



**VERMONT PENSION INVESTMENT COMMITTEE  
SEPTEMBER 24, 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, Governor's Delegate, term expiring June 30, 2022  
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2023  
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, 2023  
KIMBERLY GLEASON, VMERS *Alternate*, term expiring June 30, 2022  
JEFF BRIGGS, 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  
Mike Middleman, Budget Analyst Department of Finance and Management  
Margaret Belmondo, Will Forde, Bill Shallies & Tim Knightly (phone), NEPC, LLC  
Martin Davies, Skye MacPherson, Katherine Martin, Sanaz Raczynski, & Eren Shultz, Nuveen  
Ben Belldegrun, Pontifax Agtech  
Kevin O'Brien, Patrick Chase (phone) & Dave Fontaine (phone), Fiduciary Investment Advisors

**CALL TO ORDER:**

The Chair called the Tuesday, September 24<sup>th</sup> meeting to order at 8:40 am, which was held in the Governor's Conference Room, on the 4<sup>th</sup> Floor of 109 State Street, Montpelier VT.

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

The Chair reviewed the agenda with the Committee and asked if there were any additions or edits.

**On a motion by Robert Hooper, seconded by Mary Alice McKenzie, 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 August 27, 2019 VPIC meeting.

**On a motion by Robert Hooper, seconded by Mary Alice McKenzie, the Committee unanimously approved the consent agenda.**

**ITEM 3: Public Comment**

None.

**ITEM 4: Chief Investment Officer's Report**

Mr. Henry detailed the actions and accomplishments of the Committee and Staff over the last year that he has been in his position. Specifically, he noted the asset liability study that was completed, and the resulting changes to the asset allocation which were driven in part by that study. He cited significant simplification and fee savings of the portfolio through the large-scale transition with BlackRock which was undertaken during the last few months. He spoke to the ongoing diversification of VPIC's private equity exposure, specifically with Staff and NEPC planning to bring direct fund investment opportunities to the Committee for consideration.

Mr. Henry detailed the increased research and analysis responsibilities that are now required of Staff given the ongoing due diligence duties of existing private market and public market managers. He noted that a large amount of transactional and administrative duties still need to be performed, and the current workload exceeds the 3 member Staff that is in place. As such he recommended consideration should be given to adding a 4<sup>th</sup> Staff member in a junior role.

**ITEM 5: Investment Staff Report**

Ms. Green and Mr. Cook reviewed the *Staff Report* with the Committee, noting that the VPIC's Actual vs. Target Allocations are very tight to the policy targets approved in March at the end of August. The only noted deviations are in Core Fixed Income and Global Equity, which are both currently above target. The reason for the overfunding is Private Equity, Private Credit, Real Estate, and Farmland allocations have yet to be called and the committed dollars are being held in Core Fixed Income and Global Equity asset classes.

Ms. Green updated the Committee on the status of BlueBay Asset Management, LLC ("BlueBay"). She indicated that a transition of ownership from RBC to BlueBay employees with a minority stake by Dyal Capital Partners is targeted for October 31, 2019. She noted that this

transaction will result in BlueBay no longer being registered under the Investment Advisors Act of 1940. David Borsykowsky added that VPIC's Investment Policy Statement only requires this registration at the time which the VPIC initially votes to allocate to a given manager, and in this case the fund is removing itself from a registered status, which is out of the control of the VPIC given it's a closed end fund.

She updated the Committee on the status of the two managers on the VPIC watchlist, noting that Staff will be performing on-site due diligence with the UBS Trumbull Property Fund for performance concerns, and that the distribution procedure is underway for Pinnacle.

Ms. Green noted to the Committee that the Wellington Emerging Market Debt fund has a contract term ending December 31, 2019 and requested the Committee extend the contract for five years given the Treasurer's office contract waiver plan to Vermont State Bulletin 3.5.

**On a motion by Robert Hooper, seconded by Mary Alice McKenzie, the Committee unanimously approved the extension of VPIC's contract with Wellington for the Emerging Market Debt fund for 5 years to December 31, 2024.**

**ITEM 7: NEPC Monthly Performance Update**

The chair moved this agenda item ahead of Item 6.

