

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

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**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
*Year Ended September 30, 2020*  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
*(With Comparative Totals for 2019)*



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
*Year Ended September 30, 2020*

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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), as of September 30, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic 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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## ***Opinion***

In our opinion, based on our audit, 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, 2020, and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

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, 2020.

As described in Note 4, the fiduciary net position of the System represents only 11.32% of the actuarially determined total pension liability of the Plan at September 30, 2019, the most recent measurement date. Employer contributions were significantly less than actuarially determined amounts.

Our opinion is not modified with respect to these matters.mm

## ***Other Matters***

*Prior-Year Comparative Information:* We have previously audited the System's 2019 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated September 29, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 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 7, and the related notes to the required supplementary information on pages 28 through 30, 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.



***Supplementary and Other Information***

The Investment Section on pages 33 – 37 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated July 16, 2021, 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 16, 2021

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

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## 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, 2020. 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 follows 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 have 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:

<b>Fiduciary Net Position</b>				
<i>(Dollar amounts expressed in thousands)</i>				
<b>Fiduciary Net Position</b>	<b>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Cash, Cash Equivalents, and Investment	\$ 497,976	\$ 584,504	\$ (86,528)	(14.80%)
Member Loans, net	34,014	49,998	(15,984)	(31.97%)
Real Estate, net	66,119	63,610	2,509	3.94%
Other Assets	21,555	13,240	8,315	62.80%
<b>Total Assets</b>	<b>619,664</b>	<b>711,352</b>	<b>(91,688)</b>	<b>(12.89%)</b>
Stock Lending Transactions	1,257	-	1,257	100.00%
Other Liabilities	35,867	33,232	2,634	7.93%
<b>Total Liabilities</b>	<b>37,124</b>	<b>33,232</b>	<b>3,891</b>	<b>11.71%</b>
<b>Total Net Position</b>	<b>\$ 582,540</b>	<b>\$ 678,120</b>	<b>\$ (95,579)</b>	<b>(14.09%)</b>

The table shown above reflects a decrease of \$91.7 million, a 12.89 percent decrease in total assets.

- The cash and cash equivalents decreased by approximately \$59 million as of September 30, 2020, from approximately \$132.3 million as of September 30, 2019, to approximately \$73.3 million as of September 30, 2020. The cash and cash equivalents excluding interest-bearing deposits are segregated as follows:

	<b>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>
Cash in money market accounts	\$ 46,797	\$ 103,999	\$ (57,202)
Cash in operational accounts	26,521	28,261	(1,740)
Total cash and cash equivalents	<u>\$ 73,318</u>	<u>\$ 132,260</u>	<u>\$ (58,942)</u>

- The decrease in cash held in money market accounts of approximately \$57.2 million is the result of the System's need to have cash readily available to meet the Retiree payroll cost.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**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 2020 and Fiscal Year 2019.

<b>Contributions and Investment Income</b> <i>(Dollar amounts expressed in thousands)</i>				
	<b>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Employer Contributions	\$ 100,422	\$ 106,184	\$ (5,762)	(5.43%)
Employee Contributions	50,861	49,035	1,826	3.72%
Net Investment Income	38,094	40,162	(2,068)	(5.15%)
Other Income	3,643	4,820	(1,177)	(24.42%)
	<u>\$ 193,020</u>	<u>\$ 200,201</u>	<u>\$ (7,181)</u>	<u>(3.59%)</u>

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

The 3.72 percent increase of \$1.8 million in employee contributions is due primarily to employees paying into the system so that they could be able to receive benefit payments from the System.

In an effort to reduce the risk to the overall portfolio, net investment income decreased by 5.15 percent during F.Y. 2020 due to the System's decision to shift to a dynamic asset allocation strategy. The percent return for fiscal 2020 is 7.3 percent versus a 5.73 percent return for the prior fiscal year. The net investment income for the System totaled \$38.1 million for FY2020, comprised of \$27.3 million in net appreciation in fair value of investments, \$11.3 million in interest and other income, and \$446 thousand related to investment expenses. This is compared to the net investment income of 40.2 million in F.Y. 2019.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**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 F.Y. 2020 and 2019.

<b>Deduction by Type</b> <i>(Dollar amounts expressed in thousands)</i>				
	<b>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Benefits Paid to Members	\$ 265,605	\$ 263,330	\$ 2,275	0.86%
Refunds Member Contributions	8,307	12,408	(4,101)	(33.05%)
Administrative Expenses	14,688	15,163	(475)	(3.13%)
	<u>\$ 288,600</u>	<u>\$ 290,901</u>	<u>\$ (2,301)</u>	<u>(0.79%)</u>

During FY 2020 refunds decreased by approximately \$4.1 million or 33.05% due to a decline in the number of members requesting refunds. Administrative expenses decreased by \$475 thousand or 3.13%.

