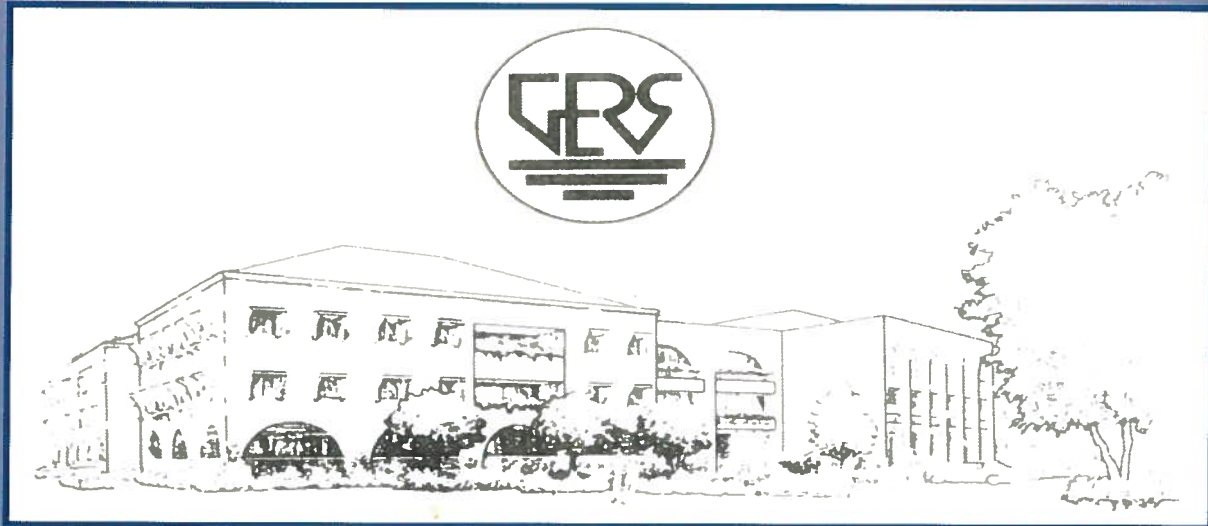


GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

OVERVIEW OF OPERATIONS



**Presented to the
Committee on Finance
of the
Twenty-Seventh Legislature
of the Virgin Islands**

by

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Administrator**

**Fritz E. Lawaetz Conference Room
August 8, 2008
4:00 PM
Frederiksted, St. Croix, USVI**

**GOVERNMENT EMPLOYEES RETIREMENT SYSTEM
Overview of Operations – Fiscal Year 2008**

TABLE OF CONTENTS

Introduction	3
Organizational Structure	4
Operational Goals Through End of Fiscal Year 2008	5
Accomplishments for Fiscal Year 2008	6
Projected Goals and Objectives for Fiscal Year 2009	7
Membership	9
Actuarial Valuation Information	10
Contribution/Funding	12
Investments	15
Stock Market and Portfolio Performance	18
Loans	19
Real Estate	20
Insurance	21
Scholarship Fund	21
Technology Upgrade	22
Annual Audit.....	23
Cash Management	23
Summary.....	24

Appendices

Organizational Chart - System	Exhibit A
Organizational Chart – Accounting and Finance Division	Exhibit B
Treasurer’s Report (Statement of Cash Flows – June 30, 2008	Exhibit C
Schedule of Budget vs. Actual – Fiscal Year 2008	Exhibit D
Schedule of Administrative Expenses – Fiscal Year 2008	Exhibit E
Schedule of Investment Fund	Exhibit F

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OVERVIEW OF OPERATIONS

Good afternoon, Honorable Senator Terrence Nelson, members of the Committee on Finance and other distinguished senators who are present in the chambers. My name is Austin L. Nibbs, Administrator of the Government Employees Retirement System of the Government of the Virgin Islands (GERS). Appearing with me today is senior management. Mr. Chairman, before I begin my presentation I would like to extend my appreciation to you for approving my request for rescheduling our appearance before the Committee. I felt the extension was needed in order to adequately prepare and respond to the requirements that were requested. I note that this report is a compilation of nine months of activity covering the period of the three quarters for fiscal year October 1, 2007 through June 30, 2008.

INTRODUCTION

The Government Employees Retirement System is a statutorily created defined benefit pension plan (DB) that is sponsored by the Virgin Islands Government. The statutory mandate of the GERS is to encourage qualified employees to enter and remain in the service of the government by establishing an orderly means whereby those members who become superannuated or incapacitated as a result of disability may retire without suffering economic hardship.

The System was created by Act 479, and it became operative on October 1, 1959, when contributions by employees and the Virgin Islands Government commenced. In accordance with the mandatory provisions of the Act, all regular employees of the Virgin Islands Government, except those individuals who are excluded, must become members of the Retirement System, within thirty (30) days of service, as a condition of their employment.

ORGANIZATIONAL STRUCTURE

The organizational chart for the system is presented as Exhibit A.

The System is comprised of a seven member Board of Trustees who is mandated by law to set policies for the system and oversee the investment portfolio. The System is managed by an Administrator who is charged with oversight of five Divisions. The Divisions are:

- 1). Administration. Provides administrative, technical, personnel and legal support and direction to all divisions.
- 2). Accounting & Finance. Responsible for cash management and the preparation of the financial reports for auditing purposes, budget preparation, administrative payroll processing, accounts payable and the procurement and inventory functions.
- 3). Benefits. Processes and services the member contributions, annuitant's payroll, recalculation of benefits and pre-retirement and post-retirement counseling.
- 4). Loans. Responsible for the processing and servicing of personal, auto and mortgage loans.
- 5). Facility Property Management and Operations. Oversees the management and maintenance of properties and the collection of rents and parking fees.

The System's main office of business is located on the 3rd Floor of the GERS Complex which is located at 48B-50C Kronprindsens Gade on St. Thomas, with another office located at #5 Orange Grove on St. Croix.

The staff consists of a total of 82 individuals. The classified component of the staff is comprised of 59 individuals who are represented by two different labor unions. A total of 48 individuals are represented by the United Steelworkers Union (USW) and 11 supervisors are represented by the Seafarers International Union (SIU). Additionally, there are 23 exempt employees and one (1) contract employee.

The System has always maintained a well-trained and highly-skilled professional staff to meet the requirements of our statutory mandates. Today, a total of 60 of the 82 employees are college graduates (11 graduate degrees, 49 hold a combination of undergraduate and associate degrees.) Thus, a total of 73% of our employees are college graduates. Also, there are 3 certified public accountants (CPAs) on staff. We are proud of the level of professional training attained by our employees and we continue to support and encourage them to enhance their career objectives through our educational reimbursement incentive program. Our objective is to recruit, educate and maintain a qualified professional staff to service the needs of the members.

OPERATIONAL GOALS THROUGH THE END OF FISCAL YEAR 2008

- To complete the quality control of the Census (member's personal and historical information) in order that the actuarial valuation can be completed and the actuarial unfunded liability determined for the period September 30, 2006.
- To complete the Fiscal Year 2007 audit by September 30, 2008.
- To correct all outstanding internal control weaknesses cited in the Fiscal Year 2006 audit and develop written policies and procedures.
- To complete the imaging pilot quality assurance project process of the loans and benefits files by September 30, 2008.
- To resume the construction of the new GERS office and retail complex on St. Croix by the middle of September 2008.
- To implement the full use of the MAS 90 accounting software-- especially the budget and inventory modules.

ACCOMPLISHMENTS FOR FISCAL YEAR 2008

The major accomplishments during Fiscal Year 2008 are:

- Kicked off the upgrade of the new benefits and loan administration software in March 2008.
- Completed the Fiscal Year 2006 Annual Financial Audit and started the Fiscal Year 2007 Annual Financial Audit which is scheduled to be completed by September 30, 2008.
- Completed the census data for Fiscal Year 2006 which is necessary for completion of the actuarial valuation report.
- In accordance with Act 6959, the System paid out \$4,434,187.06 in cost of living bonuses on November 21, 2007 to 5,403 retirees who retired between January 1, 1990 and September 30, 2006.

