

VERMONT PENSION INVESTMENT COMMITTEE
April 23, 2013

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Member(s) Absent:

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2016

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2016 – via telephone

VPIC Alternate Member(s) Absent:

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2016

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer

Matt Considine, CFA, Director of Investments

Katie Green, Investments Manager

Jaye Pershing Johnson, Attorney General's Office

Richard Charlton, Chris Levell, and Doug Moseley, NEPC LLC

Jeff Briggs, member of the VSERS Board

Clarence Williams, Mariner Investment Group

Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, March 26, 2013 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1: **Agenda Approval, Announcements, Minutes of March 26, 2013
Regular Meeting****

The Chair, Mr. Rauh, briefly reviewed the agenda. There were no additions to the agenda. Mr. Rauh indicated he was asked to participate in a 360 review for partners of NEPC by Mr. Levell. Mr. Levell described NEPC's 360 review process.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously approved the minutes of the March 26, 2013, Regular Meeting, as submitted.

ITEM 2: Director of Investments Report and Action Items

- **Approve Contract Renewals**
- **Proxy Voting Guidelines Sub-Committee Update and Recommendation**
- **Review March Flash Report**

Mr. Considine indicated as of March 31, 2013 the total VPIC assets under management were \$3.71, slightly up from the end of February. Mr. Considine indicated as of April 30th the VPIC's portfolio allocation is projected to be 34.1% equities, 32% fixed income, 13.6% alternatives and 20.2% multi-strategy, compared to target allocations of 31.5%, 33%, 15.5% and 20% respectively. Mr. Considine indicated he is still working on the best way to keep track of what the Committee had approved as to the total allocation for alternatives/private equity. Mr. Considine reviewed with the Committee members the asset allocations by manager and asset class. Mr. Considine provided manager updates for Allianz, KDP, Schrodgers, Wellington, Post and PIMCO.

(Ms. Johnson arrived during this agenda item.)

Mr. Considine and Ms. Pearce provided the Committee members an update relative to the fossil fuel legislation, bill S.131. They indicated it did not appear the bill would proceed at this time, but that they would keep the Committee apprised if anything developed.

Mr. Considine indicated to the Committee members that due to Dodd-Frank legislation, swap and f/x forward agreements that are executed on behalf of VPIC must be amended by May 1st to comply with new CFTC business conduct rules, and that VPIC must elect to be treated as a non-ERISA Special Entity and to specify certain managers as Qualified Independent Representatives. Mr. Considine and Ms. Johnson further explained this item to the Committee members.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously voted to authorize staff and counsel to adopt procedures for purposes of compliance with the CFTC Business Conduct Rules and recommend necessary policy changes, if any, and to designate those Qualified Independent Representatives that staff identifies as entering into swaps and f/x forward agreements on behalf of the State and to elect to be treated as a non-ERISA Special Entity.

Mr. Considine reviewed with the Committee the contract renewals as outlined in the agenda packet. The Committee discussed a few changes to the language.

On a motion by Mr. Jeffrey, seconded by Mr. Hooper, the Committee unanimously approved the contract renewals as set forth in the agenda packet and outlined below

and approved to modify each contract as recommended by staff and upon approval of counsel, and authorized the Chair and Vice-Chair to execute the contracts.

Wellington GAA:

- 1) Extend the Contract term for five year period to **June 30, 2018**.
- 2) Update Attachment C (Standard State Provisions for Contracts and Grants), and Attachment D (VPIC Standards of Conduct)

Wellington DAS:

- 1) Increase the maximum amount to a sum not to exceed **\$8,400,000**.
- 2) Extend the Contract term for five year period to **June 30, 2018**.
- 3) Amend Attachment B to reflect an advisory fee on all assets to 0.75%
- 4) Update Attachment C (Standard State Provisions for Contracts and Grants), and Attachment D (VPIC Standards of Conduct)

Wellington Small Cap:

- 1) Amend the first paragraph of the standard Contract to reflect the State as VPIC not VSTRS. It will read as follows:

1. **Parties.** This is a contract for services between the State of Vermont, Vermont Pension Investment Committee (hereafter called the "State"), and Wellington Management Company, LLP, with its principal place of business in Boston, Massachusetts, (hereafter called "Contractor").

- 2) Increase the maximum amount to a sum not to exceed **\$13,250,000**.
- 3) Extend the Contract term for five year period to **June 30, 2018**.
- 4) Update Attachment C (Standard State Provisions for Contracts and Grants), and Attachment D (VPIC Standards of Conduct)
- 5) **Attachment B:** Eliminate the following terms:

"If or when applicable assets of the account shall be combined with those of the Vermont State Employees' Retirement System and the Vermont Municipal Employees' Retirement System managed by the Contractor for purposes of determining the applicable fee percentages, with each account paying its pro rata share of the total fee."

