



**VERMONT PENSION INVESTMENT COMMITTEE
MARCH 26, 2019**

VPIC Members Present:

TOM GOLONKA, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
MARY ALICE MCKENZIE, Governor's Delegate, term expiring June 30, 2022
JOHN-HENRY HUBERT, (phone) Governor's Delegate, term expiring June 30, 2022
JOSEPH MACKEY, (phone) VSTRS Representative, term expiring June 30, 2019
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2020
PETER AMONS, VMERS Representative, term expiring June 30, 2022

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, (phone) VSERS *Alternate*, term expiring June 30, 2020
DAVID STARR, (phone) Governor's Delegate *Alternate*, term expiring June 30, 2020

VPIC Alternate Members Absent:

Also attending:

Eric Henry, Chief Investment Officer
Katie Green, Deputy Chief Investment Officer
Andy Cook, Investment Analyst
David Borsykowsky & Jesse Moorman, Vermont Attorney General's Office
Margaret Belmondo & Will Forde, NEPC, LLC
Donald Tinny, Vermont NEA President
Teddy Grant (phone), PE Insider

CALL TO ORDER:

The Chair called the Tuesday, March 26th meeting to order at 8:31 am, which was held 4th 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.

On a motion by Peter Amons, seconded by Linda Deliduka, the Committee unanimously approved the agenda as written.

ITEM 2: Consent Agenda

The Chair indicated the only item on the Consent Agenda was approval of the minutes from the February 26, 2019 VPIC meeting.

On a motion by Linda Deliduka, seconded by Robert Hooper, the Committee approved the consent agenda.

ITEM 3: Vermont State Treasurer's Update

Treasurer Pearce noted that the legislative items upon which she presented at the February 26, 2019 VPIC Meeting are still pending in various House and Senate committees. She also noted that her office, along with the various board chairs are still working with the administration to outline the scope and objective of the forthcoming risk assessment which Segal Consulting will be completing. Lastly, she noted that the Governor's proposed budget does not include any structural changes to the retirement systems.

ITEM 4: Chief Investment Officer Report

Mr. Henry addressed the Committee on recent work by the Investment Team and NEPC, LLC finalizing the asset allocation study. He noted that the Investment Team will be meeting with HarbourVest and Siguler Guff to conduct due diligence meetings ahead of any potential private equity investment with either firm. He presented the following asset allocation targets for the Committee's consideration, and indicated a specific recommendation would be provided later in the meeting:

	Policy	Portfolio A	Portfolio B	60 ACWI / 40 Agg
Growth Assets				
Passive global equities	0%	24%	21%	60%
Active global equities	9%	5%	4%	0%
Large cap US equities	14%	4%	2%	0%
Small/Mid cap US equities	4%	3%	3%	0%
Non-US developed equities	10%	5%	5%	0%
International small cap equities	2%	2%	2%	0%
EM equities	4%	0%	0%	0%
Private equity	10%	10%	12%	0%
Core plus fixed income	8%	6%	0%	0%
High yield fixed income	2%	0%	0%	0%
Unconstrained fixed income	2%	0%	0%	0%
EM debt	4%	4%	4%	0%
Private credit	5%	5%	5%	0%
Non-core real estate	3%	3%	4%	0%
Total Growth	77%	71%	62%	60%
Downturn Hedging Assets				
Core fixed income	4%	14%	19%	40%
Short-term quality credit	0%	5%	5%	0%
US Long Treasuries	0%	0%	2%	0%
Total Downturn Hedging	4%	19%	26%	40%
Inflation Hedging Assets				
Core real estate	5%	5%	5%	0%
US TIPS	6%	3%	3%	0%
Infrastructure/Farmland	0%	2%	4%	0%
Total Inflation Hedging	11%	10%	12%	0%
Absolute Return Assets	8%	0%	0%	0%
Total Portfolio	100%	100%	100%	100%
Expected 5-7 Year Geometric Return	6.7%	6.5%	6.5%	5.7%
Expected 30 Year Geometric Return	7.8%	7.6%	7.6%	7.0%
Expected Standard Deviation	12.4%	11.7%	11.2%	11.1%
Expected Sharpe Ratio (30 year)	0.39	0.39	0.41	0.36

Mr. Henry highlighted that various asset classes have been divided into Growth Assets, Downturn Hedging Assets, Inflation Hedging Assets, and Absolute Return Assets, as compared to traditional Equity, Fixed Income, and Alternative asset classifications used in the past. He spoke to each asset class and gave the rationale for including each in the proposed portfolios A

and B. He noted that compared to the current long-term targets the proposed allocations would improve the expected risk-adjusted return, reduce the complexity of the portfolio, and reduce the cost structure. Mr. Henry responded to questions from the Committee regarding the proposed allocations.

ITEM 5: Investment Staff Report

Mr. Cook reviewed the *Staff Report* with the Committee. He noted the recovery the VPIC portfolio has experienced through the end of February, following the downturn in December of 2018. Mr. Cook requested the VPIC consider delaying the semi-annual rebalance of the portfolio scheduled for March, 2019 given the potential for allocation changes at the conclusion of the asset allocation study.

On a motion by Linda Deliduka, seconded by Mary Alice McKenzie, the Committee unanimously instructed Staff to delay the March 2019 portfolio rebalance until after the conclusion of the asset allocation study.