Note: On October 30, 2006, in accordance with Act 6868, the System paid out \$1,499,999.60 to 1,268 retirees who retired before 1990.

- Re-instituted the Financial Planning Workshop after approximately four (4) years hiatus.
- For the first time, transmitted the 1098 mortgage interest statements electronically to the Bureau of Internal Revenue.
- Instituted a procedure for collection of delinquent loans in the Superior Court (Small Claims). For the first time, employees of the Loan Division were afforded the opportunity to observe the processing of the small claims and appeared in court on two occasions to present GERS's arguments. The GERS was successful in both cases.
- Renovated the old First Bank space on the 1st floor to stage the new Technology Project. After the completion of the project, the area will be used by the loans and benefits divisions to accommodate our senior members who have health challenges from coming to the 3rd floor to obtain these services.

- Since January 1, 2008 collected \$1.2 Million in outstanding rents and utilities due to the System.
- Hired an Internal Auditor who reports to the Audit Committee of the Board of Trustees.

PROJECTED GOALS AND OBJECTIVES FOR FISCAL YEAR 2009

- To revisit the Mission Statement, develop a Vision Statement and develop a Strategic Plan for the System by March 31, 2009.
- To decrease the period of time to submit and have an approved annual budget.
- To decrease the period of time to issue the annual certified financial statements and the annual report.
- To complete the recalculation of retiree's annuity payments by December 31, 2008.
- To improve on the timeliness of processing member benefits.
- To provide timely and accurate information to our members.
- To continue to promote direct deposit for retiree's annuity payments.
- To strengthen procedures to minimize the possibility of a deceased member receiving an annuity payment, and the length of time to remove a deceased member from the payroll.
- To provide members with educational services in Estate Planning and Financial Services to assist them with planning and managing their retirement.
- To develop a coordinated communications effort to include production of a system quarterly newsletter and workshops concerning GERS' benefits and processes.
- To develop a plan to increase the preparedness to process retiree's checks in the Territory in the event of a natural disaster.

- To provide system-wide customer service training in order to decrease the number of complaints reported by the members.
- To improve on the technology infrastructure to support the internal and external operations.
- To complete the elevator refurbishing project, install a public announcement (PA) system for emergency purposes and develop a refurbishing plan to address energy saving measures in our buildings.
- To continue the implementation of the new loans and benefits software which will improve the delivery of services to the members of the System.
- Make recommendations to the Board of Trustees on the development of the 120 acres of property located at Estate Huffman & Nullyburg.
- To increase oversight of the investment managers performance.
- To begin to implement sections of Act No. 6794 (The Retirement System Reform Act of 2005) and amendments Act No. 6905 and Act No. 6917.

MEMBERSHIP

Overall membership in the System is as follows:

			INCREASE/DECREASE	PERCENTAGE CHANGE
Year	2007	2,008		
Active Members	10,543	11,067	524	4.73%
Retirees	6,827	6,926	99	1.43%
Total Membership	17,370	17,993	623	3.46%

Both of these numbers continue to increase and the benefit payments continue to rise. For example, in 1991 benefit payments were approaching \$55 million, while for fiscal year 2008

payments are expected to total approximately \$162 million. This reflects a 194.5% overall increase in the level of benefit payments paid annually over the period of the last 17 years.

Of the 6,926 retirees and beneficiaries in the System, 5,833 retirees or 84% are Virgin Island residents. With the projected benefit payments approaching \$162 million this represents a significant infusion of cash that impacts the economy of the Territory.

The chart below shows the progress made in recruiting the retirees and beneficiaries to utilize direct deposit services. Over the period of the last 5 years, we have had an increase of 775 payees receiving retirement annuities. At the same time, retirees receiving checks have decreased by 1,562 and retirees on direct deposit have increased by 2,337 individuals. Our ultimate goal is to have 100% of the retirees receiving their annuity payments via direct deposit. To date, we have achieved 77% participation.

	2003	2004	2005	2006	2007
Retirees on Direct Deposit	2,917	3,332	3,800	3,982	5,254
Retirees Receiving Checks	3,135	2,926	2,758	2,267	1,573
Number of Payees	6,052	6,258	6,558	6,649	6,827

In an effort to better assist our retiring members, we have strived to continually revise and update our pre-retirement workshops and counseling sessions to ensure that we provide the most current and up-to-date information to aid in the smooth transition from the career to retirement track. We continue to solicit workshop participants from the government and private sectors to make presentations at our monthly workshops. Today, the list of participants include representatives from Social Security; Medicare; Bureau of Internal Revenue; Group Health

Insurance; Department of Health; Department of Human Services; Seslia Securities; Credit Bureau and the Credit Union.

Our workshops are held on all three islands at least once a month. We currently conduct scheduled workshop presentations namely, Mini Quests, New Employee Orientations, Departmental Workshops, and benefit fairs throughout the Territory.

ACTUARIAL VALUATION INFORMATION

Title 3, Chapter 27, Section 718 (a) of the Virgin Islands Code mandates that the Employees Retirement System of the Government of the Virgin Islands be financed on an "actuarial reserve basis." An "actuarial reserve basis" generally means that the retirement benefits are funded during employees active years of employment so that by the time they retire, the benefits would have been fully funded in advance of their retirement date. The actuarial valuation, which is conducted by the System's Actuary, determines the contribution rate necessary to meet the cost of benefits being accrued and a corresponding amount to pay down a portion of the unfunded liabilities.

The most recent actuarial valuation estimate as of September 30, 2006 was determined by The Segal Company. The Actuary is presently reviewing other data in order to recommend the bi-annual actuarial valuation report as of September 30, 2006. However, the estimate as of September 30, 2006 shows that the current statutory employer and member contribution rates are not sufficient to meet the cost of funding the System on an actuarial reserve basis, as required by law. The System's estimated unfunded accrued liability (UAL) has increased since the period of the last actuarial valuation and is estimated to be \$1,136,153,570 for the fiscal year ending September 30, 2006.

Currently, the contribution rates are set by statute¹. The current combined contribution rates for employees employed prior to October 1, 2005 as of October 1, 2007 is 25.5% of total payroll, and the current combined contribution rates for employees employed after October 1, 2005 (Tier II) is 26.0% of total payroll. The current combined rates are not sufficient to meet the 43% of payroll cost of the System, which is the amount necessary to maintain the operations of the retirement benefit structure on an actuarial reserve basis, as mandated by the provisions of the Virgin Islands Code. To meet the full actuarial costs, the contribution rates must be increased so that in total, the System would have to receive additional contributions of 17.5% (pre-October 1, 2005) and 17.0% (Tier II) in order to meet the 43% of payroll cost of the System.

The outstanding employer's contributions (excluding delinquency fee and interest) due to the GERS from the central government and other government agencies for fiscal year 2008 (as of June 30, 2008) are as follows:

	Regular	3%	Total
Central Government	\$ -	\$7,973,495.96	\$7,973,495.96
Instrumentalities	431,101.64	1,092,578.17	1,523,679.81
Total	\$431,101.64	\$9,066,074.13	\$9,497,175.77

Contributions due from the Central Government excluding the increase to 3% are current to date. Contributions due from the instrumentalities excluding the increase to 3% are current to date except for the V.I. Water and Power Authority (WAPA).

The schedule below tracks the growth in the unfunded liability (deficit) over a 14-year period. The lack of a consistent funding plan for the GERS places a massive constraint on the

¹ Title 3, Chapter 27, Section 718, Subsection (b), Virgin Islands Code

resources of the System to meet future pension benefit obligations. Proper funding by the Plan Sponsor is critical to the future survival of the Plan for the benefit of the members, retirees, and beneficiaries.

