



GERS Updates

New Investment Consultant

Meketa Investment Group is the System's new Investment Consultant effective February 1, 2012.

Meketa replaces Segal Advisors who served as the System's Investment Consultant for over 30 years.

Meketa has offices in Boston, Miami and San Diego.

Termination of Manager

Oechsle International Advisors, L.P., an international growth equity manager located in Boston, was terminated by the Board of Trustees effective February 17, 2012 for poor performance.

Email Request



As part of our communications outreach effort, we would like to gather members' email addresses. This would allow us to make direct contact regarding important notices or publications that the System may issue.

If you would like to receive such notices, please send us your email address to: tliburd@usvigers.com. with the word "subscribe" in the subject line and your first and last name.



Investment Managers' Review



Beach Resort & Spa from Wednesday, March 14 through Friday, March 16, 2012. During these meetings, the Board of Trustees met with 15 investment managers who manage assets on behalf of the System. Additionally, the Board met with the System's custodian, State Street and our new Investment Advisor, Meketa Investment Group. Each manager reviewed their portfolios for the period ending December 31, 2011 and provided updates for year-to-date 2012.

For the year ending December 31, 2011, the U.S. stock market, as proxied by the S&P 500 index, was essentially flat as economic growth slowed in much of the world in 2011. The foreign equity markets declined, with the MSCI EAFE index down 12.1% during the same period. GDP growth projections for the U.S. and European Union are between 1% and 2%, below long-term historical growth rates. Projections for most emerging markets, which were growing between 5% and 10% earlier in 2011, have slowed to the 3% to

GERS' semi-annual Investment Managers' Review was held on St. Croix at the Carambola

6% range. China remains an exception, though its projected growth has slowed modestly to around 8%.

Some investment managers were cautious, while others were more optimistic about the current economic environment and prospects for 2012. Fears over sovereign debt defaults in Europe, slightly better unemployment levels in the U.S., and uncertainty over interest rates, were the recurrent topics within all the presentations. Many of the fixed income managers feel that there is better value in Corporate Bonds than Government Bonds, and are finding more opportunities there.

Regarding specific managers, the Trustees are considering the following:

1. Allowing PIMCO the use of derivatives to help enhance returns and better manage risk.
2. Evaluate wider mandates for Brandywine's global fixed income strategy.

The next Investment Managers' Review will be held August 29, 30, 31, 2012 at the Westin Resort in St. John.

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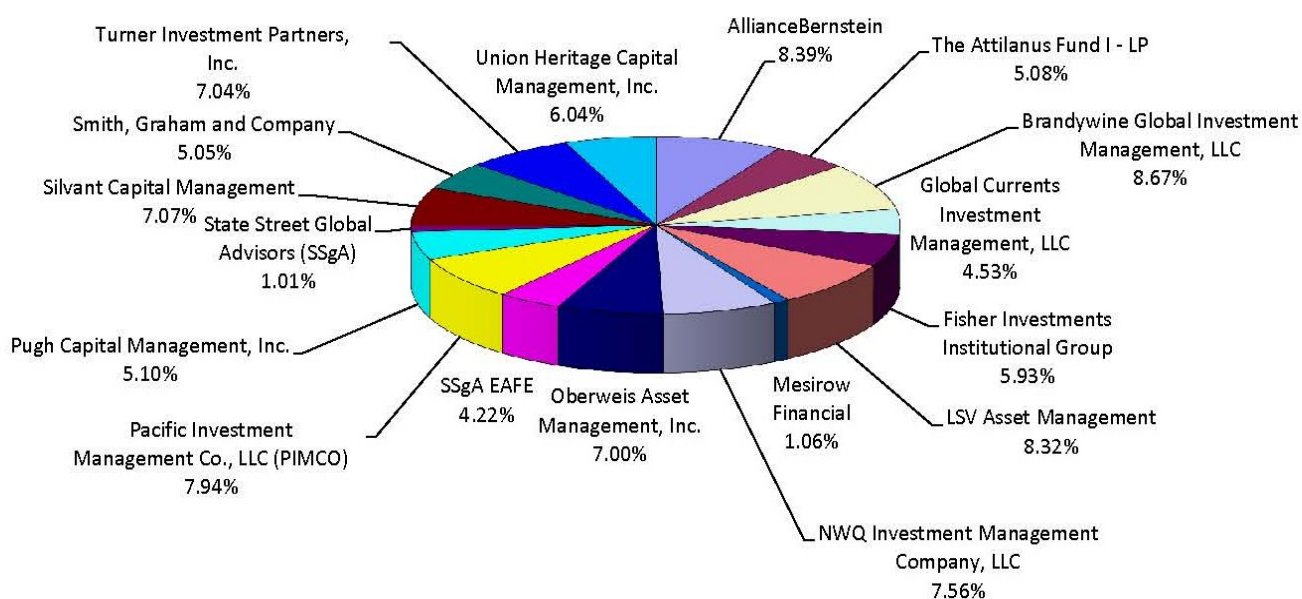


