



**VERMONT PENSION INVESTMENT COMMITTEE
MARCH 28, 2017**

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 (phone), Governor's Delegate, term expiring June 30, 2018
ROBERT HOOPER (phone), VSERS Representative, term expiring June 30, 2020
PETER AMONS, VMERS Representative, term expiring June 30, 2018
JOSEPH MACKKEY (phone), VSTRS Representative, term expiring June 30, 2019

VPIC Member(s) Absent:

VPIC Alternate Members Present:

JEFF BRIGGS (phone), VSERS *Alternate*, term expiring June 30, 2020
LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2019
DAVID STARR (phone), Governor's Delegate *Alternate*, term expiring June 30, 2016
STEVE JEFFREY, VMERS *Alternate*, term expiring June 30, 2018

VPIC Alternate Member(s) Absent:

Also attending:

Matt Considine, CFA, Director of Investments
Katie Green, Investments Manager
Andy Cook, Investments Analyst
David Borsykowsky and Jesse Moorman, Attorney General's Office
Margaret Belmondo and Chris Levell, NEPC LLC
Austin Davis, 350Vermont; Robb Kidd, Sierra Club; Guy Page, DFC
Rob Goyeneche (phone) and Michael Andeberhan (phone), MSCI Index

CALL TO ORDER:

The Chair, called the Tuesday, March 28th meeting to order at 8:32 am, which was held in the Governor's Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval and Announcements**

The Chair, reviewed the agenda with the Committee and asked if any members of the Committee would like to add or amend any agenda items. Linda Deliduka requested that a discussion item be added to the agenda for the VPIC to approve her attendance at the National Convening of the Trustee Leadership Forum for Retirement Security (TLF).

On a motion by Vaughn Altemus, seconded by Peter Amons, the Committee unanimously approved the agenda with the addition of a discussion for Linda Deliduka to attend the above noted conference.

ITEM 2: Consent Agenda

The Chair indicated the items in the Consent Agenda today were the minutes.

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

ITEM 3: Discussion Items and Updates

- **Vermont State Treasurer's Update**

Treasurer Pearce presented the Treasurer's Report to the Committee. She then responded to the questions posed by the Committee.

- **NEPC's Update**

Ms. Belmondo reviewed the *February 2017 NEPC Flash Report* with the Committee. She then responded to the questions posed by the Committee.

ITEM 4: Director of Investments Report

Mr. Considine reviewed the Director of Investments Report with the Board. He notified the board that, as of last month, the VPIC composite AUM was at \$3.9 billion and the allocations were in-line with their target allocations. Mr. Considine provided an update to the Committee on current contracts in progress and manager updates.

ITEM 5: Review VPIC ESG Sub-Committee Recommendations

Treasurer Pearce and Mr. Golonka updated the VPIC Committee on the recommendations that came out of the VPIC ESG Sub-Committee's meetings. The Treasurer then reviewed with the Committee her cover letter to the PCA report *VPIC Climate Risk Divestment Discussion* that contained considerations for the Committee and modifications to the VPIC ESG policy. Both Treasurer Pearce and Mr. Golonka responded to the questions posed by the Committee. Treasurer Pearce noted that the expense for PCA's report was funded by the Treasurer's Office budget only, and no pension funds were used. Additionally she thanked all Sub-Committee members for their participation and hard work. Discussion was opened to public comment.

Robb Kidd from the Sierra Club noted that legislators he has spoken to are very appreciative of the efforts of Treasurer Pearce and the VPIC ESG Sub-Committee on this issue. Austin Davis from 350 Vermont stated that he has also had good conversations with legislators who were appreciative of the collaborative effort of the VPIC ESG Sub-Committee, and he looks forward to continued conversations. Guy Page from DFC agreed with the comments from Mr. Kidd and Mr. Davis, and added that he appreciated the opportunity for in-depth thought and discussion on this issue.

On a motion by Peter Amons, seconded by Vaughn Altemus, the Committee approved a motion unanimously, to accept the recommendations by Treasurer Pearce as outlined in her cover letter to the PCA report:

http://www.vermonttreasurer.gov/sites/harry2015/files/VPIC/PDF/2017/Cover_Letter_from_Beth_PCA_Final_Report_20170207.pdf

ITEM 6: Annual Asset Allocation & Implementation Review

Ms. Belmondo reviewed with the Committee the *NEPC 2017 Asset Allocation & Timeline of Action Items*. Both Staff and NEPC responded to the questions posed by the Committee members.