Year	Actuarial Value of Assets	Unfunded Deficit	Funded Ratio
30-Sep-91		\$281,299,295	69.79%
30-Sep-93		\$236,505,572	74.49%
30-Sep-94		\$243,591,097	75.55%
30-Sep-95		\$352,562,359	70.1%
30-Sep-97	\$1,031,369,518	\$296,600,030	77.67%
30-Sep-98	\$1,078,291,775	\$307,300,371	77.82%
30-Sep-99	\$1,255,210,585	\$518,081,040	70.78%
30-Sep-00	\$1,330,089,822	\$525,608,964	71.68%
30-Sep-01	\$1,342,894,336	\$731,727,064	64.73%
30-Sep-02	\$1,337,676,064	\$815,884,419	62.11%
30-Sep-03	\$1,346,906,862	\$898,500,506	59.98%
30-Sep-04	\$1,360,288,336	\$977,502,024	58.19%
30-Sep-05	\$1,366,982,183	\$1,088,574,553	55.67%
30-Sep-06 Estimated	\$1,421,825,127	\$1,136,153,570	55.58%

CONTRIBUTIONS/FUNDING

The System’s funding objective is to meet long-term benefit promises through employer and employee contributions that remain level as a percentage of the members’ payroll. Currently employer contributions are determined by the Legislature. This is the single most detrimental feature of the plan design that handicaps growth in the fund. The System was designed to be funded on an actuarial reserve basis.

Regular Benefit Contributions

In accordance with the 1994 Modified Consent Judgment issued by the U.S. District Court, the payment of regular contributions from the Department of Finance is required to be transmitted to GERS within 21 days after each payroll. Although contributions due from the Central Government and the instrumentalities excluding the increase to 3% are current to date,

with the exception of WAPA, the current regular benefit contributions by the Central Government have not kept pace with the percentage required by the Actuarial Reserve Method of funding this plan design. In addition, no regular payments are being made, by the plan sponsor on the \$1,136,153,570 unfunded liability. The System cannot survive another ten years of escalating benefit expenditures without the respective concurrent incremental contribution increases or a significant cash infusion in the form of Pension Obligation Bonds.

As I indicated in my presentation on June 13, 2008 before the Committee on Government Operations and Consumer Protection regarding the outstanding annuities owed to retirees by the GERS pursuant to ACT 6781, there are twenty-two years of unfunded legislative mandates totaling \$161,001,000 where the System has distributed unfunded benefits, for which there has been no reimbursement to the GERS. These unfunded mandates have negatively impacted the unfunded liability of the Fund. Also, the GERS is owed a cumulative total of approximately \$37,000,000 for unpaid administrative expenses for Fiscal Years 1987 through 1998. This debt has been brought to the attention of the Legislature, and cannot be forgiven or dismissed without payment to the fund, because the debt is a blended component of the actuarial valuation and it was created by the enabling plan design.

The following chart depicts the unfunded mandates for which the System has distributed unfunded benefits which negatively impacts the unfunded liabilities of the Fund.

UNFUNDED MANDATES	ACT NO.	YEAR
Legislative Mandates		
Omnibus Authorization Act of 1984	4877	10/25/1983
To Provide for Early Retirement of Dept. of Education Personnel	4896	2/21/1984
Early Retirement Incentive Training & Promotion Act of 1994	6007	8/16/1994
To Extend Act 6007	6088	12/5/1995
To Fund Salary Increases for Retirees & Eligible Employees	6415	6/18/2001
To Place Employees on Step	6427	6/19/2001
Expansion of Eligible Members of Early Retirement Program	6429	9/24/2001
To Provide Early Retirement Benefits Options & To Reduce Expenditures	6361	10/19/2000
To Increase Retirement Benefits for Superior Court Judges	6391	2/1/2001
Other Unfunded Measures		
Annual and Sick Leave Benefits Paid		
Past Due Administrative Expenses		1987-1998

Over the years, GERS has interacted with other major public retirement systems such as the New York Retirement System, the District of Columbia Retirement System and the Florida Retirement System in an effort to determine what strategies or programs were considered or implemented to correct their unfunded liabilities. Each of these Systems had experienced severe unfunded liabilities similar to the GERS. They were able to turn around the deficit in their unfunded liabilities by a combination of the Plan Sponsor:

- 1). Floating Pension Obligation Bonds; (?)
- 2). Making substantial lump sums payments to the Systems;
- 3). Paying the entire actuarial annual normal cost;
- 4). Incrementally adjusting the contribution rates to keep pace with the increasing levels of benefit payments.

In addition to:

- 1). Legislative elimination of unfunded enhanced benefits; and
- 2). Legislative empowerment of the System to make BBB rated and alternative investments.

Mr. Chairman, the Statement of Objectives of the System cannot be achieved or sustained unless adequate provisions are made to actuarially fund current and future cost in the annual budget of the Central Government. In order to have an adequately funded retirement system, the following conditions must be met:

- 1). A realistic actuarial determination of the required contributions;
- 2). Investments based on a clear concise Statement of Objectives, derived from long-term asset liability studies;
- 3). Use of realistic assumptions for modeling assets and liabilities; and
- 4). Control of cost both on the investment and benefits sides.

I am pleased to say that the GERS does all of the above. However, without a commitment from the employer to make timely actuarially required contributions, the benefits promised to the retirees cannot be sustained.

INVESTMENTS

The investment fund portfolio is managed with the specific goal to grow the assets to meet the System's pension liability and ensure a reliable cash flow that provides for the funding requirements of near-term pension obligations. To achieve these goals, the Board allocates the Fund's assets to a variety of asset types and strategies in consultation with the Investment Consultant. Generally, equity investments are included for their long-term return and growth characteristics, and fixed income assets are added for their ability to control investments risk and provide for a reliable cash flow that meets the System's funding requirements. The Fund's successful long-term performance confirms the importance of asset diversification and controlling investment risk within each asset class.

INVESTMENT FUND

A schedule of the Investment Fund as of June 30, 2008 is presented as Exhibit F.

The System's investment fund is presently managed by fifteen (15) investment Managers. They are listed below:

Alliance Bernstein, LP
Bjurman, Barry & Associates
Fisher Investments Institutional Group
Global Currents Investment Management, LLC
LSV Asset Management
NWQ Investment Management Company, LLC
Oberweis Asset Management, Inc.
Oechsle International Advisors, LLC

Pacific Investment Management Co., LLC
Silvant Capital Management, LLC
State Street Global Advisors
The Attilanus Fund I, LP
Turner Investment Partners, Inc.
Union Heritage Capital Management, Inc.
U.S.V.I. Lending Securities

The fund's custodian is the State Street Bank and Trust Company. Trading Partners, Inc. is the Fund's transition manager. Segal Advisors, Inc. provides investment consulting and analytical support to the Board.

Over the past 20 years, GERS has generated an average annual rate of return on its investments between 8% and 11%². We note that the investment portfolio value has declined since the last overview presentation mainly because of the volatility in the market. (See Exhibit F). We feel that the market will rebound in the near future. We are confident that the assets of the System have not been significantly impaired.

The System has exceeded the established benchmarks twenty-two times in the last twenty-five years. The growth in the portfolio assets demonstrates that the Board in conjunction with the Investment Advisor has made the proper prudent investments over the years. The following table shows GERS's investment managers ranking compared to managers worldwide.

²Refers only to investments in stocks and bonds.

Rank	Manager	Funds Under Management
<i>Top 767 Managers Worldwide</i>		
1	State Street Global	\$1,766,182 Million
11	PIMCO	\$610,222 Million
13	Alliance Bernstein Institutional	\$508,081 Million
71	RidgeWorth Capital(Silvant Capital Management)	\$73,843 Million
74	LSV Asset Management	\$72,477 Million
147	Turner Investment	\$23,205 Million
171	NWQ Investment	\$17,089 Million
199	Oechsle International	\$12,918 Million
<i>Top 25 Managers Active Domestic Equity</i>		
14	LSV Asset Management	\$28,905 Million
24	Turner Investment	\$17,418 Million
35	NWQ Investment	\$15,631 Million
43	RidgeWorth Capital(Silvant Capital Management)	\$12,846 Million
74	State Street Global	\$6,330 Million
<i>Top 25 Managers Active Domestic Fixed Income</i>		
2	PIMCO	\$158,926 Million
16	Alliance Bernstein Institutional	\$25,464 Million

Source: Pensions Investments - May 26, 2008 Issue

In addition, the table below demonstrates the growth in the portfolio over the past 10 years. Ten years ago, the equity and fixed income portfolios were \$1,046,467,000 and through prudent investment management, these portfolios have grown steadily over the years. The net market value of these investments as of June 30, 2008 is \$1,138,278,000.

