



**VERMONT PENSION INVESTMENT COMMITTEE  
OCTOBER 23, 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, (phone) 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  
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:**

Eric Henry, Chief Investment Officer  
Katie Green, Investments Manager  
Andy Cook, Investments Analyst  
Margaret Belmondo, Will Forde, Tim Bruce & Michael Manning (phone), NEPC, LLC  
David Borsykowsky & Jesse Moorman, Vermont Attorney General's Office  
Prof. Fritz Burkhardt, Zachery Burnham, David Dalton, Victor DeBouter, Jon-Patrick Fitch,  
Marguerite Frizzell, Amber Ghera, Erin Landry, Trent Loehle, Hari Luitel, Evan Phippen, Jessica  
Priesing, Elijah Rubin, Champlain College

**CALL TO ORDER:**

The Chair called the Tuesday, October 23<sup>rd</sup> 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 asked if any members of the Committee would like to add or amend any agenda items. Ms. Deliduka requested that an agenda item be added to specifically address VPIC's holdings in the UBS Trumbull Property Fund, and concerns which had been brought to the Committee's attention at the September 25<sup>th</sup>, 2018 meeting. This discussion was added as Agenda Item #10.

**On a motion by Vaughn Altemus, seconded by Treasurer Pearce, the Committee unanimously approved the agenda with the above noted addition.**

**ITEM 2: Consent Agenda**

The Chair indicated the only item on the Consent Agenda today was approval of the minutes from the September 25<sup>th</sup>, 2018 VPIC meeting.

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

**ITEM 3: Vermont State Treasurer's Update**

Treasurer Pearce introduced newly hired Chief Investment Officer Eric Henry to the Committee. Mr. Henry provided a brief summary of his experience and positions he held prior to joining the Vermont State Treasurer's Office.

Treasurer Pearce then presented a memo to the Committee titled *ESG Focus Area Recommendations to VPIC*, and she responded to questions posed by members of the Committee related to the memo. Attachment A to these minutes includes this memo.

**On a motion by Vaughn Altemus, seconded by Robert Hooper, the Committee unanimously approved Action Item #2 of Treasurer Pearce's above referenced memo.**

**On a motion by Robert Hooper, seconded by Vaughn Altemus, the Committee unanimously approved Action Item #1 of Treasurer Pearce's above referenced memo.**

**ITEM 4: Chief Investment Officer Report**

Mr. Henry presented the *Chief Investment Officer Report* dated October 18, 2018. He responded to questions posed by members of the Committee. Attachment B to these minutes includes this report.

Ms. Green reviewed the *Staff Report* with the Committee. Ms. Green stated that as of September 30, 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 October (by major asset class) projected to be 54%, 33%, 6% and 7% for equities, fixed income, real assets and absolute return (respectively).

Ms. Green provided an update on the High Yield manager transition, indicating that one specific bank loan which was held by Guggenheim will be transferred to Pacific Asset Management (PAM) for holding and ultimately liquidation. This holding will not be included in the performance calculation at PAM. At a previous VPIC meeting Staff had requested permission from the Committee to ask Guggenheim to liquidate this position, ultimately Guggenheim indicated they are unwilling to liquidate the position, and as such it must be transferred to PAM.

Finally, Ms. Green presented the *2019 Proposed VPIC Meeting Schedule* which is included in Attachment C to these minutes. Mr. Cook answered questions regarding this schedule.

**On a motion by Robert Hooper, seconded by Linda Deliduka, the Committee unanimously approved the *2019 Proposed VPIC Meeting Schedule* as presented.**

**ITEM 10: UBS Trumbull Property Fund Discussion**

Ms. Green provided a brief background on VPIC's holding in the UBS Trumbull Property Fund. She noted that in response to a request from the VPIC that Staff undertook a detailed review of the fund and recent redemption requests. She then outlined the findings of UBS' actions to ensure a fair process in the contractual negotiations between Marriott and its Baltimore Marriott Waterfront Hotel employees.

