Employees' Retirement System of the Government of the Virgin Islands

Presentation for the 2016 Summit

Meketa Investment Group

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GERS Investment Performance Has Been Strong

- The Employees' Retirement System of the Government of the Virgin Islands ("GERS" or "the Retirement System") has produced an annualized return of 9.0% going back to 1981.
- Even with the impact of the Global Financial Crisis of 2008, GERS still produced a long term annualized return higher than the actuarial assumed rate of return (currently, 7.0%).
- Compared to similar plans, GERS' performance has been better than average, plotting in or near the second quartile.

Trailing Performance as of June 30, 2016

	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date	Since Inception (%)
GERS Aggregate Performance[1]	**6.2**	**6.0**	**5.4**	**7/1/81**	**9.0**
InvestorForce Public DB $250mm-$1B Net Median	*5.9*	*6.0*	*5.2*		*NA*
InvestorForce Public DB $250mm-$1B Net Rank	*37*	*53*	*36*		*NA*

[1] Performance is net of investment manager fees and fund expenses, and only includes the performance of the assets held at GERS' custodian bank (State Street). It excludes member loans and local assets.

GERS Has Taken Steps to Reduce Investment Costs

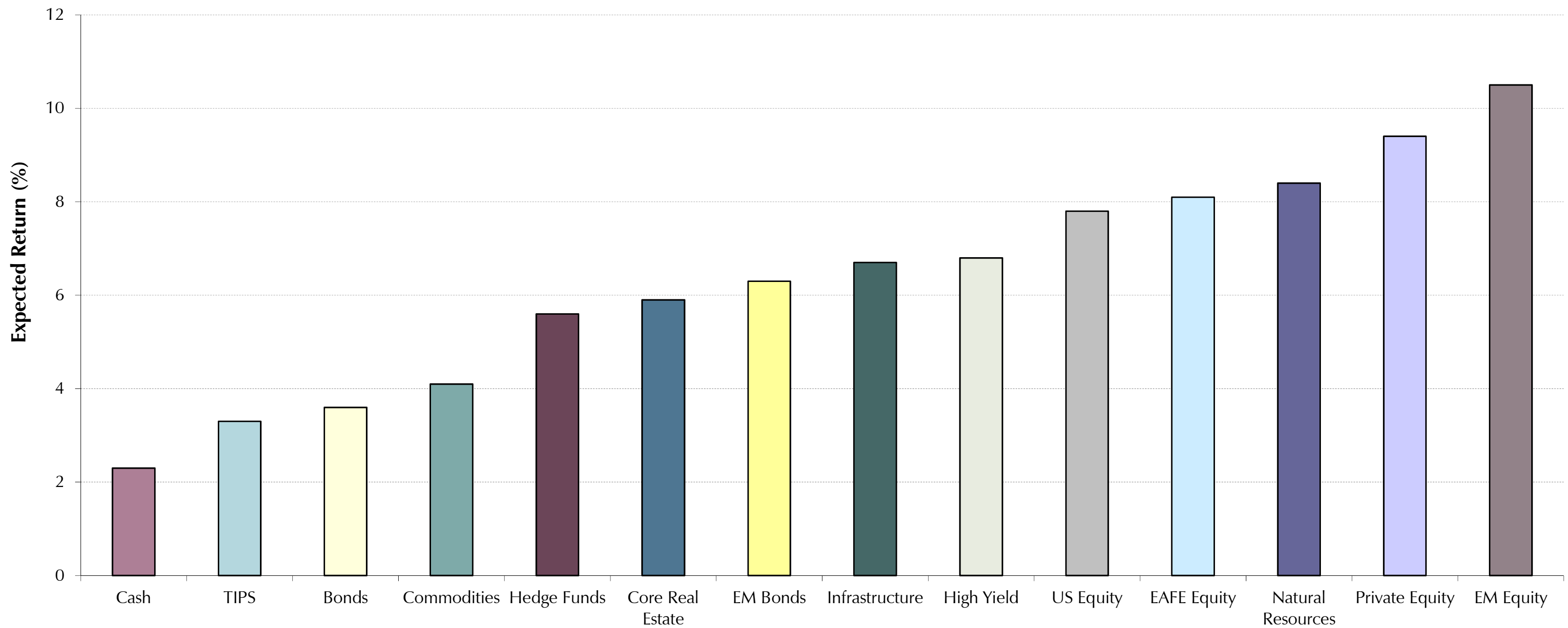
- In 2014 the Board of Trustees voted to consolidate overlapping managers and use low cost index funds for efficient asset classes.
- Meketa Investment Group estimates the adjustments save the Retirement System approximately $1 million in fees, annually.
- Relative to peer plans, the Retirement System pays less in investment management fees (0.36% annually[1] vs. industry average[2] of 0.44% annually)
- Using the peer plan fees as a comparison results in savings in excess of $500,000 per year (based on current asset levels).