GOVERNMENT OF THE VIRGIN ISLANDS EMPLOYEES' RETIREMENT SYSTEM
 CASH FLOW ANALYSIS
 ENDING JUNE 30, 2008

	QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS
BEGINNING MARKET VALUE	\$1,170,803,000	\$1,283,378,000	\$1,216,660,000	\$1,069,293,000	\$1,046,467,000
NET CASH FLOW	-20,858,000	-82,205,000	-283,526,000	-395,914,000	-550,187,000
INVESTMENT EARNINGS	-11,667,000	-62,895,000	205,143,000	464,897,000	641,996,000
ENDING MARKET VALUE	1,138,278,000	1,138,278,000	1,138,278,000	1,138,278,000	1,138,278,000
NET CHANGE	-32,525,000	-145,100,000	-78,382,000	\$68,985,000	\$91,811,000

The table below shows the growth in the investment portfolio's net plan assets for the years 2001-2006.³

Year	Net Plan Assets	Increase/Decrease	Percentage Change
1998	\$1,146,019,705		
30-Sep-99	\$1,225,210,585	\$79,190,880	6.91%
30-Sep-00	\$1,330,089,822	\$104,879,237	8.56%
30-Sep-01	\$1,214,182,996	(\$115,906,826)	-8.71%
30-Sep-02	\$1,136,973,678	(\$77,209,318)	-6.36%
30-Sep-03	\$1,275,775,907	\$138,802,229	12.21%
30-Sep-04	\$1,350,305,464	\$74,529,557	5.84%
30-Sep-05	\$1,434,633,117	\$84,327,653	6.25%
30-Sep-06	\$1,477,477,550	\$42,844,433	2.99%

STOCK MARKET AND PORTFOLIO PERFORMANCE

For the period ending June 30, 2008, the total fund assets were at \$1.2 billion which represents a decrease of \$138.7 million from October 1, 2007, the beginning of fiscal year 2008. This decrease represents \$61.8 million of depreciation in the market value of the fund due to the

³The schedule of total net plan assets incorporates the assets in the Investment Stock Portfolio, the Havensight Mall, the Loan Portfolio, and the Real Estate Properties on St. Thomas and St. Croix.

present volatility in the marketplace; \$28.2 million net losses from current operations and \$48.7 million drawn down from the investment fund to finance the retiree payroll and the System's loan operations during the first three quarters of this fiscal year.

We are pleased with the performance of our investment managers at this time. We credit our performance, in part, to the skill of our investment managers, the strategic allocations made to our portfolio as part of our diversification strategy, and the due diligence of the Board of Trustees and management.

Because of the volatility in the market the GERS' investments (with the exception of Fixed Income and Alternative Investments) for the first three quarters of this fiscal year has underperformed our benchmarks. We note that all major indexes have been down 12% - 14%. We have confidence in our investment managers and the due diligence of management and the Board of Trustees to protect the System's investment interests.

LOANS

In addition to providing regular retirement benefits, the System also provides personal, auto, land and mortgage loans to qualified members and retirees. The existing interest rates for loans along with loan balances as of June 30, 2008 are as follows:

Loan Category	Interest Rates	Interest Rates	Interest Rates	Interest Rates	As of June 30, 2008	
	2005	2006	2007	2008	Number	Amount
Personal Loans	8.50%	8.50%	8.50%	8.00%	5,804	\$94,573,628
Auto Loans	9.75%	9.25%	9.25%	8.75%	48	\$340,820
Land	8%	8%	8%	8%	42	\$1,002,265
1st Priority Mortgage	8%	8%	8%	8%	499	\$12,357,433
2 nd Priority Mortgage	9%	9%	9%	9%	5	\$83,458
Retiree Loans	9%	9%	9%	8%	1,667	\$16,412,554
Total Loan Portfolio					8,065	\$124,770,158

REAL ESTATE

(A) GERS Complexes

The System owns the GERS Complex on St. Thomas, which is the location of the GERS principal place of business. The tenants are the Division of Personnel, the Department of Justice, Rescare (Job Corp) and First Bank. GERS also owns an additional 2.9 acres located at Parcels No. 5 and 6 Estate Orange Grove, St. Croix, which houses the St Croix Branch Office operations and the Casino Control Commission.

In December 2005, ground was broken for the new St. Croix Complex. The new complex will house a 22,000 square foot two-story building which will augment the existing facilities now located on the site. The construction was due to be completed in January 2007. However, the contractor, Best Construction, ran into financial difficulties and the Board terminated the contract in January 2008. The GERS is presently in litigation with Best Construction, Inc. and the surety Edmund C. Scarborough/International Bonding & Construction Services, Inc. d/b/a The IBCS Group, Inc. The contractors who were unsuccessful bidders on the initial project and others were invited to bid on the completion of the building. Five responses were received and we are presently negotiating with the successful bidder. The building is approximately 50% completed. We expect construction to resume by the end of the month or early in September.

In late 2006, the System purchased 120 acres of land at Estates Hoffman and Nullyberg on St. Thomas. This purchase was made primarily as an additional real estate investment for our members. Our Architect has done a conceptual drawing on the best comprehensive use for this land. The Board has not made a decision on the proposal.

(B) Havensight Shopping Mall

GERS also owns the Havensight Shopping Mall, a premier tourist destination commercial shopping center, located alongside The West Indian Company Dock and the new Yacht Haven Grande development. The Havensight Mall is managed by The West Indian Company, Ltd. (WICO). This property was purchased on June 30, 1993, for \$32 million. In November 2006, the mall was appraised at \$80 million. Today, we are receiving approximately \$4 million in net dividend payments from the mall. However, we are mindful of the potential loss in dividend payments due to the increased competition from the new Crown Bay development. The dividends received from the Havensight Mall are a vital component of our overall budget. The Board will continue to discuss with WICO the steps that may be needed to protect this vital investment.

INSURANCE

The GERS fully insures against all risks of loss on all of its properties, facilities, equipment, furnishings, and automobiles. This year we sent out a Request for Proposal and was able to reduce the premiums in excess of \$100,000 with increased coverage and lower deductibles with a Class A+ rated company.

GERS SCHOLARSHIP FUND

Commencing in 1998, the GERS began to award four-year undergraduate scholarships to students of the V.I. Education System. The source of funding for these scholarships originates from our investment managers, corporations, and concerned local citizens of the territory.

The Community Foundation of the Virgin Islands (CFVI) evaluates the candidates and the final selection is made by the GERS Board of Trustees based on the recommendation of the

Foundation's Scholarship Committee. The table below shows the scholarship recipients for 2008.

2008 GERS SCHOLARSHIP AWARDS			
Recipient	Island	Educational Institution	Date of Graduation
Joel Walker	St. Croix	University of Tampa	2012
Anwar Gregory	St. Thomas	University of Pittsburgh	2012
No Applicants	St. John	N/A	N/A

TECHNOLOGY UPGRADE

The GERS entered into a contract with Vitech Systems, Inc. of New York in December 2007 to implement a comprehensive retirement system software solution known as V3. The objective of this software implementation is to merge the GERS' current benefits and loan administration systems into a state-of-the-art, web-based, business solution that provides the technology foundation to enable and sustain the business agility of the GERS in addition to being fully integrated with the central government and the other government instrumentalities that interface with the GERS.

The project consists of three rollouts (phases):

- Rollout 1: Digital Conversion of GERS' member files
- Rollout 2: V3 Imaging and Line of Business Implementation
- Rollout 3: V3 Self-Service Implementation

The project is expected to be completed in approximately 24 - 30 months. We are currently in the Rollout 1 phase. When the software is fully implemented, customer service to retirees, active government personnel and the public-at-large will be greatly enhanced through the ability of V3 to facilitate electronic, web-based transactions and communications.