On a motion by Treasurer Pearce, seconded by Linda Deliduka, the Committee unanimously approved a motion to adopt the Proposed Long Term Target on page four of the NEPC report referenced above (Attachment A), as the new VPIC target asset allocation, and adopt actions for implementation recommended on pages four & five of the NEPC report. As such, AQR will be reduced to 4% from 8% and Grosvenor will be reduced to 3% from 5%.

On a motion by Peter Amons, seconded by Treasurer Pearce, the Committee unanimously approved a motion to direct NEPC to conduct manager searches as outlined on page 6 of the NEPC report referenced above (Attachment A).

ITEM 7: Private Equity Pacing Plan Review

Ms. Belmondo reviewed with the Committee the *Private Equity Program Review & Summary*. She then responded to the questions posed by the Committee members.

ITEM 7: Real Estate Pacing Plan Review

Ms. Belmondo reviewed with the Committee the *Real Estate Program Review & 2017 Strategic Investment Plan*. She then responded to the questions posed by the Committee members.

ITEM 9: NEPC/Staff Deliverables for Upcoming Meetings

- The Committee requested that Staff work with NEPC to develop a review of various fixed income allocation options that would best fit the three sub-plans' asset/liability profiles. The Committee requested that the review include a joint recommendation by Staff and NEPC for an allocation to fixed income specific to each sub-plan, which could possibly take the form of a long term glide path. The Committee requested this review be presented in the 2H2017 in coordination with the actuary.
- NEPC will initiate a search for an International Real Estate manager for an anticipated investment of up to \$100,000,000.
- The Treasurer will bring back to the Committee the VPIC ESG policy with edits related to the recommendation voted on by the VPIC ESG Sub-Committee for the June 27th meeting.

ITEM 10: Future Agenda Topics/New or Other Business

Linda Deliduka requested approval for expenses related to attending the National Convening of the Trustee Leadership Forum for Retirement Security (TLF) to be held in Boston June 12th – 13th 2017.

On a motion by Treasurer Pearce, seconded by Vaughn Altemus the Committee approved expenses up to \$1,500 for Linda Deliduka to attend the National Convening of the Trustee Leadership Forum for Retirement Security (TLF).

ITEM 11: Public Comment

ITEM 12: Adjournment

On a motion by Treasurer Pearce, seconded by Linda Deliduka, the Committee unanimously approved a motion adjourn the meeting at 11:10 AM.

Respectfully submitted,

Investments Staff

Attachment A:

NEPC 2017 Asset Allocation & Timeline of Action Items



NEPC, LLC

YOU DEMAND MORE. So do we.SM



Vermont Pension Investment Committee

NEPC 2017 Asset Allocation & Timeline of Action Items

March 28, 2017

Christopher Levell, ASA, CFA, CAIA, Partner
Margaret Belmondo, CIMA[®], Senior Consultant
Nedelina Petkova, Analyst

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VPIC Portfolio Construction

2017 Current vs. Proposed Long Term Target

	Current Policy Long Term Target	Proposed Policy Long Term Target
Cash	0%	0%
Large Cap Equities	13%	13%
Small/Mid Cap Equities	5%	3%
Int'l Equities (Unhedged)	11%	6%
Int'l Equities (Hedged)	0%	6%
Emerging Int'l Equities	6%	4%
Global Equity	0%	9%
Private Equity	5%	10%
Total Equity	40%	51%
Core Bonds	3%	0%
TIPS	4%	6%
High-Yield Bonds	5%	0%
EMD (External)	2.5%	2.5%
EMD (Local Currency)	2.5%	2.5%
Long Treasuries	3%	2%
Diversified Fixed Income	6%	7%
Unconstrained Fixed Income	6%	4%
Private Debt	0%	5%
Total Fixed Income	32%	29%
Real Estate (Core)	8%	8%
Total Real Assets	8%	8%
Risk Parity	8%	4%
Hedge Funds	10%	8%
Total Multi Asset	20%	12%
Expected Return 5-7 yrs	6.2%	6.6%
Expected Return 30 yrs	7.2%	7.6%
Standard Dev	11.4%	12.2%
Sharpe Ratio (5-7 years)	0.39	0.40
Sharpe Ratio (30 years)	0.37	0.38