Investment Manager Asset Allocation (unaudited)

As of March 31, 2012

Investment Manager	Investment Asset Class	March 31, 2012 Portfolio Value	December 31, 2011 Portfolio Value	Change in Portfolio Value	Percent Change
Government Employees Retirement System Fund - All Segments					
AllianceBernstein	Fixed Income Core	\$ 88,742,915	\$ 90,854,619	\$ (2,111,704)	-2.32%
The Attilanus Fund I - LP	Senior Life Settlement	53,693,950	53,693,950	-	0.00%
Brandywine Global Investment Management, LLC	Fixed Income International	91,648,799	87,869,644	3,779,155	4.30%
Global Currents Investment Management, LLC	International Value Equity	47,926,823	42,558,864	5,367,959	12.61%
Fisher Investments Institutional Group	Small Cap Value Equity	62,665,830	53,972,614	8,693,216	16.11%
LSV Asset Management	Large Cap Value Equity	87,929,277	76,933,744	10,995,533	14.29%
Mesirow Financial	Private Equity	11,202,298	10,881,818	320,480	2.95%
NWQ Investment Management Company, LLC	Large Cap Value Equity	79,970,616	71,581,470	8,389,146	11.72%
Oberweis Asset Management, Inc.	Micro Cap Equity	73,986,591	65,775,446	8,211,145	12.48%
SSgA EAFE	Core International	44,607,852	39,645,267	4,962,585	12.52%
Pacific Investment Management Co., LLC (PIMCO)	Fixed Income Intermediate	83,979,588	82,676,484	1,303,105	1.58%
Pugh Capital Management, Inc.	Fixed Income Core	53,913,426	53,389,161	524,266	0.98%
State Street Global Advisors (SSgA)	Large Cap Core Equity	10,683,236	9,559,006	1,124,230	11.76%
Silvant Capital Management	Large Cap Growth Equity	74,747,230	76,182,096	(1,434,866)	-1.88%
Smith, Graham and Company	Fixed Income Core	53,439,200	52,885,103	554,098	1.05%
Turner Investment Partners, Inc.	Large Cap Growth Equity	74,450,894	63,954,251	10,496,643	16.41%
Union Heritage Capital Management, Inc.	Large Cap Core Equity	63,879,097	56,240,232	7,638,865	13.58%
Total Fund		\$ 1,057,467,624	\$ 988,653,768	\$ 68,813,857	6.96%

Investment Manager Asset Allocation as of March 31, 2012



Update on the Alternative Investments Program (Part 2)

In accordance with Title 3 Virgin Islands Code, Chapter 27, Section 717

The Attilanus Fund I, L.P.

On August 15, 2006, the System invested \$50 million in a limited partnership (The Attilanus Fund was formally known as The Atticus Fund I, L.P.) The partnership purchases senior life insurance policies for individuals age 65 and older and have an expected life expectancy of 5 to 7 years. A senior life settlement provides cash payment in exchange for the assignment of an ownership interest in the life insurance policy insuring the life of an individual.

The partnership agreement is effective through December 31, 2017 and maybe extended for an additional two year period. In 2008 because of restructuring of the portfolio, the System received a distribution in the form of a return of capital totaling \$8.2 million. At September 30, 2011 the estimated fair value of the limited partnership investment was \$43 million. The System will be contracting with an Investment solution firm to complete the due diligence and recommend a value for their investment.

Real Estate

GERs Complexes

The System owns the GERS Complex on St. Thomas, which is the official headquarters of the GERS. The tenants are the Division of Personnel, the Department of Justice and Rescare (Job Corp).

GERs also owns an additional 2.9 acres located at Estate Orange Grove Parcel No. 5 which is the former offices of the St. Croix operations and Parcel No. 6 which is rented to the Casino Control Commission.

The new GERS Complex is located at Estate Orange Grove Parcel No. 4. This office was opened in July 2010.

The investment in the System's Facilities territory-wide less accumulated depreciation and amortization is \$25.6 million as of September 30, 2010.

