



**VERMONT PENSION INVESTMENT COMMITTEE
JANUARY 29, 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
PETER AMONS, VMERS Representative, term expiring June 30, 2022
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2020

VPIC Members Absent:

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2019
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018

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
DAVID STARR, Governor's Delegate *Alternate*, term expiring June 30, 2020

VPIC Alternate Members Absent:

None.

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

CALL TO ORDER:

The Chair called the Tuesday, January 29th meeting to order at 8:33 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 to add two agenda items: Item 1A, to recognize the service of two VPIC members, and Item 1B to approve his travel to a conference. He next asked if any members of the Committee would like to add or amend any agenda items.

On a motion by Treasurer Pearce, seconded by Linda Deliduka, the Committee unanimously approved the agenda as written with the addition of Items 1A and 1B.

ITEM 1A: Recognition of Service to VPIC

Treasurer Pearce moved, and Bob Hooper seconded for a resolution that the VPIC wishes to thank Karen Paul and Vaughn Altemus for their exemplary and extensive service and invaluable contributions to the VPIC.

ITEM 1B: Chair Travel Request

The Chair presented his plans to the Committee to travel to the NEPC 2019 Public Fund Workshop in Arizona. He requested an approval of reimbursement up to \$1,500 for airfare, lodging, mileage and meals.

On a motion by Treasurer Pearce, seconded by Linda Deliduka, the Committee unanimously approved the Chair's travel reimbursement request.

ITEM 2: Consent Agenda

The Chair indicated the only item on the Consent Agenda was approval of the minutes from the December 11, 2018 VPIC meeting.

On a motion by Bob Hooper, seconded by Linda Deliduka, the Committee approved the consent agenda, with Treasurer Pearce and Mary Alice McKenzie abstaining.

ITEM 3: Vermont State Treasurer's Update

Treasurer Pearce discussed the pension implications of Governor Phil Scott's budget proposal, which includes fully funding the Actuarially Determined Employer Contribution (ADEC) as noted below for each system:

	Normal Cost	Amortization of unfunded liability	Total
VSERS Pension	\$17,587,034	\$61,356,880	\$78,943,914
VSTRS Pension	\$7,116,765	\$119,080,624	\$126,197,389

She next indicated that the proposal includes a provision that 50% of all surplus at year end, after the funding of reserves, will be directed to the State Employee's Other Postemployment Benefits (OPEB) Trust.

Treasurer Pearce noted that the VSTRS Board requested in a memo sent to Governor Scott on November 1st that the additional funding of \$26,200,000 be deferred from the calculation of the ADEC for fiscal 2018. The budget proposal accepted this recommendation and fully funded the original calculation of the ADEC with an additional \$3,293,817 to be applied in fiscal year 2019. The net effect will be to lower the taxpayer interest payments over the life of the liability.

Treasurer Pearce outlined a potential new investment structure for the State Employee's OPEB funds, which have a balance of approximately \$21,000,000. Currently the funds are invested in the Trust Investment Account administered by the Treasurer's Office. The funds are held in 4 Vanguard index mutual funds, allocated 60% to fixed income, and 40% to a mix of equities. Treasurer Pearce indicated that her office is currently exploring options to invest those funds in a sleeve of the VPIC portfolio, similar to how the Burlington Employee's Retirement System invested for several years.

Lastly Treasurer Pearce outlined a plan for an in-depth Risk Assessment on the pension plans to be undertaken in the coming months. Representatives from the Administration, each of the three retirement boards, the Treasurer's Office, the VPIC, and employee groups will all be involved in this study.

