



BURLINGTON EMPLOYEES' RETIREMENT SYSTEM

James T. Strouse
Chairman of the Board
Robert Hooper
Vice-Chairman

Stephanie Hanker
Retirement Administrator
802-865-7097
VT Relay – dial 711

Retirement Board Meeting Agenda Conference Room 12 Thursday April 19, 2018 – 9:30 AM

1. Agenda
2. Public Forum
3. Approve Minutes of 03/15/2018
4. Ratify/Approve Refund and Rollover's
5. Approval of Retirement Applications
6. Performance Presentation – Dahab Associates
7. Discussion Regarding Real Estate and Equity Exposure
8. Other Business
9. Adjourn

Non-Discrimination

The City of Burlington will not tolerate unlawful harassment or discrimination on the basis of political or religious affiliation, race, color, national origin, place of birth, ancestry, age, sex, sexual orientation, gender identity, marital status, veteran status, disability, HIV positive status or genetic information. The City is also committed to providing proper access to services, facilities, and employment opportunities. For accessibility information or alternative formats, please contact Human Resources Department at 865-7145.



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Draft
March 15, 2018
Burlington Employees' Retirement Board
Conference Room 12

Board Members Present:

- Jim Strouse - Via Phone
- Robert Hooper – Via Phone
- Daniel Gilligan
- Matthew Dow
- Roger Stone
- Beth Anderson
- Benjamin O'Brien
- Munir Kasti

Others Present:

- Stephanie Hanker
- Kim Sturtevant (10:00am)

Called to order at 9:32am

1. **Agenda:**

No Changes, Benjamin O'Brien moved to approve the presented agenda.
Munir Kasti 2nd. Motion carries 8:0

2. **Public Forum:**

No Public Present

3. **Approve Minutes of 02/15/2018:**

Jim Strouse stated to remove a typo under agenda item number 5, place period after real estate and remove "and". Beth Anderson moved to approve the minutes as corrected. Matthew Dow 2nd. Motion carries 8:0

4. **Ratify/Approve Refund and Rollover's:**

Benjamin O'Brien moved to approve refund and rollovers as presented.
Munir Kasti 2nd. Motion carries 8:0

5. **Approval of Bills:**

Bob Hooper moved to approve presented bill. Dan Gilligan 2nd. Motion carries 8:0

6. Approval of Retirement Applications:

Stephanie Hanker stated the removal of the TBD as we had not received the information from the actuary and will place on next months approval list. Benjamin O'Brien moved to approve the application presented as amended. Daniel Gilligan 2nd. Motion carries 8:0

7. Discussion Regarding UBS Real Estate Position and Potential Rebalancing:

Roger Stone stated he believes the Board should sell UBS holdings before 03/31 and receive the proceeds 06/30/2018 due to underperformance to benchmark, almost 2% under with fees, he believes it is expensive compare to non-index products, it is non marketable, there insufficient monitoring for example not having Qtr 1 reports until April, he believes no evidence or expertise in monitoring this investment, and it correlated with stocks not bonds. Roger Stone moved based on the above points to begin process to sell holdings from UBS and have time to where we put the proceeds preference being in the bond market. Beth Anderson 2nd Motion.

Discussion

Bob Hooper stated Roger's presentation contains valid points but hesitant on two areas, one a lot of time was put into asset allocation and to come to the board now and say that something should be done by the end of the month is knee jerky. Bob Hooper stated might be more responsive, but selling something without consultation with consultant with having his input would be very hesitant to endorse, move to table the motion until the next meeting. Daniel Gilligan 2nd.

Discussion

Munir Kasti stated bring up issue to Barry and ask him to comment on this. Beth Anderson stated she would like to commit to making a decision next meeting.

Munir Kasti stated with input from Barry.

Bob Hooper stated Jim should contact Barry and let him know the subject matter and have responses ready for the next meeting.

Motion carries to table original motion 6:2 (Stone and Anderson oppose)

8. Discussion Regarding Hooker and Holcombe Assumptions for Future:

Roger Stone stated he would like to have Hooker and Holcombe present to the board a general education session in advance of the draft valuation to come. Beth Anderson stated she would like to have this done as a separate meeting and would like to have this before a presentation is made on the valuation. Jim Strouse stated he felt that it might make more sense to have them conduct an education session after the draft valuation has been received. Beth Anderson stated that would not work for her and would like to have this before. Roger Stone stated he agreed that he would like to have this prior to having the draft report presented.