Ms. Belmondo presented NEPC's *Draft Investment Highlights – Net ending July 31, 2019*. She detailed discussions that NEPC has been having with Staff and Chair Golonka related to VPIC composite performance calculations, specifically regarding how the large number of cashflows in June 2019 impacted the overall FY2019 performance calculation. She next introduced Mr. Shallies who reviewed NEPC's performance calculation methodologies to the Committee. They both responded to questions from the Committee.

**ITEM 6: Farmland Manager Presentation – Nuveen Global Farmland Fund**

Martin Davies, Skye MacPherson, Kitty Martin, Sanaz Raczynski, & Eren Shultz, from Nuveen presented on their firm and the Nuveen Global Farmland Fund. They detailed the investment team capabilities, investment philosophy, and fund structure. They then responded to questions posed by the Committee.

**ITEM 9: Private Equity Manager Presentation – Pontifax AgTech Fund II**

The chair moved this agenda item ahead of Item 8.

Ben Beldegrun of Pontifax Agtech presented on his firm and the Pontifax Agtech Fund II. He detailed the investment philosophy and fund structure and responded to questions posed by the Committee. In response to a question from Mr. Henry, Mr. Beldegrun confirmed that Pontifax intends to register under the Investment Advisor Act of 1940 during the life of Fund II. In addition, Mr. Beldegrun will share the University of California side-letter with the VPIC that details Pontifax's changes in governance and audit practices for Fund II from that of Fund I to achieve industry best practices.

**ITEM 8: Short Term Quality Credit Manager Search Book**

Ms. Green and Ms. Belmondo presented on the characteristics and merits of 8 managers in the Short Term High Quality Credit Fixed Income search. They responded to questions posed by the Committee. The Committee instructed Staff and NEPC to perform further due diligence on JK Milne Asset Management and Payden & Rygel.

**ITEM 10: Lunch**

Over lunch the Committee discussed the merits, strategy, and performance of both Nuveen and Pontifax. Mr. Henry responded to questions from the Committee on both funds.

**On a motion by Joseph Mackey, seconded by Robert Hooper, the Committee unanimously approved an investment of \$100,000,000 to the Nuveen Global Farmland Fund, stipulating that VPIC's portion is not to exceed 10% of the fund AUM and contingent upon successful contract negotiations.**

**On a motion by Joseph Mackey, seconded by Mary Alice McKenzie, the Committee unanimously approved an investment of up to \$25,000,000 to the Pontifax Agtech Fund II, contingent upon VPIC's portion not to exceed 10% of the fund AUM, and further waiving the Registered Investment Advisor provision requirement of the VPIC Investment Policy Statement, and contingent upon successful contract negotiations.**

**ITEM 11: Vermont State Treasurer's Update**  
**i. Review of ESG Focus Topic**

Treasurer Pearce noted that the Risk Assessment produced by Segal Consulting has been completed and will be presented in significant detail at each of the next Retirement Board Meetings. She requested that any questions from Committee members be brought to her such that she may aggregate them and address them to Segal.

Treasurer Pearce next presented her memo *ESG Focus Area Recommendations to VPIC* dated September 24, 2019, noting that the four advocacy topics proposed to VPIC for potential lead on the engagement are Executive Compensation, the Environment, Human Rights, and the Opioid Epidemic. That memo is attached to these minutes as Attachment A.

**On a motion by Joseph Mackey, seconded by Robert Hooper, the Committee unanimously approved Action Item #1 and Action Item #2 of the *ESG Focus Area Recommendations to VPIC Memo*.**

**On a motion by Mary Alice McKenzie, seconded by Peter Amons, the Committee unanimously approved Action Item #3 of the *ESG Focus Area Recommendations to VPIC Memo*.**

**On a motion by Peter Amons, seconded by Mary Alice McKenzie, the Committee unanimously approved Action Item #4 of the *ESG Focus Area Recommendations to VPIC Memo*.**

**ITEM 12: Fiduciary Investment Advisors, LLC – Investment Performance Calculation Review**

Kevin O’Brien, Patrick Chase, and Dave Fontaine of Fiduciary Investment Advisors, LLC (“FIA”) presented their *Pension Performance Reconciliation Project* report, which was requested by the VPIC at the September 6, 2019 special meeting. They outlined their scope of work, which was to review return data and provide an independent return calculation based on JP Morgan custodial data and plan cashflow communications for the time period June 30, 2017 to June 30, 2019. They detailed the differences between internal rate of return and linked internal rate of return (also known as a Modified Dietz calculation). FIA reported that their calculations produced the following returns for VPIC:

	1 Year Ending June 2019	1 Year Ending June 2018	July 2017 to June 2019
Internal Rate of Return	5.96	7.45	6.71
Modified Dietz	6.06	7.38	6.72

**ITEM 13: NEPC/Staff Deliverables for Upcoming Meetings**

- A Subcommittee comprised of Jeff Briggs, Treasurer Pearce, Linda Deliduka has been 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 Committee instructed Staff and NEPC to work together to perform further research on JK Milne Asset Management and Paydon & Rygel.
- Kim Gleason requested either an agenda item or a Committee Retreat for the Committee to discuss ESG topics as they relate to the Committee, such as matters of gender equality and diversity.
- Staff will evaluate the allocation to UBS Trumbull Fund in line with the steps outlined in the VPIC Watch List Policy.
- NEPC will reconcile their performance calculation to that which FIA presented for FY 2019 and FY 2018 using a Modified Dietz methodology and IRR methodology and present the results of that review at the October VPIC meeting.
- Staff will provide a proposed calendar of 2020 meeting dates at the October VPIC meeting.

**ITEM 14: Future Agenda Topics/New or Other Business**

There was no discussion regarding this agenda item.

**ITEM 15: Public Comment**

None.

**ITEM 15: Executive Session**

**At 2:21 p.m., Jeff Briggs moved, and Joseph Mackey seconded for a finding that the Committee should enter executive session under Title 1 V.S.A. § 313(a) subsection (1) because the Committee wished to discuss matters on which they specifically find that premature public knowledge would clearly place VPIC and the investment portfolio at a substantial disadvantage; and (2) such matters relate to outside investment management and include:**

**Subsection (1)(A) – Pending and prospective contract issues, and**

**Subsection (1)(F) – Confidential attorney-client communications made for the purpose of providing professional legal services to the Committee.**

**The Committee unanimously approved this motion.**

At 2:49 PM Chair Golonka removed the Committee from Executive Session.

**Adjournment:**

**Treasurer Pearce moved, and Joseph Mackey seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 2:50 p.m.**

Respectfully submitted,

**Investment Staff**

# Attachment A



ELIZABETH A. PEARCE  
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TEL: (802) 828-2305  
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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:** September 24, 2019

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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 VPIC ESG Policy adopted on June 27, 2017. Staff will report on the progress of these activities.

### **ACTION ITEM #1**

Continue to be a signatory of the PRI to 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 63% (10 out of 16) of its investment managers, as well as several vendors, as an active member of PRI. Please see Attachment A of this report, which outlines the signatory commitment. Signatory status of PRI requires an annual membership fee based on assets under management. The 2020 fee will be approximately \$3,009.

### **ACTION ITEM #2**

Continue to be a member of the Council of Institutional Investors. This is an association primarily of pension funds and other employee benefit funds, foundation, and endowments that promotes the interests of US institutional investors. Its membership has an aggregate asset base of \$4 trillion. This group also includes associate members that include non-US asset owners and asset managers. VPIC uses its membership position to stay current on corporate governance trends and issues, as well as leverage its voice in comment letters on pending legislation and regulation to advocate for the preservation of shareholder rights. The cost of this membership is \$5,000.

### **ACTION ITEM #3**

Explore opportunities to lead on shareholder resolutions with the assistance of VPIC's ESG and proxy voting consultant Segal Marco, focused on the following four advocacy topics. We remain cognitive of the VPIC workload and we will not take on excessive efforts, but we believe this is a part of our fiduciary duty. I have confirmed with Staff that they will leverage the resources and

time of the VPIC ESG and proxy voting consultant, Segal Marco, to help manage the time commitment required of this action item.

