

**BURLINGTON RETIREMENT BOARD
REMOTE MEETING WITH CALL-IN
BURLINGTON, VERMONT
MINUTES OF MEETING
February 18, 2021**

MEMBERS PRESENT:

Robert Hooper, Chairperson
Munir Kasti, Vice-Chairperson
Daniel Gilligan
Patrick Robins
David Mount
Katherine Schad

OTHERS PRESENT:

Rich Goodwin
Justin St. James
Paul Plunkett
Kate Pizzi
Chris Rowlin
Richard Carey

1.0 CALL TO ORDER

Robert Hooper called the Retirement Board meeting to order at 8:31 AM.

MOTION by Patrick Robins, SECOND by Munir Kasti, to adopt the agenda.

VOTING: unanimous; motion carries.

2.0 PUBLIC FORUM (VERBAL)

2.01 Verbal Comments
None at this time.

3.0 APPROVE MINUTES

3.01 Approve Minutes – January 21, 2021

MOTION by Munir Kasti, SECOND by Daniel Gilligan, to approve the minutes.

VOTING: unanimous; motion carries.

4.0 APPROVE RETIREMENT APPLICATIONS

4.01 Approve Retirement Applicants

- Kathy Lothian, Class B - \$450.07
- Marsha Dunfee, Class B - \$272.79
- Terry Boylan, Class B - \$2,230.23

MOTION by Munir Kasti, SECOND by Katherine Schad, to approve the retirement applications as presented.

DISCUSSION:

- **Mr. Robins asked about the new contractor performing calculations for the BERS system. Finance Director Goodwin replied that the new contractor is performing satisfactorily, and Mr. Gilligan concurred.**

VOTING: unanimous; motion carries.

5.0 APPROVE CASH OUTS/ROLL FORWARDS

5.01 Approve Cash Outs/Roll Forwards

- Robert Petit, Class A - \$38,978.67
- Joel Morales, Class B - \$9,378.45
- Kelly Badea, Class A - \$23,895.13
- William Drinkwine, Class A - \$80,495.77

MOTION by Daniel Gilligan, SECOND by Katherine Schad, to approve the cash outs/roll forwards as presented.

DISCUSSION:

- **Mr. Kasti asked about the interest rate being provided for the cash outs, noting that it was reduced from 5% to 2% in 2017, and whether that rate will change further. Finance Director Goodwin replied that the rate is fixed and that the current percentage comes from charter and contract language which is used by the actuaries to perform their calculations.**

VOTING: unanimous; motion carries.

6.0 APPROVE DIMEO SCHNEIDER & ASSOCIATES CONTRACT

6.01 Approve DiMeo Schneider & Associates Contract

City Attorney St. James spoke about the draft investment advisory and consulting agreement that has been circulated, which sets forth the terms for engagement and rights and responsibilities between DiMeo and the City. He said that large parts of the City's standard terms and conditions were merged with DiMeo's standard contract language, so that it is a fairly *pro forma* contract.

Mr. Robins asked whether the Board of Finance needs to approve this contract. City Attorney St. James replied that this Board has the authority to execute this contract independent of the Board of Finance or City Council.

Mr. Kasti asked about the advised services as outlined in the appendix of the agreement and said he was not clear on the contractor's responsibility to review and recommend actuarial calculations, such as a return on investment. Ms. Pizzi replied that they are responsible for

what falls under their purview in being able to support the return on plan asset assumption. Mr. Rowlinson added that they would be happy to participate in conversations with actuaries and be available for consultation around actuarial work.

Mr. Robins asked if the Burlington Employee Retirement System (BERS) Board has a stated position or mission statement about whether an unfunded liability is acceptable or whether they need to close the unfunded gap. Mr. Hooper said he was unaware of a strategic plan to get rid of the unfunded liability. He said it was more of a demographic than a contribution issue, that the BERS Board's role is to change the rate of contribution, and that the unfunded liability is a bit out of the Board's control. Mr. Rowlinson agreed that the challenge is in intergenerational tax implications. He said that several of his clients have funded the deficit in different formulaic ways. He suggested meeting with the actuaries to discuss current assumptions and to gauge opportunities for adjustment moving forward. Finance Director Goodwin noted that an increased portion of the cost share is coming from employees to reduce the burden on taxpayers. He also noted that the Mayor has a goal of achieving a funding ratio of 80% over a threshold of 5 years, adding that the funding ratio is currently around 71%. Mr. Robins suggested meeting with both the actuary and the Mayor, based on some of his stated priorities around the retirement fund.

Finance Director Goodwin will have a discussion with the actuary and the Mayor.

