



**VERMONT PENSION INVESTMENT COMMITTEE
FEBRUARY 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, Governor's Delegate, term expiring June 30, 2022
JOSEPH MACKKEY, (phone) VSTRS Representative, term expiring June 30, 2019
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2020

VPIC Members Absent:

PETER AMONS, VMERS Representative, term expiring June 30, 2022

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

Also attending:

Eric Henry, Chief Investment Officer
Katie Green, Deputy Chief Investment Officer
Andy Cook, Investment Analyst
David Borsykowsky, Vermont Attorney General's Office
Margaret Belmondo (phone), Will Forde, and Rob Goldthorpe, NEPC, LLC
Steven Weddle & Alexander Dodge, J.P. Morgan Asset Management, (phone)

CALL TO ORDER:

The Chair called the Tuesday, February 26th meeting to order at 8:36 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 there were any additions or edits. Jeff Briggs asked to have an agenda item added approving his travel request. The Chair added this item to the agenda as Item 1A. Linda Deliduka indicated that she would like to hear a summary of the NEPC Conference which the Chair and Eric Henry attended in January. The Chair added this request as Item 1B.

On a motion by Robert Hooper, seconded by Kim Gleason, the Committee unanimously approved the agenda as written with the addition of Items 1A and 1B.

ITEM 1A: Jeff Briggs Travel Request

Jeff Briggs requested funding to attend the NCPERS Annual Conference in Austin, TX on May 19-22nd. He requested an approval for travel reimbursement up to \$3,000.

On a motion by Linda Deliduka, seconded by Robert Hooper, the Committee unanimously approved up to \$3,000 in funding for Jeff Briggs's travel reimbursement request.

ITEM 1B: NEPC Conference Summary

The Chair and Eric Henry provided a summary of the NEPC 2019 Public Fund Workshop which they both attended. They answered questions posed by members of the Committee.

ITEM 2: Consent Agenda

The Chair indicated the only item on the Consent Agenda was approval of the minutes from the January 29, 2019 VPIC meeting.

On a motion by Kim Gleason, seconded by Linda Deliduka, the Committee approved the consent agenda.

ITEM 3: Vermont State Treasurer's Update

Treasurer Pearce provided an update regarding the FY2019 Budget Adjustment Bill, noting that it has been approved by both the House and the Senate. Final approval of the Bill is now pending a discussion on an amendment which is unrelated to pension funding. She expressed appreciation to the Governor, the Legislature, and specifically the House Appropriations Committee for all their collective work on this bill. She indicated that bill includes additional funding for the VSTRS pension system, creates a path toward prefunding the VSTRS OPEB benefits, and requires that 50% of any surplus remaining after all reserves are funded be allocated for VSERS OPEB benefits.

Treasurer Pearce then updated the Committee on recent ESG related activities and accomplishments by Treasurer's Office and VPIC. She noted that a comprehensive Sustainability Report will be issued by the Treasurer's Office in late Spring.

Treasurer Pearce next provided an update on the Risk Assessment which is currently underway with oversight by the Board of Trustees of the three retirement systems (VSTRS, VMERS, & VSERS), and the VPIC Chair, with additional representation from employee groups, the Administration, and the Treasurer's Office. She then reviewed upcoming steps in the process.

Treasurer Pearce advised the Committee of the introduction of Bill *H. 352 An act relating to the Vermont Carbon-Free Investment Program* which was introduced in the Legislature on February 22nd. For discussion purposes she distributed copies of a memo dated February 7, 2017, titled *PCA Report, Climate Risk Divestment Discussion*. A link to this memo may be found: https://www.vermonttreasurer.gov/sites/treasurer/files/VPIC/PDF/2017/Cover_Letter_from_Beth_PCA_Final_Report_20170207.pdf

ITEM 4: Chief Investment Officer Report

Mr. Henry addressed the Committee on recent work by the Investment Team and NEPC, LLC on the asset allocation study. He presented the following asset allocation targets for the Committee's consideration:

| | Current Targets | Portfolio A | Portfolio B | Portfolio C |
|---|-----------------|---------------|---------------|---------------|
| Growth Assets | | | | |
| Passive global equities | 0% | 24% | 21% | 0% |
| Active global equities | 9% | 5% | 4% | 9% |
| Large cap US equities | 14% | 4% | 2% | 15% |
| Small/Mid cap US equities | 4% | 3% | 3% | 3% |
| Non-US developed equities | 10% | 5% | 5% | 7% |
| International small cap equities | 2% | 2% | 2% | 2% |
| EM equities | 4% | 0% | 0% | 5% |
| Private equity | 10% | 10% | 12% | 12% |
| Core plus fixed income | 8% | 6% | 0% | 6% |
| High yield fixed income | 2% | 0% | 0% | 0% |
| Unconstrained fixed income | 2% | 0% | 0% | 0% |
| EM debt | 4% | 4% | 4% | 4% |
| Private credit | 5% | 5% | 5% | 5% |
| Non-core real estate | 3% | 3% | 4% | 4% |
| Total Growth | 77% | 71% | 62% | 72% |
| Downturn Hedging Assets | | | | |
| Core fixed income | 4% | 14% | 19% | 11% |
| Short-term quality credit | 0% | 5% | 5% | 5% |
| US Long Treasuries | 0% | 0% | 2% | 0% |
| Total Downturn Hedging | 4% | 19% | 26% | 16% |
| Inflation Hedging Assets | | | | |
| Core real estate | 5% | 5% | 5% | 5% |
| US TIPS | 6% | 3% | 3% | 6% |
| Infrastructure/Farmland | 0% | 2% | 4% | 2% |
| Total Inflation Hedging | 11% | 10% | 12% | 13% |
| Absolute Return Assets | 8% | 0% | 0% | 0% |
| Total Portfolio | 100% | 100% | 100% | 100% |
| Expected 5-7 Year Geometric Return | 6.80% | 6.50% | 6.50% | 6.60% |
| Expected 30 Year Geometric Return | 7.90% | 7.60% | 7.60% | 7.70% |
| Expected Standard Deviation | 12.60% | 11.70% | 11.20% | 11.90% |
| Expected Sharpe Ratio (30 year) | 0.39 | 0.39 | 0.41 | 0.40 |

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, B and C. 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. He indicated that Staff and NEPC are continuing to work through this asset allocation study and will bring a recommendation for a single proposed portfolio at a future meeting. He responded to questions from the Committee on the proposed allocations.

Mr. Henry presented a memo addressed to Treasurer Pearce titled *7.5% Assumed Rate of Return for DB Plan*. He noted the memo detailed the rationale for using a 7.5% target rate of return assumption, and specifically noted that this assumption is directly in line with a survey of 153 other U.S. public pension funds.

ITEM 5: Investment Staff Report

Ms. Green reviewed the *Staff Report* with the Committee. She provided updates on several investment managers, including on the Pinnacle Natural Resources, L.P. Fund.

On a motion by Treasurer Pearce, seconded by Kim Gleason, the Committee unanimously instructed Staff to redeem the VPIC's remaining assets held with the Pinnacle Natural Resource, L.P. as soon as redemption is available without fee.

Ms. Green provided detail on the status of the assets formerly managed by Guggenheim, now managed by PIMCO in a High Yield Liquidation Portfolio. She then gave the Committee an update on the GAM Unconstrained Bond Fund. Ms. Green further updated the Committee on currently outstanding RFPs for proxy voting and corporate engagement consulting services and passive index fund management services, as well as the current status of the VPIC Watchlist.

At 10:10 a.m., Treasurer Pearce moved, and Linda Deliduka 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 vendors and includes:

- Subsection (1)(A) – Pending and prospective contract issues.**
- 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 and entered executive session.

At 10:46 a.m. the Chair, Thomas Golonka removed the Committee from executive session.

Mr. Cook provided an update to the Committee on recent redemptions to fund benefit payments and capital calls processed by Staff.

ITEM 6: Discussion Items and Updates

- **NEPC, LLC Update**

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

- **VPIC Asset Allocation Review**

Ms. Belmondo, and Mr. Goldthorpe presented the *VSERS Asset/Liability Projections* and responded to questions posed by the Committee.

ITEM 7: Portfolio Investment Review FY2Q

Ms. Belmondo reviewed the *Second Fiscal Quarter 2019 Investment Performance Analysis* and responded to questions posed by the Committee.

ITEM 8: Enterprise Risk Management Overview

Mr. Cook presented on recent work of the Investment Staff through an Enterprise Risk Management process, specifically a section of the 2019 Enterprise Risk Management Assessment titled *Asset Allocation Implementation and Oversight*. He responded to questions posed by the Committee.

ITEM 9: NEPC/Staff Deliverables for Upcoming Meetings

- The Committee requested that NEPC 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 work with NEPC to 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 Chair created a Subcommittee 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 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 requested that Staff provide fee analysis on the 3 potential asset allocation portfolios presented by NEPC and Staff compared with the current VPIC long term targets.

ITEM 10: Future Agenda Topics/New or Other Business

There was no discussion regarding this agenda item.

ITEM 11: Public Comment

Steven Weddle and Alexander Dodge of J.P. Morgan thanked the Committee for allowing them to participate in the meeting.

ITEM 12: Adjournment

Kim Gleason moved, and Jeff Briggs seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 11:55 a.m.

Respectfully submitted,

Investment Staff