Other expected results of this upgrade are:

- Online loan applications and payments
- Ability for members to estimate benefit calculations
- Improved ability of GERS to produce member statements
- Improved data quality and security
- Digitized member data for improved access, retrieval and protection
- Greatly reduced processing time for requested services
- Improved identification of receivables from government agencies
- Improved work flow tracking and processes

ANNUAL AUDIT

The System's most recent audited financial statements by Bert Smith & Company are as of September 30, 2006. This report, confirmed that the System's Plan Net Assets amounted to \$1,477,477,550. This reflects an increase of \$42,844,433 over Fiscal Year 2005. For the audited year ending September 30, 2006 the GERS reported combined employer and employee contributions of \$99,271,301 and paid benefits of \$147,800,767 resulting in a net deficit of \$48,529,466. This compares to the audited year ending September 30, 2005 combined employer and employee contributions of \$81,957,717 and paid benefits of \$141,383,334 with a net deficit of \$59,425,617.

As the annual benefits paid out continue to exceed contributions received, we are forced to liquidate invested assets to fund the annuity payroll. For the fiscal years ended September 30, 2006 and September 30, 2007, and the nine (9) months ending June 30, 2008, \$61.2 million, \$90 million and \$48.7 million were liquidated respectively.

CASH MANAGEMENT

In order to stabilize the significant drawdowns from our investment fund, we have established a cash management procedure which allows the System to preserve the integrity of its investment vehicles by removing the need to make untimely periodic withdrawals from the

investment portfolio to meet our short term cash needs. However, we are currently reviewing this option to determine if this option is best for the System.

SUMMARY

A great part of the future of the Government Employees Retirement System will depend on whether the Government of the Virgin Islands (Plan Sponsor) funds the contributions to the System based on an actuarial reserve basis, and/or a combination of floating Pension Obligation Bonds and making substantial lump sum payments to the System. The significant unfunded liability still lingers. Until real funding is identified, established and consistently maintained, the Plan Sponsor's inability to pay the Normal Annual Cost of Operations will continue to cause the unfunded liability to escalate. By not funding the Plan on an actuarial reserve basis creates significant problems for the System. The consequences of not increasing the contribution rates to the actuarially required amounts can result in:

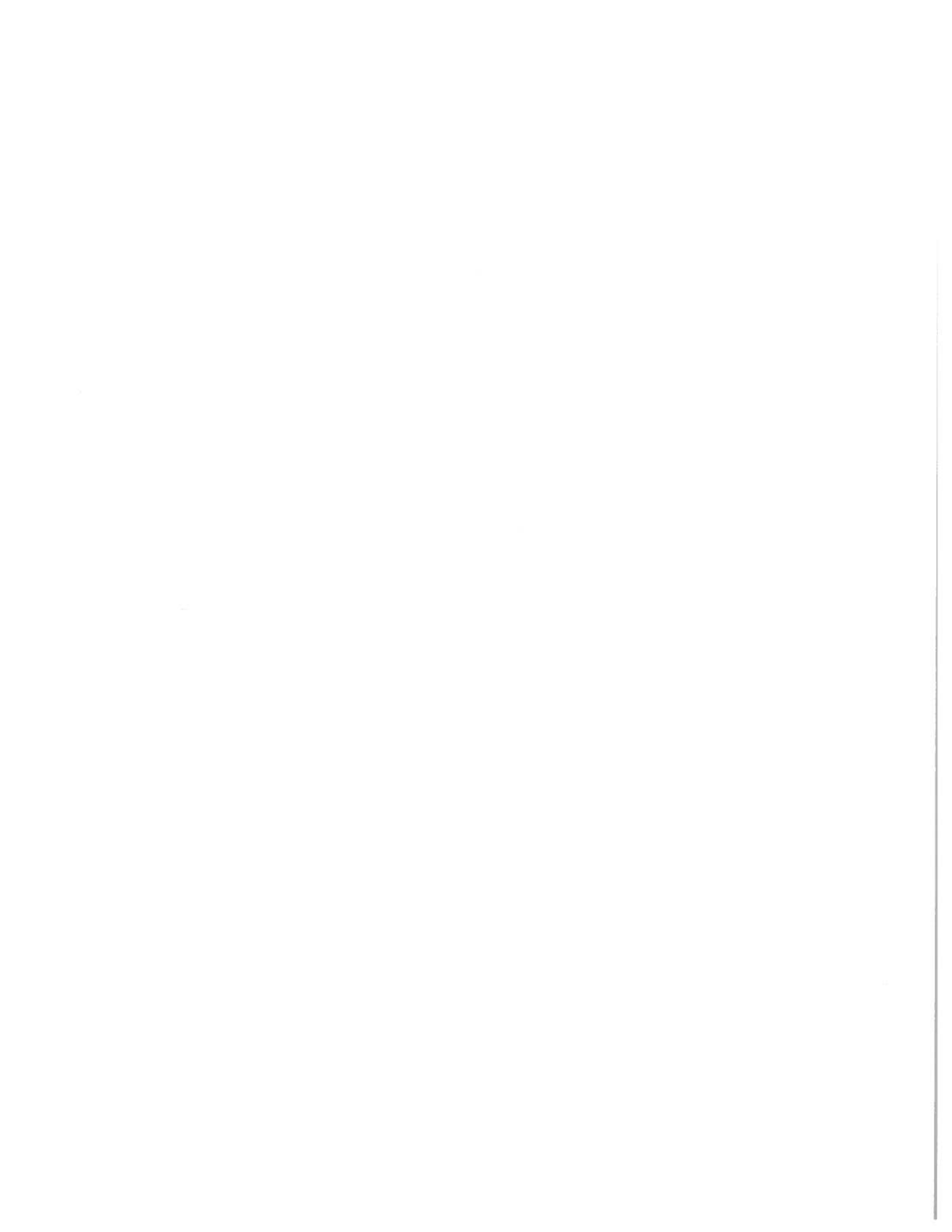
- Having to increase the actuarially required contribution rates in future years to make up for the shortfall in the current and future years' contribution deficits.
- A continual decrease in the funding ratio, which measures the progress being made towards the funding of benefits accruing from year to year.
- The benefit security to participants and the System's ability to pay the promised benefits will be at risk, with the long-term viability of the System being in jeopardy.
- The unfunded actuarial liabilities of the Plan continuing to increase.

The lack of a consistent funding plan places a strain on the System's resources to meet future pension benefit obligations. Therefore, adequate funding of the Plan is vital for the future survival of the Plan for the benefit of the members, retirees and the beneficiaries. The objective