**On a motion by Linda Deliduka, seconded by Jeff Briggs, the Committee unanimously approved sending a letter to UBS and Marriott encouraging both parties to work with employees of the Baltimore Marriott Waterfront Hotel in order to ensure that a fair process is undertaken to decide on unionization of the hotel's workers.**

A copy of this letter is also to be sent to representatives from UNITE HERE.

**ITEM 5: Discussion Items and Updates**

- **NEPC, LLC Update**

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

- **NEPC, LLC Research Discussion**

Mr. Manning introduced Mr. Bruce who presented the *NEPC Traditional Research Education Overview* and responded to questions and concerns raised by the Committee.

- **VPIC Liquidity Study**

Ms. Belmondo presented the *Vermont Pension Investment Committee Liquidity Analysis* and responded to questions from the Committee.

- **NEPC, LLC Benchmarking Review**

Mr. Forde presented the *Vermont Pension Investment Committee Benchmarking Presentation* and responded to questions from the Committee. The Committee requested that NEPC, LLC bring a revised Benchmarking Review to a later meeting providing a detailed presentation of the asset allocations employed by the top quartile of fund performers in the Investor Force <\$5 Billion Public Fund Universe.

- **NEPC, LLC Indexing Review**

Ms. Belmondo presented the *Vermont Pension Investment Committee Index Provider Search*. She and Mr. Henry responded to questions from the Committee. It was the sense of the Committee to instruct NEPC, LLC and Staff to undertake a detailed Index Provider Search focused on Blackrock, Mellon Capital, Northern Trust and State Street Global Advisors.

**ITEM 6: 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 that NEPC, LLC bring a revised Benchmarking Review to a later meeting providing a detailed presentation of the asset allocations employed by the top quartile of fund performers in the Investor Force <\$5 Billion Public Fund Universe. Further the Committee requested that Staff update a Peer Review which was undertaken several years ago with the objective of investigating the possibility of creating a custom benchmark of funds that have similar characteristics to VPIC.
- The Committee requested that NEPC and Staff work together to present a detailed Index Provider Search Book focused on Blackrock, Mellon Capital, Northern Trust and State Street Global Advisors to be presented at a future VPIC meeting.
- The Committee asked that copies of the FY2018 Actuarial Reports for VSERS, VSTRS, and VMERS be provided to the VPIC once they have been presented to the appropriate boards.

- The Committee asked NEPC and Staff to update their annual fee review presentations and provide those at the November 27<sup>th</sup>, 2018 meeting.

**ITEM 7: Future Agenda Topics/New or Other Business**

There was no discussion regarding this agenda item.

**ITEM 8: Public Comment**

Prof. Fritz Burkhardt from Champlain College thanked the VPIC for allowing his students to attend the meeting and have the opportunity to observe how the topics they study are actually applied in practice.

**ITEM 9: Adjournment**

**Treasurer Pearce moved, and Vaughn Altemus seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 12:15 p.m.**

Respectfully submitted,

**Investments Staff**

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STATE OF VERMONT  
OFFICE OF THE STATE TREASURER

**TO:** Vermont Pension Investment Committee  
**FROM:** Beth Pearce, State Treasurer  
**RE:** ESG Focus Area Recommendations to VPIC  
**DATE:** October 23, 2018

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The Treasurer's Office is requesting from the VPIC approval of the actions listed below. These recommendations are consistent with the VPIC's Proxy Policies, the ESG five-point plan adopted by the VPIC in February 2017, and the Carbon Asset Risk Project resolution adopted by VPIC on September 24, 2013.

**ACTION ITEM #1**

Request that VPIC become a signatory of the Principles for Responsible Investing (PRI). As a signatory the VPIC will gain access to a sophisticated, global network of institutional investors working toward increasing shareholder value by engaging companies on Environmental, Social, and Governance (ESG) topic areas. PRI is a leader in corporate engagement and research in all three ESG issue areas, having the support of the United Nations Environment Programme Finance Initiative and United Nations Global Compact. The VPIC would be joining 70% (14 out of 20) of its investment managers, as well as several vendors, as an active member of PRI. Signatory status of PRI requires an annual membership fee based on assets under management. Prorated the 2019 fee will be approximately \$1,922 with an April payment cycle and an ongoing annual fee of approximately \$3,844. Please see attachments to this report for information on PRI's six principles and cost structure.