NEPC:

- 1) Increase the maximum amount to a sum not to exceed **\$2,400,000**.
- 2) Extend the Contract term one year to June 30, 2014.
- 3) Updated the contact information to reflect Matt and Katie rather than Steve and Donna.
- 4) Update Attachment C (Standard State Provisions for Contracts and Grants), and Attachment D (VPIC Standards of Conduct)

KDP:

- 1) Increase the maximum amount to a sum not to exceed **\$3,300,000**.
- 2) Attachment B, paragraph one, shall be amended to read as follows:
"State shall pay Contractor fees equal to

0.75% on the first \$10 million, and
0.60% on the next \$25 million and
0.50% on the next \$25 million and

0.40% thereafter
of the assets invested by Contractor under this contract.”

Schroders:

1) Update Attachment F to reflect the fee reduction as follows:

Current Fee Schedule:

95 bps on the first \$100mm
85 bps on the next \$150mm
75 bps on the next \$250mm
65 bps thereafter

New Fee Schedule:

95 bps on the first \$100mm
80 bps on the next \$150mm
70 bps on the next \$250mm
65 bps thereafter

Mr. Considine reviewed with the Committee members the domestic and international proxy voting guidelines.

On a motion by Mr. Mackey, seconded by Mr. Jeffrey, and after a friendly amendment by Ms. Pearce to modify the guidelines to indicate VPIC only and not the Retirement Boards or the Treasurer’s Office, and to direct staff to make the appropriate changes to the policy, the Committee unanimously voted to adopt the Domestic and International Proxy Voting Guidelines as outlined.

Mr. Considine indicated he will email the final version of the proxy voting guidelines after the requested amendment.

Mr. Moseley reviewed with the Committee the March Flash Report and responded to any questions posed by the Committee.

ITEM 3: Discussion Items/Updates

- **Vermont State Treasurer’s Update**
- **Contract Updates**
- **NEPC Investment Manager Watch List Update: Post Advisory**

Ms. Pearce provided a legislative update to the Committee. She indicated the miscellaneous pension bill is moving along during this legislative session.

Ms. Johnson indicated they have already discussed the quarterly contracts.

Mr. Moseley indicated they will discuss Post Advisory this afternoon, but would add Wellington emerging market debt to the watch list due to a recent portfolio manager resignation.

(A recess was taken from 10:10 a.m. to 10:21 a.m.)

(Mr. Wisloski was not present after the recess.)

ITEM 4: Portfolio Risk Management

- **NEPC Risk Systems Development**
- **2x2 Matrix Perspective**
- **Stress Tests**
- **Risk Dashboard**

NEPC discussed with the Committee members risk systems development tools that are currently being worked on.

(Mr. Briggs arrived during this agenda item.)

Mr. Considine reviewed with the Committee members the 2x2 matrix. Mr. Considine responded to the questions posed by the Committee members.

Ms. Green reviewed with the Committee members the stress tests and answered any questions the Committee members had. The risk dashboard was discussed with the Committee members.

(Mr. Gaffney arrived during this agenda item.)

ITEM 5: Review Draft ESG Policy

The Chair, Mr. Rauh indicated they would move the discussion of the draft ESG Policy up on the agenda. Ms. Green and Ms. Johnson reviewed with the Committee members the VPIC ESG Draft Policy.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee moved to accept and adopt the Environmental, Social and Governance Initiatives Policy as written.

After further discussion by the Committee Mr. Mackey withdrew his motion and Mr. Hooper withdrew his second.

Mr. Rauh indicated the Committee will revisit the ESG Policy at the May meeting.

(A luncheon recess was taken from 12:02 p.m. to 12:45 p.m.)

(Ms. Paul was present for the afternoon session via telephone. Mr. Altemus was not present after the luncheon recess.)

ITEM 6: Sector Review – High Yield Bonds

NEPC reviewed with the Committee members the *High Yield Fixed Income Manager Review* document and the KDP Asset Management, Inc. document. NEPC discussed the two high yield managers, KDP and Post Advisory. NEPC indicated both managers exhibit a significant defensive style bias compared to other high yield managers. The Committee discussed the high yield managers and decided to continue their present allocations to KDP and Post Advisory.

ITEM 7: Economic and 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.

The Chair, Mr. Rauh, briefly reviewed items for the May and June VPIC meetings.

ITEM 8: Public Comment/New or Other Business

None.

ITEM 8: Adjournment

The Chair, Mr. Rauh declared the VPIC meeting adjourned at 1:45 p.m.

Respectfully submitted,

Monica Chiren, Clerk