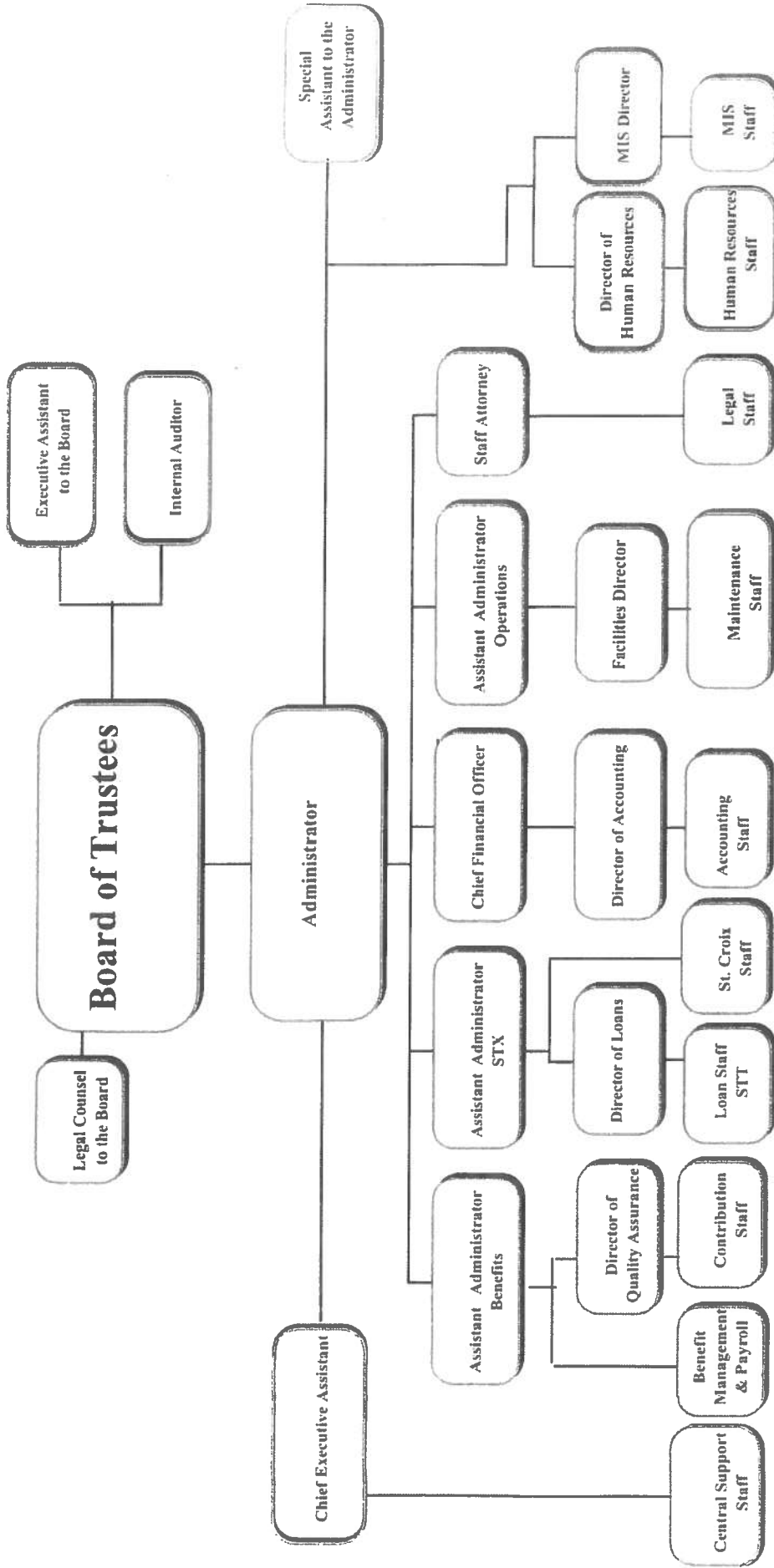
of the System is to fund the Plan to meet long-term benefits promised to its members and retirees by making adequate employer and employee contributions.

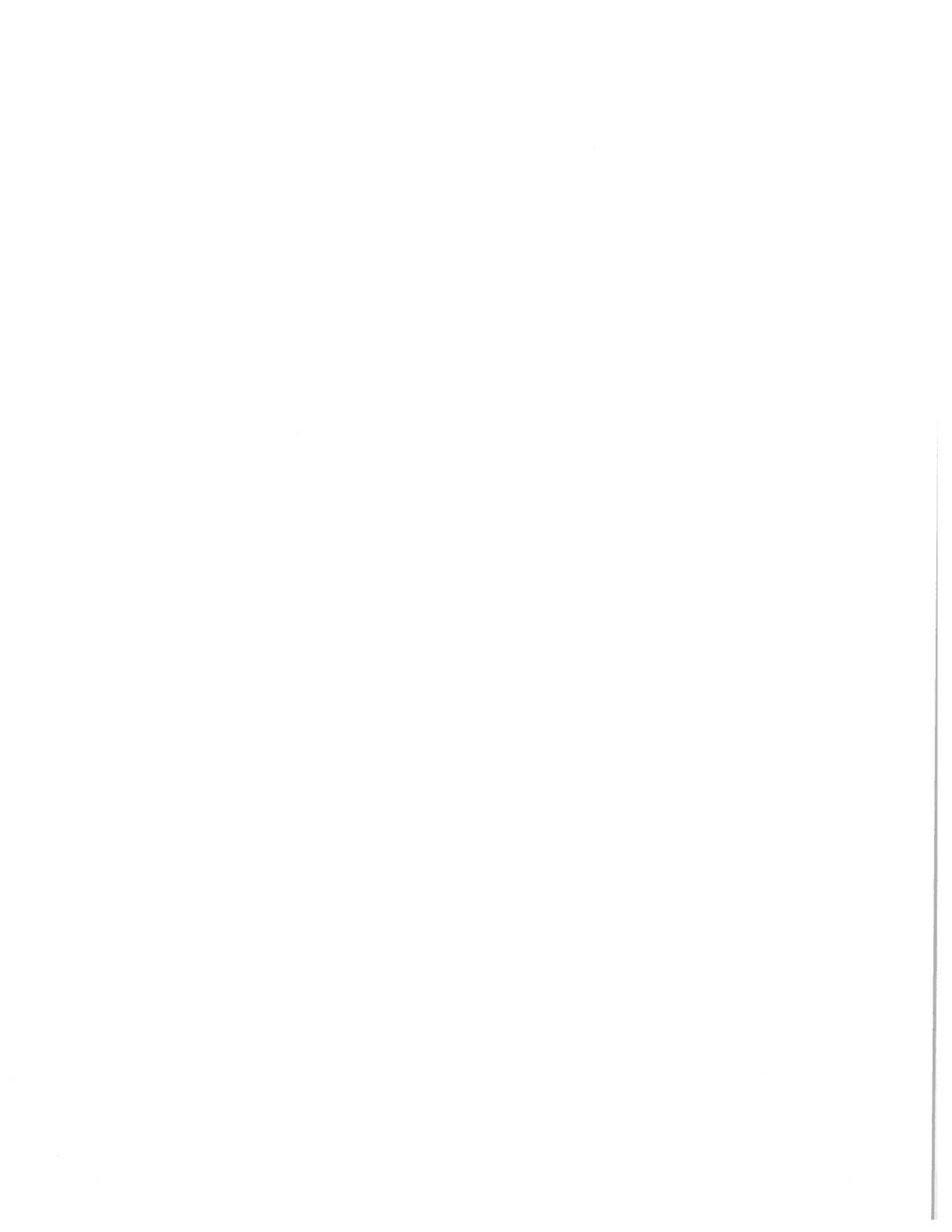
On August 27th, 28th and 29th, the Board of Trustees will meet at the GERS Complex on St. Thomas to hear presentations from all of our investment managers on their performance. We invite members of this Committee and the general public to attend.

Mr. Chairman, the GERS Team and I are prepared to respond to any questions the Committee on Finance may have on the operations of the GERS.



