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STATE OF VERMONT
VERMONT PENSION INVESTMENT COMMISSION

TO:	House Committee on Government Operations and Military Affairs
FROM:	Eric Henry, Chief Investment Officer
DATE:	January 21, 2026
RE:	H.567

The Vermont Pension Investment Commission (VPIC) supports enactment of the provisions in H.567 that transfer to it oversight of postretirement health care (OPEB) assets. We do, however, respectfully request the addition of a Financial Director III position to VPIC to support the additional level of ongoing analysis required for a prudent strategic alignment of these assets with the corresponding liabilities to provide postretirement healthcare benefits to retired state employees and teachers.

Background:

Under a memorandum of agreement between VPIC and the Office of the State Treasurer, VPIC has agreed to develop and implement an institutional quality program for the OPEB assets. Elements of this program include the following:

Comprehensive Asset/Liability Study: An asset/liability study begins with an actuarial valuation of the liabilities to be funded and develops a range of efficient investment portfolios for consideration by the fiduciary, currently the State Treasurer. Enactment of H.567 would make VPIC the fiduciary. Robust modeling tools like *Monte Carlo* simulations help the fiduciary understand tradeoffs among expected investment returns, risk, and liquidity among the model portfolios and illuminate the portfolio that maximizes long-term investment returns within prudent levels of risk and liquidity. We call this the *target* portfolio. We expect to see preliminary results from the asset/liability study in early February.

Comprehensive Liquidity Study: Investing in illiquid assets requires a comprehensive, systematic, and thorough study of the target portfolio's ability to provide liquidity for current obligations as needed without incurring discounts on forced asset sales. Adding illiquid assets to the target portfolio increases its expected return because of the illiquidity premium investors demand for holding illiquid assets. Similarly, adding illiquid assets increases the discount rate used to calculate the liability and results in a smaller employer contribution payment. The need for current liquidity limits the amount of illiquid assets the target portfolio can tolerate. The liquidity study sheds light on the target portfolio's tolerance for illiquidity and allows the fiduciary to make a prudent and informed decision. VPIC will initiate a liquidity study of the OPEB assets immediately following completion of the asset/liability study.

Illiquid Asset Pacing Study: Building a prudently diversified illiquid investment program takes years. Each year, the fiduciary considers a variety of available new fund options that are "in market" and makes new commitments it deems prudent. New fund commitments are not funded immediately. Instead, the fund manager calls capital from investors over the investment period and uses those proceeds to buy and support portfolio companies. The manager typically improves the portfolio companies' economic prospects and exits (i.e. sells) each company at a profit. Those proceeds are then returned to the investors. As new funds are calling capital, older funds are distributing capital. As a result, investors are constantly managing new fund commitments to stay at the target strategic allocation for illiquid assets. The pacing study is a robust and complex modeling process that allows the fiduciary to make informed and prudent decisions about new illiquid fund commitments. VPIC will initiate a pacing study in tandem with the liquidity study.

Illiquid Fund Underwriting: Before a fiduciary makes a commitment to an illiquid investment fund, they should understand the fund's investment strategy, track record, risks presented, expected return, timeline, and a variety of other relevant metrics. Making a prudent investment decision requires a full understanding of each fund under consideration and the constellation of potential risks and rewards informs the sizing of each new fund commitment. VPIC has a comprehensive underwriting program in place to assure that all investment decisions are made with a full set of information and consider all potential investment risks. The position requested will focus on new fund analysis, as the larger asset base will require more funds to be identified and larger commitments to be made over time.

Current VPIC/OST Memorandum of Agreement

Under the current memorandum of agreement, VPIC will implement the process outlined above but is not the fiduciary. The State Treasurer is the fiduciary under current law and must approve all VPIC recommendations regarding OPEB assets. This stands in contrast to pension assets where VPIC is the fiduciary has the authority to make all such decisions.

Enactment of H.567

If H.567 is enacted, VPIC would become the fiduciary for the teachers' OPEB assets and Employees' OPEB assets and both sleeves would be managed side by side with VPIC's four existing asset sleeves. Liquid OPEB assets would be redeemed from their existing funds and transferred to VPIC as cash which VPIC would deploy according to the asset/liability study and portfolio targets outlined above. Existing illiquid OPEB assets would require legal documentation to rename VPIC as the general partner. Future OPEB investment decisions would be based on the specific OPEB Plan liabilities just like the pension investment decisions are based on the specific Pension Plan liabilities. The two OPEB sleeves would participate in future VPIC investment decisions as appropriate, and benefit from VPIC's fee savings given the size of its asset base. Additionally, we would consolidate the Treasurer's investment consulting contract into VPICs and envision some economies of scale and related cost savings.

We envision a range of benefits from H.567, if enacted, including the following:

- Lower investment management fees: Combining OPEB mandates with pension asset mandates provides the opportunity for lower fees tied to larger investment mandates.
- Lower consulting and custody fees: Consolidating OPEB assets into VPIC generates economies of scale and the opportunity to reduce consulting and custody fees.
- Robust Investment Analysis: The process outlined above will assure that the OPEB assets are strategically and prudently aligned with the related OPEB liabilities and that their target portfolios are designed and implemented to maximize long-term investment returns within prudent levels of risk and liquidity.
- Comprehensive Underwriting: VPIC's team of investment professionals and consultants underwrite every asset in the portfolio and under consideration. While not all investment outcomes are positive, all should be thoroughly understood. By underwriting every asset in the portfolio and under consideration, VPIC has the level of understanding and expertise to manage both upside and downside risk on an ongoing basis.

VPIC Request:

VPIC's comprehensive investment management and decision-making process requires support from its staffing and consulting resources. With only four full-time positions, VPIC is understaffed relative to its peers. A 2022 legislatively mandated governance study identified VPIC's small staffing as a significant risk and we continue to strive to manage that risk. As outlined above, effective management of OPEB assets will require a significant level of ongoing analysis. Accordingly, we respectfully request an additional Financial Director III position. Our current asset base of nearly $8 billion could easily exceed $10 billion in the near future. We believe an additional staff position is warranted given the additional workload to maintain our rigorous investment processes.