MOTION by Patrick Robins, SECOND by David Mount, to approve the contract between the City of Burlington Employees' Retirement System and DiMeo Schneider and Associates, LLC.

VOTING: unanimous; motion carries.

7.0 HICKOCK & BOARDMAN INSURANCE GROUP – FIDUCIARY LIABILITY INSURANCE

7.01 Hickock & Boardman Insurance Group – Fiduciary Liability Insurance

Mr. Plunkett provided an overview of the Board's fiduciary responsibility to oversee contracts, vendors, administrative protocols, and their role as fiduciaries of the retirement plan. His recommendation is to buy \$5 million to \$10 million of limit, which would include no deductible and would be first dollar coverage. He said that the policy would name the Retirement Board and the internal administrator (City) in this policy as individuals covered by the policy itself.

Mr. Hooper said that there is currently some coverage for City employees. Mr. Plunkett replied that there is an employee benefit liability, but covers the employees but not the administrators. He said that most of the claim activity within this is in the health insurance space, such as when a carrier denies coverage.

Mr. Hooper asked Chief Administrative Officer Schad about coverage for City staff. He asked if the City is going to pick up the cost for the Board, or if it is more advisable that the Board does that itself. Chief Administrative Officer Schad replied that this is specific to this board and would be paid for by the fund.

Mr. Plunkett asked if the approach would be for the City is indemnifying and holding the BERS Board harmless, as it would with other boards, and then have the additional insurance overlay that. He said that if \$10 million of coverage is purchased, it would be around \$20,000 per year in premium payments. Mr. Robins said the Board has much higher level of management responsibility than any other volunteer Board. Mr. Plunkett said that this has a significant amount of liability to this board, and would be prudent to have some form of coverage in place. He said that the challenge in buying more coverage is that the City would need to engage several insurers. He said another challenge is that a large amount of coverage creates the potential for moral hazard, since it could result in the Board acting with less fiduciary responsibility.

Mr. Hooper asked about process moving forward. Mr. Plunkett said that they are in the exploration phase with the City, and that the purpose of this conversation is to gauge limits and scope of coverage. He said that the City will fill out an application for coverage. Mr. Rowlinson asked if they are aware of any litigation for public plans for states or municipalities. Mr. Plunkett replied that not in their book of business for the public entity space. Mr. Rowlinson said it would be interesting to see what kinds of allegations are being brought in suits against public plans. Ms. Pizzi noted that corporate plans are subject to ERISA, which has the advantage of giving specific guidelines.

Mr. Hooper asked whether the City could take action against the Board, since the Board is independent of the City in terms of decision-making. City Attorney St. James replied that the Board is still technically a subdivision of the City and that some of the indemnification issues discussed here would need to be teased out prior to making this determination, but that it would be unlikely that the City would take action against the Board. City Attorney St. James said he would look into this further.

Mr. Robins said that a mission statement and strategic plan for the BERS Board would be helpful in determining coverage.

8.0 DIMEO PRESENTATION

8.01 Market Update

Mr. Rowlinson provided a market recap for January 2021. He said that there were mixed results for capital markets due to some political activity. He said that equity results were mixed as well. He provided an update on the fixed income market, noting that interest rates were trending higher at the end of January. He said that core bonds were negative. He provided an equity market update, noting that small cap stocks were up 5%, whereas other components and segments were slightly lower. He said that developed international markets were lower, but emerging markets were meaningfully higher due to recovery in commodity prices and technology. He showed the S&P 500 activity as a reference. He provided a more granular update for financial market performance. He noted a stronger rally in February except in core fixed income and expressed concerns about inflation based on stimulus activity. He provided a summary of the BERS portfolio's unaudited performance broken out by allocation as of the end of January, noting that it stood at around \$231 million. Ms. Pizzi noted that the trend was generally flat for the month of January, but that the first two weeks of February were significantly up.

8.02 Fossil Fuel Exposure within the BERS portfolio

Ms. Pizzi noted that a key requirement of the City's resolution on divestment is to provide an analysis of exposure to fossil fuels within the BERS portfolio and to summarize any findings. She outlined the divesting process and noted that the City has defined divestment as excluding any investment in companies listed in the Carbon Underground 200™. She said one question for the Board to consider is whether they should be examining investments that are not return-focused or financially-focused. She noted key deliverables, which include analyzing the City's resolution, reporting on current exposure, proposing an approach, process, and timing for divestment, reviewing asset allocation, assessing the cost of divestment, and ultimately to present a divestiture plan to the Board and then to City Council in April.