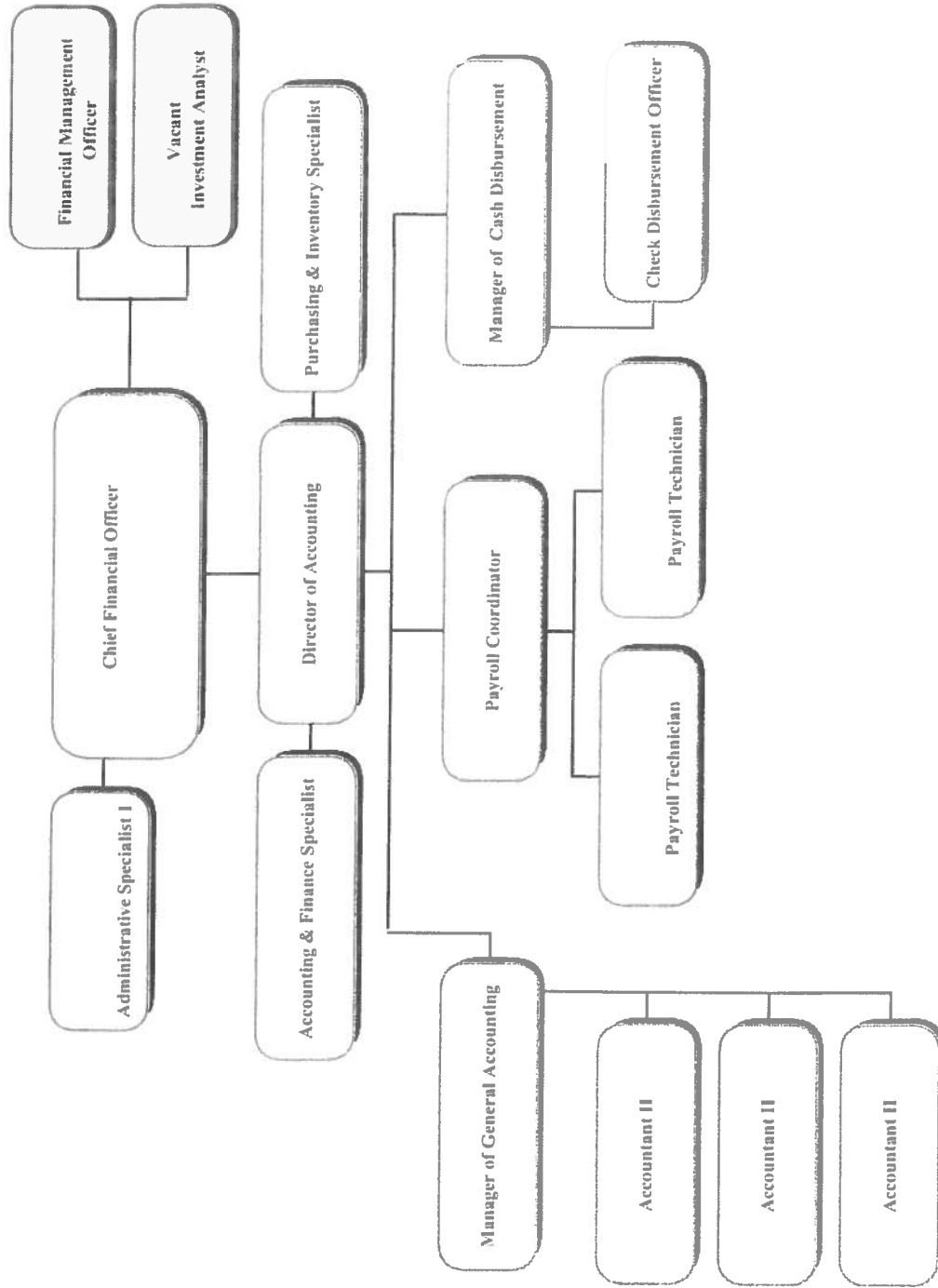
GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM ORGANIZATIONAL CHART