[1] Calculation is the sum of the total estimated management fees paid each year of the assets listed divided by the total market value (of the assets listed) as of March 31, 2015.

[2] Based on article published in Pension and Investments of survey of plans with total assets of $220 billion in aggregate.

GERS Has Taken Steps to Maximize Potential Returns within the Current Limitations of the Code

- The Code places position restrictions on international equities and restricts non-investment grade bonds.
- According to Meketa Investment Group's annual Asset Study[1], we believe that only a few asset classes (in isolation) are expected to produce annualized returns in excess of 7.0%. GERS is currently restricted or prohibited from investing in many of these asset classes.
- In addition, GERS' current cash flow and liquidity position limit the capital to invest in equities.



[1] Twenty-year expected returns based upon Meketa Investment Group's 2016 Annual Asset Study.

However, Investment Returns Alone Cannot Solve GERS' Funding and Liquidity Issues…
Capital Infusion into the System is Needed

- As the investment base shrinks (with cash outflows), the annual required investment return to meet those benefit payments becomes prohibitively large and unattainable.
- The longer the wait, the more challenging the situation becomes.
- With a cash infusion, the asset base of the Retirement System will increase. The investment return needed each year (percentage rate of return) on a larger base of assets is lower to pay the same (or similar) nominal required benefit payments.
- A $600 million cash infusion has been discussed in the past. If it were to materialize, Meketa Investment Group would recommend more flexibility in the Code to maximize the return potential of the capital at work. Specifically, we would suggest:
  - Increasing equity investments outside of the United States
  - Diversifying the public fixed income exposure in a greater array of bonds
  - Investing in additional private market fund investments that offer the potential for higher returns