## **ACTION ITEM #2**

That VPIC adopt the following categories of shareholder engagement activities for the upcoming proxy season and direct staff to pursue activities consistent with the guidelines outlined below, the existing VPIC proxy policies, and incorporating changing industry standards and best practices. Activities include coordinating with our proxy vendor on votes, filing on proxy resolutions, and writing letters of support for the various activities, again consistent with the VPIC proxy policy guidelines. Given that VPIC only meets monthly, if we sought individual approvals on each specific proxy activity, we would likely miss most opportunities to participate. Staff will prepare a summary report for the VPIC of all shareholder activities for their review at the end of the 2019 proxy season.

### **1. Political Activities, Memberships and Expenditures**

#### **Request:**

Resolutions generally request the review and disclosure of political activities, memberships, and expenditures – both direct and indirect. Resolutions generally request the disclosure of company political and lobbying activities, memberships in organizations that engage in political activities, and all related expenditures. Resolutions may request disclosure of company strategy driving political activities, and internal controls in place to manage political activities and expenditures.

#### **Outcome:**

Disclosure of companies' participation and influence in public policymaking and the intended outcomes of such activities and expenditures. Disclosure of company's internal management and controls of political activities and expenditures. Encourage lawful, responsible, and transparent engagement in policymaking.

### **2. Ethical Labor Practices**

#### **Request:**

The Treasurer's office requests permission to participate in shareholder engagement on ethical labor practices through co-filing resolutions and sign-on letters addressing the following issues:

- Companies monitor and report on legal and regulatory compliance related to non-discrimination/equal employment opportunity, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.
- Adoption of industry recognized standards ensuring sustainable wages and safe working conditions for employees and employees of suppliers.
- Oversight and monitoring of supply chains to ensure suppliers do not use forced labor, child labor, or sweatshop labor, and otherwise comply with legal and regulatory guidance pertaining to non-discrimination, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.

**Outcome:**

Companies monitor and report annually on compliance with relevant labor laws and regulation. Companies detail oversight of operations and supply chains to ensure compliance with relevant law and regulation.

**3. Defend Shareholder Rights**

**Request:**

The Treasurer's office requests the VPIC's permission to work with institutional investor advocacy groups and peers to fight legislation, rulemaking, or SEC legal bulletins that would weaken shareholder rights and the independence of proxy advisory firms.

The shareholder proposal process is structured and administered under SEC Rule 14a-8. Legislation and proposals of amendment are often introduced in Congress with the intention of restricting shareholder rights and access to public companies' proxies through amendments to Rule 14a-8. Currently in front of Congress, the Financial CHOICE Act proposes an increase in the ownership requirement for filing to 1% of shares for a three-year period to limit access to the proxy card. The current standard is \$2,000 of shares or 1% of the company's stock for 1 year. Under a 1% shareholder ownership requirement, at Wells Fargo one would need to own \$2.6 billion in equity before filing a proposal.

Another piece of legislation currently in front of Congress, H.R. 4015, proposes to tighten regulations on proxy advisory firms, giving companies the ability to preview firm reports and influence recommendations, resulting in a substantial disadvantage to investors and weaker public company corporate governance. Likely actions will include letters opposing the legislation to be sent to Congressional subcommittees and the SEC.

**Outcome:**

Stop legislation, rulemaking, or SEC staff legal bulletins that would weaken shareholder rights and lend undue influence of corporations over proxy advisory firm recommendations.

**4. Sustainability**

**Request:**

The Treasurer's office would like to engage companies on the following sustainability issues:

- Measurement, tracking, and quantifying sustainability-related metrics which may include, but are not limited to, 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> degree greenhouse gas emissions, energy efficiency, conservation of natural resources such as water, and other environmental and social impacts deemed relevant to company business by the board of directors.



