

**BURLINGTON RETIREMENT BOARD
REMOTE MEETING WITH CALL-IN
BURLINGTON, VERMONT
MINUTES OF MEETING
January 18,
2022**

MEMBERS PRESENT:

Robert Hooper, Chairperson
Munir Kasti, Vice-Chairperson
Patrick Robins
Ben O'Brien
Matthew Dow
Dan Gilligan

OTHERS PRESENT:

Rich Goodwin
Jim Strous
Kate Pizzi
Joe Ebisa
Steve Lemanski
Robert Lessard
Hayley McClenahan

1.0 CALL TO ORDER

Robert Hooper called the Retirement Board meeting to order.

MOTION by Matthew Dow, SECOND by Dan Gilligan, to adopt the agenda as as amended:

- Reorder the agenda such that the Fiducient item is now #3 and the Hooker & Holcombe item is now #4.

VOTING: unanimous; motion carries.

2.0 PUBLIC FORUM (VERBAL)

2.01 Verbal Comments
None at this time.

3.0. FIDUCIENT'S

3.01 December Investment Update

Ms. Pizzi began by speaking about market themes for the quarter. She noted that large cap equities performed extremely strong in the quarter. She outlined the asset class returns for Q4 2021. She noted significant outperformance in U.S. large cap equities (likely propelled by growth stocks), strong performance in developed market equities, though noted that emerging markets did not perform as strongly. She showed fixed income/bond performance for Q4 which was largely driven by interest rates. She noted that bonds with shorter maturities did worse than bonds with longer maturities in the quarter. She speculated that this could mean that the bond market doesn't believe that the economy will sustain higher inflation. She noted that the real asset class showed very significant outperformance in Q4, largely driven by inflation concerns. She noted that the federal reserve plans to halt their bond-buying program more quickly than originally planned, in an attempt to stymie inflation.

Ms. Pizzi then walked through how those asset class returns impacted the portfolio in Q4, 2021. She noted that the total plan allocation is approximately \$250.5 million. She noted that the majority of investments are in equities, split between domestic and international equities. She spoke about the fixed income allocation, noting that it is invested in a core bond mandate through Johnson, but that part of that is being moved to a dynamic bond manager. She pointed out the differences between allocation and target allocation. She noted that there is a 4% overweight in U.S. equities balanced mainly by and underweight to fixed income due mainly to market appreciation, and said that Fiducient is comfortable with the positioning.

Ms. Pizzi then summarized portfolio performance for December and Q4 of 2022. She noted that December was a strong month and that the portfolio returned 3.2%, most of which came at the tail end of the month, and she noted that the QTD return was 4.3%. She said this is driven largely by the outperformance of U.S. equities.

3.02 2022 Capital Market Assumptions

Ms. Pizzi spoke about Fiducient's January 2022 investment outlook. She said that it is generally positive and noted that they anticipate economic recovery to persist in 2022 at a more modest pace as pandemic stimulus slows. She noted that supply chain challenges are expected to continue to lead to higher levels of inflation. She said that from an investment perspective, they anticipate more pronounced market movements and heightened volatility.

Ms. Pizzi spoke about the factors that underly their capital market assumptions. These include an economic growth forecast that they predict will be lower than 2021, a tighter or reduced fiscal/monetary policy by the Federal Reserve, a moderation of inflation (they predict an average of 2.5% over the next ten years), and assumptions around a strong dollar in 2022.

Mr. Robins asked about what they anticipate about pressure on wages and salaries during the year. Ms. Pizzi replied that while they don't have an explicit wage expectation, they have seen a significant increase in wages which support persistent inflation. Mr. Hooper asked about how long they are anticipating higher inflation, and Ms. Pizzi replied that they are estimating that inflation will remain high for the next 1-2 years.

Ms. Pizzi then showed the major asset classes and how these assumptions will affect those. She said that in general, they anticipate higher returns in nearly every asset class than last year on a nominal terms. She noted that the inflation increase of 0.7% is underpinning the increase across asset classes. She said that though the expectations for nominal returns are increasing, from a real return perspective they are decreasing. She noted that the discount rate in the BERS portfolio is based on the nominal rate (not the real rate). She said that there is an opportunity to add diversification in the real asset class, which could help with volatility.