Return/Risk Should Not Be Viewed In Isolation

- No one can predict asset class returns in any given year. The flexibility to pursue a variety of asset classes with different return/risk profiles will allow GERS to create a more efficient portfolio.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Private Equity 63%	Bonds 8.4%	Commodities 25.9%	Emerging Equity 55.8%	Emerging Equity 25.6%	Emerging Equity 34.0%	Emerging Equity 32.2%	Emerging Equity 39.4%	Bonds 5.2%	Emerging Equity 78.5%	Emerging Equity 18.9%	Real Estate 14.3%	Emerging Equity 18.2%	US Equity 32.4%	Private Equity 17.6%	Real Estate 13.3%
Commodities 31.8%	TIPS 8.0%	TIPS 17.0%	EAFE Equity 39.1%	EAFE Equity 20.6%	Private Equity 30.4%	EAFE Equity 26.3%	Private Equity 26.6%	Cash 1.7%	High Yield 58.2%	Commodities 16.7%	TIPS 14.1%	EAFE Equity 17.3%	EAFE Equity 22.8%	US Equity 13.7%	Private Equity* 11.1%
TIPS 13.2%	Real Estate 7.2%	Bonds 10.2%	High Yield 29.0%	Private Equity 15.9%	Commodities 21.4%	Private Equity 18.6%	Commodities 16.2%	TIPS -1.1%	EAFE Equity 31.8%	Private Equity 15.7%	Private Equity 12.0%	US Equity 16.0%	Private Equity 18.1%	Real Estate 11.8%	US Equity 1.4%
Real Estate 12.2%	High Yield 5.3%	Real Estate 6.7%	US Equity 28.7%	Real Estate 14.5%	Real Estate 20.1%	Real Estate 16.6%	Real Estate 15.8%	Real Estate -6.5%	US Equity 26.5%	High Yield 15.1%	Bonds 7.8%	High Yield 15.8%	Real Estate 11.0%	Bonds 6.0%	Bonds 0.6%
Bonds 11.6%	Hedge Funds 4.6%	Cash 1.6%	Commodities 24.0%	High Yield 11.1%	EAFE Equity 13.5%	US Equity 15.8%	TIPS 11.6%	Private Equity -7.1%	Hedge Funds 20.0%	US Equity 15.1%	High Yield 5.0%	Private Equity 14.5%	Hedge Funds 9.6%	TIPS 4.5%	Cash 0.0%
Cash 5.8%	Cash 3.8%	High Yield -1.4%	Hedge Funds 19.5%	US Equity 10.8%	Hedge Funds 9.3%	Hedge Funds 12.9%	EAFE Equity 11.2%	Hedge Funds -19.0%	Commodities 18.9%	Real Estate 13.1%	US Equity 2.1%	Real Estate 10.5%	High Yield 7.4%	Hedge Funds 3.0%	EAFE Equity -0.8%
Hedge Funds 5.0%	Emerging Equity -2.6%	Hedge Funds -1.4%	Real Estate 8.9%	Commodities 9.2%	US Equity 4.9%	High Yield 11.9%	Hedge Funds 10.0%	High Yield -26.2%	TIPS 10.0%	Hedge Funds 10.2%	Cash 0.1%	TIPS 7.3%	Cash 0.0%	High Yield 2.5%	Hedge Funds -0.8%
High Yield -5.9%	US Equity -11.8%	Emerging Equity -6.2%	TIPS 8.3%	Hedge Funds 9.0%	Cash 3.0%	Cash 4.6%	Bonds 7.0%	Commodities -35.6%	Bonds 5.9%	EAFE Equity 7.8%	Hedge Funds -5.2%	Hedge Funds 6.4%	Bonds -2.0%	Cash 0.0%	TIPS -1.7%
US Equity -9.1%	Commodities - 19.5%	Private Equity -14.1%	Private Equity 7.3%	TIPS 8.5%	TIPS 2.8%	Bonds 4.3%	US Equity 5.5%	US Equity -37.0%	Cash 0.1%	Bonds 6.5%	EAFE Equity -12.1%	Bonds 4.2%	Emerging Equity -2.6%	Emerging Equity -2.2%	High Yield -4.5%
EAFE Equity -13.9%	EAFE Equity -21.2%	EAFE Equity -15.6%	Bonds 4.1%	Bonds 4.3%	High Yield 2.7%	Commodities 2.1%	Cash 4.7%	EAFE Equity -43.4%	Private Equity -6.6%	TIPS 6.3%	Commodities -13.4%	Cash 0.1%	TIPS -9.4%	EAFE Equity -4.9%	Emerging Equity -14.9%
Emerging Equity -30.8%	Private Equity -25.6%	US Equity -22.1%	Cash 1.0%	Cash 1.2%	Bonds 2.4%	TIPS 0.5%	High Yield 1.9%	Emerging Equity -53.3%	Real Estate -16.9%	Cash 0.1%	Emerging Equity -18.4%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%

Road Map for a No-Cash-Infusion Scenario

- As the pool of assets depletes from large benefit payments, the investment return will not matter.
- At some point, contributions paid into the Retirement System will be immediately paid out in benefit checks.
- If the Retirement System produces a 7.0% return every year (its stated goal) it still will not matter. The Retirement System should become insolvent in about seven years.
- If a drastic market correction occurs (i.e., equity markets down 20% or more) the Retirement System is likely to become insolvent sooner.
- GERS is moving towards a "soft landing" path to try to prevent a rapid decline in assets scenario. Such scenario would alter the asset allocation of the Retirement System, leading to a lower estimated rate of return, but with commensurate higher predictability of returns (e.g., lower volatility).

Impact in the Local Economy

- Local asset investments (real property, loans, etc.) will need to be sold to meet cash needs.
  - Selling assets in distress will result in less than market value sale prices.
- An insolvent Retirement System creates a significant domino effect.
  - Currently GERS pays approximately $250 million a year in benefit payments, but the economic impact is much greater. For each dollar spent in the Virgin Islands, there is a "multiplier effect."
  - NIRS (National Institute on Retirement Security) estimates that the multiplier effect[1] of pension benefits is 2.4x.
  - Thus the yearly impact of benefit payments is approximately $600 million into the Virgin Islands GDP.
  - Without the Retirement System, or a Retirement System that is only capable of paying out a fraction of earned benefit payments, the local economy of the Virgin Islands may take a significant negative hit.
  - As conditions worsen, hard working employees may leave the islands, the population may decrease, and local economy could spiral into a depression (Puerto Rico).

[1] http://www.nirsonline.org/storage/nirs/documents/Pensionomics%202009/nirs_2009_pensionomics_report_final.pdf

Summary

- The situation is dire, and action is needed now.
- The longer the wait, the worse the situation becomes.
- An increase of cash into GERS prolongs the life of the Retirement System.
- With no additional assets, GERS will reach insolvency in about seven years.
- GERS is moving towards a soft landing to avoid a hard crash in a market correction.