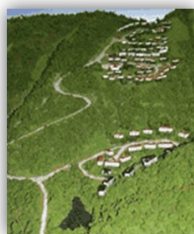
Havensight Shopping Mall



The Havensight Shopping Mall, a premier tourist destination commercial shopping center in St. Thomas is the gem of the Caribbean and has been one of the best investments for the System. This property was purchased on June 30, 1993, for \$32 million. In December 2009, the property was appraised at \$66.6 million.

Land

Estates Hoffman and Nullyberg



In 2006, the System purchased 120 acres of land at Estates Hoffman and Nullyberg on the east end of St. Thomas from Vilma Hugh, Kirsten Alexander and Erik Pedersen. The Development Committee proposed a mixed use development consisting of a conference and entertainment center, hotel, 108 assisted living units and 105 single family lots.

A public hearing was held by the DPNR on July 12, 2011 on the proposed zoning map amendments from A-1 (Agricultural District) to R-3 (Residential

Medium Density) with a use variance for general and professional offices and from A-1 to R-2 (Residential Low density-One and Two Family).

A Legislative hearing was held on October 26, 2011. A member of the New Herrnhut Moravian Church testified that the Church is the owner of approximately 69 acres of the property. The System rightful ownership is documented in cadastral survey maps, warranty deed, title insurance and the DPNR Report. On January 23, 2012, the System met with the Church's officials and their attorney. To date, no legal claims have been filed by the Church against the System's ownership.

The property was appraised in December 2009 at \$4.6 million.

Estate Coakley Bay

In 2010, the System purchased 170 acres of land at Estate Coakley Bay on the east end of St.



Croix from Christian Hendricks, Trustee of the Christian Hendricks Trust. The purchase price of the land was \$5 million. The current appraised value is \$5.9 million. Currently, a cultural resource survey, archaeological study and boundary and topography surveying and mapping are ongoing. Preliminary conceptual designs are being developed to determine the best use of the property.



Questions Submitted by Members Attending the January Forums

Question: We have heard for many years that the GERS will run out of monies/collapse unless the plan is restructured or unless we receive a large infusion of cash. What can you tell us about where we stand today given the current economic crisis and myriad challenges that our territory is facing?

Nibbs: The Actuary has repeatedly stated that the required contribution should be at least 43% of payroll. The System is only receiving from regular members 8% and employers 17.5%, for a combined contribution rate of 25.5%. Title 3, Chapter 27, Section 718 (a) of the Virgin Islands Code mandates that the System be financed on an "actuarial reserve basis", which means that the retirement benefits are funded during the employee active years of employment so that by the time the employee retires, the benefit would have been fully funded in advance of their retirement date. Without a significant infusion of cash and increases in the contribution rates, the System will run out of cash by 2025.

Other than for the downturns in 2001 and 2008, the System's investment portfolio has done relatively well. Up until 2000, the investment income covered the shortfall between the benefits to retirees, beneficiaries and expenses and the contributions received from the employees and employers. This is no longer the case. By the end of 2012, the shortfall is projected to be in excess of \$100 million annually.

What is occurring today with the reduction in the workforce is eroding the System's liquidity and cash needs and will further increase the unfunded liability. New sources of revenues must be identified by the Legislature to replace the loss in contributions.

Question: How long have you been the Administrator of the GERS?

Nibbs: Since October 29, 2007.

Question: How long has the System been in existence?

Nibbs: The System started operations on October 1, 1959.

Question: How many years of solvency do we have if there is not a large infusion of cash?

Nibbs: Thirteen years.

Question: What is the percentage that the Government pays in?

Nibbs: 17.5% since November 2008.

Question: Is the government current on the payment of bi-weekly payroll contributions? If not, how many payrolls are outstanding?

Nibbs: Yes.

Question: What is the percentage that Regular members pay in?

Nibbs: Tier I - 8% of base salary (employed prior to October 1, 2005).

Tier II - 8.5% of base salary (employed on and after October 1, 2005).

Question: How many members have retired under the Economic Stability Act?

Nibbs: 363.

Question: Given the large number of individuals, did you have to make special provisions in your process?

Nibbs: We literally had to suspend our efforts with the implementation of the new pension and benefits administration system, go back to the old system and close down operations for a couple of months because of the significant burden that was placed on the System. There was a 300% increase in retirees when compared to the prior year. As of March 30, 2012, 357 of the 363 members were placed on the payroll.

