BURLINGTON EMPLOYEES' RETIREMENT SYSTEM

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

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CITY COUNCIL REPORT
FOR June 2013

- **MISSION**

The mission of the Retirement Board as defined by the Ordinance is to be trustees of the funds of the retirement system. The members have the authority to invest funds, determine asset allocation within guidelines, develop the guidelines, and hire such managers and consultants as may be needed. The members also set policy and oversee the general administration of, and have the responsibility for, the proper operation of the retirement system. The members make decisions on disability applications and follow-ups.

- **HIGHLIGHTS**

The market value on 3/31/2013 was $148,371,261 versus $137,634,671 on 3/31/2012. In the 3/31/2013 Dahab report – for the first quarter, the Composite portfolio returned 3.2%, which was 0.2% greater than the Burlington Manager Shadow Index's return of 3.0% and ranked in the 95th percentile of the Public Fund universe. Over the trailing year, the portfolio returned 9.7%, which was 2.2% above the benchmark's 7.5% performance, ranking in the 62nd percentile. Since March 2008, the account returned 7.8% on an annualized basis and ranked in the 49th percentile.

In May 2012, continuing our efforts to bring the Plan into conformity with IRS rules, the Board voted to add all current permanent employees age 65 or over, who had not previously been permitted to participate in the Plan, to the Plan. The Board concurrently asked the City Council to fully fund all costs associated with this action and not amortize these costs.

The Board spent a considerable amount of time during the year discussing our investment programs. In June 2012 our Investment Consultant (Barry Bryant of Dahab Associates) reviewed for us the characteristics and performance of the assets that we have retained under our direct control (timber, emerging markets and private equity). We are nearing the five year mark of having the balance of our portfolio managed by the Vermont

Pension Investment Committee (VPIC) and intend to formally review that relationship to determine if it is in our best interest to remain with them or not. With that in mind, Mr. Bryant urged the Board to concentrate on this over the next several quarters. In August 2012, VPIC gave a presentation to the Board. They were represented by State Treasurer Beth Pearce, Matt Considine, Director of Investments and Steve Rauh, VPIC Chair. They gave a comprehensive report on the fund's performance and structural changes in the portfolio through the years that we have been with them. Their presentation was followed by a presentation from Mr. Bryant. He gave another in-depth presentation to us in November 2012. In January 2013, in advance of performance discussions about the VPIC portfolio in February, he devoted his time to analysis of our "alternative investments" portfolio. In February he gave an analysis of the VPIC performance over the five years that we have been with them and compared performance and costs with a hypothetical similar to the VPIC portfolio but invested as much as possible in index funds. The Board was left to mull the decision over the next couple of months before making the decision. However, at the May 2013 Board meeting, there was considerable discussion of VPIC performance versus the hypothetical performance. The Board then decided to monitor the comparative performance over both an up and down market cycle before making a definitive decision.

Another important item that was discussed in several meetings was whether or not our assumed investment return of 8% was realistic. It was noted that, although about 90% of our assets are with VPIC, we do not share the same return assumptions (although ours is a straightforward 8% and they use a more complicated formula). Ultimately, the Board commissioned our actuary; Buck Consultants (David Driscoll) to undertake an experience study for our Plan. Basically they look at all of our assumptions and compare them with actual experience of our Plan and make recommendations as to what our assumptions should be going forward. Mr. Driscoll discussed the results of that study with the Board on May 2, 2013. The discussion was comprehensive and, in the end, the report and all of the recommendations contained therein were unanimously accepted by the Board. Of note was the recommendation that we retain our 8% assumed actuarial rate of return. In addition, in response to a question from an employee Board member, Mr. Driscoll indicated that being 71% funded is not unusual and that we are not in a horrible position in comparison to some other plans.

In December 2012 the Board received the annual valuation of the Plan. It was accepted and the City Council was asked to fund the Plan as indicated in the valuation and required by Ordinance. (This amount was subsequently increased because of some assumption changes reflected in the experience study.)

At the time of this writing there are 894 active members of the Retirement System, 555 retirees and beneficiaries, and 364 members who have left service with vested benefits. Pension benefits average about $880,000 per month. From July 1, 2012 and May 31, 2013 approximately 125 new members have been added to the system, 50 have retired, 30 have been withdrawn as non-vested and 10 have left with vested benefits.

The FY12 members of the Board are James Strouse, Robert Hooper and Jeffrey Wick, who are appointed by the City Council, Paul Sisson, Interim Chief Administrative

Officer, who is the Ex-Officio member, Firefighter Benjamin O'Brien, Fire and Cpl. Ray Nails, Police who are elected by the Class "A" employees, and Munir Kasti and Paul Paquette, who are elected by the Class "B" employees.

Sincerely,

RETIREMENT BOARD

James T. Strouse, Chairman

Benjamin R. O'Brien

Robert Hooper, Vice-Chairman

Paul A. Paquette

Rich Goodwin, Asst. CAO

Munir Kasti

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Ray Nails

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Jeffrey Wick

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