Beth Anderson stated she wanted to make sure everyone was okay with scheduling an education session will communicate when that will be and

anyone that wants to participate can and we will get an answer about open group method and see about an April meeting.

9. Other Business:

Roger Stone asked what notice is needed for an agenda item to be heard. Jim Strouse stated there is no time frame.

Bob Hooper stated there is an indexing conference and he would share the details with the board by email. Beth Anderson asked that Bob Hooper send the information to City Attorneys to make sure that we are within our policy on receiving gifts.

10. Adjourn

Bob Hooper moved to adjourn. Daniel Gilligan 2nd. Motion carries 8:0
Meeting adjourned 10:15am.



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Robert Hooper
Vice-Chairman

Stephanie Hanker
Retirement Administrator
802-865-7097
TTY Dial 7-1-1

TO: Retirement Board Members

FROM: Stephanie Hanker

DATE: April 19, 2018

SUBJECT: Class "A and B" Refund's

Following our usual procedure, this is to notify you that I will be ordering checks for Class "A" or Class "B" employees who have requested a refund/rollover.

Kenneth Musgrave, a former Class B employee, will be taking a refund of their retirement contributions in the gross amount of \$945.91.



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Stephanie Hanker
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802-865-7097
Dial 7-1-1 (TTY)

April 2018
Retiree Approval List

Name	Class	Type	Monthly Amount	Effective Date
Dielene Donley	B	Early Retirement	\$258.54	02/24/2018
Randy Pichierri	B	Late Retirement	\$1957.42	02/10/2018
James Soter	B	Vested Late Retirement	\$513.30	03/06/2018

To The Committee:

At the last meeting we agreed to continue discussing our private real estate allocation and equity exposure. Below is a recap of the major points made in the last meeting.

PRIVATE REAL ESTATE

We have invested 8% of our assets in the UBS core real estate strategy. We made this investment less than two years ago. Private real estate is the only investment we currently plan to maintain outside mainstream stocks and bonds.

Reasons to maintain the investment are as follows:

- 1) **Return.** Private real estate is a fixed income alternative projected to have annual return of 5%-8%, with fixed income returns expected to be 0%-3%.
- 2) **Diversity.** Private real estate has low correlation to other asset classes, 0.16 to equity, -0.63 to fixed income (with the scale being +1 to -1).
- 3) **Volatility.** Private real estate has low volatility. Standard deviations are: equity, 16.4; REITs, 20.5; private real estate, 5.5; fixed income, 3.4.

Reasons to eliminate the investment are as follows:

- 1) **Expense.** Private real estate costs about 100 bps. By contrast, our indexed strategies cost around 10 bps.
- 2) **ODCE Performance.** Our manager has underperformed the ODCE benchmark for the 3- and 5-year periods, but outperformed for 10-, 15- and 20-year periods.
- 3) **REIT Performance.** REITs have slightly out performed the ODCE benchmark over long time periods.
- 4) **Liquidity.** A redemption notice during a quarter is fulfilled at the end of the following quarter. Our other strategies have daily liquidity.
- 5) **Gating.** Private real estate managers can limit liquidity during market declines.

Analysis

We analyze the investment using a three-part risk framework, and we will assume the alternative is to invest in a REIT index fund.

- 1) **Long-term risk.** Our long-term risk (failing to make our actuarial assumption over a 10-20 year period) would be decreased slightly by going to a REIT index fund because returns have been slightly better.
- 2) **Short-term risk.** Our short-term risk (the chance of a sharp portfolio decline, typically 1-3 years duration) would increase significantly because REITs are more volatile than private real estate. For instance, in this quarter thru February, REITs are down 12% while stocks generally are up 1%.
- 3) **Political risk.** Most large institutional portfolios like VPIC use private real estate and not REITs. Looking like others reduces political risk.

EQUITY EXPOSURE

Our asset allocation is: 70% risk assets (equity), 30% safety assets (domestic fixed income, real estate). We have more equity than the traditional 60%/40% allocation.