Question: In the Sixth State of the Territory Address, Governor John P. deJongh implored GERS trustees to "stop waiting on the Legislature to act. You must act on your own to save the pensions of the thousands of retirees and those who will be retiring in coming years." What is your reaction to the Governor's statement?

Nibbs: The Governor may have read our minds. The System has submitted amendments to legislation since January 1, 2011. Also, I have submitted additional amendments to the Board of Trustees for approval.

Question: What are some of the recommendations you have made over the years to the Legislature?

over

Nibbs:

- 1) Per diem basis and contractual employees who work exclusively for the Government at least 40 hours per week may be included as a member and receive service credits by paying the required contributions;
- 2) exclusion of the cost of living annuity, bonuses or adjustments for the specific purpose of the compensation ceiling of \$65,000;
- 3) increase the contribution rate from 11% to 15% for members of the Judiciary and the Legislature,
- 4) increase mortgage loans to \$350K;
- 5) increase new automobile loans to \$40K;
- 6) ability for retirees to refinance existing personal loans; and
- 7) allow vested members to purchase up to five years additional service credits (air time).

Other recommendations that I have submitted to the Board for consideration are:

- 1) Changing retirement eligibility for regular employee to 62 with 10 years of service, eliminating the any age with 30 years of service;
- 2) for class 3 employees: age 50 with 25 years of service or age 55 with 10 years of service, and eliminating the any age with 20 years of service;
- 3) changing the benefit multiplier for service earned in the future;
- 4) increasing the contribution rates for:
 - a. Tier I Regular from 8 percent to 11 percent,
 - b. Tier I Hazardous (Class 3) from 10 percent to 15 percent,
 - c. Tier II Regular from 8.5% to 11.5%,
 - d. Tier II Hazardous (Class 3) from 10.625% to 15.625%,
 - e. Judges and Legislators from 11 percent to 20 percent,
 - f. Employer from 17.5% to 20.5%,
- 5) using career average earnings instead of final 5-year average salary for non-vested members to determine the base salary to calculate the annuity;
- 6) reducing annuity payment based on social security benefits; and
- 7) reducing the percentage or delaying the COLA to retirees.

Question: How does the recent layoffs and 8% salary cuts affect the GERS?

Nibbs: A significant negative impact. (A snapshot of decreases in contributions and the increase in annuity payments below).

February 2012

<i>Employer contributions</i>	<i>\$5.3 million</i>
<i>Employee contributions</i>	<i>\$2.8 million</i>
<i>Annuity payments</i>	<i>\$19.3 million</i>

February 2011

<i>Employer contributions</i>	<i>\$6.7million</i>
<i>Employee contributions</i>	<i>\$3.2 million</i>
<i>Annuity payments</i>	<i>\$16.6 million</i>

The Actuary has estimated that with the 8% reduction in salary for employees paid from the general fund earning \$26,000 or more, the annual loss in contributions will be approximately \$5.4 million.

In his State of the Territory message, the Governor stated that up to 2,600 employees can be laid off in the coming months. Using an average salary of \$36,000 x 2,600 regular employees x 25.5% (combined employee rate - 8% and employer rate - 17.5%), the System stands to lose \$23.9 million in contributions annually.

Question: How has the System been informing members about what is going on?

Nibbs: Through our quarterly newsletter, town hall meetings and forums, radio and television programs, our website (www.usivgers.com) and workshops. I think that it is vital that our members and our community have some understanding of what we are faced with and what must be done in order to maintain the System's viability for future generations as well for this territory.



St. Thomas/St. Croix
USVI



GERS Update!

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GERS Upcoming Events

BOARD MEETINGS

- Thursday, April 19th (STT)
- Thursday, May 17th (STX)

HOURS OF OPERATION

- Loans Application Intake:
Monday - Thursday • 8:00 A.M. - 3:00 P.M.
Friday • 8:00 A.M. - 12:00 noon
- Member Services (Benefits)
Monday - Friday • 8:00 A.M. - 5:00 P.M.

PRE-RETIREMENT WORKSHOPS

St. Croix

Tuesday, April 24, 2012

8:30 A.M. - 4:00 P.M.

Employees' Retirement System

St. Thomas

Tuesday, May 15, 2012

8:30 A.M. - 4:30 P.M.

Employees' Retirement System

To pre-register or arrange for an on-site workshop call 776-7703 ext. 4202 on St. Thomas and 718-5480 ext. 5406 on St. Croix.

For more information, please visit our website at www.usvigiers.com.



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