Joe Mackey, Vaughn Altemus, Bob Hooper, Tom Golonka, Karen Paul – Yes Vote*) to change the September VPIC meeting from September 22, 2015 to September 29, 2015.

ITEM 4: Discussion Items and Updates

- **Vermont State Treasurer's Update**

Treasurer Pearce noted that the individual retirement Boards continue to work through the recently completed experience study; however, it is doubtful they will have it finalized before the next actuarial valuation. Treasurer Pearce notified the Committee of an upcoming pension funding seminar, which will be held at the State House for the General Assembly and any interested parties on September 4, 2015 at 10:00 AM. The seminar will cover a wide breadth of topics, including historical funding, actuarial processes, and Sustainability topics.

- **July Flash Report**

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

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

Mr. Moseley indicated that both PIMCO and Schrodgers remain on the NEPC Watch List.

ITEM 5: Q2 and Fiscal Year Investment Performance Review

Mr. Moseley and Mr. Levell reviewed with the Committee the *Second Quarter Investment Performance Analysis* materials. Mr. Moseley reviewed the market environment over the second quarter of 2015. The Committee, Staff and NEPC discussed the various VPIC portfolio funds' performance. Mr. Moseley responded to questions posed by the Committee members.

Treasurer Pearce shared with the Committee the *VPIC Portfolio Performance Attribution vs. Public Fund Universe* document. A discussion ensued regarding the VPIC rank among its peers. Treasurer Pearce shared her concern with the Committee regarding the drag the VPIC portfolio's conservative risk allocation has created on performance at a cost to the taxpayer. She concluded that the current allocation strategy is intended to perform well in market dislocation; however, it was not anticipated by the Committee that this protection would come at the cost of significant

upside performance. She acknowledged that there has not been a significant, prolonged market dislocation in which to test the allocation thesis. The Treasurer and other Committee members requested an analysis be conducted, prior to the September 29, 2015 meeting, by NEPC which would assess the effectiveness and cost of the downside protection built into the asset allocation. The Treasurer noted that the actively managed portfolios helped the portfolio outperform the VPIC policy.

Mr. Briggs inquired about the blended VPIC fee and if it was reported by NEPC.

Mr. Hooper asked that NEPC in conjunction with Staff work to analyze how the VPIC portfolio performed during the recent market sell-off in August, and specifically analyze the performance of the higher fee strategies to ensure VPIC is getting alpha where they are allocating their dollars. The Committee requested the Staff update the *Up/Down Analysis* report for the September 29th meeting.

Treasurer Pearce left the meeting at 10:00AM

Mr. Briggs shared his agreement that the recent market volatility should be used to measure the effectiveness of VPIC's current asset allocation.

Treasurer Pearce returned to the meeting at 10:17AM

ITEM 6: Framework for Developing Customized Asset Allocations for Each Plan

- **Portfolio Goals and Time Horizons**
- **Linking Plan Characteristics to Asset Allocation**
- **Impact of Higher versus Lower Portfolio Volatility**
- **Impact of Negative Cash Flow in Determining Appropriate Portfolio Risk Profile**
- **Probability of Failure – Monte Carlo Analysis/Stress Testing**

Mr. Rauh noted that in the past there has been discussion of the individual systems having differing asset allocations. Mr. Rauh also mentioned that he felt the liability side of the pension plans has been missing from the current asset allocation discussion this morning.

The Committee discussed the fees associated with tactical strategies. Treasurer Pearce requested an analysis of the risk composition of the Mellon Dynamic Growth Fund and compare it to the risk/return profile of a comparable index fund allocation. In addition, the Treasurer requested NEPC report to the Board the composite commodity exposure in the VPIC portfolio.

Mr. Starr noted that the month of August is near an end and it may make sense to have the Staff and NEPC review the VPIC performance for August once the month concludes to have a more clear and concise view.

Mr. Golonka discussed a Maryland Public Policy Index report on fees that averaged approximately 40 bps for public funds. Mr. Golonka will circulate the report to the Board members, Staff and NEPC.

Mr. Wisloski and Treasurer Pearce requested that Staff and NEPC review the GAA risk/return composition and its composition compared to index fund options with similar exposure. In addition, Treasurer Pearce requested that NEPC produce a sensitivity analysis for how different market environments will affect the VPIC inflation hedge strategies, including TIPS, and how the VPIC positioning compares to its peers.

The Committee discussed the concept of having different asset allocations for the individual retirement systems.

Mr. Golonka noted that the VMERS board has had a discussion on whether the structure of its liabilities could result in a different risk profile for the retirement systems' assets.

The Committee requested that NEPC conduct a liquidity analysis and explore the probability of failure of each individual retirement system and of VPIC as a whole.

ITEM 7: Asset Allocation Work Plan

Mr. Moseley reviewed with the Committee the *NEPC 2015 Outlook Asset Allocation Recommendation* document. Mr. Moseley reviewed the recommended changes to the VPIC portfolio with the Committee and responded to questions.

The Committee took a lunch break from 12:30 – 1:00PM and the phone was disconnected.

At 1:00 PM the Chair, Mr. Rauh, called the meeting to order. The phone was reconnected and Tom Golonka and David Starr returned to the meeting by phone.

ITEM 8: Management Fee Analysis Follow-up

Mr. Moseley reviewed with the Committee NEPC's *Total Fund Manager Fee Model* document. Mr. Moseley responded to questions posed by the Committee members.

ITEM 9: Economic Financial Market Dashboard

Mr. Considine 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 10: Future Agenda Topics/New or Other Business

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

ITEM 11: Public Comment

Maeve McBride from 350VT gave public comment.

ITEM 11: Adjournment

On a motion by Joe Mackey, seconded by Bob Hooper, the Committee unanimously approved by roll call (*Beth Pearce, Joe Mackey, Vaughn Altemus, Bob Hooper, Tom Golonka, David Starr, Yes Vote*) to adjourn the meeting at 1:47 p.m.

Respectfully submitted,

Nick Foss
Investments Analyst