



**VERMONT PENSION INVESTMENT COMMITTEE  
JULY 24, 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  
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2019  
ROBERT HOOPER, VSERS, term expiring June 30, 2020

**VPIC Members Absent:**

**VPIC Alternate Members Present:**

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2019  
DAVID STARR, (phone) Governor's Delegate *Alternate*, term expiring June 30, 2020  
KIMBERLY GLEASON, VMERS *Alternate*, term expiring June 30, 2022  
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2020

**VPIC Alternate Members Absent:**

**Also attending:**

Katie Green, Investments Manager  
Andy Cook, Investments Analyst  
David Borsykowsky, Attorney General's Office  
Margaret Belmondo, DeAnna Jones, NEPC LLC  
Kieran McGlynn, Osamu Yamagata, Aberdeen Standard Investments  
Michael Spitler, Brian Robertson, Pacific Asset Management  
Ray Kennedy, Pat McMenamin, Hotchkis & Wiley  
Lauren Zink, FTJ Capital

**CALL TO ORDER:**

The Chair called the Tuesday, July 24th meeting to order at 8:30 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.

**On a motion by Treasurer Pearce, seconded by Joseph Mackey, the Committee unanimously approved the agenda.**

**ITEM 2:      Consent Agenda**

The Chair indicated the only item on the Consent Agenda today was approval of the minutes from the May 22<sup>nd</sup>, June 19<sup>th</sup>, and July 10<sup>th</sup> VPIC meetings.

**On a motion by Joseph Mackey, seconded by Peter Amons, the Committee unanimously approved the consent agenda.**

**ITEM 3:      Discussion Items and Updates**

- **Vermont State Treasurer's Update**

Treasurer Pearce gave a summary regarding the conclusion of the legislative session as it relates to the pension systems. The Treasurer indicated that the Actuarially Determined Employer Contribution (ADEC) for FY2019 was fully funded in the approved budget for the VSTRS pension system. She notified the Board that an additional \$15,000,000 was allocated in the FY2018 budget to the VSTRS pension system. As well, any undesignated FY2018 budget surplus, which is expected to exceed \$10,000,000, will be allocated to the VSTRS pension system. Furthermore, a line item was included in the FY2019 budget for a \$10,000,000 contribution to the VSTRS pension system should the revenue target be increased by the State's Emergency Board at their upcoming meeting on July 27<sup>th</sup>. Lastly, an item was included in the FY2019 budget designating that 50% of any surplus at the end of FY2019 that was not otherwise allocated to the general fund reserve would go towards paying down the retired teachers health medical benefits fund interfund borrowing from the general fund.

The Treasurer then noted that for the VSERS pension system contributions for FY2018 are anticipated to exceed the ADEC by approximately \$6,000,000. As well she indicated that the Joint Fiscal Office has committed to fully funding the ADEC for VSERS in FY2019.

She concluded with an update regarding the search for a new Director of Investments/Chief Investment Officer.

Mr. Golonka turned the meeting over to Treasurer Pearce to lead a discussion regarding the salary of the chair.

**On a motion by Robert Hooper, seconded by Joseph Mackey, the Committee unanimously approved an increase in the Chair's hourly salary to \$35.75 from \$35.08 representing one-third of the Treasurer's salary, as allowed under 32 V.S.A. § 523 (b).**

The Treasurer turned the meeting back over to the Chair.

- **NEPC's Update**

Ms. Belmondo introduced Ms. Jones, who is replacing Ms. Petkova on the VPIC account at NEPC. Ms. Belmondo presented the *June 2018 Preliminary Investment Summary* to the Committee. She and Ms. Jones responded to questions posed by the Committee, and a general investment discussion ensued.

**ITEM 4: Director of Investments Report**

Due to time constraints the Director of Investments Report was tabled until later in the meeting.

**ITEM 5: Aberdeen Presentation**

Kieran McGlynn and Osamu Yamagata presented on VPIC's investment in the Aberdeen Emerging Markets Equity Fund. They reviewed recent performance of the fund and Aberdeen's outlook on Emerging Markets. They both responded to questions from the Committee.

The presenters from Aberdeen left the meeting and the Committee discussed the VPIC's investment in Emerging Markets. At that time the Chair requested Investment Staff present a draft amendment to the VPIC Watch List policy. Ms. Green and Mr. Borsykowsky responded to questions from the Committee related to the draft amendment to the VPIC Watch List policy.

**On a motion by Joseph Mackey, seconded by Treasurer Pearce, the Committee unanimously approved an amendment to the VPIC Watch List Policy as detailed in Attachment A to these minutes.**

**On a motion by Joseph Mackey, seconded by Treasurer Pearce, the Committee unanimously approved the addition of Aberdeen Emerging Markets Equity fund to the VPIC Watch List.**

**On a motion by Treasurer Pearce, seconded by Vaughn Altemus, the Committee unanimously moved to prohibit additional funds from being contributed to the Aberdeen Emerging Markets Equity fund until either the fund is removed from the VPIC Watch List or the Committee votes to remove this funding restriction.**

**ITEM 6: High Yield Manager Presentations**

**i. Hotchkis & Wiley**

Ray Kennedy and Pat McMenamain from Hotchkis & Wiley presented on their High Yield Strategy's process and performance. The representatives then answered questions from the Committee.

**ii. Pacific Asset Management**

Michael Spitler and Brian Robertson from Pacific Asset Management presented on their Strategic Credit Strategy's process and performance. The representatives then answered questions from the Committee.

**ITEM 7: High Yield Manager Discussion**

The Committee discussed the merits of the two strategies presented. Ms. Belmondo and Ms. Green responded to questions from the Committee about the strategies.