4.0 UPDATE FROM HOOKER & HOLCOMBE

4.01 2021 BERS Preliminary Valuation Report

Mr. Lemanski provided a summary of the BERS actuarial valuation for year end June 30, 2021. He noted that the funded ratio decreased slightly from the prior year (was 71.6% in 2020 and is 70.6% in 2021). He noted that the Actuarially Determined Employer Contribution (ADEC) is up to \$12.479 million for FY2022-23 from \$11.686 million for FY2021-22. He walked through the drivers of this increase, which include asset gains, liability losses, assumption changes, and the outcome of the IBEW arbitration. He noted that the largest impacts on the ADEC were from assumption changes (assuming longer life expectancy and decreased investment return assumptions) and outcome of the IBEW arbitration. He noted that the BERS funded ratio is slightly lower than the average funded ratio in the public sector (~72%).

Mr. Lemanski then spoke in more detail about the assumption changes that are driving the higher ADEC. One change is a scheduled reduction in the plan's investment return assumption from 7.5% to 7.0%, to be reflected in a 0.1% per year decrease in the 2019-2023 valuations. Another change is that the mortality projection scale was updated to reflect the most recent annual mortality projections. He said that together these changes increase the accrued liability by \$3,181,000 and increase the ADEC by roughly \$354,000. Mr. Lemanski also noted a change related to the asset valuation method, where the BERS board approved a change in the smoothing of asset gains and losses from 10 years to 5 years. He said that the short term impact of this change increases the unfunded liability of \$1.3 million and increases the ADEC by around \$117,000.

Mr. Lessard walked through the executive summary of the valuation results. He pointed out the impact of an increase in retirements. He showed trends in the funded status of the portfolio. He broke out the unfunded liability by classes. He noted that the Class B funded ratio decreased from 2020 to 2021, as a result of the IBEW arbitration and the direct rate smoothing adjustments. Mr. Robins asked about the difference between Class A and Class B in terms of the funding ratio. Mr. Lemanski noted that there had historically been some deterioration in Class A and improvement in Class B. He said that that may be the result of assumptions that were not conservative enough for Class A and were too conservative for Class B, and that assumptions have since been tightened. Mr. Lessard then spoke about the ADEC and drivers of change for it. He also broke out the ADEC by Class A and Class B. Mr. Hooper asked about the significance of the union vs. non-union breakout for Class B. Finance Director Goodwin said that the breakout was at the request of the City Attorney's Office.

Mr. Lemanski then provided a summary of fund activity for FYE 2021 and a comparison of the actuarial versus market value of assets. He also spoke in more detail about Direct Rate Smoothing. He noted that projections for the funded ratio increase from 70.6% in 2023 to 77.2% in 2025.

Mr. Hooper left the meeting at this time.

5.0 APPROVE RETURN OF CONTRIBUTIONS

5.01 Approve Return of Contributions

Approve Return of Contributions	Amount	Effective Date of Benefit
Bruce Hathaway, Class B	\$2,624.11	02/01/2022
Michael Z. Rebeor, Class A	\$10,931.22	11/01/2021
Ryan O. Furmanchin, Class B	\$6,125.03	02/01/2022
Ryan P. Alger, Class B	\$5,599.83	02/01/2022
Sara DeGaetano, Class B	\$1,387.30	02/01/2022

Wayne Place, Class B	\$4,018.56	02/01/2022
----------------------	------------	------------

MOTION by Dan Gilligan, SECOND by Ben O'Brien, to approve the return of contributions applications as presented.

VOTING: unanimous (Robert Hooper absent for vote); motion carries.

6.0 APPROVE RETIREMENT APPLICATIONS

6.01 Approve Retirement Applications

Approve Retirement Applications	Amount	Effective Date of Benefit	Actual First Payment Date
Jeffrey Herwood, Class B	\$2,319.37	12/01/2021	12/15/2021

MOTION by Matthew Dow, SECOND by Patrick Robins, to approve the retirement applications as presented.

VOTING: unanimous (Robert Hooper absent for vote); motion carries.

7.0 ADJOURN

7.01 Motion to Adjourn

MOTION by Ben O'Brien, SECOND by Matthew Dow, to adjourn the meeting.

VOTING: unanimous (Robert Hooper absent for vote); motion carries.

RScty: AACoonrad