- Disclosure of financially-relevant sustainability metrics using industry recognized guidelines such as the Task-Force on Climate-related Financial Disclosures' (TCFD) Sector Specific Disclosure Recommendations or the Sustainability Accounting Standards Board sector specific guidelines.
- Analysis and reporting on sustainability metrics, which may include conducting scenario analysis, energy expense assessment, and evaluation of business opportunity and resilience in changing market environments.

**Outcome:**

Annual reporting on sustainability-related metrics, risks, and opportunities, which may include scenario analysis and planning, using financially-relevant and industry recognized metrics and guidelines.

**5. Proxy Access Bylaws**

**Request:**

The Proxy Access Bylaw Amendments campaign launched in 2014 received considerable support from institutional investors and had great success over the last several proxy seasons. Today more than 425 companies have proxy access bylaws in place, including over 60% of the S&P 500. This access enables eligible long-term shareholders to nominate their own director candidates in a company's proxy statement.

The Treasurer's office requests the VPIC to allow Staff to engage through sign-on letters, co-filing resolutions, and company direct engagement to encourage the adoption of proxy access bylaws, Board diversity, independence, and climate-competence.

**Outcome:**

Adoption of proxy access bylaws and reporting by companies on their Boards' race, gender and expertise, released as a board matrix to ensure standardization of the information that is easy to analyze.

**6. Mutual Fund Proxy Voting**

**Request:**

Allow the Treasurer's office staff to promote responsible proxy voting policies by mutual fund companies.

**Outcome:**

Mutual Fund companies will allow investors to review their proxy voting record on specific resolutions and will explain any incongruence on the company's voting record and their public positions. The Board of Directors will issue a report on proxy voting to shareholders.

## 7. Opioid Accountability

### **Request:**

The Treasurer's office requests to engage on the issue of opioid accountability through membership with the Investors for Opioid Accountability (IOA). There is no cost associated with membership in IOA. Engagements on opioid accountability may include co-filing resolutions and signing on to letters requesting that manufacturers, distributors, and retailers of opioids and goods and services related to the treatment of opioid addiction address financial, legal, and/or reputational risks related to the opioid crisis. This may include disclosure of activities that might mitigate or exacerbate the opioid crisis or otherwise result in reputational risk or benefit to the company. Please see the attached list of current members of the IOA, including CalSTRS, Connecticut State Treasurer's Office, and the NYS Common Retirement Fund.

### **Outcome:**

Opioid manufacturers, distributors, and retailers, and companies providing goods and services related to the treatment of opioid addiction, address the financial, legal, and/or reputational risks presented by the opioid crisis.

## **Attachment A: Principles for Responsible Investment**

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

### **Signatories' commitment:**

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.”

## What does it cost to be a signatory?

The annual signatory fee is payable each April and is scaled according to each signatory's category, type and assets under management.

### Fees

#### *Asset owners*

#### **AUM (US\$ bln) 2018/19 fee (£) 2018/19 Fee (\$)\***

>50	8,440	10,998
30 - 50	8,440	10,998
10 - 29.99	8,440	10,998
5 - 9.99	6,400	8,340
<b>1 - 4.99</b>	<b>2,950</b>	<b>3,844</b>
0.1 - 0.99	840	1,095
0 - 0.09	460	599