Ms. Pizzi outlined the portfolio's exposure to fossil fuel investments. She compared the global equity market with and without fossil fuels, noting that they look relatively similar. She noted differences in the energy sector, the utilities sector, and the materials sector. She looked at the markets' characteristics with and without fossil fuel, noting that the annual dividend yield when excluding fossil fuels is 0.2% lower. She also noted that excluding fossil fuels would exclude 60 companies or under 7% of the total number of companies. She noted the benefit of divesting would be to decrease the portfolio's carbon footprint by 24%.

Ms. Pizzi provided an overview of how fossil fuels may impact the portfolio's performance. She noted some short-term volatility in the energy sector. Mr. Hooper asked about how automobile manufacturers' decision to move away from the production of fossil fuel-driven cars will impact this assessment of past trends. Ms. Pizzi replied that while its impact is not captured in these historical numbers, she would expect that it will change the future landscape. She said it will be good to assess where the BERS Board wants to move forward with investing in cleaner energy, but that that is not the scope of the City's request.

Ms. Pizzi reviewed the BERS investment portfolio's overall fossil fuel exposure, based on the companies on the Carbon Underground 200™ list. She noted that the overall exposure for the portfolio is 1.96% or \$4,473,689. Mr. Robins asked how to extricate the funds from an index rather than a portfolio. Ms. Pizzi said that it will be possible to extricate them. She noted that there will be an additional cost to screening those index fund to divest. She summarized the asset classes for the large caps. She compared the 10-year returns with fossil fuels included versus the backtested returns if they had divested from fossil fuels.

Mr. Robins asked about how a downward trend in oil prices could impact this analysis. Ms. Pizzi replied that the energy sector has been the best performing sector in the S&P 500 in 2021 but one of the worst in 2020. She said that market is subject to short-term volatility due to OPEC cutbacks and potential decreased demand. Mr. Hooper asked if the energy companies themselves are switching to cleaner energies, and how that could change this picture.

8.03 Fiduciary Education and Best Practices

Ms. Pizzi provided a summary of best practices around fiduciary responsibility. She said that they generally fall into three categories, which include examining best practices when carrying out fiduciary oversight, knowing one's duties as a fiduciary, and establishing and following a process for proper oversight. She noted that the duties include loyalty, prudence, diversity of investments, following plan documents, and avoiding prohibited transactions. She noted that while public plans are not subject to ERISA regulations, they are subject to applicable IRC provisions and state laws, and best practice is to comport oneself in the spirit of ERISA. She additionally noted recent Dept. of Labor regulation, which says that decisions about investment must be made based on economic considerations rather than non-pecuniary considerations (such as social and environmental considerations). Mr. Robins suggested that members of City Council be informed of and educated on this requirement, so that they are aware of potential restrictions around divestment when making decisions in future.

Ms. Pizzi then spoke about establishing a governance process and provided an overview of the fiduciary governance calendar. She highlighted general activities for each quarter, which include the first quarter will focus on reviewing fees, the second on investment policy, practice, and fiduciary training, the third will focus on the municipal landscape and actuarial review, and the fourth quarter will focus on asset allocations and capital market assumptions.

9.0 CPI CONVERSATION

9.01 CPI Conversation

Chief Administrative Officer Schad began the discussion by noting that 2021 did not see any COLA increases in BERS for retirees and that a number of questions have been fielded by City staff around this, particularly because there were 2021 COLA increases for Social Security income checks. She noted that the Social Security Administration utilizes a different methodology for calculating COLA than the City (the SSA uses the Consumer Price Index (CPI) for urban and clerical workers, whereas the BERS uses a regional CPI for the Northeast). She said that the City's actuary has noted that the utilization of a regional CPI is industry best practice. She added that the City's actuary has also conducted a review of the COLAs over time (from 1989 to 2020) paid by the SSA and BERS and saw that they generally tracked with each other in terms of trends, with the BERS COLA tending to be slightly more generous. She said that based on this analysis, the City's recommendation is not to take any action but suggested issuing a communication to retirees explaining the difference and explaining why the City did not have a COLA increase for the past year.

Finance Director Goodwin outlined the process for determining COLA increases based on CPI indices. He said that the auditors verify that the calculations are in good standing, then the City's retained actuaries also verify that the calculations are in good standing, and that the City Attorney's Office additionally verifies that the calculations are in good standing, after all of which the finding is brought to the BERS Board with a recommendation based on the calculations. He said that the BERS Board ultimately votes on whether there is a COLA increase, based on the previously outlined steps. Finance Director Goodwin noted that this course of action occurred for 2021 in the November and December 2020 meetings.

10.0 ADJOURN

10.01 Motion to Adjourn

MOTION by Katherine Schad, SECOND by Patrick Robins, to adjourn the meeting.

VOTING: unanimous; motion carries.

RScty: AACoonrad