Summary comments

Proposed Policy target mix maintains but reconfigures exposures by providing a higher expected return at a higher risk level than the Current Policy; however it offers a higher risk-adjusted return

Equity

- Increase the allocation to Private Equity investments
- Add an allocation to global equity to provide a manager the ability to identify opportunities across the global equity markets
- Hedge 50% of the developed international equities to the US dollar to mitigate currency risk

Fixed Income

- Add an allocation to Private Debt investments

Multi Asset

- Reduce Risk Parity and hedge fund allocations

Green denotes increase from Current Target. Red denotes decrease from Current Target. Black denotes no change from Current Target.

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and MBS).

** Hedge Funds is a calculated blend of 40% Equity, 40% Credit, 20% Macro-related strategies; Grosvenor, Allianz and Pinnacle are profiled as Hedge Funds

2017 Tactical Impact

	0-6 month Target (actual)	6-12 Month Target (actual)	Proposed Long Term Target
Cash	0.0%	0.0%	0%
Large Cap Equities	18.5%	13.5%	13%
Small/Mid Cap Equities	5.5%	4%	3%
Int'l Equities (Unhedged)	14%	6%	6%
Int'l Equities (Hedged)	0%	6%	6%
Emerging Int'l Equities	6%	5%	4%
Global Equity	0%	9%	9%
Private Equity	1.5%	3%	10%
Total Equity	45.5%	46.5%	51%
Core Bonds	6.5%	3%	0%
TIPS	6%	6%	6%
High-Yield Bonds	5%	4%	0%
EMD (External)	2.5%	2.5%	2.5%
EMD (Local Currency)	2.5%	2.5%	2.5%
Long Treasuries	2%	2%	2%
Diversified Fixed Income	6%	7%	7%
Unconstrained Fixed Income	6%	6%	4%
Private Debt	0%	1%	5%
Total Fixed Income	36%	34%	29%
Real Estate (Core)	6.5%	7.5%	8%
Total Real Assets	6.5%	7.5%	8%
Risk Parity	4%	4%	4%
Hedge Funds	8%	8%	8%
Total Multi Asset	12%	12%	12%
Expected Return 5-7 yrs	6.0%	6.2%	6.6%
Expected Return 30 yrs	7.1%	7.2%	7.6%
Standard Dev	11.4%	11.5%	12.2%
Sharpe Ratio (5-7 years)	0.38	0.39	0.40
Sharpe Ratio (30 years)	0.36	0.37	0.38

Summary comments

- Interim target mixes show the tactical impact over 6 and 12 month periods.
- Large Cap Equities and Core Bonds will experience a short term overweight while reconfiguring to the longer term targets.
- Private Equity and Private Debt will have pacing plans created to reflect new targets.

Green denotes increase from Current Target. Red denotes decrease from Current Target. Black denotes no change from Current Target.

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and MBS).

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Funds From	Funds To	Simpler	More Transparent	Lower Fee	Fewer Managers	Allocation Decision
AQR (partial)	S&P 500/ACWI Ex US/Core/TIPS	X	X	X		X
SSGA S&P Mid Cap	Champlain Partners	X			X	
S&P Russell 2000 Growth	Wellington Small Cap	X			X	
Wellington DAS	SSgA Long Treasury	X	X	X		
Mellon GAA	S&P 500/ ACWI ExUS/Core/TIPS	X	X	X	X	X
Grosvenor (partial)	S&P 500/Core/TIPS	X	X	X	X	X
Morgan Stanley PRIME	UBS Trumbull	X		X	X	

actions taken

- Simplifying and increasing transparency
- Reducing manager fees
- Reducing the number of traditional managers by 4
- Moving towards long term actuarial assumption