\*Using exchange rate as of October 19, 2018

## **Attachment B: Members of Investors for Opioid Accountability (IOA)**

- 1919 Investment Counsel
- Aberdeen Standard
- Aegon Asset Management
- American Federation of Teachers Pension Plan
- Bailard, Inc.
- Benedictine Coalition for Responsible Investment
- Boston Common Asset Management
- Bricklayers & Trowel Trades International Pension Funds
- **California State Teachers' Retirement System**
- **California State Treasurer's Office**
- Calvert Research and Management
- Catholic Health Initiatives
- CTW Investment Group
- **City of Philadelphia Public Employees' Retirement System**
- Congregation of St. Joseph
- **Connecticut State Treasurer's Office**
- Daughters of Charity, Province of St. Louise
- Dignity Health
- Diocese of Springfield, IL
- Domini Impact Investments
- Dominican Sisters of Springfield, IL
- Hermes Equity Ownership Services
- **Illinois State Treasurer's Office**
- Interfaith Center on Corporate Responsibility
- International Brotherhood of Teamsters
- JLens Investor Network
- Mercy Health
- Mercy Investment Services
- NEI Investments
- Neuberger Berman
- **New York State Common Retirement Fund**
- Northwest Coalition for Responsible Investment
- **Office of the New York City Comptroller**
- **Pennsylvania Treasurer's Office**
- **Rhode Island Treasurer's Office**
- **School Employees Retirement System of Ohio**
- Segal Marco Advisors
- Seventh Generation Interfaith Coalition for Responsible Investment
- Sisters of St. Francis of Philadelphia
- Socially Responsible Investment Coalition
- Trinity Health
- UAW Retiree Medical Benefits Trust
- United Church Funds
- Walden Asset Management
- **West Virginia State Treasurer's Office**
- Zevin Asset Management, LLC

\*\*\*Attachment B\*\*\*

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STATE OF VERMONT  
OFFICE OF THE STATE TREASURER

**TO:** Vermont Pension Investment Committee  
**FROM:** Eric Henry  
**RE:** Chief Investment Officer Report  
**DATE:** October 18, 2018

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Over the past two weeks I have spent a lot of time with Katie, Andy, and NEPC and am very impressed with their knowledge and abilities. I have begun to gain an understanding of the VPIC portfolio and identified several items that, I believe, we should begin to focus our efforts on.

**Absolute Return Allocation:**

As you know, we have allocated \$311 million to three absolute return funds-of-funds (Pinnacle Natural Resources, Grosvenor, and Allianz Structured Alpha). I would describe their performance as low to mid-single digits over the long term. Part of the challenge with those that are funds of hedge funds is that there are multiple layers of fees (Grosvenor, 0.80% management fee, 1.3% underlying management fee, 17% carried interest; Pinnacle 1% management fee, 1.6% underlying management fee, 10% carried interest). These funds have generally outperformed their benchmarks, though the benchmark returns are below those of equity and much closer to core fixed income. Given their fee levels, I believe this allocation warrants a closer look to assure that we are being adequately compensated for their risk profile, net of all fees. Further, as we undertake another asset allocation study, it is worthwhile to reevaluate their role and impact on pension funding levels over time.

NEPC views absolute return funds as good diversifiers and we would expect them to perform well relative to equities in an economic downturn. Similarly, quality long duration credit is viewed as being protective during an economic downturn, but at a much lower fee level. We have been working with NEPC to gain an understanding of whether our current absolute return allocation is functioning as intended and how the portfolio would perform without an absolute return allocation. More analysis is forthcoming on this topic.

**Use of Indexed Equities:**

Currently, we have invested \$815 million in a commingled S&P 500 Index Fund. This passive strategy provides us with a low-cost market return on US large cap stocks. In addition, we have invested \$197 million in an equal weighed S&P 500 strategy. While technically an index, we view this product as an active strategy as it is making intentional tilts away from its capitalization-weighted cousin.

We also index \$374 million of our non-US developed market equities through an ACWI ex US index fund. Like the S&P index fund above, this passive strategy provides us with a low-cost market return of non-US developed markets. Below you can see our use of passive and active strategies throughout our public equity exposure:

<b>ASSET CLASS</b>	<b>PASSIVE (\$)</b>	<b>ACTIVE STRATEGIES (\$)</b>	<b>MANAGERS</b>
<b>US LARGE CAP</b>	815	197	SSGA
<b>US SMID</b>	0	201	CHAMPLAIN
<b>NON-US DEVELOPED</b>	376	294	ACADIAN & MONDRIAN
<b>EMERGING MARKET EQUITY</b>	0	156	ABERDEEN
<b>GLOBAL EQUITY</b>	0	374	ARTISAN & HOSKING
<b>TOTAL EXPOSURE</b>	<b>1191</b>	<b>1222</b>	