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 two asset allocation options across the portfolio for the Committee's consideration:

	Current Targets	Portfolio A	Portfolio B
Growth Assets			
Passive global equities	0%	24%	21%
Active global equities	9%	5%	4%
Large cap US equities	14%	4%	2%
Small/Mid cap US equities	4%	3%	3%
Non-US developed equities	10%	5%	5%
International small cap equities	2%	2%	2%
EM equities	4%	0%	0%
Private equity	10%	10%	12%
Core plus fixed income	8%	6%	0%
High yield fixed income	2%	0%	0%
Unconstrained fixed income	2%	0%	0%
EM debt	4%	4%	4%
Private credit	5%	5%	5%
Non-core real estate	3%	3%	4%
Total Growth	77%	71%	62%

Downturn Hedging Assets

Core fixed income	4%	14%	19%
Short-term quality credit	0%	5%	5%
US Long Treasuries	0%	0%	2%
Total Downturn Hedging	4%	19%	26%

Inflation Hedging Assets

Core real estate	5%	5%	5%
US TIPS	6%	3%	3%
Infrastructure/Farmland	0%	2%	4%
Total Inflation Hedging	11%	10%	12%

Absolute Return Assets	8%	0%	0%
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Total Portfolio	100%	100%	100%
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Expected 5-7 Year Geometric Return	6.80%	6.50%	6.50%
Expected 30 Year Geometric Return	7.90%	7.60%	7.60%

Expected Standard Deviation	12.60%	11.70%	11.20%
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Expected Sharpe Ratio (30 year)	0.39	0.39	0.41
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Mr. Henry highlighted that compared to the current long-term targets all proposed allocations would improve the expected risk-adjusted return, reduce the complexity of the portfolio, and reduce fees. He responded to questions from the Committee on the proposed allocations.

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 Robert Hooper, seconded by Linda Deliduka, the Committee unanimously instructed Staff to redeem the VPIC's October 1st, 2016 subscription to the Pinnacle Natural Resources, L.P. Fund.

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.

At 9:40 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.

The Committee unanimously approved this motion.

Treasurer Pearce moved, and Linda Deliduka seconded that the Committee enter into executive session pursuant to Title 1 § 313(a)(1)(A). The Committee unanimously voted to enter into executive session.

At 9:56 a.m. the Chair, Thomas Golonka removed the Committee from executive session.

On a motion by Treasurer Pearce, seconded by Linda Deliduka, the Committee unanimously directed Staff to enter into contracting negotiations related to fees and other administrative matters with their preferred vendor for VPIC's indexing services to be completed within 3 months, and subject to final approval by the VPIC.

On a motion by Treasurer Pearce, seconded by Jeff Briggs, the Committee unanimously directed Staff to enter into contracting negotiations with Segal Marco for VPIC's proxy voting administration and corporate governance consulting services subject to review of all references.

Mr. Cook provided an update to the Committee on recent redemptions to fund benefit payments and capital calls processed by Staff. He then shared with the Committee that the annual NEPC Client Conference in Boston will take place May 7-8, 2019.

ITEM 5: **Discussion Items and Updates**

- **NEPC, LLC Update**

Mr. Forde reviewed the *December 2018 Preliminary Investment Summary* and responded to questions posed by the Committee.

- **NEPC, LLC Capital Market Assumptions**

Ms. Belmondo reviewed the *NEPC 2019 Investment Outlook, Key Market Themes, Current Opportunities and 2019 Asset Class Assumptions* and responded to questions posed by the Committee.

- **VPIC Asset Allocation Review**

Ms. Belmondo and Mr. Henry presented the *VPIC Asset Allocation Review* and responded to questions posed by the Committee.

ITEM 6: **Enterprise Risk Management Overview**

Mr. Henry presented a memo titled *Identifying, assessing, and documenting risks throughout the investment process*. He also updated the Committee on work that Staff has completed to date in a *2019 Enterprise Risk Management Assessment*.

ITEM 7: **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 NEPC present an analysis of the liquidity of VPIC's GAM portfolio over the last year, including the ongoing liquidation process and lack of distributions to date.

- 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 8: Future Agenda Topics/New or Other Business

There was no discussion regarding this agenda item.

ITEM 9: Public Comment

None.

ITEM 9: Adjournment

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

Respectfully submitted,

Investments Staff