

**GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
OF THE U.S. VIRGIN ISLANDS**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Year Ended September 30, 2018
AND
INDEPENDENT AUDITOR'S REPORT
(With Comparative Totals for 2017)



GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees
Government Employees' Retirement System
of the U.S. Virgin Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the Government Employees' Retirement System of the U.S. Virgin Islands (the System), a component unit of the Government of the U.S. Virgin Islands, which comprise the statement of fiduciary net position as of September 30, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Qualified Opinion

The System's financial statements do not present the components of the pension liability for the year ended September 30, 2018, in accordance with accounting principles generally accepted in the United States of America. The total pension liability was not actuarially calculated as of September 30, 2018. As a result, we were unable to obtain sufficient information for proper disclosure of the total pension liability, and related disclosure requirements.

Qualified Opinion

In our opinion, based on our audit, except for the effects of the matters described in the Basis for Qualified Opinion paragraph above, the financial statements referred to above present fairly, in all material respects, the fiduciary net position and changes in fiduciary net position of the Government Employees' Retirement System of the U.S. Virgin Islands as of September 30, 2018 and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes. The System's financial statements present the transactions that are attributable to the System. They do not purport to, and do not, present fairly the Government of the U.S. Virgin Island's overall financial position and results of operations as of and for the year ended September 30, 2018.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the fiscal year ended September 30, 2017, from which such partial information was derived.

We have previously audited the System's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the fiduciary activities and the proprietary activities in our report dated June 6, 2018. In our opinion, the partial comparative information presented herein as of and for the fiscal year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis on pages 4 through 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, as required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information on pages 27 through 30, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Bert Smith & Co.

St. Croix, U.S. Virgin Islands

July 9, 2019

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Government Employees' Retirement System of the U.S. Virgin Islands, (the System), financial performance provides an introduction to the financial statements of the System as of and for the year ended September 30, 2018. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the financial statements, required supplemental information and other supplemental information which follow this discussion. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

REQUIRED FINANCIAL STATEMENTS

The System is a component unit of the primary government of the U.S. Virgin Islands and is included in the Comprehensive Annual Financial Report of the Government. The financial statements for the System has been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board.

The *Statement of Fiduciary Net Position* presents the Plan's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the System's investments, at fair value, receivables and other assets and liabilities.

The *Statement of Changes in Fiduciary Net Position* presents information showing how the Plan's net assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, death benefit payments and administrative expenses.

Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of the data reported in the financial statements. This section also now includes the disclosure of actuarial methods and significant assumptions used in the most recent actuarial valuations and the funded status of the Plan in accordance with GASB Statement No. 68 which supersedes the requirements of Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers", as well as the requirements of Statement No. 50 "Pension Disclosures".

Required Supplementary Information presents information concerning the System's funding progress and its obligations to provide pension benefits to members. A schedule of required employer contributions is also presented and is useful in evaluating the condition of the plan.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

The following schedules provide a comparative summary and an analysis of the System's assets, liabilities and net position at September 30:

Fiduciary Net Position <i>(Dollar amounts expressed in thousands)</i>				
Fiduciary Net Position	2018	2017	Increase (Decrease)	Percentage
Cash, Cash Equivalents and Investments	\$ 645,887	\$ 675,177	\$ (29,290)	(4.34%)
Member Loans, net	74,181	99,783	(25,602)	(25.66%)
Real Estate, net	79,148	79,749	(601)	(0.75%)
Other Assets	14,285	50,185	(35,900)	(71.54%)
Total assets	813,501	904,894	(91,393)	(10.10%)
Stock Lending Transactions	1,231	19,478	(18,247)	(93.68%)
Other Liabilities	43,450	39,946	3,504	8.77%
Total Liabilities	44,681	59,424	(14,743)	(24.81%)
Total Net Position	\$ 768,820	\$ 845,470	\$ (76,650)	(9.07%)

The table shown above reflects a decrease of \$91.4 million, a 10 percent decrease in total assets.

- The cash and cash equivalents increased by approximately \$30 million as of September 30, 2018 from approximately \$132.6 million as of September 30, 2017 to approximately \$162.8 million as of September 30, 2018. The cash and cash equivalents excluding interest bearing deposits are segregated as follows:

	2018	2017	Increase (Decrease)
Cash in money market accounts	\$ 146,014	\$ 97,740	\$ 48,274
Cash in operational accounts	16,815	34,895	(18,080)
Total cash and cash equivalents	\$ 162,829	\$ 132,635	\$ 30,194

- The increase in cash held in money market accounts of approximately \$48.3 million is the result of the System's need to have cash readily available to meet the Retiree payroll cost.

ADDITIONS

The primary sources of additions for the System include member and employer contributions and investment income. The following table compares the source and amount of additions for the System during Fiscal Year 2018 and Fiscal Year 2017.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Contributions and Investment Income <i>(Dollar amounts expressed in thousands)</i>				
	2018	2017	Increase (Decrease)	Percentage
Employer Contributions	\$ 96,748	\$ 84,802	\$ 11,946	14.09%
Employee Contributions	44,482	47,925	(3,443)	(7.18%)
Net Investment Income	54,077	67,401	(13,324)	(19.77%)
Other Income	7,880	2,641	5,239	198.37%
	<u>\$ 203,187</u>	<u>\$ 202,769</u>	<u>\$ 418</u>	<u>0.21%</u>

The increase in employer contributions was primarily due to the receipt of members retiring, which resulted in the payment of the employers' share of delinquent prior years' contribution for those who had entered into retirement.

The 7.18 percent decrease of \$3.4 million in employee contributions is due primarily to employees withdrawing from the System.

In an effort to reduce the risk to the overall portfolio, net investment income decreased by 19.77 percent during FY 2018, due to the System's decision to shift to a dynamic asset allocation strategy. The percent return for fiscal 2018 is 5.73 percent versus a 7.9 percent return for the prior fiscal year. The net investment income for the System totaled \$54 million for FY 2018, comprised of \$37 million in net appreciation in fair value of investments, \$18 million in dividends, interest and other income, and \$1.3 million related to investment expenses. This is compared to the net investment income of \$67.4 million in FY 2017.

DEDUCTIONS

The primary sources of deductions from the System, includes the payment of retiree and survivor benefits, participant refunds and administrative expenses. The following table shows the use and amount of the deductions for the System during FY 2018 and 2017.

Deduction by Type <i>(Dollar amounts expressed in thousands)</i>				
	2018	2017	Increase (Decrease)	Percentage
Benefits Paid to Members	\$ 253,919	\$ 251,845	\$ 2,074	0.82%
Refunds Member Contributions	11,413	7,620	3,793	49.78%
Administrative Expenses	14,506	14,997	(491)	(3.27%)
	<u>\$ 279,838</u>	<u>\$ 274,462</u>	<u>\$ 5,376</u>	<u>1.96%</u>

During FY 2018 refunds increased by approximately \$3.8 million or 49.78% due to an influx of non-vested members departure. Administrative expenses were lower by 3.27 percent due to a concerted effort by management to reduce expenses due to the System's current circumstances.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2018

(With Comparative Totals for 2017)

	Year Ended September 30,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 162,829,658	\$ 132,635,408
Investments, at fair value (Note 5):		
U.S. government and agency obligations	18,094,222	14,094,742
Corporate obligations	22,943,119	27,432,278
Common stock – U.S.	-	108,900,465
Mortgage and asset-backed securities	29,281,819	29,922,506
Commingled and mutual funds	371,186,132	294,726,779
Unsettled securities sold	-	245,555
Cash collateral received under securities lending transactions (Note 6)	1,231,175	19,477,885
Investment loans	23,987,231	27,930,557
Real estate investment trust	-	3,006,766
Limited partnerships	16,333,977	16,804,117
Total cash, cash equivalents and investments	645,887,333	675,177,058
Member loans:		
Mortgage	6,266,247	7,014,392
Personal	68,870,459	93,709,909
Auto	14,377	28,849
	75,151,083	100,753,150
Less allowance for loans losses	(969,889)	(969,889)
	74,181,194	99,783,261
Real estate:		
Havensight Mall	41,000,000	41,000,000
Carambola NW- LLC	15,000,000	15,000,000
System Complex and Other Real Property	23,148,275	23,749,209
	79,148,275	79,749,209
Reserved assets	17,456	19,155
Due from other agencies of the Government of the U.S. Virgin Islands	9,350,356	45,246,663
Accrued interest receivable	1,676,875	1,745,202
Capital and other assets	3,239,901	3,173,047
Total assets	813,501,390	904,893,595
Liabilities		
Retirement benefits in process of payment	3,902,978	611,341
Payable for collateral received under securities lending transactions (Note 6)	1,231,175	19,477,885
Unsettled securities purchased	-	685,714
Other liabilities	39,546,574	38,648,162
Total liabilities	44,680,727	59,423,102
Net position restricted for pensions	\$ 768,820,663	\$ 845,470,493

