



**VERMONT PENTION INVESTMENT COMMITTEE
MAY 27, 2014**

VPIC Members Present:

STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
JOSEPH MACKAY, VSTRS Representative, term expiring June 30, 2015
THOMAS GOLONKA, VMERS Representative, term expiring June 30, 2016
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014
DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

VPIC Member(s) Absent:

VPIC Alternate Members Present:

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2016
LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017
STEVEN JEFFREY, VMERS *Alternate*, term expiring June 30, 2014
KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer
Matt Considine, Director of Investments
Katie Green, Investments Manager
Nick Foss, Investments Analyst
Jaye Pershing-Johnson and Jesse Moorman, Attorney General's Office
Doug Moseley, Dick Charlton and Chris Levell, NEPC LLC
Jeff Briggs, VSERS Board member
Tim Briglin, Tuckerman Capital
Isaac Kruschek and Maura Neely, Wellington Management Company
Joanne Irvine and Kieran McGlynn, Aberdeen Asset Management

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, May 27, 2014 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval and Announcements

The Chair, Mr. Rauh, reviewed the agenda with the Committee and indicated the agenda was approved as written. The Chair announced the retirement from the VPIC and VSERS boards of

Dick Johannesen as of June 30, 2014. Karen Paul will become the Governor's delegate to the VPIC on June 30th and the alternate Governor's delegate seat will be vacant until filled by the Governor.

ITEM 2: Consent Agenda

- **Previous VPIC Meeting Minutes**
- **Routine Contract Amendments and Renewals**

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes and routine contract items.

On a motion by Mr. Altemus, seconded by Mr. Hooper, the Committee unanimously approved the Consent Agenda.

Mr. Gaffney entered the meeting at 8:51. Mr. Briggs entered the meeting at 8:58.

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 how it had changed after the March rebalance and April/May cash withdrawals. The Board requested at the April 22, 2014 meeting an overview of their educational spending annually, which was presented. Mr. Considine gave an engagement and proxy filing update regarding a proxy that failed to be filed properly by JPMorgan and what steps were put in place by the custodian and its contractors to avoid future occurrences. Ms. Green summarized meetings held with investment managers during the month of May to evaluate their performance and any organizational changes. Mr. Considine gave an overview of the conferences attended by staff and reviewed with the Board upcoming contracts that require amendments in the next quarter.

On a motion by Mr. Johannesen, seconded by Ms. Pearce, the Committee unanimously approved to modify each contract as recommended by staff and upon approval by counsel as outlined below. In addition, the Board approved the Chairman, or in his absence the Vice-Chair, to sign the contracts on the board's behalf.

- **Extend the PIMCO Core Plus & Unconstrained contract for five years until 9/30/19 and increase the maximum amount payable by \$7,700,000 to \$18,200,000 from \$10,500,000.**
- **Extend the KDP contract for five years, until 9/30/2019 and increase the maximum amount payable by \$200,000 to \$3,500,000 from \$3,300,000.**

ITEM 4: Discussion Items and Updates

- **Vermont State Treasurer's Update**
- **Previous Month's Flash Report**
- **NEPC Investment Manager Watch List**

Mr. Moseley reviewed the previous month's Flash Report with the Committee and responded to various questions. PIMCO and Schroder remain on the NEPC Watch List with no new additions.

ITEM 5: Asset/Liability Risk Management Project Proposal

The Chair, Mr. Rauh, led the Committee in a discussion regarding an asset/liability risk management project.

The Chair, Mr. Rauh, indicated the Treasurer's staff and he would report back to the Committee with more details at a future meeting regarding the timing and structure of the review. He also requested the Committee contact him with additional ideas/concerns to add to the working list for the project.

ITEM 6: Presentation

NEPC reviewed the Emerging Equity market and EMD market with the Board as an introduction to the discussion with managers.

(A recess was taken from 9:54 a.m. to 10:00 a.m.)

(Joanne Irvine and Kieran McGlynn from Aberdeen and Isaac Kruschek and Maura Neely from Wellington arrived at this time.)

The presenters from Aberdeen and Wellington thanked the Committee for allowing them to participate on the VPIC Emerging Markets Education panel. The two firms gave brief overviews of the strategies in which VPIC invests and then gave an in depth overview of emerging market securities and the current market environment for Emerging Market Equities and Emerging Market Debt. They then responded to questions posed by the Committee, NEPC and staff.

(A recess was taken from 12:15 p.m. to 12:45 p.m.)

(Joanne Irvine and Kieran McGlynn from Aberdeen and Isaac Kruschek and Maura Neely from Wellington left the meeting.)

Ms. Paul and Mr. Briglin exited the meeting at 12:15 p.m. Mr. Foss entered the meeting at 12:45 p.m.

The Committee discussed the points raised by the panel.

ITEM 7: Q1/2014 Investment Performance Review

Mr. Moseley and Mr. Levell reviewed with the Committee the *First Quarter Investment Performance Analysis* document. Mr. Moseley reviewed the market environment over the first quarter of 2014. The Committee, staff and NEPC discussed the various VPIC funds' performance. Mr. Moseley responded to questions posed by the Committee members.

ITEM 8: Contract Discussion

Mr. Rauh indicated that the Board would discuss the Investment Consultant contract to be finalized by June 30, 2014.

On a motion by Ms. Pearce, seconded by Mr. Mackey, the Board voted unanimously to enter Executive Session at 1:56 p.m. pursuant to Title 1, § 313 for the purpose of discussing contract negotiations.

(The Board exited Executive Session at 2:19 p.m.)

On a motion by Ms. Pearce, seconded by Mr. Jeffrey, the Committee unanimously approved to contract with NEPC for a two year period beginning 7/1/14 with the option of two one-year extensions, per the terms outlined in the letter from NEPC dated April 29, 2014 specified in option number one (1) with the flexibility of opting in the future for options two (2) through four (4) detailed in the letter, as negotiated by the Treasurer's Office, and upon approval by counsel. In addition, the Board approved the Chair, or in his absence the Vice-Chair, to sign the contracts on the board's behalf. This letter is attached to these minutes.

ITEM 9: Economic and Financial Market Dashboard

Ms. Green and Mr. Considine reviewed with the Committee the economic and financial market dashboard. The Committee, staff and NEPC discussed the implications of the Russian-Chinese oil deal done in a currency other than US dollars. The Committee discussed the charts outlining the quarterly estimated US GDP number release and its underlying inputs.

ITEM 9: New or Other Business/Public Comment

None.

ITEM 10: Adjournment

(A recess was taken from 2:38 p.m. to 4:30 p.m.)

On a motion by Ms. Pearce, seconded by Mr. Johannesen, the Committee unanimously approved to adjourn the meeting at 4:30 p.m.

Respectfully submitted,

Matthew Considine, CFA
Director of Investments

Attachment: Letter from NEPC



April 29, 2014

Beth Pearce
State Treasurer
Office of the State Treasurer
109 State Street
Montpelier, VT 05609

Dear Beth:

Thank you for taking the time yesterday to provide feedback on the pricing proposals that we submitted as part of our response to VPIC's Consultant RFP. In response to the questions we received from Matt via email, the following are our revised fee proposals:

- 1) For the existing level of service, with Chris and I continuing to attend 11 meetings per year, we are willing to lower the proposed base fee down to \$400,000 per year for the first 2 years, with the fee increasing to \$410,000 in the optional 3rd and 4th years of the contract period. We are willing to lower the proposed reporting fee for the City of Burlington to \$25,000 annually.
- 2) For the existing level of service with the meeting schedule transitioned to 8 meetings per year (both Chris and I attending) we are willing to lower the proposed base fee down to \$370,000 per year for the first 2 years, with the fee increasing to \$380,000 in the optional 3rd and 4th years of the contract period. We are willing to lower the reporting fee for the City of Burlington to \$25,000 annually.
- 3) For the existing level of service, with just Doug continuing to attend 11 meetings per year, we are willing to lower the proposed base fee down to \$365,000 per year for the first 2 years, with the fee increasing to \$375,000 in the optional 3rd and 4th years of the contract period. We are willing to lower the reporting fee for the City of Burlington to \$25,000 annually.
- 4) For the proposed schedule of 11 meetings per year that are limited to half-day sessions we would propose the same revised fee as item #1 above.

While we understand the need to put together the most competitive price proposal that we can offer, we also want to insure that the VPIC receives the appropriate level of service, which we believe would include participation of both Chris and I in most meetings under either option proposed (8 or 11 meetings). Our preference would also be to keep the servicing level somewhat flexible, so as part of the fee proposals stated above we would not seek to any additional fees if an extra meeting was required due to issues that come up that require NEPC's participation.

Please consider these proposals NEPC's "best and final" offers as part of the formal RFP process. Please let me know if you have any additional questions or require any additional information.

Sincerely,

A handwritten signature in cursive script, appearing to read 'D. J. W. Mosley', written in a reddish-brown ink.

Douglas Moseley
Partner

Cc:
Chris Levell, NEPC