

**BURLINGTON RETIREMENT BOARD
REMOTE MEETING WITH CALL-IN
BURLINGTON, VERMONT
MINUTES OF MEETING
March 15, 2021**

MEMBERS PRESENT:

Robert Hooper, Chairperson
Munir Kasti, Vice-Chairperson
Patrick Robins
David Mount
Ben O'Brien
Matthew Dow
Katherine Schad

OTHERS PRESENT:

Rich Goodwin
Justin St. James
Steve Lemanski
Robert Lessard
Chris Rowllins
Kate Pizzi
Matt Smith
Karen Paul

1.0 CALL TO ORDER

Robert Hooper called the Retirement Board meeting to order.

MOTION by David Mount, SECOND by Munir Kasti, to adopt the agenda.

VOTING: unanimous; motion carries (Katherine Schad was not present for vote).

2.0 PUBLIC FORUM (VERBAL)

2.01 Verbal Comments
None at this time.

3.0 APPROVE RETIREMENT APPLICATIONS

3.01 Approve Retirement Applicants

- Michael Hemond, Class A - \$4,179.56
- Monica Lafayette, Class B - \$1,061.89

- Rosemary Richards Cooper, Class B - \$77.03

MOTION by Munir Kasti, SECOND by David Mount, to approve the retirement applications as presented.

VOTING: unanimous; motion carries (Katherine Schad not present for vote).

4.0 APPROVE CASH OUTS/ROLL FORWARDS

4.01 Approve Cash Outs/Roll Forwards

- Alyssa Church-Smith, Class B - \$4,722.64
- Deanna Murphy, Class B - \$836.01
- Gary Dusablon, Class B - \$12,363.61

MOTION by Munir Kasti, SECOND by Ben O'Brien to approve the cash outs/roll forwards as presented.

VOTING: unanimous; motion carries (Katherine Schad not present for vote).

5.0 UPDATE FROM STEVE LEMANSKI, HOOKER & HOLCOMBE

5.01 Hooker & Holcombe Update

Mr. Lemanski spoke about direct rate smoothing (DRS), which creates a path toward a predetermined funding target over a five-year period. He said that conceptually the new approach has some of the same features as the prior approach (the Open Group methodology), and that it takes a proactive look on new hires in the future and renegotiates benefit levels over time. He said that generally with this approach, benefit levels are lower than previous tiers for new hires. He noted that the funding target is based on a 7.0% return on investment and that the methodology switches from a 30-year amortization to a more conservative 20-year amortization assumption.

Mr. Lemanski outlined scenarios for projected funding policy contributions based on June 30, 2020 actuarial valuation. He said that what direct rate smoothing does is true up the gaps in funding. He noted that BERS has adopted a \$500,000 per year contribution collar or ceiling, which is the maximum increase in the DRS funding policy contribution. He said that that dollar amount set by the collar would not be sufficient to close the gap in unfunded liabilities. He said that adding to that difficulty are some asset and liability losses over the last several years. He said that, all else being equal, in order to close the gap to meet that target contribution, the collar would need to increase to around \$645,000 per year.

Mr. Kasti said it would be prudent to produce a written plan explaining and outlining how to address funding liability issues moving forward. He said he would like to draft and adopt a written document that outlines the plans to address funding gaps. He also asked how the switch from 30-year amortization to 20 years and other policy changes will impact current employees and new hires. Mr. Lemanski replied that DRS operates under the parameter that all of the existing smoothing methods will stay in place and not change. He said that the 30-year amortization will remain until the 2023 valuation is reached, after which time, everything will be combined into a single amortization base and spread over 20 years. He said he would be willing to help the BERS board draft a funding policy document. He said they need to make decisions about whether they want to make changes now, since they are currently in the middle of a 5-year plan. He said that they could wait until 2023 and then refresh all of the assumptions at once, and that 2023 could potentially be a good time to re-evaluate any modifications to approaches on smoothing. Ms. Pizzi said that moving to a shorter amortization period is something they see in other municipal clients. She said that drafting a formal funding policy is a best practice to help codify approach and strategies in case there is board turnover.

Mr. Hooper asked about cost share in plans and whether any of these changes would transfer burden onto them. Mr. Lemanski replied that the contracts have parameters around cost sharing. He said that current cost-sharing arrangements begin at 72%-73% by the City and then transitions

Commented [PK1]: May wish to confirm with Steve.

one percent per year to the employees. Mr. Hooper asked where the cap is and Mr. Lemanski replied that the cap is 30% for the employees and that he is unsure if any of the unions are currently at the cap, adding that changes could have a smaller impact or no impact in the short term if they are already at the cap. Finance Director Goodwin noted that current collective bargaining agreements are maturing and will be revised in the next year. He said that based on those agreements, there may be changes may be changes in the percentage that the employees would pay.

Mr. Hooper said that a subcommittee drafting a funding policy might be most efficient. The BERS board will establish a subcommittee to work on drafting a funding policy document.