The accompanying notes are an integral part of the financial statements.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

SEPTEMBER 30, 2018

(With Comparative Totals for 2017)

	Year Ended September 30,	
	2018	2017
Additions:		
Investment income:		
Net appreciation in fair value of investments	\$ 37,034,990	\$ 55,810,550
Interest and dividends	13,465,398	14,093,238
Other investment income	4,219,314	350,907
Rental income - net of related expenses	612,625	(306,673)
	<u>55,332,327</u>	<u>69,948,022</u>
Less:		
Investment management fees and custodian fees	1,131,228	2,358,109
Borrowers' rebates and other agent fees on securities lending transactions	91,760	125,334
Other expenses	32,140	63,218
	<u>54,077,199</u>	<u>67,401,361</u>
Contributions:		
Employer	96,747,868	84,802,335
Employee	44,481,827	47,925,193
	<u>141,229,695</u>	<u>132,727,528</u>
Other income	<u>7,880,224</u>	<u>2,641,471</u>
Total additions	<u>203,187,118</u>	<u>202,770,360</u>
Deductions:		
Benefits paid directly to members	253,918,529	251,845,293
Refunds of members' contributions	11,412,633	7,619,585
Administrative and operational expenses	14,505,786	14,997,033
	<u>279,836,948</u>	<u>274,461,911</u>
Total deductions	<u>279,836,948</u>	<u>274,461,911</u>
Net (decrease) in net position	(76,649,830)	(71,691,551)
Net position restricted for pensions:		
Net position beginning of year	845,470,493	917,162,044
Net position end of year	<u>\$ 768,820,663</u>	<u>\$ 845,470,493</u>

The accompanying notes are an integral part of the financial statements.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS

1. Description of the Plan

The Government of the U.S. Virgin Islands Employees' Retirement System (the System) is a multiple employer defined benefit pension plan. The System was established as of October 1, 1959 by the Government of the U.S. Virgin Islands (the Government or Employer) as an independent and separate agency to provide pension benefits to its employees, and includes Judicial, Executive, Legislative Branches and outside agencies. Under provisions of Virgin Islands Code, Title 3, Chapter 27, (the Code) the board of trustees of the System are responsible for the administration of the System.

The System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes and is included in the Government's financial reports as a pension trust fund.

Eligibility and Membership: The Plan covers all employees of the Government of the U.S. Virgin Islands except casual, provisional, or any part-time employee who does not regularly work at least 20 hours per week. The plan also covers employees whose services are compensated on a contractual fee or per diem basis who work exclusively for the Government at least 40 hours per week. Persons over the age of 55 may opt out of the Plan by providing formal notification to the plan. The Plan provides retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the Plan:

- 1) **Tier 1** - Employees hired prior to September 30, 2005
- 2) **Tier 2** - Employees hired on or after October 1, 2005

Plan Membership at September 30, 2018 consisted of:

	<u>2018</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,592
Current employees	<u>9,448</u>
	<u>18,040</u>

Vesting: The System provides for retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members. Regular Tier I employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full-service retirement annuity. Regular Tier II employees who have attained age 65 with at least ten years of service are eligible for a full-service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Tier I regular and safety employees who have attained age 50 with at least 10 years of credited service may elect to retire early with a reduced benefit. Tier II regular and safety employees who have attained age 60 with at least 10 years of credited service may elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained age 50 and upon the completion of 6 years of credited service as a member of the legislature.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *(Continued)*

1. Description of the Plan *(Continued)*

The semi-monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is \$65,000, except for senators and judges, whose annual salary is used. The Board may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index. The annual increase in the case of a disability annuity shall be 1 percent per year prior to the member's attainment of age 60 and 1.5 percent per year thereafter.

Contributions: Contributions to the System are made by the employer (Government of the U.S. Virgin Islands and its Independent Instrumentalities) and employees. From time to time, The Board may actuarially determine the rate of contribution for Tier I members and employers of the System. The Board of Trustees may not increase rates by more than 3.0% over a five-year period. The employer's contributions together with the employee's contributions and the income of the System should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the Code.

The contributions required to fund the System on an "actuarial reserve basis" are calculated periodically by the System's actuarial consultant. The actuarial valuation as of October 1, 2017 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the costs of the System on an actuarial basis.

The employer's required contribution is 20.5% of the employee's annual salary and required employee contributions are 11% and 11.5% of annual salary for Tier I and Tier II regular employees respectively; 12% and 14% for Tier I and Tier II senators respectively, 14% for both Tier I and Tier II judges, and 13% and 13.625% for Tier I and Tier II safety (hazardous employees and eligible employees under Act 5226) respectively. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective November 2, 2005, legislation was passed that required that the annual interest on refunded contributions be determined by the Board based on the experience of the System which shall not be less than 2%, nor more than 4% per annum. The system set the interest rate to 2% effective July 1, 2009.

Early Retirement Act of 1994: In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994 and December 5, 1995. Among other matters, the legislation allowed a member of the System who had a combined aggregate number of years of credited service plus number of years of age attained, equal to at least 75 years as of the date of the legislation to retire without reduction of annuity.

Members who attained the age of 50 with at least 10 but less than 30 years of credited service may add an additional three years to their age for this computation. Members with 30 years of service or who can retire without penalty under the Code shall have their average compensation increased by 4 percentage points.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (*Continued*)

1. Description of the Plan (*Continued*)

For each employee electing to retire pursuant to Section 8(a) of the above-mentioned Act, the Government shall contribute to the System, on a quarterly basis, an amount equal to the Employer and Employee contributions that would have been made until the employee reached age 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government shall contribute to the System a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the 3 years used to compute the employee's average compensation figure, plus a sum of \$5,000. Based on the calculation, the total due of \$26,944,627 was collected. This represents the total amount due under the Act.

The Actuary for the System has determined that the specific funding provided under the Early Retirement Act of 1994 is inadequate to cover the costs of the program. The System is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law which provides that the employer shall compensate the System for the costs of any special early retirement program.

2. Summary of Significant Accounting Policies

Basis of Accounting. The accompanying financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Employee and employer contributions are recognized as additions to plan net assets in the period in which employee services are performed. Benefits are recorded upon payment. Refunds are recognized when due and payable in accordance with the terms of the plan.

Cash and Cash Equivalents. The System considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Methods Used to Value Investments. Investments in marketable securities are carried at quoted market values. Shares of mutual funds are valued at the net asset value of shares held by the System at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

Investments in member loans are valued at the outstanding principal balance less an allowance for estimated loan losses. Management of the System believes that, based upon interest rate and risk factors, this valuation approximates fair value. Investments in limited partnerships have no readily ascertainable market value and are based on the valuation reported by the general partners.

The System's complex and other real property - St. Thomas/St. Croix real estate is carried at historical cost, net of accumulated depreciation and amortization on the portions of the facility which are occupied by the System. The sections of the complex that are rented are considered investment properties and are carried at their appraised values.

The carry value for Havensight Mall real estate is based on an independent appraisal as of March 2017. The value in this investment remained at \$41,000,000 at September 30, 2018.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (*Continued*)

2. Summary of Significant Accounting Policies (*Continued*)

The carrying value for Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa is based on an independent appraisal as of 2015. The value in this investment remained at \$15,000,000 at September 30, 2018.

There are certain market risks, credit risks, liquidity risks, foreign exchange risks, and event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

Depreciation. Capital assets utilized in the operation of the System are recorded at historical cost and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment are depreciated over 5 years and building and improvements over 25 years. The capitalization threshold used by the System was \$1,000 and an estimated useful life in excess of one year.

Tax Exemption. The System is exempt from all income and property taxes.

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of plan net position, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results may differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the financial statements.

Comparative Totals. The financial statements include certain prior year's summarized comparative information. Such information does not include sufficient detail on reclassifications to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

3. Accounting Changes

GASB issued Statement No. 72, *Fair Value Measurement and Application* – to address the accounting and reporting issues associated with fair value (the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date) measurement. This statement was implemented in fiscal year 2016.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

4. Net Pension Liability

The components of the net pension liability (NPL), of the System as of September 30, 2018, were as follows:

Total Pension Liability (1)	Plan Fiduciary Net Position (2)	Net Pension Liability (1-2)	Plan Fiduciary Net Position as a % of Total Pension Liability (2/1)
<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$5,225,911,082	\$845,470,493	\$4,380,440,589	16.18%

Valuation date	Actuarially determined contributions are calculated as of October 1, 2017
Actuarial cost method	Entry Age Normal Cost Method determined as a percentage of salary
Amortization method	Level dollar
Amortization period	20 years open amortization
Asset valuation method	Market value
Inflation	2.50%
Salary Increases	3.25% per year
Investment Rate of Return	3.74% net of pension plan investment expense, including inflation
Mortality	<p>Non-annuitant: 110% of the RP-2014 Blue Collar Employee Mortality Table with generational projection from 2015 using Scale MP-2015.</p> <p>Healthy annuitant: 110% of the RP-2014 Blue Collar Healthy Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015.</p> <p>Disabled annuitant: 125% of the RP-2014 Disabled Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015</p>

The long-term expected rate of return of 7.0% on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

4. Net Pension Liability (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017 are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	29%	6.21%
International equity	12%	7.21%
Fixed income	27%	1.56%
Alternatives	30%	5.50%
Cash	2%	0.91%
Total	<u>100%</u>	

Discount rate: The discount rate used to measure the total pension liability was 3.74% as of September 30, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2017, that rate was 3.64%.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability calculated using the discount rate of 3.74%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.74%) or 1-percentage-point higher (4.74%) than the current rate:

	<u>1% Decrease (2.74%)</u>	<u>Current Discount (3.74%)</u>	<u>1% Increase (4.74%)</u>
Net pension liability	<u>\$5,081,834,786</u>	<u>\$4,380,440,589</u>	<u>\$3,801,660,096</u>

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *(Continued)*

5. Investments

(a) Marketable Securities

The System's investments in marketable securities are held in trust by a Custodian bank (State Street Bank and Trust Company) on behalf of the System and are managed by several professional investment managers.

The System's board of trustees has established investment policies that place limitations and provide guidelines on amounts that may be invested in certain investment categories. In addition, such policies provide the guidance related to the type of investment transactions that can be entered into. The System's board of trustees authorizes the System to invest in the following:

- United States Government agencies and instrumentalities obligations;
- Bonds or notes which are general obligations of any state in the United States, or of any political subdivision;
- Bonds or other obligations which are payable from revenue or earnings specifically pledged of a public utility, which is municipally owned either directly or indirectly through any civil division, authority, or public instrumentality of the municipality; provided that (a) the municipality has at least 30,000 inhabitants; (b) the utility has been in operation for at least 10 years prior to the date of the investment; (c) bonds or other obligations of such utility have not been in default for any period longer than 30 days; (d) rates for service are fixed and maintained and collected at all times so as to produce sufficient revenue or earnings to pay all operating and maintenance charges and both the principal and interest on such bonds or obligations; (e) the total investment in this type of security shall not at any time exceed 10 percent of the total investment of the System.
- Bonds or any other evidences of indebtedness issued or guaranteed by any domestic railroad corporation, or in equipment trust certificates, provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic public utility corporation provided that these securities and investments bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic industrial corporation provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *(Continued)*

5. Investments *(continued)*

- Bonds or other obligations of the Commonwealth of Puerto Rico or of the Territories of the United States, provided that the investment in any one issue of bonds of these entities should not exceed 10% thereof, and that the total investment in all securities of any one of such entities should be limited to 2% of the total investment account of the System;
- Bonds or other indebtedness issued by foreign governments or foreign corporations provided that (a) these securities bear a rating of "BBB" or better by any two internationally known securities rating agencies, and (b) not more than 2% of total investments should consist of any one issue of these bonds. The aggregate amount to be invested in foreign bonds should be limited to 10% of the market value of the total investments of the System on the date the investment is made;
- Common and preferred stocks of any corporation chartered under the laws of the United States, or of any state, district, or territory thereof or common and preferred stocks of any foreign corporation if listed on any internationally recognized security exchange;

The investment in the stock of any single corporation should not exceed 1% of the market value of the total investment of the fund on the date of purchase. The aggregate amount to be invested in common and preferred stocks should be limited to 60% of the market value of the total investments of the System on the date the investment is made. Investment in foreign stocks should be limited to 10% of the market value of the total investment of the System;

The aggregate amount to be invested in common and preferred stock should be limited to 20% of the book value of the total investments of the System on the date the investment is made.

- Mutual funds of any corporation chartered under the laws of the United States, or any state, district, or territory thereof if listed on a national securities exchange;
- Real property purchased and/or developed by the board of trustees for sale for homeownership purposes;
- Loans to approved businesses by the Board of Trustees as alternative investments.

(b) Investment Loans

VI Property Tax Revenue Anticipation Note

On November 14, 2011, the System entered into a loan agreement with the Government of the U.S. Virgin Islands (GVI) in the amount of \$13,000,000 at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately \$36,000,000. At September 30, 2018, the outstanding balance is \$643,682.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Investments (Continued)

In legislative action passed in November 2012, the System will be allowed to use funds received in excess of the stipulated payment under the terms of the loan agreement, to fund the shortfall in the prior year's government contributions.

KAZI Foods of the Virgin Islands Inc.

On September 24, 2013, the System entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of \$6,000,000 at an interest rate of 6.25% and a maturity date of October 23, 2023. At September 30, 2018, the outstanding principal balance on the loan is \$3,603,986.

V.I. Finest Foods, LLC

On June 30, 2014, the System entered into a construction loan agreement with V.I. Finest Foods, LLC in the principal amount of up to \$8,205,989 at an interest rate of 6.4%, an interest only period of 17 months and a fully amortizing period of 103 consecutive months. The loan was subsequently modified on May 24, 2016 to provide an increase in the principal amount of the loan of an amount up to \$11,000,000 and extending the maturity date to March 31, 2025. At September 30, 2018, the outstanding principal balance on the loan is \$10,436,677.

Attilanus

On July 18, 2012, the System executed a loan with Attilanus. Under the terms of the agreement with Attilanus, a credit facility ("Facility") with a total of \$10,000,000 was made available to meet on-going premium costs and certain other expenses. The terms of the Facility require interest payments at a rate of 15% per annum and will be paid in accordance with the Trust indenture. The facility is structured as a note where principal repayments eliminate the future amount available. The outstanding balance at September 30, 2018 is \$ 10,000,000. The System received interest payments totaling \$3,381,775.

(c) *Limited Partnership*

The total value of the limited partnership investments at September 30, 2018 is as follows:

	2018
Mesirow	<u>\$16,333,977</u>

(d) *Net Appreciation in Fair Value of Investments, Interest and Dividends*

The fair value of the System's investments at September 30, 2018 amounted to \$481,826,500. The investments generated interest and dividend income of \$7,661,984 for the year ended September 2018.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Investments (Continued)

In addition, the net appreciation in fair value System's investments including gains and losses on investments bought and sold, as well as held during the year, totaled \$37,034,990 in fiscal year 2018, as listed below:

	2018
U.S. government and agency obligations	\$ (739,185)
Corporate obligations	(1,342,727)
Common and preferred stock - U.S.	10,830,931
Mortgage and asset-backed securities	(1,587,478)
Commingled and mutual funds	27,685,132
Real estate investment trust	(165,193)
Other gains/losses/investments	-
Limited partnership	2,353,510
Totals	\$ 37,034,990

(e) Custodial Credit Risk-Deposits

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash and cash equivalents consist of money market accounts.

As required by law, banks or trust companies designated as depositories of public funds of the Government and its various agencies, authorities, and instrumentalities are to maintain corporate surety bonds or pledge collateral satisfactory to the U.S. Virgin Islands Commissioner of Finance to secure all funds deposited.

At September 30, 2018, all cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the System.

(f) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer of securities. The System's investment policy (the Investment Policy) establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk.

There were no investments in any one issuer that represent 5% or more of total investments.

(g) Risk

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices, and the risks associated with them. The credit risk, (including custodial credit risk and concentration of credit risk), the interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro-rata share of the underlying investments as required by GASB Statement No. 40. These are held in investment pools and reported as such in the financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Investments (Continued)

(h) Credit Risk

The Investment Policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by the statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. However, the Investment Policy allows for investments in mortgage pass-through securities.

The fair value and credit ratings of debt securities (excluding U.S. government obligations and obligations expressly guaranteed by the U.S. government), money market funds, mutual funds, and other pooled investments of fixed income securities at September 30, 2018 include the following:

Standard & Poor's Credit Ratings:

	<u>Credit Ratings</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Corporate obligations	AA+	\$ 262,875	.06%
Corporate obligations	AA-	137,859	.03%
Corporate obligations	A+	525,096	.12%
Corporate obligations	A	553,138	.12%
Corporate obligations	A-	3,846,117	.86%
Corporate obligations	BBB+	6,204,817	1.39%
Corporate obligations	BBB	8,025,426	1.79%
Corporate obligations	BBB-	3,368,011	.75%
	Not Available	19,780	.01%
Corporate obligations	Available	19,780	.01%
Investment loans	Not Rated	23,984,017	5.30%
Mortgage and asset-backed securities	AAA	5,086,472	1.13%
	Not Available		
Mortgage and asset-backed securities	Available	24,195,346	5.41%
Commingled and mutual funds	Not Rated	371,186,132	82.97%
Total		<u>\$447,395,087</u>	100%

Moody's Investor Services Credit Ratings:

	<u>Credit Ratings</u>	<u>Fair Value</u>	<u>Percentage of portfolio</u>
Corporate obligations	AA1	\$ 262,875	.06%
Corporate obligations	A1	1,843,880	.41%
Corporate obligations	A2	1,007,019	.23%
Corporate obligations	A3	2,584,714	.58%
Corporate obligations	Baa1	6,384,110	1.43%
Corporate obligations	Baa2	5,081,177	1.14%
Corporate obligations	Baa3	5,473,556	1.22%
	Not Available		
Corporate obligations	Available	305,787	.07%
Investment loans	Not Rated	23,984,017	5.62%
Mortgage and asset-backed securities	Aaa	345,150	.08%
Mortgage and asset-backed securities	Aa1	6,558,367	1.47%
	Not Available		
Mortgage and asset-backed securities	Available	21,533,312	4.81%
Mortgage and asset-backed securities	Not Rated	844,989	.19%
	Not Available		
Commingled and mutual funds	Available	371,186,132	82.97%
Total		<u>\$447,395,087</u>	100.00%

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended September 30, 2018

5. Investments (Continued)

Cash and cash equivalents and other investments at September 30, 2018 include the following:

	<u>Fair Value</u>	<u>Credit Ratings</u>	
		<u>Standard & Poor</u>	<u>Moody's</u>
Cash and cash equivalents	\$ 146,014,459	Not Rated	Not Rated
U.S. government & agency obligations	582,041	AA+	Aaa
U.S. treasury bonds	6,081,649	Not Available	Aaa
U.S. treasury notes	10,455,709	Not Available	Aaa
Municipal bonds	462,164	AAA	Aaa
Municipal bonds	512,660	AA	Aa2
Limited partnership	16,333,977	Not Rated	Not Rated
Total cash, cash equivalents and other investments	<u>\$ 180,442,658</u>		

The total System's cash, cash equivalents and investment securities at September 30, 2018 consists of:

Fixed income investments	\$ 510,395,082
Cash, cash equivalents, and other Investments	180,442,658
	<u>\$ 690,837,740</u>
Cash and cash equivalents Investments, at fair value	\$ 146,014,459
	544,823,281
	<u>\$ 690,837,740</u>

(i) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the System's board of trustees.

As of September 30, 2018, the System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (in years)</u>				
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>	<u>More Than 10 Years</u>	<u>No Stated Maturity Date</u>
Commingled Funds	\$371,186,132	\$ -	\$ -	\$ -	\$ -	\$371,186,132
Corporate Obligations	22,943,119	886,440	10,381,489	6,853,091	4,822,099	-
Investment Loans	23,987,231	9,400,864	4,149,690	10,436,677	-	-
Mortgage and asset-backed securities	29,281,819	193,096	5,757,672	2,185,774	21,145,277	-
Municipals bonds	974,823	-	-	-	974,823	-
US Government Agency Obligations	582,041	-	582,041	-	-	-
US Treasury Bonds	6,081,649	-	-	-	6,081,649	-
US Treasury Notes	10,455,709	-	6,975,275	3,480,434	-	-
Totals	<u>\$465,492,523</u>	<u>\$10,480,400</u>	<u>\$27,846,167</u>	<u>\$ 27,955,976</u>	<u>\$33,023,848</u>	<u>\$371,186,132</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *(Continued)*

5. Investments *(Continued)*

(j) Custodial Credit Risk - Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by noncash collateral, the System's entire investment portfolio was held with a single third-party custodian in the System's name as of September 30, 2018. At September 30, 2018, the System had no underlying securities on loan secured by noncash collateral.

Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

(k) Forward Currency Exchange Contracts

The System enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed upon price. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contracts. Changes in the market value of open and closed forward contracts are recorded within interest, dividends, and other income in the statement of changes in plan net position. During the year ended September 30, 2018, the System did not engage in any forward currency exchange contracts

(l) Fair Value Measurements

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the System is required to classify certain assets and liabilities based on the following fair value hierarchy:

- *Level I:* Quoted prices (unadjusted) for identical investments in active markets;
- *Level II:* Observable inputs other than quoted market prices; and,
- *Level III:* Unobservable inputs.

These levels are determined by the System's investment staff. These are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The System will request the information from the fund manager if necessary.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Investments (Continued)

The System had the following recurring fair value measurements as of September 30, 2018:

	9/30/2018	Level I	Level II	Level III
Investments by fair value level				
Debt securities				
Government agency obligations	\$ 17,119,399	\$ -	\$17,119,399	\$ -
Municipal obligations	974,823	-	974,823	-
Corporate bond	22,943,119	-	22,943,079	40
Assets-backed securities	6,807,833	-	6,807,833	-
Collateralized mortgage obligations	1,115,772	-	1,115,772	-
Commercial mortgage-backed securities	3,472,136	-	3,472,136	-
Residential mortgage-backed securities	17,886,078	-	17,886,078	-
Total debt securities	70,319,160	-	70,319,120	40
<hr/>				
Limited partnership-private equity fund of funds	16,333,977	-	-	16,333,977
Private debt-direct lending/other investments	98,168,425	-	-	98,704,139
Real estate/other real assets	79,148,275	-	-	79,151,641
Total other investments	193,650,677	-	-	194,189,757
<hr/>				
Total investments by fair value level	\$ 263,969,837	\$ -	\$70,319,120	\$194,189,797
<hr/>				
Investments measured at net assets value (NAV)				
Commingled equity funds	\$ 156,368,908			
Commingled bond funds	214,817,224			
Securities lending collateral fund	1,231,175			
Total investments measured at the NAV	372,417,307			
Short-term investments	162,829,658			
Total investments measured at fair value	\$ 799,216,802			

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below:

Investments measured at net assets value (NAV)				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	\$156,368,908	\$ -	Daily	1 – 15 days
Commingled bond funds	214,817,224	-	Daily	2 – 10 days
Securities lending collateral fund	1,231,175	-	Daily	None
Total investments measured at the NAV	\$372,417,307	\$ -		

Commingled equity and bond funds. This type includes seven commingled funds that invest in publicly traded domestic & global stocks, and domestic & global fixed income securities. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. The total commingled fund assets can be liquidated on a daily basis. All of the underlying securities within the commingled funds carry a recurring fair value measurement Level of II. There are no unfunded commitments to commingled funds at September 30, 2018.

Securities lending collateral. The System's custodian is the agent in lending the System's securities for collateral and investments are in a commingled fund.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Investments (Continued)

(m) Member Loans

The System's investments in member loans, net of allowances for loan losses, at September 30, 2018 were \$74,181,194. Such investments in member loans generated interest income of \$6,325,258 for the year ended September 30, 2018. The average interest rate was 8% for the year ended September 2018.

The loan program was suspended in August 2015.

(n) Real Estate

The investment in the Havensight Mall has an appraised value of \$41,000,000 as of September 30, 2018.

The investment in Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa appraised value is \$15,000,000 for the year ended September 30, 2018.

The System's appraised value of land is \$8,727,159 for the year ended September 30, 2018.

Rental Income net of related expenses generated a net gain of \$612,625 for the year ended September 30, 2018.

The System Facilities - St. Thomas/St. Croix are partially an investment of the System's retirement funds in real estate held for rent or lease. The System utilizes portions of the buildings in the operation of the System. Depreciation is provided for only those portions of the buildings that are utilized in the operation of the System. The remaining areas of the building are leased to other government agencies and commercial tenants. In accordance with Government Accounting Standards Board (GASB) No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, assets held for lease must be presented at fair value.

The investment in the System Facilities --- St. Thomas/St. Croix as of September 30, 2018 is as follows:

	2018
Land	\$ 8,727,159
Building, improvements, and fixtures	19,923,535
	<u>28,650,694</u>
Less: accumulated depreciation and amortization	6,897,841
Total	<u>\$ 21,752,853</u>

6. Securities Lending Transactions

The Government's statutes permit the System to participate in securities lending transactions, and the System has, via a securities lending authorization agreement (the agreement), authorized State Street Bank and Trust Company (the custodian) to lend securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. The System does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2018 as to the amount of loans the custodian can make on behalf of the System.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS (Continued)

6. Securities Lending Transactions (Continued)

Loans are generally terminable on demand. The collateral received shall (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in the U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

As of September 30, 2018, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Under the terms of the agreement, the custodian must indemnify the System for losses attributable to violations by the custodian under the "Standard of Care" clause described in the agreement.

There were no such violations during the fiscal year 2018, and there were no losses during either fiscal year resulting from the default of the borrowers or the custodian. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the custodian in performing the duties described in the Agreement with respect to collateral.

In lending securities, cash collateral is invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2018, such investment pool had a weighted average maturity and average expected maturity of 39 days and 78 days, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of September 30, 2018, the fair value of securities on loan amounted to \$6,741,711, which consisted of U.S. government and agency obligations, and equity corporate bonds. The total collateral held by the System's Custodian or other banks was valued at \$6,879,471 including \$1,231,175 cash, as of September 30, 2018. Investments made with cash collateral are reported as an asset of the System with a corresponding liability in the accompanying statement of fiduciary net position.

The following represents the balances relating to the securities lending transactions as of September 30, 2018:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Cash Collateral Investment Value</u>	<u>Securities Collateral Investment Value</u>
Lent for Cash Collateral:			
Corporate bonds	\$ 1,206,276	\$ 1,231,175	\$ -
Lent for Securities Collateral:			
U.S. government and agency obligations	5,535,435	-	5,648,296
Totals	<u>\$ 6,741,711</u>	<u>\$ 1,231,175</u>	<u>\$ 5,648,296</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *(Continued)*

7. Due from Agencies of the Government of the U.S. Virgin Islands

At September 30, 2018, the amount recorded as due from Agencies of the Government of the U.S. Virgin Islands was \$9,350,356.

8. Internal Revenue Matching Fund

On December 19, 2013 Pursuant to Act No. 7261 Section 13 (Bill No. 29-0123) and enabling legislation, the System should have received \$7,000,000 per year from the Internal Revenue Matching Fund. In 2018 the System received \$19,200,000 which was applied as Employer Contributions.

9. Risks of Loss

Certain real estate holdings discussed in Note 5(n) in the financial statements were impacted by hurricanes Maria and Irma. In Fiscal 2018 the System received \$1,500,000. As of September 30, 2018, no funds were expended.

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims against the System, Board of Trustees or any of its staff as a result of an actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

10. Litigation

The System is a defendant in legal claims arising from its normal operations. It is management's opinion, after consulting with its legal counsel that losses, if any, resulting from these claims will not have a material effect on the System's financial position. The System is also a plaintiff in various class action suits, whose outcomes are currently undeterminable.

11. Management Fees and Custodian Fees

The custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and reimbursement of out-of-pocket expenses incidental to custodial duties. Such fees amounted to \$1,131,228 for the year ended September 30, 2018.

12. Subsequent Events

The System's management has evaluated subsequent events through July 9, 2019, the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provided evidence about conditions that exist at the balance sheet date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events that did not exist at the balance sheet date, but disclosures of such events, if any, are included in the accompanying notes.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *(Continued)*

Subsequent Events - Unaudited

In recent weeks, the United States and the U.S. Virgin Islands has been impacted by the Novel Coronavirus (COVID-19), an aggressive and potent pandemic. This pandemic is considered a non-recognized subsequent event, that is, an event that did not exist at the date of the statement of position. No adjustment has been recorded in the financial statements. The System has evaluated the current environment including the reduction in customer traffic to stores operated by their merchant tenants and temporary store closures where government mandated. The financial impact of these developments is expected to result in reduced rental income.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS				
Fiscal Year Ended September 30:	2017	2016	2015	2014
Total Pension Liability				
Service Cost	\$ 101,716,941	\$ 87,734,650	\$ 69,262,969	\$ 65,274,936
Interest on the Total Pension Liability	176,503,962	192,803,756	184,451,782	191,113,749
Benefit Changes	-	(48,588,579)	-	(40,421,809)
Differences between Actual and Expected Experience	25,049,512	76,689,946	98,193,233	35,917,905
Changes of Assumptions	(361,658,766)	431,433,618	731,994,972	241,527,329
Benefit Payments and Refunds	(259,464,878)	(259,011,168)	(250,110,255)	(247,069,503)
Net Change in Total Pension Liability	<u>(317,853,229)</u>	<u>481,062,223</u>	<u>833,792,701</u>	<u>246,342,607</u>
Total Pension Liability – Beginning	<u>5,543,764,311</u>	<u>5,062,702,088</u>	<u>4,228,909,387</u>	<u>3,982,566,780</u>
Total Pension Liability – Ending (A)	<u>\$ 5,225,911,082</u>	<u>\$ 5,543,764,311</u>	<u>\$ 5,062,702,088</u>	<u>\$ 4,228,909,387</u>
Plan Fiduciary Net Position				
Contributions – Employer	\$ 84,802,335	\$ 86,346,597	\$ 72,287,934	\$ 68,298,617
Contributions – Member	47,925,193	41,459,511	36,245,015	34,020,107
Net Investment Income	67,401,362	70,993,934	4,967,602	60,326,921
Benefit Payments and Refunds	(259,464,878)	(259,011,168)	(250,110,255)	(247,069,503)
Administrative Expense	(14,997,033)	(15,267,630)	(16,401,722)	(18,867,491)
Other	2,641,471	1,599,548	1,161,301	3,573,611
Net Change in Plan Fiduciary Net Position	<u>(71,691,550)</u>	<u>(73,879,208)</u>	<u>(151,850,124)</u>	<u>(99,717,738)</u>
Plan Fiduciary Net Position – Beginning	<u>917,162,043</u>	<u>991,041,251</u>	<u>1,142,891,375</u>	<u>1,242,609,113</u>
Plan Fiduciary Net Position – Ending (B)	<u>845,470,493</u>	<u>917,162,043</u>	<u>991,041,251</u>	<u>1,142,891,375</u>
Net Pension Liability – Ending (A) – (B)	<u>\$ 4,380,440,589</u>	<u>\$ 44,626,602,268</u>	<u>\$ 4,071,660,837</u>	<u>\$ 3,086,018,012</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension	<u>16.18%</u>	<u>16.54%</u>	<u>19.58%</u>	<u>27.03%</u>
Covered Employee Payroll	<u>\$ 393,771,228*</u>	<u>\$ 368,023,518*</u>	<u>\$ 355,603,633*</u>	<u>\$ 370,131,865</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>1,112.43%</u>	<u>1,257.15%</u>	<u>1,145.00%</u>	<u>833.76%</u>
<i>*Covered employee payroll as reported in the participant data as of each valuation date.</i>				
<i>Historical information prior to implementation of GASB 67/68 is not required</i>				

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

Notes Schedule of Changes in the Employers' Net Pension Liability

Benefits Provided: In the year ended September 30, 2016, there were changes to the eligibility and benefit amounts for Tier 2 Regular and Public Safety Employees for service and Early pensions reflected in this valuation.

Change of Assumptions: In the year ended September 30, 2014, amounts reported as changes in assumptions resulted from a decrease in the discount rate used to measure the total pension liability from 4.87% as of September 30, 2013 to 4.42% as of September 30, 2014.

In the year ended September 30, 2015, amounts reported as changes in assumptions resulted from a decrease in the discount rate used to measure the total pension liability from 4.42% as of September 30, 2014 to 3.84% as of September 30, 2015 and several changes in assumptions based on the actuarial experience study as of September 30, 2015 adopted by the Board effective September 30, 2015. The changes include changes to the long-term expected rate of return, salary scale, inflation, the mortality assumption for healthy and disabled lives including the provision for future mortality improvement, retirement ages for active members and pre-retirement decrement rates for turnover and disability.

In the year ended September 30, 2016, amounts reported as changes in assumptions resulted from a decrease in the discount rate used to measure the total pension liability from 3.84% as of September 30, 2015 to 3.20% as of September 30, 2016.

In the year ended September 30, 2017, amounts reported as changes in assumptions resulted from an increase in the discount rate and to measure the total pension liability from 3.20% as of September 30, 2016 to 3.74% as of September 30, 2017.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

SCHEDULE OF EMPLOYER CONTRIBUTIONS – LAST TEN FISCAL YEARS

Fiscal Year Ended September 30	Actuarially Determined Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Percentage Contributed
2008*	138,488,871	75,871,146	62,617,725	419,161,255	18.10%
2009*	147,490,851	80,177,004	67,313,847	433,549,406	18.49%
2010*	157,817,709	77,004,630	80,813,079	458,154,309	16.81%
2011*	162,841,336	80,849,762	81,991,574	440,026,457	18.37%
2012	178,644,349	66,677,155	111,967,194	403,473,988	16.53%
2013*	172,439,842	64,431,322	108,008,520	381,012,309	16.91%
2014	189,715,251	68,298,617	121,416,634	370,131,865	18.45%
2015	200,089,791	72,287,934	127,801,857	355,603,633	20.33%
2016	247,158,137	86,346,838	160,811,299	363,023,518	23.46%
2017	250,574,023	84,802,335	165,771,688	393,771,228	21.54%

**Estimated based on prior year's actuarial valuation*

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION *(Continued)*

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Notes to Schedule of Employer Contributions

Valuation date	Actuarially determined contributions are calculated as of October 1, 2017
Methods and assumptions need to determine contribution rates:	
Actuarial cost method	Entry Age Normal Cost Method determined as a percentage of salary
Amortization method	Level dollar, closed group
Amortization period	20 years open amortization
Asset valuation method	Market value
Inflation	2.50%
Salary Increases	3.25% per year
Investment Rate of Return	3.74% net of pension plan investment expense, including inflation
Mortality	Non-annuitant: 110% of the RP-2014 Blue Collar Employee Mortality Table with generational projection from 2015 using Scale MP-2015. Healthy annuitant: 110% of the RP-2014 Blue Collar Healthy Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015. Disabled annuitant: 125% of the RP-2014 Disabled Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015



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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Government Employees Retirement System
of the Virgin Islands

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Government Employees' Retirement System of the U.S. Virgin Islands (the System), a component unit of the Government of the U.S. Virgin Islands, which comprise the statement of fiduciary net position as of September 30, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit, we identified deficiencies in internal control over loans, census/participant data and information technology that we consider to be significant deficiencies. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bert Smith & Co

St. Croix, U.S. Virgin Islands
July 9, 2019

INVESTMENT SECTION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION

INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board-adopted Investment Policy governs investment activity at the Government Employees Retirement System (GERS). The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The Board is responsible for managing the assets of the Fund effectively, prudently, and for the exclusive benefit of GERS' members and beneficiaries.

INVESTMENT POLICY

The Board approves the Statement of Investment Policy. The purpose of the policy is to set forth GERS' investment philosophy and objectives. The policy establishes investment policies and describes the organization and division of responsibilities necessary to implement the Board's philosophy and objectives prudently; and establishes a framework for making investment decisions, monitoring investment activity, and promotes effective communication between the Board, Staff, and other involved parties.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns exceeding the return of our Policy Benchmark within prudent risk parameters. Over the long term, it is expected that investment returns also should meet or exceed the Board approved actuarial assumed rate of 7.00%.

ASSET ALLOCATION

The Board implements an asset allocation policy that is predicated on several factors, including:

1. A projection of actuarial assets, liabilities, and benefit payments and the cost of contributions;
2. Historical and expected long-term capital market risk and return behavior;
3. An assessment of future economic conditions, including inflation and interest rate levels; and
4. The current and projected funding status

The asset allocation policy provides for diversification of assets in an effort to maximize the Fund's investment return consistent with market conditions. Asset allocation modeling identifies asset classes that the Board will utilize and the percentage that each asset class represents of the total Fund. Due to fluctuations in market values, positioning within a specific range is acceptable and constitutes compliance with the policy. It is anticipated that periodic revisions to the policy may occur and implementing such changes may require an extended period of time.

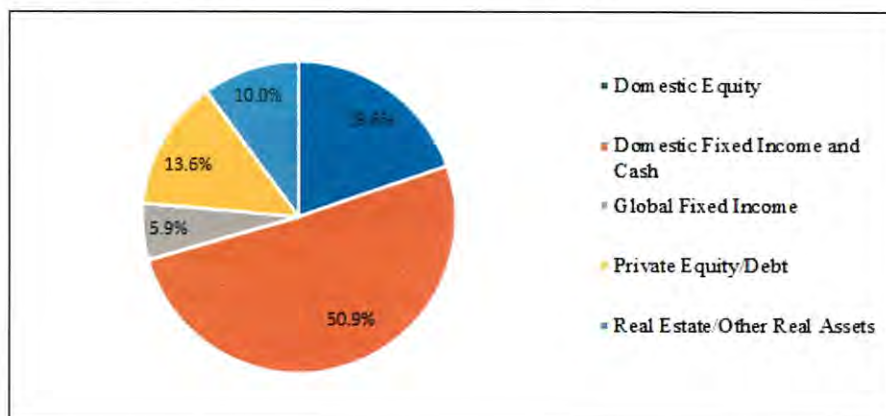
In fiscal year 2015 the Board approved and implemented a Dynamic Asset Allocation structure to maximize the System's ability to meet benefit obligations by matching the time-horizon of the plan's assets and liabilities. The Dynamic Asset Allocation is based on three categories of reserves that include:

1. Cash Flow Reserves - Assets required to meet projected cash outflows in the short-term, typically over the next one to two years.
2. Recommended Reserves - Assets required to meet projected cash outflows in the intermediate-term, typically over three years.
3. Surplus Reserves - Assets that are in excess of the cash flow and recommended reserves.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION (Continued)

ASSET ALLOCATION – SEPTEMBER 30, 2018



INVESTMENT PERFORMANCE-ANNUALIZED RETURNS – SEPTEMBER 30, 2018

	1 Year	3 Year	5 Year
Total Fund Time-Weighted Returns			
GERS	8.5 ^a	8.2 ^a	5.7 ^a
Total Policy Benchmark	9.7 ^a	11.3 ^a	8.6 ^a
Domestic Equities			
GERS	20.9	19.0	15.0
Russell 3000 Benchmark	17.6	17.1	13.5
Domestic Fixed Income			
GERS	-0.5	1.7	1.9
BBgBarc Global Aggregate TR Benchmark	-1.2	1.3	2.2
Global Fixed Income			
GERS	-2.0	3.7	1.8
FTSE WGBI DM Benchmark	-1.5	1.7	0.2
Private Equities			
GERS	19.4 ^b	13.3 ^b	16.0 ^b
S&P 500 + 300 Bpts Benchmark	21.4 ^b	20.8 ^b	17.3 ^b
Private Debt			
GERS	8.2 ^b	5.8 ^b	-2.9 ^b
S&P 500 + 300 Bpts Benchmark	21.4 ^b	20.8 ^b	17.3 ^b
Real Estate/Other Real Assets			
GERS	20.2 ^b	4.6 ^b	-
S&P 500 + 3% Bpts Benchmark	21.4 ^b	20.8 ^b	-

Return data for the System was calculated on a time weighted basis (except where noted). Returns shown are provided by the System's custodian bank, State Street Bank & Trust. Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. Returns are gross of fees paid to investment managers except where noted.

a: Total Fund returns utilize lagged valuations for private equity, private debt, and private real assets investments.

b: Returns computed on dollar-weighted basis and are net of investment management fees.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION (Continued)

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

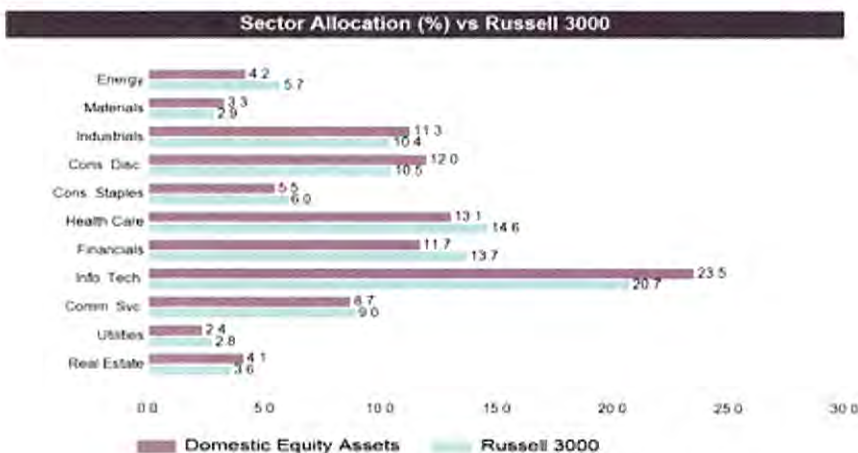
The market value of the total Public Equity Portfolio as of September 30, 2018 represented approximately 19.6% of the total Fund, with all allocation to Domestic Equity. The Domestic Equity Portfolio outperformed the Russell 3000 Benchmark by 3.1% for the one year ending September 30, 2018. U.S. equity markets rallied during the fiscal year finishing up another year with double digits returns. After taking a pause early in the year due to concerns about the impact of rising interest rates as well as U.S.-China trade sanctions, the markets finished the fiscal year on a strong note. The domestic markets posted strong results driven by positive economic reports and robust corporate earnings. Throughout the fiscal year, the U.S. markets reached all-time highs supported by positive macroeconomic data, which included strong GDP reports as well as the strength in consumer confidence and employment data.

Equity: Top 15 Holdings

The top 15 holdings in the Public Equity Portfolio comprised 3.9% of the Systems assets at September 30, 2018. In comparison to the top 15 holdings at September 30, 2017, Apple, Amazon, Bank of America, Microsoft, Alphabet, and Facebook remained while Berkshire Hathaway, Visa, JPMorgan Chase, UnitedHealth Group, Exxon Mobil, Home Depot, Johnson & Johnson, Mastercard, and Pfizer were added.

The Public Equity Portfolio sector allocation compared to the Russell 3000 comprised of an underweight in Energy, Consumer Staples, Health Care, Financials, Communication Services, Utilities, and an overweight in Materials, Industrials, Consumer Discretionary, Information Technology, and Real Estate.

TOP 15 EQUITY HOLDINGS	SHARES	VALUE
APPLE	29,026	6,552,420
MICROSOFT	43,774	5,006,385
AMAZON.COM	2,441	4,889,293
ALPHABET, INC.	3,620	4,344,527
FACEBOOK CLASS A	14,270	2,346,787
BERKSHIRE HATHAWAY 'B'	5,485	1,174,444
VISA 'A'	7,757	1,164,190
JPMORGAN CHASE & CO	10,026	1,131,282
UNITEDHEALTH GROUP	4,148	1,103,407
EXXON MOBIL CORP	12,705	1,080,160
HOME DEPOT INC	5,001	1,035,931
JOHNSON & JOHNSON	7,407	1,023,416
MASTERCARD INC CLASS A	3,987	887,471
BANK OF AMERICA CORP	12,408	365,547
PFIZER INC	7,732	340,730
Total	169,784	32,445,991



EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION (Continued)

PRIVATE EQUITY

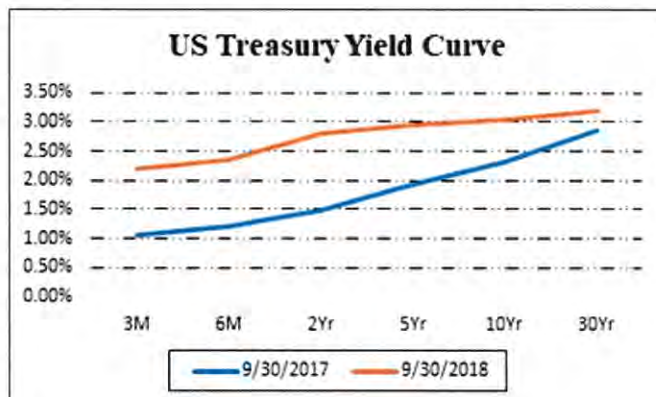
The System began investing in private equity in 2006 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. At September 30, 2018, the Private Equity Portfolio comprised 2.7% and approximately 92.4% of the dollars committed had been called. On a long-term basis, the Private Equity program seeks to outperform the Standard & Poor's 500 Index by 3.0%. System returns are calculated on a dollar-weighted or internal-rate-of-return (IRR) basis, and the annualized return since inception (2006) through September 30, 2018 was 16.6%. By comparison, the dollar-weighted return for the Standard & Poor's 500 plus 3.0% for the same period was 17.6%.



U.S. buyout investment activity was down both in terms of invested capital as well as the number of deals. Purchase price multiples remained elevated amidst strong U.S. public equity markets and a competitive deal environment. U.S. venture capital saw a strong exit market during the period outpacing 2017. Pricing was generally above expectations and above venture capital carrying values with strong aftermarket performance for the period.

FIXED INCOME

The System invests a portion of its portfolio in fixed income securities to reduce the volatility of the total Fund, generate income, and provide a measure of downside protection in the event of a slowing economic environment. The market value of the Fixed Income Portfolio as of September 30, 2018 represented 60.2% of the total Fund. During the fiscal year, the domestic portfolio returned -0.60%, exceeding the benchmark's return by 0.68%. The global portfolio returned a loss of 2.04%, underperforming its benchmark return by 0.50%. The markets experienced the good, bad and ugly in fiscal year 2018. Early in the period, fiscal stimulus, above trend growth, and strong labor markets fostered bullish sentiment and risk assets. As the year progressed, the Fed raised rates four times (in 25 bp increments), and reduced their balance sheet, transitioning to a less accommodative stance. This drove yields on the short end of the curve higher. Yields on the curve's long end were up modestly, as expectations around growth and inflation remain relatively stable. During the fiscal year, the U.S. Treasury yield curve flattened significantly, as yields rose across all measurable points on the curve during the fiscal year. Short maturity U.S. Treasury yields rose by 25-95 basis points (bps) during the period, while maturities greater than 10 years increased by roughly 28 bp.



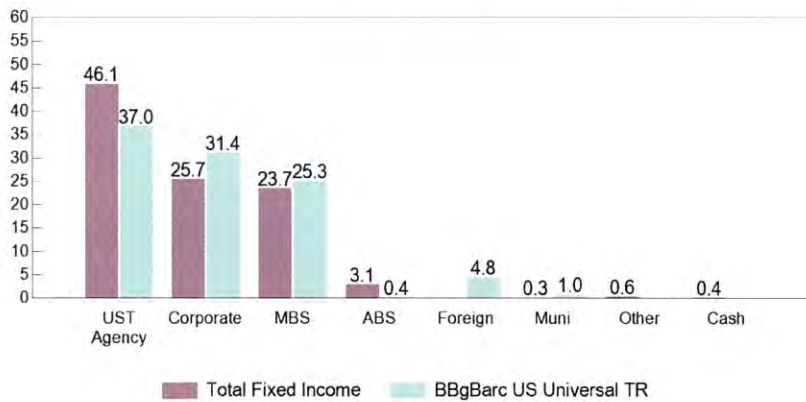
EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION (Continued)

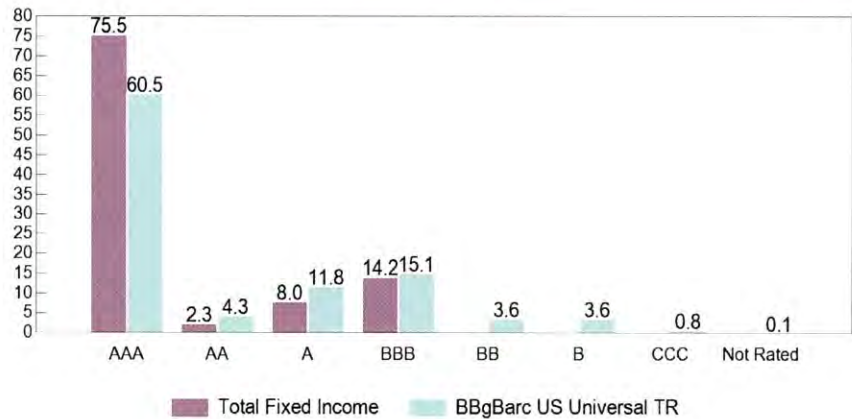
As of September 30, 2018, the 10-year yield stood at 3.1%, or 72 bps higher than the same period one year earlier.

Ten Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
United States Treasury Inflation Bonds	0.1%	Apr 15, 2022	\$ 3,404,335
United States Treasury Inflation Bonds	0.1%	Apr 15, 2021	2,783,839
United States Treasury Inflation Bonds	0.4%	Jul 15, 2027	2,709,792
United States Treasury Inflation Bonds	0.1%	Apr 15, 2020	2,514,877
United States Treasury Inflation Bonds	0.1%	Jul 15, 2026	2,468,860
United States Treasury Bonds	1.8%	May 15, 2022	1,694,541
United States Treasury Bonds	2.4%	Aug 15, 2024	1,651,991
United States Treasury Bonds	2.4%	Jul 31, 2019	1,531,000
Goldman Sachs	3.3%	Feb 23, 2023	1,518,638
United States Treasury Bonds	2.3%	Feb 15, 2027	1,516,298

Sector Allocation



Credit Quality Allocation



EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION (Continued)

PUBLIC EQUITY COMMISSIONS

October 1, 2017 through September 30, 2018

Brokers	Shares Traded	Total Commissions	Commissions per Share
WILLIAM BLAIR & COMPANY L.L.C	1,777,842	\$ 44,000	\$ 0.030
INSTINET	762,913	11,000	0.014
B.RILEY & CO., LLC	304,354	8,000	0.032
MERRILL LYNCH,PIERCE,FENNER & SMITH INC.	964,810	6,000	0.006
MORGAN STANLEY CO INCORPORATED	126,559	5,000	0.016
LIQUIDNET INC	443,119	5,000	0.011
JEFFERIES + COMPANY INC	119,215	5,000	0.033
IMPERIAL CAPITAL LLC	131,920	4,000	0.030
BLOOMBERG TRADEBOOK LLC	211,628	3,000	0.019
SIDOTI + COMPANY LLC	90,591	3,000	0.038
Other Brokers	633,479	20,000	0.024
	5,566,430	\$ 114,000	\$ 0.253

INVESTMENT SUMMARY

	September 30, 2018 Fair Value	Percent of Total Value	September 30, 2017 Fair Value	Percent of Total Value
Government and agency obligations	\$ 17,119,399	2.2%	\$ 13,001,747	1.6%
Municipal obligations	974,823	0.1%	1,092,994	0.1%
Corporate bonds	22,943,119	2.9%	27,432,278	3.3%
Asset-backed securities	6,807,833	0.9%	6,686,951	0.8%
Collateralized mortgage obligations	1,115,772	0.1%	821,941	0.1%
Commercial mortgage-backed securities	3,472,136	0.4%	5,687,383	0.7%
Residential mortgage-backed securities	17,886,077	2.2%	16,726,231	2.0%
Common and preferred stock	-	-	111,907,231	13.4%
Commingled funds	371,186,132	46.6%	294,726,779	35.3%
Short-term investments	166,930,989	21.0%	132,635,408	15.9%
Limited partnership - private equity fund of funds	16,333,977	2.1%	16,804,117	2.0%
Private debt-direct lending/other investments	91,586,677	11.5%	127,713,818	15.3%
Real estate/other real assets	79,823,562	10.0%	79,749,209	9.6%
Total	\$ 796,180,497	100.0%	\$ 834,986,089	100.0%

Cash collateral received under securities lending agreements is not included in the investment summary shown above.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

INVESTMENT SECTION (Continued)

INVESTMENT MANAGERS

The diversified investment structure as of September 30, 2018 is reflected in the following table, which lists System managers by asset class and style.

Investment Manager	Investment Style
Public Equity	
Domestic Equity Assets	
BlackRock Institutional Trust Company*	Large Cap Growth
BlackRock Institutional Trust Company*	Large Cap Core
BlackRock Institutional Trust Company*	Mid Cap
BlackRock Institutional Trust Company*	Large Cap Value
Fixed Income	
Domestic Fixed Income Assets	
Pugh Capital Management	Core
BlackRock Institutional Trust Company*	US TIPS
BlackRock Institutional Trust Company*	Core
International Fixed Income Assets	
Brandywine Global Investment Management, LLC.*	Global
Private Equity	
Mesirow Financial*	Fund-of-Funds

* Pooled Funds

SCHEDULE OF INVESTMENT EXPENSES

For the year ended September 30, 2018

Description of Expenses	Net Assets Under Management	Direct Fees
US Equity	\$ 156,368,908	\$ 687,272
Domestic Fixed Income	238,095,983	226,558
Global Fixed Income	47,040,401	109,423
Total Investment Management Fees	\$ 441,505,292	\$ 1,023,253
Custody Service Fees		\$ 107,974
Investment Consulting and Performance/Analytics Fees		125,000
Total Other Investment Expenses		232,974
Total Investment Expenses		\$ 1,256,228

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.