**On a motion by Treasurer Pearce, seconded by Joseph Mackey, the Committee unanimously approved an allocation of up to 2% of the VPIC Portfolio to Pacific Asset Management's Strategic Credit Strategy, contingent upon contracting being completed within 3 months.**

**ITEM 4: Director of Investments Report (tabled from earlier)**

Ms. Green reviewed the Director of Investments report with the Committee. Ms. Green stated that as of June 30, 2018 VPIC's composite assets under management were \$4.27 billion. She indicated that each of the broad asset classes remain in line with targets, with the VPIC asset allocation at the end of July (by major asset class) projected to be 55%, 32%, 6% and 7% for equities, fixed income, real assets and absolute return (respectively).

Ms. Green provided an update on the recent performance and volatility for Pinnacle Natural Resources, L.P. as of June 30<sup>th</sup>, as well as through mid-July.

**On a motion by Treasurer Pearce, seconded by Vaughn Altemus, the Committee unanimously moved to prohibit additional funds from being contributed to the Pinnacle Natural Resources, L.P. until either the firm is removed from the VPIC Watch List or the Committee votes to remove this funding restriction.**

Ms. Green provided an update on various VPIC contracts and noted significant accomplishments and process improvements from the Attorney General's Office.

**ITEM 8: Fixed Income Allocation Discussion**

Ms. Belmondo presented NEPC's *Fixed Income Review*. She responded to questions posed by the Committee.

**On a motion by Treasurer Pearce, seconded by Vaughn Altemus, the Committee unanimously approved the following Proposed Fixed Income Asset Allocation:**

<b>Asset Class</b>	<b>Current Target Policy*</b>	<b>Proposed Target Policy*</b>
Diversified Fixed Income	10%	12%
Long Treasuries	2%	0%
TIPS	6%	6%
High Yield	2%	2%
Emerging Market Debt	4%	4%
Absolute Return / Unconstrained	2%	2%

**\*% listed are of total VPIC Portfolio**

**ITEM 9: AGO Strategic Contracting Plan Update**

Mr. Borsykowsky from the Attorney General's Office discussed with the Committee the VPIC contracting process. He detailed procedural enhancements that have allowed recent contracts to progress in a more efficient manner. Mr. Borsykowsky then responded to questions posed by the Committee.

**ITEM 10: 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 directed NEPC to work with Segal Consulting and the Treasurer's office Staff on a recommendation whether to apply a different asset allocation to any of the three pension systems.
- The Committee requested NEPC provide a look through correlation study at a future meeting comparing Emerging Market Equities and Commodities in general, and more specifically oil.

- The Committee requested NEPC provide them with the NEPC public fund peer group performance analysis once available in September.
- The Committee instructed the Attorney General's Office to review statutes, existing policies, and prior AGO opinions related to reimbursement of travel expenses for VPIC when attending VPIC meetings. They also requested Staff review technological options for Members attending meetings remotely.

**ITEM 11: Future Agenda Topics/New or Other Business**

Joseph Mackey initiated a discussion about VPIC Member travel expense reimbursements.

**Treasurer Pearce moved, and Karen Paul seconded, that the discussion of VPIC Member travel expense reimbursements be tabled pending a review of statute, existing policies, and prior opinions by the Attorney General's Office. The Committee approved the motion (Vote for Tabling: Treasurer Pearce, Vaughn Altemus, Karen Paul, Peter Amons, Robert Hooper. Abstain: Joseph Mackey).**

**ITEM 12: Public Comment**

None.

**ITEM 13: Adjournment**

**Treasurer Pearce moved, and Joseph Mackey seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 2:16 p.m.**

Respectfully submitted,

**Investments Staff**

**Attachment A: Amendment to VPIC Watch List Policy**

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**TITLE:**     **VPIC Watch List Policy**

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**Policy:**

Subject to its responsibilities under 3 V.S.A § 523, the Vermont Pension Investment Committee (“VPIC”) has established the following policy to be overseen by the Treasurer’s Office Staff (“Staff”):

- 1) Subject to criteria described below, an investment manager or an investment vehicle may be placed on a VPIC Watch List while its continued suitability for the VPIC portfolio is assessed. The VPIC watch list is meant to complement and not supplant the watch list of the Pension Consultant (“Consultant”).
- 2) In placing a manager or vehicle on the VPIC Watch List, VPIC shall determine whether and what constraints shall be made on placement of funds with the manager or in the vehicle while on the Watch List. Such determination may include (a) a constraint on placement of funds that have been previously allocated or approved for the manager or vehicle, (b) a constraint on the placement of additional funds, or (c) any other constraint or requirement as directed by the Committee.
- 3) This policy does not require exit from an investment manager or vehicle, or breach of a current contractual commitment.

**Procedures:**

A) Any existing manager placed on the Consultant’s watch list is automatically brought before the Committee for placement on VPIC’s watch list.

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B) On the basis of considerations the Staff may deem to be material to the suitability of a manager’s role in the VPIC portfolio (such as significant management turnover, changes in strategy, unusual performance, significant operational changes as understood by periodic manager interviews, etc.), Staff will bring to the VPIC a request for a vote for such firm to be placed on the VPIC Watch List.

C) Staff will commit to monitoring the firm closely for a period of ninety-days, with the goal of gathering information to be used in assessing the need for a replacement.

D) Staff will collaborate with the Consultant to develop a comparative analysis of the strategy versus other peers to inform the ninety-day review.

E) At the conclusion of the ninety-day review process, Staff will collaborate with the Consultant on a recommendation as to whether or not relevant issues have been resolved or if a formal search for a replacement should be undertaken and brought before the Committee for consideration.

F) This policy will remain in effect unless amended or abolished by the VPIC.