



**VERMONT PENSION INVESTMENT COMMITTEE  
SEPTEMBER 25, 2018**

**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  
PETER AMONS, VMERS Representative, term expiring June 30, 2022  
ROBERT HOOPER, VSERS, term expiring June 30, 2020

**VPIC Members Absent:**

JOSEPH MACKKEY, VSTRS Representative, term expiring June 30, 2019

**VPIC Alternate Members Present:**

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2019  
KIMBERLY GLEASON, VMERS *Alternate*, term expiring June 30, 2022  
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2020

**VPIC Alternate Members Absent:**

DAVID STARR, Governor's Delegate *Alternate*, term expiring June 30, 2020

**Also attending:**

Katie Green, Investments Manager  
Andy Cook, Investments Analyst  
Michael Manning, Lynda Dennen, Margaret Belmondo, Will Forde, Tim Bruce (phone) &  
Robert Goldthorpe (phone), NEPC, LLC  
David Borsykowsky, Vermont Attorney General's Office  
Eileen O'Grady, UNITE HERE  
Michael Caballas, Sandria Williams, Mohammed Saif, Baltimore Marriott Waterfront employees

**CALL TO ORDER:**

The Chair called the Tuesday, September 25th meeting to order at 8:30 am, which was held in the 4<sup>th</sup> Floor Governor's Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agenda Approval and Announcements****

The Chair reviewed the agenda with the Committee and proposed moving the Public Comment period of the meeting up in the agenda as the first business item.

**On a motion by Karen Paul to accept the agenda with an amendment to move the public comment period to the beginning of the meeting, seconded by Treasurer Pearce, the Committee unanimously approved the agenda with the amendment.**

**ITEM 11: Public Comment**

Eileen O'Grady from UNITE HERE introduced herself, along with three employees of the Baltimore Marriott Waterfront hotel. Ms. O'Grady brought to the Committee's attention, as investors in the UBS Trumbull Property Fund, a request her firm has made to UBS for a fair process to decide on unionization of the hotel's workers. She defined the term fair process as an agreement stating workers can organize without fear or intimidation. Michael Caballas, Sandria Williams, and Mohammed Saif, who are all employees of the Baltimore Marriott Waterfront hotel spoke. Each detailed concerns regarding working conditions at the hotel related to staffing and management decisions. Eileen O'Grady requested that VPIC encourage UBS to implement a fair process. Hotel employees answered questions posed by members of the Committee.

**ITEM 2: Consent Agenda**

The Chair indicated the only item on the Consent Agenda today was approval of the minutes from the August 28<sup>th</sup> VPIC meeting.

**On a motion by Vaughn Altemus, seconded by Linda Deliduka, the Committee unanimously approved the consent agenda.**

**ITEM 3: Discussion Items and Updates**

- **Vermont State Treasurer's Update**

Treasurer Pearce stated that a meeting had been held between the Governor's Administration, Chairs of the various Retirement Boards, VPIC Chair, and Segal Consulting to discuss the risk assessment and stress test that will be completed in the coming months. Treasurer Pearce indicated she is waiting on the Administration's response regarding their participation.

The Treasurer then indicated that Segal Consulting will have Actuarial Reports available at the end of October for each of the Boards, and meetings are being scheduled by Erika Wolffing where Segal will present the reports to the three Retirement Boards.

- **NEPC, LLC Update**

Mr. Forde presented the *August 2018 Preliminary Investment Summary* and responded to questions from the Committee.

**ITEM 4: NEPC Process Review with Michael Manning & Tim Bruce**

Michael Manning (CEO) and Tim Bruce (Head of Research) of NEPC, LLC presented on the consultant's due diligence and research processes. They both responded to questions from the Committee on their process in general, but also specifically related to their monitoring of VPIC's recently terminated holdings with Guggenheim Investments and GAM Investments. The Committee requested NEPC, LLC produce a report addressing the firm's investment manager review process. This report is to include a detailed outline of the firm's ongoing due diligence process as it relates to investment manager oversight, highlighting all changes the firm is making to the process given recent events. Mr. Manning agreed to produce the report and will attend a future VPIC meeting to present it to the Committee.

**ITEM 5: Director of Investments Report**

Ms. Green reviewed the Director of Investments report with the Committee. Ms. Green stated that as of August 31, 2018 VPIC's composite assets under management were \$4.5 billion. She indicated that each of the broad asset classes remain in line with targets, with the VPIC asset allocation at the end of September (by major asset class) projected to be 54%, 33%, 6% and 7% for equities, fixed income, real assets and absolute return (respectively). She noted that staff conducted the semi-annual rebalance of the VPIC portfolio in September.

She then updated the Committee on the high yield transition. She noted that Staff is asking the Committee to grant permission for the following related to a single bank loan which Guggenheim purchased and has been transferred to PIMCO:

- Transfer the bank loan security identified by PIMCO with current value of \$543,125 back to Guggenheim for liquidation;
- Extend the Guggenheim contract until December 31, 2018 to allow them adequate time to liquidate the bank loan on VPIC's behalf given their contract expires on October 31, 2018;
- Instruct PIMCO to complete the liquidation of \$18.7 mm in securities identified by PAM ahead of a transfer to PAM; pending successful contract negotiations.

**On a motion by Treasurer Pearce, seconded by Linda Deliduka, the Committee unanimously approved the requests by Staff regarding the high yield transition outlined above.**

Lastly, Ms. Green noted that the contract with Institutional Shareholder Services (ISS) for proxy voting services is due to expire December 31, 2018. She indicated an RFP has been prepared by staff and is ready to be posted and circulated at the Committee's instruction.

**On a motion by Treasurer Pearce, seconded by Vaughn Altemus, the Committee unanimously approved instructing Staff to post an RFP for proxy voting services for VPIC and return with a summary of responses and recommendation to the Board.**

**ITEM 6: Portfolio Investment Review FY4Q18**

Ms. Belmondo presented the *NEPC FY 4Q18 Investment Performance Analysis Executive Summary*. She and Mr. Forde responded to questions posed by the Committee.

**ITEM 7: Asset/Liability Study**

Ms. Dennan presented NEPC, LLC's *Asset/Liability Study* to the Committee. She and Mr. Goldthorpe responded to questions posed by the Committee on the Study.

**ITEM 8: Plan Level Asset Allocation Review**

Ms. Dennan next led a discussion on investigating the potential of incorporating different asset allocation targets for the three systems that make-up VPIC (VSERS, VSTRS, and VMERS). The slides for this presentation were included in the report referenced in Item 7. Ms. Dennan responded to questions posed by the Committee.

**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 that Staff work with NEPC to conduct a benchmarking review. This includes those being used to compare performance for each VPIC investment manager, the asset class composites, and the VPIC portfolio, as well as the peers with which VPIC ranks itself.
- The Committee requested NEPC provide a Liquidity Study of all of VPIC's holdings at the October 23<sup>rd</sup> meeting.
- The Committee requested NEPC produce a memo addressing the firm's investment manager review process. This report is to include a detailed outline of the firm's ongoing due diligence process as it relates to investment manager oversight, highlighting all changes the firm is making to the process given recent events. Mr. Manning (NEPC CEO) will attend a future VPIC meeting to present the report to the Committee.

- The Committee requested that NEPC and Staff work together to present a review of VPIC's various Passive Index Strategies at the October 23<sup>rd</sup> Meeting.

**ITEM 10: Future Agenda Topics/New or Other Business**

There was no discussion regarding this agenda item.

**ITEM 12: Adjournment**

**Treasurer Pearce moved, and Peter Amons seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 12:30 p.m.**

Respectfully submitted,

**Investments Staff**