



**VERMONT PENSION INVESTMENT COMMITTEE
OCTOBER 22, 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
KIMBERLY GLEASON, VMERS Representative, term expiring June 30, 2022

VPIC Members Absent:

VPIC Alternate Members Present:

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2023
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2020
PETER AMONS, VMERS *Alternate*, term expiring June 30, 2022

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 & Jesse Moorman, Vermont Attorney General's Office
Mike Middleman, Budget Analyst Department of Finance and Management
Margaret Belmondo, Will Forde, & Timothy Knightly (phone) NEPC, LLC
John Milne & Jason Klein, JK Milne Asset Management
Justin Bullion, Larry Manis & Lisa Redding, Payden & Rygel

CALL TO ORDER:

The Chair called the Tuesday, October 22nd meeting to order at 8:40 am, which was held in the Governor's Conference Room, on the 4th 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 Mr. Hooper, seconded by Treasurer Pearce, 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 September 24, 2019 VPIC meeting.

On a motion by Treasurer Pearce, seconded by Mr. Mackey, the Committee unanimously approved the consent agenda.

ITEM 3: Public Comment

None.

ITEM 4: Vermont State Treasurer's Update

Treasurer Pearce indicated that she would cover three topics, including a summary of the Risk Assessment and Stochastic Modeling report, inaccuracies reported about VPIC in a recent news publication, and a summary of the Treasurer's Sustainability Report to be issued in the coming weeks.

Treasurer Pearce reviewed the *Risk Assessment and Stochastic Modeling* report issued by Segal Consulting on September 20, 2019 with the Committee. She began by highlighting the differences between stochastic and deterministic modeling, as outlined on page 12 of the report. She then evaluated the outcomes of each methodology as presented in the report on page 15. She outlined the deterministic scenario analysis results starting on page 22 and the stochastic analysis outcomes again on page 42. The Treasurer then responded to questions from the VPIC.

Treasurer Pearce addressed inaccuracies recently published comparing the VPIC funding ratio to the Maine defined benefit plan. She outlined the drivers of the increased funding in the Maine system and the changes to achieve this improved funding ratio. From 2011-2018 the Maine system reduced the unfunded liability by \$1.7 billion. Of that, \$1.648 billion is attributed to benefit changes, such as several changes to the COLA that directly impacted retirees in the plan.

The Treasurer then summarized her Sustainability Report to be issued in the coming weeks. She outlined the progress the VPIC has made on five recommendations adopted at the March 28, 2017 VPIC meeting. The Committee concurred with the outline of actions taken pursuant to the [memo](#) as well as next steps. These will be outlined in the Treasurer's Sustainability report.

The Treasurer then responded to questions posed by the Committee. At the Treasurer's request, NEPC outlined their ESG evaluation of managers as part of their due diligence process.

ITEM 5: Chief Investment Officer's Report

This item was delayed until after the Short-term Quality Credit discussion. At that time, Mr. Henry reviewed with the Committee his Chief Investment Officer's report and responded to questions posed by the Committee.

On a motion by Mr. Mackey, seconded by Ms. Gleason, the Committee unanimously approved the recommendation by Mr. Henry to standardize the treatment of uncalled capital for illiquid growth assets including private equity, private credit, and non-core real estate by allocating the uncalled portion using a 60% equity/ 40% fixed income approach currently in use for the non-core real estate.

ITEM 6: Investment Staff Report

Ms. Green and Mr. Cook reviewed the *Staff Report* with the Committee. Mr. Cook reviewed proposed VPIC meeting dates for calendar year 2020 and requested the Committee send feedback to Staff. He then provided the Committee with an update on two VPIC investment managers.

Ms. Green reviewed with the Committee the status of managers on the VPIC watchlist. She noted that Staff performed on-site due diligence with the UBS Trumbull Property Fund and that the distribution procedure is underway for Pinnacle. Ms. Green presented the Staff's *Core Real Estate Watch List Recommendation* memo dated October 16, 2019. Ms. Green took questions from the Committee. The Committee took no action regarding the status of managers on the VPIC Watchlist.

ITEM 7: Short-term Quality Credit Presentations**i. Payden & Rygel**

Justin Bullion, Larry Manis, and Lisa Redding, from Payden & Rygel presented on their firm and their proposal for a separately managed account for VPIC. They detailed the investment team capabilities, investment philosophy, and fund structure. They then responded to questions posed by the Committee.

ii. JK Milne Asset Management

John Milne and Jason Klein, from JK Milne Asset Management presented on their firm and their proposal for a separately managed account for VPIC. They detailed the investment team capabilities, investment philosophy, and fund structure. They then responded to questions posed by the Committee.

ITEM 8: Short-term Quality Credit Discussion

The Chair shared his impressions of the fund managers capabilities for this Short-Term High-Quality Credit mandate. Mrs. Green and Mr. Henry reviewed with the Committee the Staff's thoughts on this allocation and its downside protection hedge purpose in the portfolio. Ms. Belmondo, from NEPC, reviewed their thoughts on the two managers' capabilities. The

Committee requested that the Staff and NEPC conduct more due diligence for the November VPIC meeting on this mandate, including the potential to index this allocation.

ITEM 9: NEPC Monthly Performance Update

Ms. Belmondo and Mr. Forde presented the July, August, and September Preliminary Flash reports and responded to questions from the Committee.

ITEM 10: FY 4Q19 Investment Performance Review

Ms. Belmondo presented the Fourth Fiscal Quarter 2019 Performance Report to VPIC and responded to questions. The 1-year annual net return for the VPIC was 6%, the 3-year return net return was 8.1%, the 5-year net return was 5%, and the ten-year net return was 8.5%.

NEPC reissued the Fiscal Year Fourth Quarter 2018 Performance Report. The VPIC total fund composite net return was revised using a new methodology, Modified Dietz. A time weighted return is still being used for individual manager's performance. The annual net return for the year ending June 30, 2018 was 7.8%, the 3-year net return was 6.5%, the 5-year net return was 6.5%, and the 10-year net return was 5.5%.

These reports will be posted to the Treasurer's website and the 2018 report will be footnoted that it is a revised version.

ITEM 11: NEPC/Staff Deliverables for Upcoming Meetings

- NEPC and Staff will work on a fee review for the November meeting.
- NEPC and Staff will work on pacing plans for the VPIC private market exposure to be presented at the November meeting.
- NEPC and Staff will analyze the potential for indexing the short-term quality credit mandate and prepare a recommendation for the VPIC for the November meeting.
- 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.
- 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 updated calendar dates for the 2020 meeting cycle at the November VPIC meeting.

ITEM 12: Future Agenda Topics/New or Other Business

There was no discussion regarding this agenda item.

ITEM 13 Executive Session

There was no discussion regarding this agenda item.

Adjournment:

Treasurer Pearce moved, and Mr. Hooper seconded, that the meeting be adjourned. The Committee unanimously approved the motion to adjourn the meeting at 1:20 p.m.

Respectfully submitted,

Investment Staff