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

**STATEMENT OF FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2020**

*(With Comparative Totals for 2019)*

	<b>Year Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 73,318,496	\$ 132,259,502
U.S. Government and agency obligations	19,263,309	19,911,739
Corporate obligations	29,156,890	26,481,988
Mortgage and asset-backed securities	34,976,676	31,539,486
Commingled and mutual funds	327,079,797	344,899,462
Cash collateral received under securities lending transactions (Note 6)	446,832	-
Investment loans	-	14,882,921
Limited partnerships	12,477,066	14,528,825
Stock Lending Collateral	1,257,243	-
<b>Total cash, cash equivalents and investments</b>	<b>497,976,309</b>	<b>584,503,923</b>
Member loans:		
Mortgage	5,175,462	5,879,738
Personal	30,610,457	45,889,664
	35,785,919	51,769,402
Less allowance for loans losses	(1,772,088)	(1,771,187)
	34,013,831	49,998,215
Real estate:		
Havensight Mall	41,000,000	41,000,000
System Complex and Other Real Property	25,118,705	22,609,885
	66,118,705	63,609,885
Reserved assets	17,550	17,503
Due from other agencies of the Government of the U.S. Virgin Islands	7,392,864	8,208,703
Accrued interest receivable	1,390,423	1,765,859
Capital and other assets	12,754,276	3,248,060
<b>Total assets</b>	<b>619,663,958</b>	<b>711,352,148</b>
<b>Liabilities</b>		
Retirement benefits in process of payment	3,366,203	2,996,375
Payable for collateral received under securities lending transactions (Note 6)	1,257,243	-
Other liabilities	32,500,775	30,235,508
<b>Total liabilities</b>	<b>37,124,221</b>	<b>33,231,883</b>
<b>Net position restricted for pensions</b>	<b>\$ 582,539,737</b>	<b>\$ 678,120,265</b>

*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, 2020**

*(With Comparative Totals for 2019)*

	<b>Year Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Additions:</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 27,280,087	\$ 19,068,157
Interest and dividends	8,437,526	9,716,543
Other investment income	427,774	9,730,888
Rental income - net of related expenses	2,394,478	2,342,342
	<u>38,539,865</u>	<u>40,857,930</u>
Less:		
Investment management fees and custodian fees	268,618	643,566
Borrowers' rebates and other agent fees on securities lending transactions	4,689	11,442
Other expenses	172,619	41,232
	<u>38,093,939</u>	<u>40,161,690</u>
Contributions:		
Employer	100,422,478	106,183,907
Employee	50,861,064	49,035,132
	<u>151,283,542</u>	<u>155,219,039</u>
Other income	3,642,816	4,820,140
	<u>193,020,297</u>	<u>200,200,869</u>
<b>Total additions</b>		
Deductions:		
Benefits paid directly to members	265,605,426	263,330,368
Refunds of members' contributions	8,307,360	12,408,254
Administrative and operational expenses	14,688,039	15,162,645
	<u>288,600,825</u>	<u>290,901,267</u>
	<b>Total deductions</b>	<b>290,901,267</b>
	<u>(95,580,528)</u>	<u>(90,700,398)</u>
	<b>Net (decrease) in net position</b>	<b>(90,700,398)</b>
Net position restricted for pensions:		
Net position beginning of year	678,120,265	768,820,663
Net position end of year	<u>\$ 582,539,737</u>	<u>\$ 678,120,265</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. Only employees age 55 or older may elect not to become a member of Tier I if they entered the service of the government before October 1, 2005. Tier II members cannot opt-out of membership. 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, 2020, consisted of:

	<u>2020</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$ 8,792
Current employees	8,804
	<u>\$17,596</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, 2018, 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 23.5% (effective January 1, 2020) 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, 15% 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 a 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

*Reporting Entity.* The accompanying financial statements include all activities and funds administered by GERS. GERS is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes. GERS financial statements are included in the fiduciary and proprietary funds in the Virgin Islands Comprehensive and Financial Report (CAFR).

*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, as applicable to governmental organizations. In doing so, GERS adheres to the reporting requirements established by the Governmental Accounting Standards Board (GASB). 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.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

The System's office 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 carrying 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, 2020.

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, 2019, 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, 2020, were as follows:

<b>Total Pension Liability (1)</b>	<b>Plan Fiduciary Net Position (2)</b>	<b>Net Pension Liability (1-2)</b>	<b>Plan Fiduciary Net Position as a % of Total Pension Liability (2/1)</b>
<u>\$5,992,768,058</u>	<u>\$678,120,265</u>	<u>\$5,314,647,793</u>	11.32%

<b>Valuation date</b>	Actuarially determined contributions are calculated as of October 1, 2019
<b>Actuarial cost method</b>	Entry Age Normal Cost Method determined as a percentage of salary
<b>Amortization method</b>	Level dollar
<b>Amortization period</b>	20 years open amortization
<b>Asset valuation method</b>	Market value
<b>Inflation</b>	2.50%
<b>Salary Increases</b>	3.25% per year, including inflation
<b>Investment Rate of Return</b>	2.67% net of pension plan investment expense, including inflation
<b>Mortality</b>	<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 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 the expected inflation component.



**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, 2019, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	9%	6.23%
Real Estate	10%	4.33%
Fixed income	60%	0.98%
Alternatives – Private Equity	9%	10.23%
Cash	12%	0.48%
<b>Total</b>	<b><u>100%</u></b>	

*Discount rate:* The discount rate used to measure the total pension liability was 2.67% as of September 30, 2019, the measurement date. 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 4.0% 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 A.A. Municipal Bond Index was applied. As of September 30, 2019, that rate was 2.66%.

*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 2.67%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.67%) or 1-percentage-point higher (3.67%) than the current rate:

	1% Decrease (1.67%)	Current Discount (2.67%)	1% Increase (3.67%)
Net pension liability	\$6,166,350,490	\$5,314,647,793	\$4,616,574,981

The fiduciary net position of the System represents only 11.32% of the total pension liability of the Plan at September 30, 2019, the most recent measurement date.

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

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## 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 evidence 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 evidence 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 evidence 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. There is no outstanding balance at September 30, 2020.



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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**5. Investments (Continued)**

**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. On July 31, 2020, KAZI Foods of the Virgin Islands paid off the outstanding principal balance of \$2,802,168.52.

**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. On March 5, 2020, the VI Finest Foods LLC loan was sold to the University of the Virgin Islands. At September 30, 2020, there is no outstanding principal balance on the loan.

**(c) Limited Partnership**

The total value of the limited partnership investments at September 30, 2020 is as follows:

	<u>2020</u>
Mesirow	<u>\$12,477,066</u>

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

The fair value of the System's investments at September 30, 2020, amounted to \$422,953,738. The investments generated interest and dividend income of \$5,101,585 for the year ended September 2020.

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, totaling \$27,280,087 in fiscal year 2020, as listed below:

	<u>2020</u>
U.S. government and agency obligations	\$ 1,207,914
Corporate obligations	1,476,125
Mortgage and asset-backed securities	(392,101)
Commingled and mutual funds	27,765,580
Other gains/losses/investments	(3,606,682)
Limited partnership	829,251
<b>Totals</b>	<u>\$ 27,280,087</u>

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

NOTES TO FINANCIAL STATEMENTS (*Continued*)

5. Investments (*Continued*)

(e) *Custodial Credit Risk-Deposits*

In accordance with GASB No. 40 Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3 (GASB 40), GERS discloses investments of all GERS – managed funds that are subjected to certain risks: custodial credit risk, concentration of credit risk, interest rate risk, credit risk, and foreign currency risk when such exposure exists.

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, 2020, 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.

(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.



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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**5. Investments (Continued)**

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, 2020, include the following:

**Standard & Poor's Credit Ratings:**

	<b>Credit Ratings</b>	<b>Fair Value</b>	<b>Percentage of Portfolio</b>
Corporate obligations	A	\$ 2,110,104	0.54%
Corporate obligations	A-	3,832,971	0.98%
Corporate obligations	BBB+	8,207,092	2.10%
Corporate obligations	BBB	9,124,487	2.33%
Corporate obligations	BBB-	5,873,796	1.50%
Corporate obligations	Not Available	8,440	0.0022%
Mortgage and asset-backed securities	AAA	5,927,661	1.52%
Mortgage and asset-backed securities	Not Available	29,049,015	7.43%
Commingled and mutual funds	Not Rated	327,079,797	83.61%
<b>Total</b>		<b>\$391,213,363</b>	<b>100%</b>

**Moody's Investor Services Credit Ratings:**

	<b>Credit Ratings</b>	<b>Fair Value</b>	<b>Percentage of portfolio</b>
Corporate obligations	A1	\$ 315,713	.08%
Corporate obligations	A2	2,447,589	.63%
Corporate obligations	A3	4,142,838	1.06%
Corporate obligations	Baa1	7,003,341	1.79%
Corporate obligations	Baa2	8,540,653	2.18%
Corporate obligations	Baa3	6,375,698	1.63%
Corporate obligations	Aa3	322,618	.08%
Corporate obligations	Not Available	8,440	0.002%
Mortgage and asset-backed securities	Aaa	9,986,602	2.55%
Mortgage and asset-backed securities	Aa1	508,520	0.13%
Mortgage and asset-backed securities	Not Available	24,481,554	6.26%
Commingled and mutual funds	Not Available	327,079,797	83.61%
<b>Total</b>		<b>\$391,213,363</b>	<b>100.00%</b>



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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**5. Investments (Continued)**

Cash and cash equivalents and other investments at September 30, 2020 include the following:

	Fair Value	Credit Ratings	
		Standard & Poor	Moody's
Cash and cash equivalents	\$ 46,797,165	Not Rated	Not Rated
U.S. government & agency obligations	612,182	AA+	Aaa
U.S. treasury bonds	6,023,212	Not Available	Aaa
U.S. treasury notes	11,164,812	Not Available	Aaa
Municipal bonds	345,485	AAA	Aaa
Municipal bonds	488,419	AA	Aa1
Municipal bonds	629,199	AA	Aa3
Limited partnership	12,477,065	Not Rated	Not Rated
<b>Total cash, cash equivalents and other investments</b>	<b>\$ 78,537,539</b>		

The total System's cash, cash equivalents and investment securities at September 30, 2020 consists of:

Fixed income investments	\$ 391,213,363
Cash, cash equivalents, and other investments	78,537,539
	<u>\$ 469,750,902</u>
Cash and cash equivalents	\$ 46,797,164
Investments, at fair value	422,953,738
	<u>\$ 469,750,902</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, 2020, the System had the following investments and maturities:

Investment Type	Fair Value	Maturity (in years)				No Stated Maturity Date
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years	
Commingled Funds	\$ 327,079,797	\$ -	\$ -	\$ -	\$ -	\$327,079,797
Corporate Obligations	29,156,890	40	9,676,676	8,075,182	11,404,992	-
Investment Loans	-	-	-	-	-	-
Mortgage and asset-backed securities	34,976,677	-	6,889,074	3,075,520	25,012,083	-
Municipals bonds	1,463,103	-	192,917	436,282	833,904	-
Limited Partnerships	12,477,065	-	-	-	-	12,477,065
US Government Agency Obligations	612,182	612,182	-	-	-	-
US Treasury Bonds	6,023,212	-	-	-	6,023,212	-
US Treasury Notes	11,164,812	-	10,581,289	583,523	-	-
<b>Totals</b>	<u>\$ 422,953,738</u>	<u>\$ 612,222</u>	<u>\$ 27,339,956</u>	<u>\$ 12,170,507</u>	<u>\$ 43,274,190</u>	<u>\$339,556,862</u>

## GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM 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. Except for 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, 2020. At September 30, 2020, 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, 2020, 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.



**GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM 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, 2020:

	<u>9/30/2020</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<b>Investments by fair value level</b>				
<b>Debt securities</b>				
Government and agency obligations	\$ 18,247,038	\$ -	\$18,247,038	\$ -
Municipal obligations	1,463,102	-	1,463,102	-
Corporate bond	29,156,890	-	29,156,890	-
Assets-backed securities	8,638,437	-	8,638,437	-
Collateralized mortgage obligation	8,229,236	-	8,229,236	-
Commercial mortgage-backed securities	2,115,410	-	2,115,410	-
Residential mortgage-backed securities	15,993,594	-	15,993,594	-
<b>Total debt securities</b>	<u>83,843,707</u>	<u>-</u>	<u>83,843,707</u>	<u>-</u>
Limited partnership-private equity fund of funds	12,477,066	-	-	12,477,066
Private debt-direct lending/other investments	34,013,831	-	-	34,013,831
Real estate/other real assets	66,118,705	-	-	66,118,705
<b>Total other investments</b>	<u>112,609,602</u>	<u>-</u>	<u>-</u>	<u>112,609,602</u>
<b>Total investments by fair value level</b>	<u>\$ 196,453,309</u>	<u>\$ -</u>	<u>\$83,843,707</u>	<u>\$196,453,309</u>
<b>Investments measured at net assets value (NAV)</b>				
Commingled equity funds	\$ 108,155,833			
Commingled bond funds	218,923,964			
Securities lending collateral fund	1,257,243			
<b>Total investments measured at the NAV</b>	<u>328,337,040</u>			
Short-term investments	73,318,496			
<b>Total investments</b>	<u>\$ 598,108,845</u>			

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

<b>Investments measured at net assets value (NAV)</b>				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity funds	\$ 108,155,833	\$ -	Daily	1 – 15 days
Commingled bond funds	218,923,964	-	Daily	2 – 10 days
Securities lending collateral fund	1,257,243	-	Daily	None
<b>Total investments measured at the NAV</b>	<u>\$ 328,337,040</u>	<u>\$ -</u>		

*Commingled equity and bond funds.* This type includes seven commingled funds that invest in publicly traded domestic and global stocks, and domestic and 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 daily. 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, 2020.

*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.



# GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM 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, 2020, were \$34,013,831. Such investments in member loans generated interest income of \$3,323,247 for the year ended September 30, 2020. The average interest rate was 8% for the year ended September 2020.

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, 2020.

The System's appraised value of land is \$8,627,161 for the year ended September 30, 2020.

Rental Income net of related expenses generated a net of \$2,394,478 for the year ended September 30, 2020.

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, 2020, is as follows:

	<b>2020</b>
Land	\$ 8,627,161
Building, improvements, and fixtures	24,580,870
	<u>33,208,031</u>
Less: accumulated depreciation and amortization	8,281,326
Total	<u>\$ 24,926,705</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 2020 as to the amount of loans the custodian can make on behalf of the System.

**GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM 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, 2020, 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 2020, 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.

The following represents the balances relating to the securities lending transactions as of September 30, 2020:

<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	\$ 371,038	\$ 379,480	\$ -
U.S. government and agency obligation	850,297	-	-
Lent for Securities Collateral:			
U.S. government and agency obligation	425,993	877,763	446,832
<b>Totals</b>	<u>\$ 1,647,328</u>	<u>\$ 1,257,243</u>	<u>\$ 446,832</u>

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

At September 30, 2020, the amount recorded as due from Agencies of the Government of the U.S. Virgin Islands was \$7,392,864.

**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 2020, the System received \$5,000,000 which was applied as Employer Contributions.



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NOTES TO FINANCIAL STATEMENTS (*Continued*)

**9. Risks of Loss**

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 \$268,618 for the year ended September 30, 2020.

**12. Subsequent Events**

The System's management has evaluated subsequent events through July 16, 2021, 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.

Services to the members of the Trust have not been materially impacted as a result of the ongoing COVID-19 pandemic. As the situation continues to evolve, we are closely monitoring the impact of the pandemic on all aspects of our business, including how it affects our operations, members, and employees, in addition to how the pandemic could affect our ability to provide services to our stakeholders. We believe the ultimate impact of the COVID-19 pandemic on the changes in our fiduciary net position, cash flows, and fiduciary net position is likely to be determined by factors which are uncertain, unpredictable, and outside of our control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact the viability of the System's merchant tenants, further discussed below.

In June 2021, the Board of Trustees agreed to offer rent abatement to its tenants for periods ranging from 4 months to 15 months with rent reductions of twenty-five percent to one hundred percent. The agreements contained various stipulations, including the classification of the merchant, payments history, and lease terms.

On April 9, 2021, the U.S. Court of Appeals for the Third Circuit issued its ruling preserving an award of \$18.9 million in principal and \$6.1 million in interest and fees to GERS, arising from its legal dispute with the Government of the U.S. Virgin Islands. The Court also affirmed the District Court's decision regarding GERS' entitlement to actuarially determined employer contribution (ADEC). The System has also filed an action in the Superior Court of the Virgin Islands, seeking relief, an injunction requiring the GVI to address its pension obligation to GERS, and the adequacy of the actuarially determined reserve.



**REQUIRED SUPPLEMENTARY INFORMATION**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

<b>SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS</b>						
<b>Fiscal Year Ended September 30:</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>						
Service Cost	\$ 76,814,792	\$ 89,233,179	\$ 101,716,941	\$ 87,734,650	\$ 69,262,969	\$ 65,274,936
Interest on the Total Pension Liability	207,423,206	193,824,703	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	(2,954,116)	2,839,939	25,049,512	76,689,946	98,193,233	35,917,905
Changes of Assumptions	1,045,622,246	(304,877,189)	(361,658,766)	431,433,618	731,994,972	241,527,329
Benefit Payments and Refunds	(275,738,622)	(265,331,162)	(259,464,878)	(259,011,168)	(250,110,255)	(247,069,503)
<b>Net Change in Total Pension Liability</b>	<u>1,051,167,506</u>	<u>(284,310,530)</u>	<u>(317,853,229)</u>	<u>481,062,223</u>	<u>833,792,701</u>	<u>246,342,607</u>
<b>Total Pension Liability – Beginning</b>	<u>4,941,600,552</u>	<u>5,225,911,082</u>	<u>5,543,764,311</u>	<u>5,062,702,088</u>	<u>4,228,909,387</u>	<u>3,982,566,780</u>
<b>Total Pension Liability – Ending (A)</b>	<u><u>\$ 5,992,768,058</u></u>	<u><u>\$ 4,941,600,552</u></u>	<u><u>\$ 5,225,911,082</u></u>	<u><u>\$ 5,543,764,311</u></u>	<u><u>\$ 5,062,702,088</u></u>	<u><u>\$ 4,228,909,387</u></u>
<b>Plan Fiduciary Net Position</b>						
Contributions – Employer	\$ 106,183,907	\$ 96,747,868	\$ 84,802,335	\$ 86,346,597	\$ 72,287,934	\$ 68,298,617
Contributions – Employee	49,035,132	44,481,827	47,925,193	41,459,511	36,245,015	34,020,107
Net Investment Income	40,161,690	54,077,199	67,401,362	70,993,934	4,967,602	60,326,921
Benefit Payments and Refunds	(275,738,622)	(265,331,162)	(259,464,878)	(259,011,168)	(250,110,255)	(247,069,503)
Administrative Expense	(15,162,645)	(14,505,786)	(14,997,033)	(15,267,630)	(16,401,722)	(18,867,491)
Other	4,820,140	7,880,224	2,641,471	1,599,548	1,161,301	3,573,611
<b>Net Change in Plan Fiduciary Net Position</b>	<u>(90,700,398)</u>	<u>(76,649,830)</u>	<u>(71,691,550)</u>	<u>(73,879,208)</u>	<u>(151,850,124)</u>	<u>(99,717,738)</u>
<b>Plan Fiduciary Net Position – Beginning</b>	<u>768,820,663</u>	<u>845,470,493</u>	<u>917,162,043</u>	<u>991,041,251</u>	<u>1,142,891,375</u>	<u>1,242,609,113</u>
<b>Plan Fiduciary Net Position – Ending (B)</b>	<u>678,120,265</u>	<u>768,820,663</u>	<u>845,470,493</u>	<u>917,162,043</u>	<u>991,041,251</u>	<u>1,142,891,375</u>
<b>Net Pension Liability – Ending (A) – (B)</b>	<u><u>\$ 5,314,647,793</u></u>	<u><u>\$ 4,172,779,889</u></u>	<u><u>\$ 4,380,440,589</u></u>	<u><u>\$ 4,626,602,268</u></u>	<u><u>\$ 4,071,660,837</u></u>	<u><u>\$ 3,086,018,012</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension</b>	<u>11.32%</u>	<u>15.56%</u>	<u>16.18%</u>	<u>16.54%</u>	<u>19.58%</u>	<u>27.03%</u>
<b>Covered Employee Payroll</b>	<u>\$ 399,386,941</u>	<u>\$ 404,775,714*</u>	<u>\$ 393,771,228*</u>	<u>\$ 368,023,518*</u>	<u>\$ 355,603,633*</u>	<u>\$ 370,131,865</u>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<u>1,330.70%</u>	<u>1,030.89%</u>	<u>1,112.43%</u>	<u>1,257.15%</u>	<u>1,145.00%</u>	<u>833.76%</u>

*\*Covered employee payroll as reported in the participant data as of each valuation date. Historical information prior to the implementation of GASB 67/68 is not required*

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



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

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### REQUIRED SUPPLEMENTARY INFORMATION *(Continued)*

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#### Notes to Schedule of Changes in the Employers' Net Pension Liability

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*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.

In the year ended September 30, 2018, amounts reported as changes in assumptions resulted from an increase in the discount rate and to measure the total pension liability from 3.74% as of September 30, 2017 to 4.25% as of September 30, 2018.

In the year ended September 30, 2019, amounts reported as changes in assumptions resulted from a decrease in the discount rate and to measure the total pension liability from 4.25% as of September 30, 2018 to 2.67% as of September 30, 2019.

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

**REQUIRED SUPPLEMENTARY INFORMATION (Continued)**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS – LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended September 30</b>	<b>Actuarially Determined Contributions</b>	<b>Actual Contributions</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Percentage Contributed</b>
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%
2018	267,743,116	96,747,868	170,995,248	401,071,344	24.12%
2019	277,523,563	106,183,907	171,339,656	404,775,714	26.23%

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



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

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Notes to Schedule of Employer Contributions

<b>Valuation date</b>	Actuarially determined contributions are calculated as of October 1, 2019
<b>Methods and assumptions need to determine contribution rates:</b>	
<b>Actuarial cost method</b>	Entry Age Normal Cost Method determined as a percentage of salary
<b>Amortization method</b>	Level dollar, closed group
<b>Amortization period</b>	20 years open amortization
<b>Asset valuation method</b>	Market value
<b>Inflation</b>	2.50%
<b>Salary Increases</b>	3.25% per year
<b>Investment Rate of Return</b>	2.67% net of pension plan investment expense, including inflation
<b>Mortality</b>	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, 2020, 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 16, 2021.

**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, recordkeeping, and information technology that we consider to be significant deficiencies. However, material weaknesses may exist that have not been identified.

### **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.

Burt Smith & G

St. Croix, U.S. Virgin Islands  
July 16, 2021

## **INVESTMENT SECTION**



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

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## INVESTMENT SECTION

### INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board-adopted Investment Policy governs investment activity at the Government Employees Retirement System of the U.S. Virgin Islands (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.

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

**INVESTMENT SECTION (Continued)**

**INVESTMENT PERFORMANCE-ANNUALIZED RETURNS – SEPTEMBER 30, 2020**

	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>Total Fund Time-Weighted Returns</b>			
GERS	7.3 <sup>a</sup>	6.6 <sup>a</sup>	7.9 <sup>a</sup>
<b>Domestic Equities</b>			
GERS	15.0	12.5	14.6
Russell 3000 Benchmark	15.0	11.6	13.7
<b>Domestic Fixed Income</b>			
GERS	7.6	5.5	4.4
BBgBarc US Aggregate TR Benchmark	7.0	5.2	4.2

Return data for the System was calculated on a time-weighted basis. Returns are net of fees paid to investment managers except where noted.

**a: Total Fund returns utilize lagged valuations for private equity. Performance shown does not include local assets in which The Meketa Investment Group does not report on.**

**PORTFOLIO HIGHLIGHTS**

**PUBLIC EQUITY**

The market value of the total Public Equity Portfolio as of September 30, 2020, represented approximately 12.0% of the total Fund, with all allocation to Domestic Equity. The Domestic Equity Portfolio was up 15.0% for the one year ending September 30, 2020.

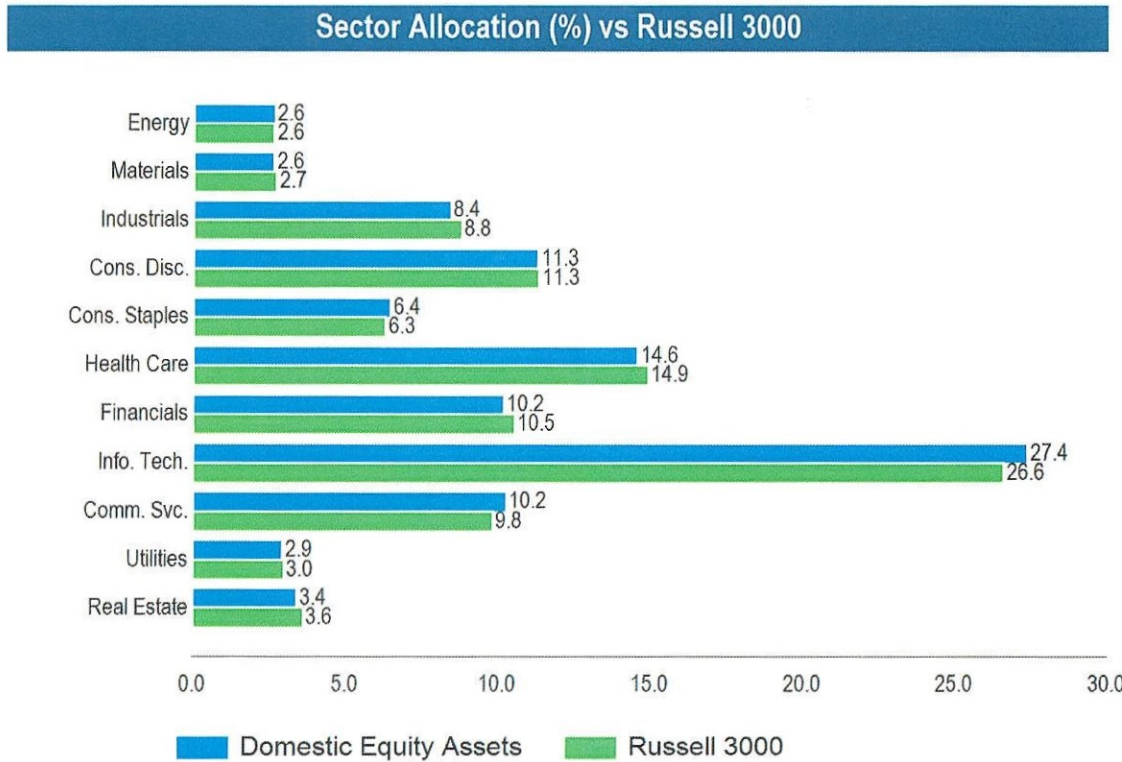
<b>Asset Allocation on September 30, 2020</b>		
	<b>Actual</b>	<b>Actual</b>
BlackRock Russell 1000 Index	\$55,562,573	100.0%
<b>Total</b>	<b>\$55,562,573</b>	<b>100.0%</b>

<b>Top 10 Holdings</b>	
MICROSOFT	0.3%
APPLE	0.2%
AMAZON.COM	4.1%
FACEBOOK CLASS A	1.9%
ALPHABET A	1.0%
ALPHABET 'C'	1.0%
JOHNSON & JOHNSON	1.3%
BERKSHIRE HATHAWAY 'B'	1.2%
VISA 'A'	1.1%
PROCTER & GAMBLE	1.0%
<b>Total</b>	<b>24.0%</b>



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

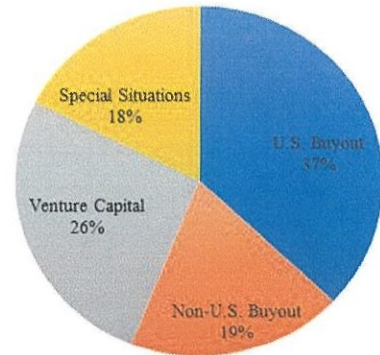
**INVESTMENT SECTION (Continued)**



**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, 2020, the Private Equity Portfolio market value was at \$12.5 million and approximately 93.6% of the dollars committed had been called. The system has invested in two funds, Mesirow PE Fund IV and Fund V, with net internal-rate-of-return (IRR) performance of 12.6 and 18.6%, respectively.

**Sub-Asset Class Diversification**



**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, 2020, was \$355.7 million, which returned 9.8% for the fiscal year, underperforming the benchmark's return by 0.5%.



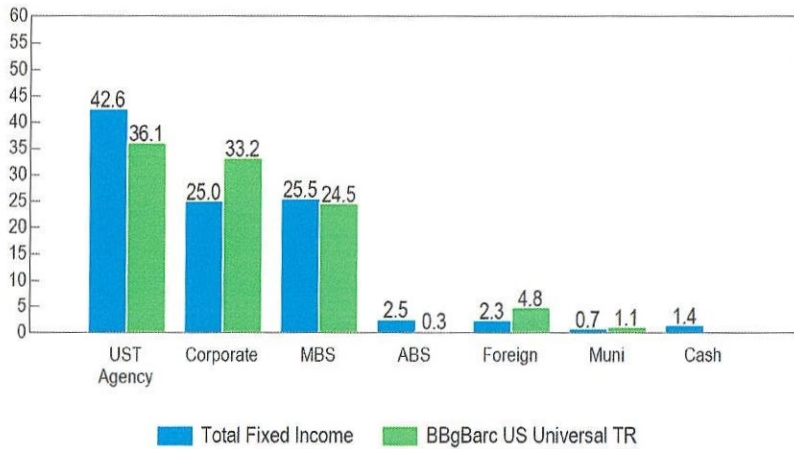
**GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE U.S. VIRGIN ISLANDS**

**INVESTMENT SECTION (Continued)**

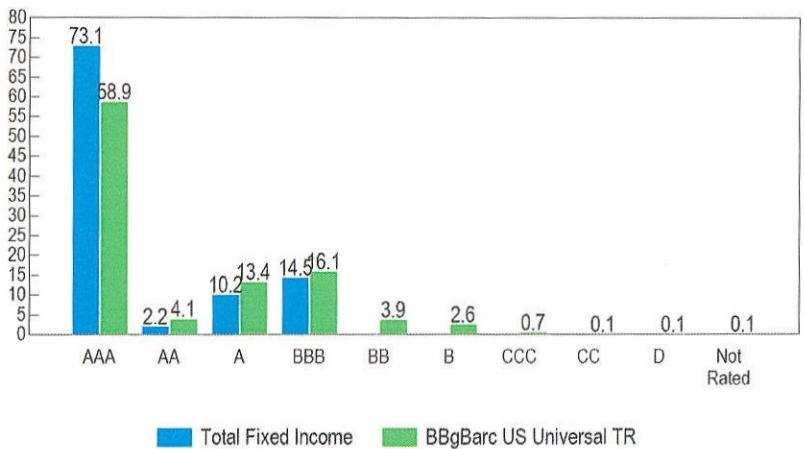
**FIXED INCOME<sup>1</sup>**

<b>Asset Allocation on September 30, 2020</b>		
	Actual	Actual
BlackRock TIPS	\$52,593,260	14.8%
BlackRock U.S. Debt Index	\$218,923,964	61.5%
Pugh Core Fixed Income	\$84,238,103	23.7%
<b>Total</b>	<b>\$355,755,327</b>	<b>100.0%</b>

**Sector Allocation**



**Credit Quality Allocation**



<sup>1</sup> Asset, sector and credit quality allocations are as of September 30, 2019.

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

**INVESTMENT SECTION (Continued)**

**PUBLIC MARKETS INVESTMENTS EXPENSE<sup>2</sup>**

Public Markets Investment Expense Analysis				
As Of September 30, 2020				
Name	Fee Schedule	Market Value	Estimated Fee Value	Estimated Fee
<b>Total Equity</b>		<b>\$55,562,573</b>		
<b>Domestic Equity Assets</b>		<b>\$55,562,573</b>		
BlackRock Russell 1000 Index	0.04% of Assets	\$55,562,573	\$22,225	0.04%
<b>Total Fixed Income</b>		<b>\$355,755,327</b>		
<b>Domestic Fixed Income Assets</b>		<b>\$355,755,327</b>		
Pugh Core Fixed Income	0.25% of First 50.0 Mil, 0.15% of Next 50.0 Mil, 0.10% Thereafter	\$84,238,103	\$176,357	0.21%
BlackRock TIPS	0.06% of First 100.0 Mil, 0.04% of Next 400.0 Mil, 0.02% Thereafter	\$52,593,260	\$31,556	0.06%
BlackRock U.S. Debt Index	0.06% of First 100.0 Mil, 0.04% of Next 400.0 Mil, 0.03% Thereafter	\$218,923,964	\$107,570	0.05%
<b>Cash</b>		<b>\$39,309,979</b>		
Cash		\$39,309,979		
<b>Total</b>		<b>\$450,627,879</b>	<b>\$337,706</b>	<b>0.07%</b>

**INVESTMENT MANAGERS**

The diversified investment structure as of September 30, 2020, is reflected in the following table, which lists System managers by asset class and style.

Investment Manager	Investment Style
<b>Public Equity</b>	
<b>Domestic Equity Assets</b>	
BlackRock Institutional Trust Company*	Large Cap Core
<b>Fixed Income</b>	
<b>Domestic Fixed Income Assets</b>	
Pugh Capital Management	Core
BlackRock Institutional Trust Company*	US TIPS
BlackRock Institutional Trust Company*	Core
<b>Private Equity</b>	
Mesirow Financial*	Fund-of-Funds

\* Pooled Funds

2. Public Manager Expense analysis is based on manager fee schedule multiplied by market value as of September 30, 2020. The table is for illustrative purposes only. Total effective fee and market value does not include cash. Estimate does not take into consideration potential performance-based fees and fund expenses or charges.