However, unlike most larger plans, we have no investments in risky credit and diversified strategies which contain hidden equity risk: high yield bonds, bank loans, opportunistic credit, emerging market debt, hedge funds, tactical. We have more *equity* than the typical plan, but not necessarily more *equity risk*.

However, given the extremely strong returns of equity markets since we established our portfolio two years ago, we might want to consider stepping back our equity exposure to 65%/35% by moving 5% equity to something else. The alternatives listed below lower prospective return but decrease short-term volatility. Most would reduce political risk.

Fixed income. Moving equity to fixed income would reduce long-term return and short-term volatility the most. It would be inexpensive and easy to implement.

Private real estate. This would increase diversity. Real estate has better return prospects than fixed income and, in some projections, better than domestic equity. It would be expensive, and it would decrease liquidity, but it would be easy to implement.

Opportunistic credit. Various credit strategies have prospective returns in the low teens and might be treated as a diversifying alternative to equity. These strategies are complex, expensive, and difficult to implement.

PIMCO All-Asset Fund. PIMCO has a fund that invests mostly in non-US stocks and bonds and other alternative assets. Its sister fund, All-Asset/All-Authority, is currently short the US market, providing an extra cushion against an equity decline. It is complex and expensive, but liquid and easy to implement.

Emerging market equity/fixed income. EM equity has higher projected returns than domestic equity. Splitting 10% domestic equity equally between EM equity and domestic fixed income would reduce overall equity exposure, but might offset some of the return sacrifice. It would be simple, inexpensive and easy to implement.

We are in an institutional share class of our index funds with BNY Mellon for which we must maintain a minimum investment. Before moving money away from BNY Mellon, we should first check on how it affects our fee structure.

PRELIMINARY PERFORMANCE

Portfolio	Month	QTD	FYTD	CYTD	Market Value	Percent
Total Portfolio	3.8	3.8	12.8	3.8	\$197,970,076	100.0
<i>Policy Index</i>	<i>3.5</i>	<i>3.5</i>	<i>12.3</i>	<i>3.5</i>	----	----
Mellon Large Cap	5.7	5.7	17.8	5.7	\$63,341,816	32.0
<i>S&P 500</i>	<i>5.7</i>	<i>5.7</i>	<i>17.8</i>	<i>5.7</i>	----	----
Mellon Smid Cap	3.1	3.1	13.7	3.1	\$36,230,367	18.3
<i>Russell 2500</i>	<i>3.0</i>	<i>3.0</i>	<i>13.6</i>	<i>3.0</i>	----	----
Mellon EAFE	5.0	5.0	15.7	5.0	\$22,382,361	11.3
<i>MSCI EAFE</i>	<i>5.0</i>	<i>5.0</i>	<i>15.5</i>	<i>5.0</i>	----	----
Mellon Emerging Mkts	8.4	8.4	25.6	8.4	\$23,418,271	11.8
<i>MSCI EM Net</i>	<i>8.3</i>	<i>8.3</i>	<i>25.6</i>	<i>8.3</i>	----	----
Hamilton Lane II	11.0	11.0	14.3	11.0	\$370,936	0.2
Hamilton VII A	0.0	0.0	3.3	0.0	\$1,004,725	0.5
Hamilton VII B	0.0	0.0	7.2	0.0	\$646,792	0.3
<i>S&P Completion</i>	<i>3.3</i>	<i>3.3</i>	<i>13.7</i>	<i>3.3</i>	----	----
UBS TPF	0.2	0.2	4.1	0.2	\$15,998,526	8.1
<i>NCREIF ODCE</i>	<i>0.0</i>	<i>0.0</i>	<i>4.0</i>	<i>0.0</i>	----	----
Molpus SWF II	0.0	0.0	2.3	0.0	\$3,063,801	1.5
<i>NCREIF Timber</i>	<i>0.0</i>	<i>0.0</i>	<i>2.1</i>	<i>0.0</i>	----	----
Mellon Int. Gov/Cred	-0.9	-0.9	-0.5	-0.9	\$30,506,295	15.4
<i>Int Gov/Credit</i>	<i>-0.9</i>	<i>-0.9</i>	<i>-0.5</i>	<i>-0.9</i>	----	----
Key Bank	0.0	0.0	0.0	0.0	\$1,006,186	0.5
<i>90 Day Tbills</i>	<i>0.1</i>	<i>0.1</i>	<i>0.7</i>	<i>0.1</i>	----	----