Ms. Green provided detail on the status of the assets formerly managed by Guggenheim, now managed by PIMCO in a High Yield Liquidation Portfolio. Specifically, she noted a request that PIMCO received from Aspect Software for VPIC to approve a restructuring whereby the VPIC could sign a Limited Partnership Agreement for Class B Shares in the new company, and/or accept take back debt. Staff recommended that the VPIC forego the Class B Shares given the complexity and risk associated with the Limited Partnership Agreement and accept the take back debt.

On a motion by Linda Deliduka, seconded by Peter Amons, the Committee unanimously authorized PIMCO to approve the take back debt on VPIC's behalf from Aspect Software as part of the restructuring plan with Vector Capital, and forfeit the Class B equity shares by not signing the Limited Partnership Agreement on VPIC's behalf.

Ms. Green then gave the Committee an update on the GAM Unconstrained Bond Fund liquidation.

Mr. Cook reviewed the two managers currently on the VPIC Watchlist with the Committee, Aberdeen Standard Investments and Pinnacle Natural Resources L.P. He then provided an update to the Committee on recent cash flow activity within the portfolio and the contracts outstanding.

ITEM 6: Discussion Items and Updates

- **NEPC, LLC Monthly Performance Update**

Mr. Forde reviewed the *February 2019 Preliminary Investment Summary* and responded to questions posed by the Committee.

- **VPIC Asset Allocation Review**

Ms. Green presented the *Target Asset Allocation Recommendation* and responded to questions posed by the Committee. Ms. Belmondo presented the *Asset Allocation Review Follow Up* and the *2019 Asset/Liability Projections* reports and responded to questions posed by the Committee.

On a motion by Linda Deliduka, seconded by Mary Alice McKenzie, the Committee unanimously approved the below asset allocation Portfolio A, as referenced from Page 2 of the NEPC Asset Allocation Review Follow Up dated March 26, 2019:

	Current Long-Term Target	Portfolio A
Large Cap Equities	14%	4%
Small/Mid Cap Equities	4%	3%
Int'l Equities	10%	5%
Int'l Sm Cap Equities	2%	2%
Emerging Int'l Equities	4%	0%
Global Equity	9%	29%
Private Equity	10%	10%
Total Equity	53%	53%
Core Bonds	4%	14%
TIPS	6%	3%
High-Yield Bonds	2%	0%
Emerging Market Debt	4%	4%
Short Gov't / Credit	0%	5%
Core Plus Fixed Income	8%	6%
Absolute Return Fixed Income	2%	0%
Private Debt	5%	5%
Total Fixed Income	31%	37%
Core/Non-Core Real Estate	8%	8%
Private Infrastructure/Land	0%	2%
Total Real Assets	8%	10%
Hedge Funds	8%	0%
Total Multi Asset	8%	0%

- **Implementation Recommendation**

Peter Amons left the meeting, ceding the VMERS vote to Kim Gleason.

Mr. Henry and Ms. Green reviewed the *Implementation Recommendation* and responded to questions posed by the Committee.

On a motion by Kim Gleason, seconded by Mary Alice McKenzie, the Committee unanimously approved the implementation recommendation as outlined by Staff on Page 45 of the March 26, 2019 VPIC Packet:

Action Item	Action	Terminate Funds	Add Funds
1	Move to a Global Core Equity Position	SSgA S&P Cap Weighted SSgA ACWI Ex-US Aberdeen	BlackRock ACWI IMI
2	Simplify Downside Protection Hedge	PIMCO Unconstrained Manulife Multi-Sector SSgA Aggregate Bond PAM HY/BL	BlackRock Aggregate Bond Short Credit (1-3yr)
3	Eliminate Hedge Fund Exposure	Grosvenor Allianz Pinnacle	
4	Add Inflation-Hedge		Farmland/Infrastructure (TBD)

Peter Amons rejoined the meeting.

- **Private Equity Pacing Plan Review**

Ms. Belmondo presented the *2019 Private Equity Market Program Review & Strategic Investment Plan* and responded to questions posed by the Committee.

ITEM 7: NEPC/Staff Deliverables for Upcoming Meetings

- The Committee instructed NEPC to invite the following managers to the April meeting for presentations:
 - HarbourVest Partners
 - Siguler Guff
 - Champlain Investments
- The Chair created a Subcommittee (Jeff Briggs, Treasurer Pearce, Linda Deliduka) tasked with reviewing the Domestic and International Proxy Voting Policies, with a report and recommendations to be brought to the VPIC at a later meeting.
- The Chair created a Subcommittee (Jeff Briggs, Kim Gleason, Linda Deliduka) tasked with reviewing VPIC's Operating, Standards of Conduct and Education Policy, with a report and recommendations to be brought to the VPIC at a later meeting.
- The Committee instructed Staff and NEPC to research Infrastructure and Farmland managers to be invited to the July Education Panel.
- The Committee tasked NEPC with providing the Non-Core Real Estate and Private Debt pacing plans for the April meeting.

ITEM 8: Future Agenda Topics/New or Other Business

There was no discussion regarding this agenda item.

ITEM 9: Public Comment

Teddy Grant from PE Insider introduced himself to the Committee.

Adjournment:

Linda Deliduka moved, and Treasurer Pearce seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 11:07 a.m.

Respectfully submitted,

Investment Staff