As you can see, we have chosen not to index any of our US SMid, emerging markets, or global equity exposure and we use active managers throughout the equity allocation. While Champlain and Acadian have consistently outperformed their benchmarks net of fees, Mondrian and Aberdeen have not. We and NEPC agree on several conclusions from this:

- Consistently outperforming passive benchmarks is difficult
- Active manager fees are expensive, relative to passive strategy fees
- We have not uniformly utilized index funds across the equity portfolio to provide a cheap source of beta, or broad market returns

We and NEPC are preparing an analysis of what our portfolio would look like if it implemented a passively managed core across the entire equity allocation and supplemented with active managers in whom we have high conviction. I would expect implementation of a passive core to reduce fees and tracking error and to increase our flexibility in selecting active managers with higher alpha expectations. We will have more information on this topic at future meetings as we work through the asset allocation study in the coming months.

**The Role of Fixed Income:**

Currently, we utilize a variety of fixed income managers as outlined below:

<b>ASSET CLASS</b>	<b>PASSIVE (\$)</b>	<b>ACTIVE STRATEGIES (\$)</b>	<b>MANAGERS</b>
<b>CORE FIXED INCOME</b>	338	0	SSGA
<b>CORE PLUS FIXED INCOME</b>	0	327	PIMCO
<b>LONG TREASURIES</b>	0	0	
<b>TIPS</b>	265	0	BLACKROCK
<b>UNCONSTRAINED</b>	0	155	PIMCO
<b>HIGH YIELD</b>	0	82	PAM/PIMCO
<b>OPPORTUNISTIC EMD</b>	0	163	WELLINGTON
<b>TOTAL EXPOSURE</b>	<b>603</b>	<b>727</b>	

While all the above strategies do technically invest in fixed income securities, there are some important distinctions between these mandates. The Barclays Aggregate Bond Index is a cap-weighted index of primarily an equal split of US Treasuries, mortgage-backed securities, and corporate bonds. It is viewed by many investors as a cost-effective hedge against economic downturns, though there are higher quality indices that would tend to have a higher inverse correlation with equity valuations and be more protective.

In contrast, TIPS should be viewed as a hedge against inflation. Credit quality is high because they are backed by the full faith and credit of the U.S. government.

The Core Plus, Unconstrained, High Yield, and Opportunistic EMD sectors above should be viewed as return-seeking assets and have a similar risk profile to that of equities.

As we work through our next asset allocation process, we should keep in mind that, while VPIC has a 30% allocation to “fixed income”, less than half of that should be viewed as a hedge against economic downturns. Nearly half (unconstrained, high-yield, and opportunistic EMD) should be viewed as return-seeking or equity-like.

We have asked NEPC to run some analyses to help us better understand the themes outlined above. I look forward to discussing them with you in the coming months.



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## **2019 Proposed VPIC Meeting Schedule**

January 29, 2019 VPIC Meeting

- Review Capital Market Assumptions
- Asset Allocation Review

February 26, 2019 VPIC Meeting

- Asset Allocation Review Continued
- Portfolio Investment Review FY2Q

March 26, 2019 VPIC Meeting

- Asset Allocation Review Finalized
- Private Market and Real Estate Pacing Plan Reviews
- Evaluate Plan Level Asset Allocations

April 23, 2019 VPIC Education Panel

June 25, 2019 VPIC Meeting

- Fee Review (Manager & Asset Class)
- Portfolio Investment Review FY3Q
- Asset/Liability Study (if performed)

July 23, 2019 VPIC Education Panel

August 27, 2019 VPIC Education Panel

September 24, 2019 VPIC Meeting

- Portfolio/Investment Review FY4Q

October 22, 2019 VPIC Meeting

- Peer Benchmarking
- VPIC Liquidity Study

November 19, 2019 VPIC Meeting

- Review Actuarial Rate of Return
- Portfolio/Investment Review FY1Q

December 10, 2019 VPIC Meeting

- VPIC Policies Review
- Implementation of Asset Allocation Study
- Service Provider/Chair Review