



**VERMONT PENSION INVESTMENT COMMITTEE
OCTOBER 27, 2015**

VPIC Members Present:

STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018
THOMAS GOLONKA, VMERS Representative, term expiring June 30, 2016
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2018

VPIC Member(s) Absent:

KAREN PAUL, Governor's Delegate, term expiring June 30, 2018

VPIC Alternate Members Present:

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017
DAVID STARR (PHONE), Governor's Delegate *Alternate*, term expiring June 30, 2016
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

MEL HAWLEY, VMERS *Alternate*, term expiring June 30, 2016

Also attending:

Matt Considine, Director of Investments
Nick Foss, Investments Analyst
Katie Green, Investments Manager
Jaye Pershing-Johnson and Jesse Moorman, Attorney General's Office
Doug Moseley and Chris Levell, NEPC LLC
Fritz Burkhardt, Katelyn Mitchell & Kevin Ameden, Champlain College
Austin David, 350VT
Tom Boswell, B&F Financial Analytics
Chris Talbert, Teucrium Trading LLC

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, October 27th meeting to order at 8:30 am, which was held in the Governor's Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval and Announcements**

The Chair, Mr. Rauh, reviewed the agenda with the Committee and, hearing no objection, indicated the agenda was approved as written.

Mr. Rauh disclosed to the Committee that he would be attending a luncheon with Northern Trust to speak with their investment strategists, but indicated he would not be requesting any funds.

ITEM 2: Consent Agenda

- **Minutes of June 23, 2015 – Regular Meeting**
- **Routine Contract Amendments and Renewals**

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes and routine contract items and, after pausing for Committee comment, indicated the Consent Agenda was approved as written.

ITEM 3: Director of Investments Report and Action Items

Mr. Considine reviewed the Director of Investments report with the Board. He outlined the *Portfolio Asset Allocation* table and notified the board that, as of September 30th, the VPIC composite AUM was \$3.7 billion and the allocations were in line with their target allocations. Mr. Considine noted that Staff met with representatives from Champlain Investment Partners and Acadian Asset Management during September. Mr. Considine reviewed the investment process of both managers, as well as gave commentary on recent performance for the Committee. Mr. Considine also updated the Committee on the progress of the BERS withdrawal from VPIC and answered any questions from the Committee members.

ITEM 4: Discussion Items and Updates

- **Vermont State Treasurer's Update**

Treasurer Pearce notified the Committee of the upcoming actuarial valuation meetings for the individual retirement systems on October 29, 2015. Ms. Pearce discussed the impact of the recent valuations and answered any questions from the Committee. In addition, Ms. Pearce reminded the Committee that proxy season is quickly approaching and that she looks forward to presenting in the November and December meetings some of the proposed positions. Finally, Treasurer Pearce notified the Committee that she, in cooperation with other Treasurer's and Ceres has been working to urge the SEC to provide guidance that would encourage public companies to provide more environmental disclosure in their annual statements.

Steve Wisloski entered the meeting at 8:57AM

- **VPIC Chair Transition Plan**

Treasurer Pearce discussed with the Committee the current progress of electing a new VPIC chair and noted that she has reached out to individual members to receive input. Ms. Pearce noted that the decision has been made not to form a sub-committee, but rather have this process be dealt

with at a full Committee level. Also, Treasurer Pearce asked that any VPIC members that did want to be considered for the Chair recuse themselves from the process. Treasurer Pearce noted that the first process would be to define the current attributes that the Committee as a whole wants in a chair. The following attributes were listed: proponent of defined-benefit plans and past investment experience. Lastly, Treasurer Pearce mentioned that she has approached Steve Jeffrey to be the interim-Chair and noted he is considering it.

- **Management Fee Analysis Follow-up #2**

Mr. Wisloski presented the *VPIC Expense Ratio and Fee Analysis* document. Mr. Wisloski reviewed the results with the Committee and responded to questions posed by Committee members. Mr. Wisloski suggested that the *VPIC Expense Ratio and Fee Analysis* document be presented annually to the Committee. Finally, Mr. Wisloski asked the Committee to put forward a motion when they have requests of Investment Staff or Consultants, in order to increase clarity and direction.

- **September Flash Report**

NEPC reviewed with the Committee the *September Flash Report*. NEPC responded to questions.

Treasurer Pearce noted that September experienced a down market in most asset classes and she expressed her frustration with the underperformance of the VPIC portfolio.

- **NEPC Investment Manager Watch List: PIMCO, Schroder**

Mr. Moseley indicated that both PIMCO and Schrodgers remain on the NEPC Watch List.

ITEM 5: Commodities Manager Search

- **Commodities Sector Update**

Mr. Moseley and Mr. Levell reviewed with the Committee the “*Commodity Market & Inflation Protection*” document. Mr. Moseley responded to any questions and comments from the Committee.

(A recess was taken from 12:30pm – 1:00pm)

ITEM 6: Asset Allocation Work Plan

- **Are the Markets and Global Economy at a Key Inflection Point?**
 - **China**
 - **Policy Environment**
 - **Fed – Lower for Longer, or How High and High Fast**
 - **US Tax and Government Spending**
 - **Equity Market Valuation Levels**

- **Outlook for Economic Growth and Inflation – Scenarios**
- **Sustaining Benefit Payments in a Low Return Environment**
- **Role of VPIC Policy Portfolio**
- **GAA and Hedge Fund Analysis**
- **NEPC Recommendations**

Mr. Hooper notified the Committee that he would like to attend the 20th *Annual Global Indexing & ETFs Conference* in December and asked for a motion for funding.

On a motion by Beth Pearce, seconded by Joe Mackey, the Committee unanimously approved a motion by roll call (David Starr, Beth Pearce, Vaughn Altemus, Tom Golonka – Yes/Bob Hooper – Defer) to approve funding not to exceed \$1,500 for Bob Hooper to attend the 20th Annual Global Indexing & ETFs Conference.

Mr. Moseley and Mr. Levell reviewed with the Committee the “*Updated Asset allocation & Review of GAA Products*” document. Mr. Moseley reviewed the different asset mixes requested from the Committee, as well as mixes recommended by NEPC.

The Committee discussed their opinions on GAA and, the Chair, Mr. Rauh, asked the individual Committee members to share their opinions on the issue:

Mr. Mackey believes the GAA strategy has not worked and is disappointed given the amount of flexibility they were given.

Mr. Starr would retain the GAA strategy in the, as he feels there should be some sort of tactical component in the VPIC portfolio.

Mr. Briggs stated he cannot find a compelling reason to keep GAA in the portfolio and that the Committee should explore other strategies to replace the allocation.

Mr. Altemus noted that the original reason for including GAA in the portfolio was because VPIC could not utilize hedge fund strategies. However, now that hedge funds are included in the portfolio a major part of the original justification no longer exists, but he is still conflicted.

Mr. Golonka noted that he does not consider GAA an asset class and felt the allocation lacks transparency as to where VPIC is actually invested.

Mr. Rauh noted that he would be in favor of retaining the GAA strategy; because he believes with the current market environment the maximum amount of diversification is needed.

Treasurer Pearce feels that GAA lacks transparency and when taking into account the higher fees, it is not an optimal strategy for the VPIC portfolio.

On a motion by Beth Pearce, seconded by Joe Mackey, the Committee unanimously approved a motion by roll call (Beth Pearce, Vaughn Altemus, Tom Golonka, Bob Hooper – Yes/David Starr–No) subject to NEPC’s 2016 assumptions, the Committee concentrate

their asset allocation efforts on policy “V3” and variations thereof with a recommendation to come to an asset allocation decision by February 2016.

- **Review of Potential Manager Candidates
(ITEM MOVED)**

Mr. Moseley and Mr. Levell reviewed with the Committee the “*Commodity Manager Search*” document. Mr. Moseley responded to any questions and comments from the Committee.

After discussing the Committee decided to invite the following managers to present in November: Gresham Investment Management, Pinnacle Asset Management, and Wellington Management.

ITEM 7: Economic and Financial Market Dashboard

Mr. Foss presented the economic and financial markets dashboard to the Committee, which included a number of charts and commentary from the PIMCO Institute that Staff attended recently. Mr. Foss responded to any questions from the Committee members.

ITEM 8: Future Agenda Topics/New or Other Business

Mr. Rauh indicated a number of upcoming agenda topics and asked the Board if they had any topics they would like added to future agendas. Mr. Rauh indicated there was no new or other business to come before the Board.

ITEM 9: Public Comment

Mr. Boswell delivered his public comment.

ITEM 10: Adjourn

Mr. Rauh adjourned the meeting at 2:45pm.

Respectfully submitted,

**Nick Foss
Investments Analyst**