6.0 DIMEO PRESENTATION

6.01 Market & Portfolio Update

Mr. Rowllins gave a brief market update. He said that the markets hit record highs in February but did see more volatility than in the previous quarter. He said that rates have increased, noting that higher rates can lead to lower bond prices. He said that equities have moved higher, that large caps have increased 1.7% year-to-date and that small caps have rallied and have increased 11.5% year-to-date. He noted that commodity prices have risen, likely due to rising inflation expectations, and that optimism about reopening led to increases for real estate properties hit by the pandemic. He noted that a weaker dollar has benefitted international markets. He then gave a fixed income market update, noting that it could be impacted by potential inflation related to the stimulus package. He noted that in terms of the equity market, the energy, financial, and industrial sectors saw growth in the last quarter.

Mr. Rowllins spoke about the impacts to the BERS portfolio. He said that at end of February, total value was \$232.5 million (Ms. Pizzi noted that total value of the portfolio at the end of Q3 2020 was around \$202 million, and that a large contributing factor to the growth seen in the last few months is the heavy allocation to the small cap and emerging markets).

6.02 Asset Allocation Analysis & Recommended Changes

Ms. Pizzi began the asset allocation discussion by noting that the plan currently provides retirement benefits to over 2,200 employees and that total annual benefit payments as of June 30, 2020 was around \$17.3 million. She noted that the pension liabilities totaled \$293.2 million as of June 30, 2030 (meaning that the plan is 71.6% funded), that the current assumed rate of return is 7.3% but trending down to 7% over time, and that the actuarially determined employer contribution as of June 30, 2020 was \$11.7 million.

Ms. Pizzi outlined the BERS portfolio's asset allocation structure, noting that the breakdown is currently 75% equity, 17% fixed income, and 7% alternative models. She said that the expected rate of return as it stands is 6.8%, which falls short of the portfolio's current 7% ultimate target/goal. She said that the portfolio as it stands exhibits a bias toward US equities over international equities, and she suggested considering a more balanced allocation between US and international equities. She additionally noted that flexible allocation within fixed-income mandate could help mitigate the potential for higher interest rates.

Ms. Pizzi showed the year-over-year capital assumptions, noting that it will be difficult to repeat the previously-seen level of returns in future, partially driven by the actions by the federal reserve to cut interest rates. She also displayed the asset allocation modeling that was used to project the capital assumptions and outlined proposed changes, which include an increased equity allocation in developed international markets, a reduction in the domestic large cap equities, and investment in dynamic bonds. She noted that hiring a dynamic bond manager would slightly increase the cost of the portfolio, but that that cost will remain extremely low. Mr. Mount noted that the difference between US and international companies and markets isn't always clearly defined, and expressed concern that international markets have been down during the times that US markets have been up. Mr. Robins expressed concern about liquidity and increasing allocation in less liquid asset classes, especially with public pension funds.

Mr. Hooper asked about timeline for any proposed changes to the portfolio's allocations. Ms. Pizzi replied that given the meaningful change in allocation, they would propose conducting the asset reallocation over a longer period of time, suggested doing this in 3 tranches spaced six weeks apart.

Ms. Pizzi also provided an update on the termination status for the UBS Trumbull Property Fund, noting the large redemption queue and that fully satisfying that queue will likely take multiple years. Ms. Pizzi introduced Mr. Smith, a senior analyst at DiMeo Schneider covering the Real Estate sector. Mr. Smith provided an overview of the investment including changes to the portfolio management team and overall strategy. Ms. Pizzi recommended that BERS maintains its position within the redemption queue versus exiting the queue in order to take advantage of the loyalty fee program offering reduced fees. Mr. Hooper asked if they could opt into the loyalty program and then opt out again, and Ms. Pizzi said that they could, but that they would need to pay back all accrued fee savings if they opt back out.

MOTION by David Mount, SECOND by Patrick Robins, to take next steps in the process for the revision of the asset allocation, to consider managers to effectuate the proposal.

VOTING: unanimous (5-0); motion carries (Katherine Schad not present for vote).

6.03 Fossil Fuel Divesting – Approach, Costs & Reporting

Mr. Rowlands gave a status update on the fossil fuel divestment process, noting that they are at the point of reviewing asset allocation, presenting their proposed process to the BERS board, discussing the cost of divesting, and formalizing a process to meet the annual reporting requirements of divesting. He reminded the BERS Board that the total fossil fuel exposure in the portfolio is around 1.9%. He said that divestment would require establishing a relationship with a custodial bank to separately manage each account. He outlined the approach and timeline for divestment in each asset class in the portfolio, noting that they are proposing no changes for the dynamic bonds and alternatives asset classes. Ms. Pizzi outlined the costs of divesting, which include custodian and incremental investment management costs totaling around \$190,000-\$210,000 in annual direct costs. She added that there could also be indirect costs related to performance considerations from excluding companies included on the Carbon Underground 200.

The BERS board discussed the above information and agreed to move forward with next steps. DiMeo will produce a draft report for BERS review.

6.04 – Investment Policy Statement Review & Recommendation

No discussion at this time.

7.0 ADMINISTRATION – KATHERINE SCHAD

7.01 Administration – Katherine Schad, CAO

Chief Administrative Officer Schad will email administrative updates to the BERS board for their review.

8.0 ADJOURN

8.01 Motion to Adjourn

MOTION by Patrick Robins, SECOND by Robert Hooper, to adjourn the meeting.

VOTING: unanimous; motion carries.

RScty: AACoonrad