Funds From	Funds To	Higher Fee	New Manager	Allocation Decision
S&P 500/SMID/ACWI Ex US/EME	Global Equity	X	X	X
PIMCO/Core Bond Index	Multi Sector Fixed Income	Neutral	X	X
Core Real Estate	Global Real Estate	Neutral	X	X
S&P 500/Equity	Private Equity Commitment	X		X
High Yield Bonds	Private Debt Commitment	X	Neutral	X

actions taken

- Terminating 1 traditional manager
- Possibly increasing traditional managers by 2-3
- Increased fees with active managers may be offset from savings from consolidation
- Moving towards long term actuarial assumption

Current Fee	0-6 Month Fee	6-12 Month Fee	Proposed Fee
0.52%	0.47%	0.49%	0.50%

Comments

- All in fee is an annual projection and estimated based on data provided by Vermont Staff
- Included are Investment Manager's and Vendor's fees
- Fees may vary depending on manager and fund selection

Geometric Expected Return			
Asset Class	2016	2017	2017-2016
Cash	1.50%	1.75%	0.25%
Treasuries	1.75%	2.00%	0.25%
IG Corp Credit	3.75%	3.75%	-
MBS	2.00%	2.25%	0.25%
Core Bonds*	2.46%	2.65%	0.19%
TIPS	2.50%	3.00%	0.50%
High-Yield Bonds	5.25%	4.75%	-0.50%
Bank Loans	5.50%	5.25%	-0.25%
Global Bonds (Unhedged)	1.00%	1.00%	-
Global Bonds (Hedged)	1.09%	1.09%	-
EMD External	4.75%	4.75%	-
EMD Local Currency	6.50%	6.75%	0.25%
Large Cap Equities	6.00%	5.75%	-0.25%
Small/Mid Cap Equities	6.25%	6.00%	-0.25%
Int'l Equities (Unhedged)	7.25%	7.25%	-
Int'l Equities (Hedged)	7.57%	7.57%	-
Emerging Int'l Equities	9.75%	9.50%	-0.25%
Private Equity	8.50%	8.25%	-0.25%
Private Debt	7.50%	7.25%	-0.25%
Real Estate	6.50%	6.00%	-0.50%
Commodities	4.50%	4.75%	0.25%
Hedge Funds**	5.75%	5.95%	0.20%

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and MBS).

** Hedge Funds is a calculated blend of 40% Equity, 40% Credit, 20% Macro-related strategies.

Geometric Expected Return			
Asset Class	2016	2017	2017-2016
Cash	3.00%	3.00%	-
Treasuries	3.25%	3.50%	0.25%
IG Corp Credit	5.00%	5.00%	-
MBS	3.50%	3.50%	-
Core Bonds*	3.89%	4.00%	0.11%
TIPS	4.00%	3.75%	-0.25%
High-Yield Bonds	5.75%	5.75%	-
Bank Loans	6.00%	6.00%	-
Global Bonds (Unhedged)	2.75%	2.75%	-
Global Bonds (Hedged)	2.87%	2.87%	-
EMD External	6.00%	5.75%	-0.25%
EMD Local Currency	6.50%	6.50%	-
Large Cap Equities	7.50%	7.50%	-
Small/Mid Cap Equities	7.75%	7.75%	-
Int'l Equities (Unhedged)	8.00%	7.75%	-0.25%
Int'l Equities (Hedged)	8.39%	8.14%	-0.25%
Emerging Int'l Equities	9.50%	9.50%	-
Private Equity	9.50%	9.50%	-
Private Debt	8.00%	8.00%	-
Real Estate	6.50%	6.50%	-
Commodities	5.50%	5.50%	-
Hedge Funds**	6.50%	6.47%	-0.03%

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and MBS).

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- **Past performance is no guarantee of future results.**
- **The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.**
- **Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**
- **All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.**
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It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

- 1. Performance can be volatile and investors could lose all or a substantial portion of their investment**
- 2. Leverage and other speculative practices may increase the risk of loss**
- 3. Past performance may be revised due to the revaluation of investments**
- 4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms**
- 5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value**
- 6. These funds are not subject to the same regulatory requirements as registered investment vehicles**
- 7. Managers may not be required to provide periodic pricing or valuation information to investors**
- 8. These funds may have complex tax structures and delays in distributing important tax information**
- 9. These funds often charge high fees**
- 10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy**