S. 251 DIVESTMENT DISCUSSION
THOMAS GOLONKA, VPIC CHAIR

Vermont Pension Investment Commission

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S.251: DISCUSSION AGENDA:

- FFI Solutions
- Fiduciary Responsibility
- "200" LIST EXPOSURE
- Impact on VPIC Index Strategy
- Impact on VPIC Private Investments
- Impact on VPIC Rate of Return Assumption
- Timeline for Implementation
- Alternatives to Legislation

FFI SOLUTIONS:

- Statute Language should not Designate Specific Vendors
- As currently written: VPIC Policies on Manager Selection, RFP Regulations, ESG and Investment Policies would all potentially be in violation with legislation
- Fiduciary Obligations and Input from Commissioners to Review and Discuss Potential Alternatives needs to be Considered
- Potential Negotiating Power of VPIC would be Diminished

FIDUCIARY RESPONSIBILITY:

- Fiduciary Reference and Definition of Responsibility of VPIC needs to be specifically mentioned in any legislation or VPIC policy
- Discussion on Implication of potential competing legislation – Fiduciary Standard – vs. Divestment. How should VPIC handle?
- Maine, NY and California Experiences – CalSters experience in Divestment opportunity cost losses totaling $8 Billion Dollars according to Current Annual Report

“200 LIST” VPIC EXPOSURE:

- Approximately $150 Million out of $6 Billion Portfolio
- 2.5% for exposure, or 97.5% ”200 List” Free
- No Method of Calculating Private Equity Positions given complexity and number of firms in Portfolio
- Proprietary List not easily integrated into current Portfolio and no set format for managing and implementing changes

IMPACT ON INDEX STRATEGY:

- Inevitable Increased Internal Costs on Entire $6 Billion portfolio
- Potential Increased 2023 Budget Request Required for Additional Staff and Potential studies needed
- Potential increase in fees if Strategy Needs to Evolve to Active Portfolio (2BP to 60BP)
- Increased Volatility and Potential Tracking Error Due to Elimination of S&P Asset Class

IMPACT ON PRIVATE INVESTMENTS:

- Currently VPIC has approximately $1.3 Billion in Committed Capital
- Uncalled Capital Totals $600 Million
- Future Ability to Participate in Top Quartile Deals Jeopardized with Increased Manager Restrictions
- Private Asset Allocation Expected Returns Would need to be Revised
- VMERS most Capable to Participate in Private Equity and would potentially be impacted more severely by legislation

IMPACT ON RATE OF RETURN ASSUMPTION:

- ACT 75 Placed Actuarial Rate of Return as Responsibility of VPIC
- Experience Study Anticipated Spring 2023
- Elimination of Meaningful Private Equity Assumptions would Necessitate Downward Review
- Increase in Expenses Would Potentially Reduce Long-Term Assumptions
- Increase in Volatility By Eliminating Asset Class Would need to Be reviewed and could further lower Return Estimate

TIMELINE FOR IMPLEMENTATION:

- Aggressive 2025 Goal – Particularly for Private Equity portion of Portfolio
- Legislation Language appears to implement definitions and language in 2025 but Divestment on 7/1/2022. Unclear and vague
- ACT 75 Implementation taking up significant Staff Time. Without adjustment to budget, no studies or Staff in Budget to Complete

ALTERNATIVES TO LEGISLATION:

- VPIC Carbon Policy Vetted By ESG Subcommittee
- Expanded Engagement Activities Identifying Priority Companies to Target
- Collaboration with Pension Oversight Joint Committee, Pension Boards, Legislature and Interested Parties
- Active Internal Review with Divestment of Positions when Engagement Fails
- Creation of Study Group to Review 2017 Effort and Make Recommendations to VPIC