- 1) *Executive Compensation* – Urge the Board of Directors to adopt a policy that when a financial performance metric is adjusted to evaluate performance for purposes of determining the amount of vesting of any senior executive compensation award, it provide an explanation of why the precise exclusion is warranted and that the Board reconcile adjusted GAAP accounting to GAAP accounting in the proxy statement. “Incentive Compensation” is compensation paid pursuant to short-term and long-term incentive compensation plans and programs. The policy should be implemented without violating any existing contractual obligation of the Company or terms of any compensation or benefit plan.
- 2) *Environment* - To help investors understand a given company’s progress on mitigating deforestation globally, request the company disclose to investors by December 31, 2020, at reasonable expense and excluding proprietary information, metrics regarding its supply chain impacts on deforestation demonstrating any progress for reducing such impacts.
- 3) *Human Rights* - Request that the Board of Directors prepare a report by September 2020, at reasonable expense and omitting proprietary information, on steps the company is taking to enhance board diversity beyond current levels, such as:
  - i) Embedding a commitment to diversity inclusive of gender, race, ethnicity in governance documents;
  - ii) Committing publicly to include women and people of color in each candidate pool for board and senior leadership seats;
  - iii) Disclosing the racial, ethnic and gender composition of the board in annual proxy statements.

We believe this report will foster Board accountability on this issue.

- 4) *Opioid Epidemic* - Urge the Board of Directors to adopt a policy that when a financial performance metric is adjusted to exclude legal or compliance costs when evaluating performance for purposes of determining the amount or vesting of any senior executive compensation award, it provide an explanation of why the precise exclusion is warranted and a breakdown of the litigation costs. “Legal or compliance costs” are expenses or charges associated with any investigation, litigation or enforcement action related to drug distribution, including legal fees; amounts paid in fines; penalties or damages; and, amounts paid in connection with monitoring required by any settlement or judgment of claims of the kind described above. The policy should be implemented in a way that does not violate any existing contractual obligation of the Company or the terms of any compensation or benefit plan.

#### **ACTION ITEM #4**

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 the VPIC ESG consultant and proxy vendor on VPIC proxy votes, co-filing on proxy resolutions, participating on calls with companies to engage on these issues directly, 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 2020 proxy season.

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

#### Request:

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 oppose legislation, rulemaking, or SEC legal bulletins that would weaken shareholder rights and the independence of proxy advisory firms.

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 sustainability issues through corporate engagement, co-filing opportunities, sign-on letters, and engagement campaigns. Topics include, but are not limited to, the following:

- 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.
- Seek commitments from US publicly traded electric power generators of zero net emissions by 2050.

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. *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.

6. *Opioid Accountability*

Request:

The Treasurer's office requests to continue to engage on the issue of opioid and prescription drug accountability through membership in 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. Current members alongside VPIC of the IOA, include CalSTRS, Connecticut State Treasurer's Office, and the NYS Common Retirement Fund. A two year summary report can be found here:

[https://www.iccr.org/sites/default/files/page\\_attachments/iaa\\_two\\_year\\_summary\\_report.pdf](https://www.iccr.org/sites/default/files/page_attachments/iaa_two_year_summary_report.pdf)

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.

7. *Say-on-Pay*

Request:

Join the Say-on-Pay Working Group, lead by Maureen O'Brien of Segal Marco (also VPIC's ESG consultant) and Brandon Rees of AFL-CIO.

Outcome:

Be a counterweight to the exponential growth of CEO pay in the US. This group will work to prepare shareholder proposals and send letters to the S&P 500 companies requesting Board Members review their approach to CEO compensation to ensure it also enriches shareholders and the work force to support sustainable growth at the company.

8. *Board Diversity*

Request:

Join the Northeast Investors' Diversity Initiative (NIDI), lead by the State of Connecticut Office of the Treasurer and the Connecticut Retirement Plans & Trust Funds, to focus on small to mid-cap companies with a large presence in the Northeast that lack Board diversity. This group will send letters to 20 regional companies in FY 2020 that have fewer than two women or no directors self-identifying as a member of a minority group.

Outcome:

Increase the adoption of the Rooney Rule by regional companies to bring diversity to corporate boards of directors. The Rooney Rule is a National Football League (NFL) policy, which requires league teams to interview minority candidates for head coaching and senior football operations openings. It has had a positive impact on diversity in the head operational positions in the NFL since its implementation. For example, there have been eighteen minority head coaches since the Rooney Rule went into effect in 2003. Prior to that only seven had been employed by the NFL since 1920.

## **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.”