PRELIMINARY PERFORMANCE

Portfolio	QTD	FYTD	CYTD	Market Value	Percent	Target
Total Portfolio	-0.4	8.2	-0.4	\$189,972,617	100.0	----
<i>Policy Index</i>	<i>-0.4</i>	<i>8.0</i>	<i>-0.4</i>	----	----	
Mellon Large Cap	-0.8	10.6	-0.8	\$59,456,454	31.3	30.0
<i>S&P 500</i>	<i>-0.8</i>	<i>10.6</i>	<i>-0.8</i>	----	----	
Mellon Smid Cap	-0.2	10.1	-0.2	\$35,082,458	18.5	18.0
<i>Russell 2500</i>	<i>-0.2</i>	<i>10.0</i>	<i>-0.2</i>	----	----	
Mellon EAFE	-1.6	8.4	-1.6	\$20,962,409	11.0	10.0
<i>MSCI EAFE</i>	<i>-1.4</i>	<i>8.4</i>	<i>-1.4</i>	----	----	
Mellon Emerging Mkts	1.3	17.4	1.3	\$21,889,517	11.5	10.0
<i>MSCI EM Net</i>	<i>1.4</i>	<i>17.6</i>	<i>1.4</i>	----	----	
Hamilton Lane II	11.4	14.7	11.4	\$370,936	0.2	0.5
Hamilton VII A	14.1	17.9	14.1	\$1,004,725	0.5	0.9
Hamilton VII B	2.9	10.3	2.9	\$646,792	0.3	0.6
<i>S&P Completion</i>	<i>0.1</i>	<i>10.2</i>	<i>0.1</i>	----	----	
UBS TPF	0.2	4.1	0.2	\$15,998,526	8.4	8.0
<i>NCREIF ODCE</i>	----	<i>4.0</i>	----	----	----	
Molpus SWF II	----	-2.1	----	\$2,924,215	1.5	2.0
<i>NCREIF Timber</i>	----	<i>2.1</i>	----	----	----	
Mellon Int. Gov/Cred	-1.0	-0.6	-1.0	\$30,473,260	16.0	20.0
<i>Int Gov/Credit</i>	<i>-1.0</i>	<i>-0.6</i>	<i>-1.0</i>	----	----	
Key Bank	----	----	----	\$1,163,325	0.6	0.0

Draft
April 19, 2018
Burlington Employees' Retirement Board
Conference Room 12

Board Members Present:

- Jim Strouse - Via Phone
- Robert Hooper
- Daniel Gilligan
- Matthew Dow
- Beth Anderson
- Benjamin O'Brien - Phone
- Munir Kasti

Others Present:

- Stephanie Hanker
- Bob Rusten
- Barry Bryant

Called to order at 9:31am

1. **Agenda:**

No Changes

2. **Public Forum:**

No Public Present

3. **Approve Minutes of 03/2018:**

Munir Kasti moved to approve minutes as presented. Dan Gilligan 2nd.
Motion carries 5:0

4. **Ratify/Approve Refund and Rollover's:**

Munir Kasti moved to approve presented rollover and refunds. Matthew Dow 2nd. Motion carries 7:0

5. **Approval of Retirement Applications:**

Matthew Dow moved to approve presented applications. Daniel Gilligan 2nd.
Motion carries 7:0

6. **Performance Presentation - Dahab Associates:**

Barry Bryant presented performance results as of January 31, 2018 and March 31, 2018.

7. Discussion Regarding UBS Real Estate Position and Equity Exposure

Barry Bryant presented information regarding current real estate investment. Bob Rusten stated that he would like to have Barry Bryant to present information for future planning, key indicators on where the economy is going in, what if scenarios if there is a downturn and how that would impact the current investments as they are currently. Bob Rusten stated the board should have a plan in place. Jim Strouse stated Barry should be prepared to come to the next meeting with macro indicators and trends, provide our original asset allocations. Daniel Gilligan stated Barry should also include options for the Board to consider for the future.

8. Other Business:

Special meeting for Barry Bryant to provide the requested information and present on May 10, 2018.

9. Adjourn

Matthew Dow moved to adjourn. Munir Kasti 2nd. Motion carries 7:0
Meeting adjourned 10:45am.