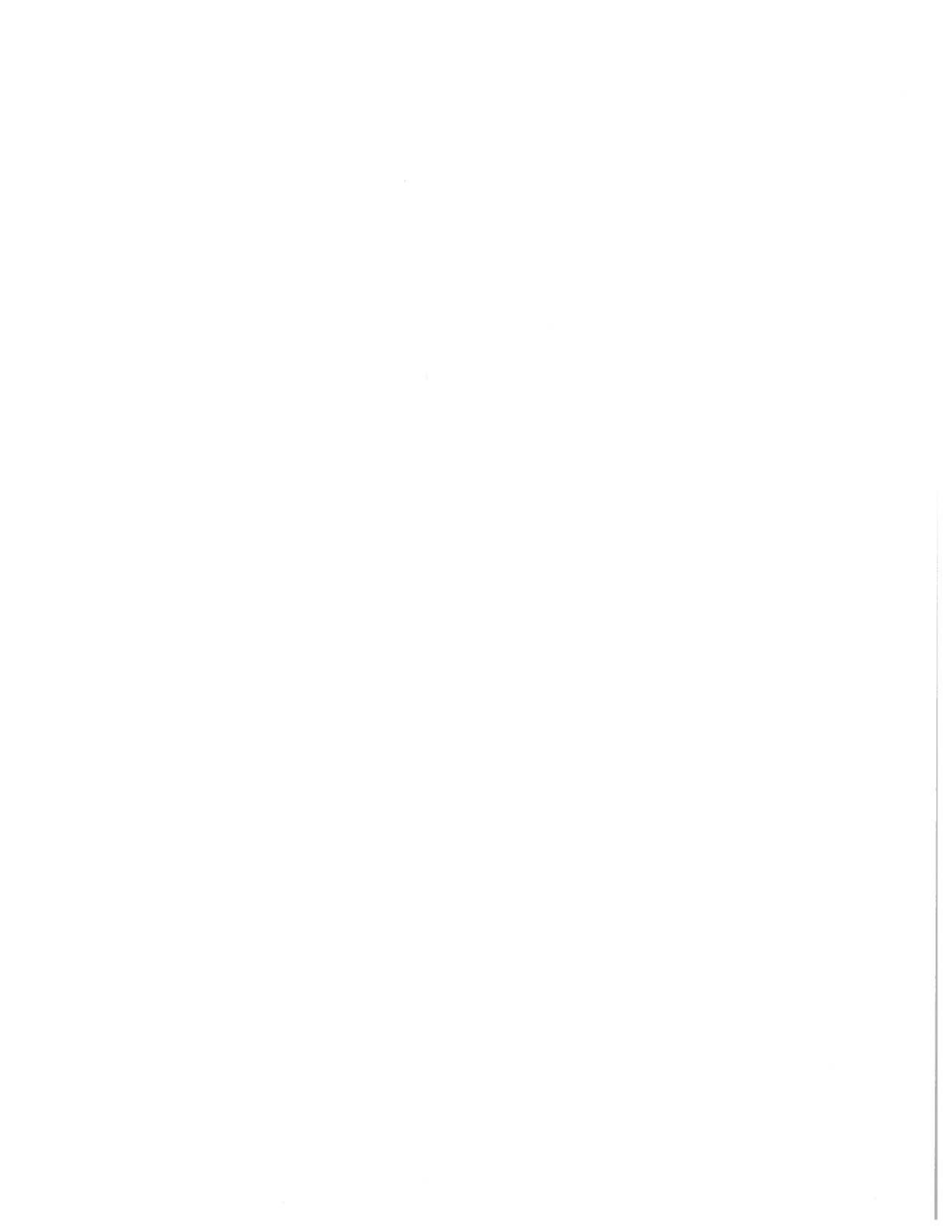




GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM ACCOUNTING & FINANCE

06/20/08



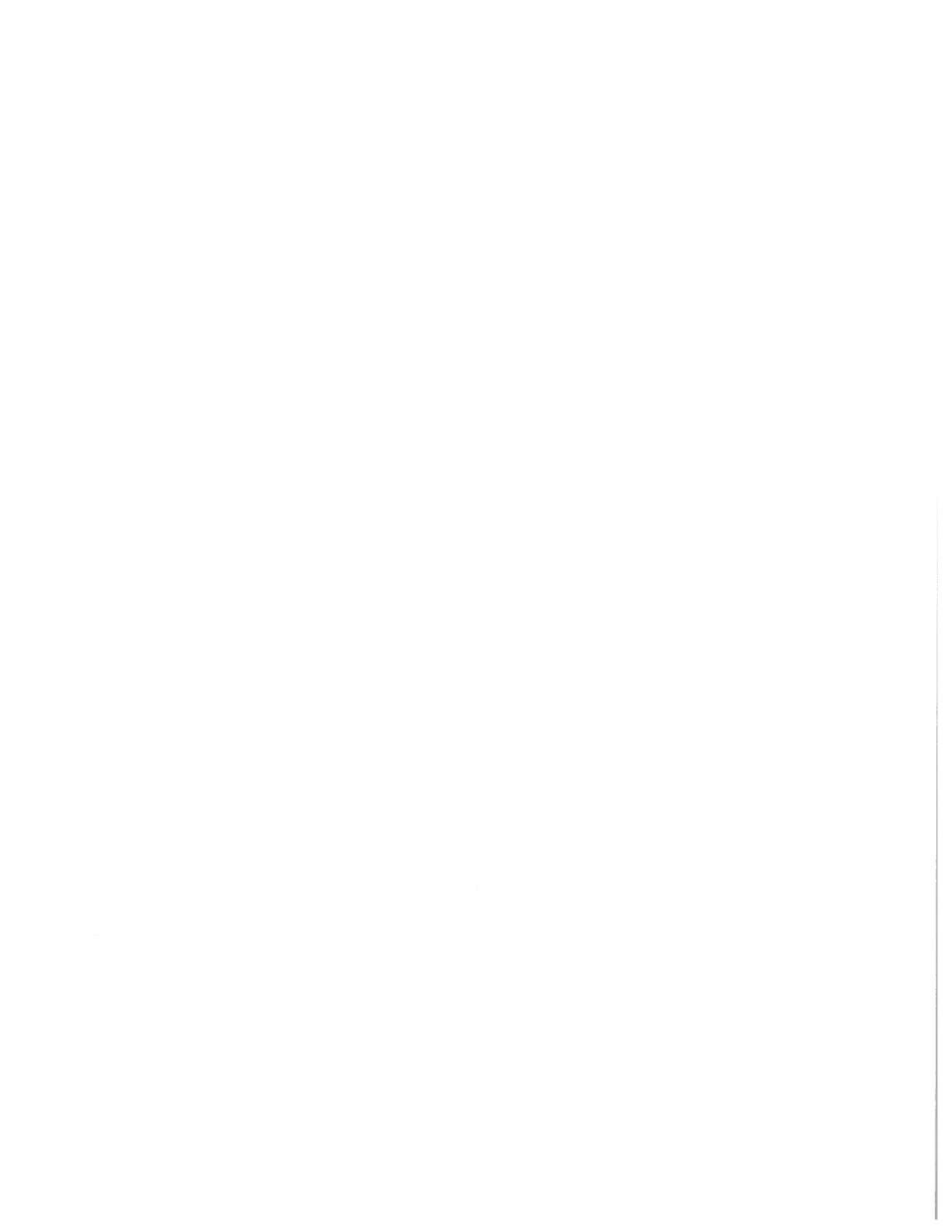


GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF CASH FLOWS

MONTH ENDING JUNE 30, 2008

	JUNE-08	JUNE-07	OCT. - JUN. YTD FISCAL 2008	OCT. - JUN. YTD FISCAL 2007
BEGINNING BALANCE			(46,612,129)	(47,475,900)
RECEIPTS FROM COLLECTIONS				
LOAN REPAYMENT	3,291,872	3,527,757	26,397,440	26,372,320
RENT FROM TENANTS/UTILITIES	74,158	39,356	1,396,619	438,288
WICO DIVIDENDS	-	-	2,791,638	2,715,005
EMPLOYER RETIREMENT CONTRIBUTIONS	5,141,924	6,675,075	50,318,335	46,739,207
EMPLOYEE RETIREMENT CONTRIBUTIONS	2,800,591	3,925,642	26,394,108	27,160,087
PARKING FACILITY	2,354	2,681	26,276	25,717
COMMISSION RECAPTURE	8,141	9,199	53,674	71,620
MISCELLANEOUS	15,912	-	3,433,324	-
TOTAL CASH AVAILABLE	11,334,951	14,179,710	110,811,414	103,522,243
DISBURSEMENTS				
ANNUITY PAYMENTS	13,640,178	12,996,421	126,704,390	118,846,009
ADMINISTRATIVE EXPENSES **	1,140,320	1,165,770	9,952,511	7,539,108
PERSONAL LOANS	2,089,823	2,165,554	22,049,386	22,580,878
MORTGAGE LOANS	50,712	198,410	994,843	1,317,053
RETIREE LOANS	134,287	219,974	1,391,223	1,366,548
AUTO LOANS	142	18,505	83,104	86,431
LAND LOANS	-	-	750	716
REFUND OF CONTRIBUTIONS	207,108	150,681	2,174,958	1,997,005
TOTAL DISBURSEMENTS	17,262,572	16,915,315	163,351,164	153,733,748
NET RECEIPTS	(5,927,620)	(2,735,605)	(52,539,750)	(50,211,505)
CASH SURPLUS/(DEFICIT)			(52,539,750)	(50,211,505)



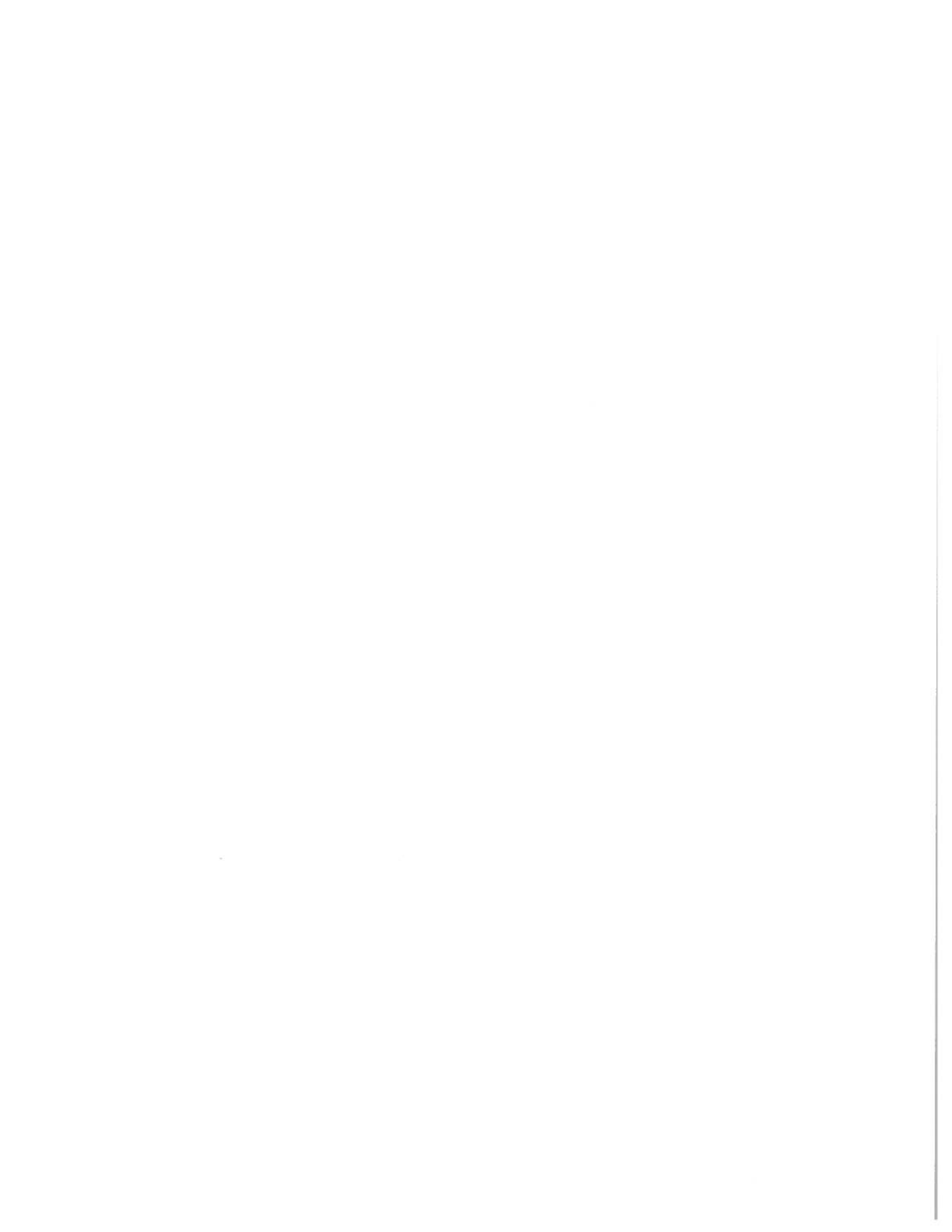
GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

Schedule of Budget vs Actual

(By Account)

Fiscal Year 2008

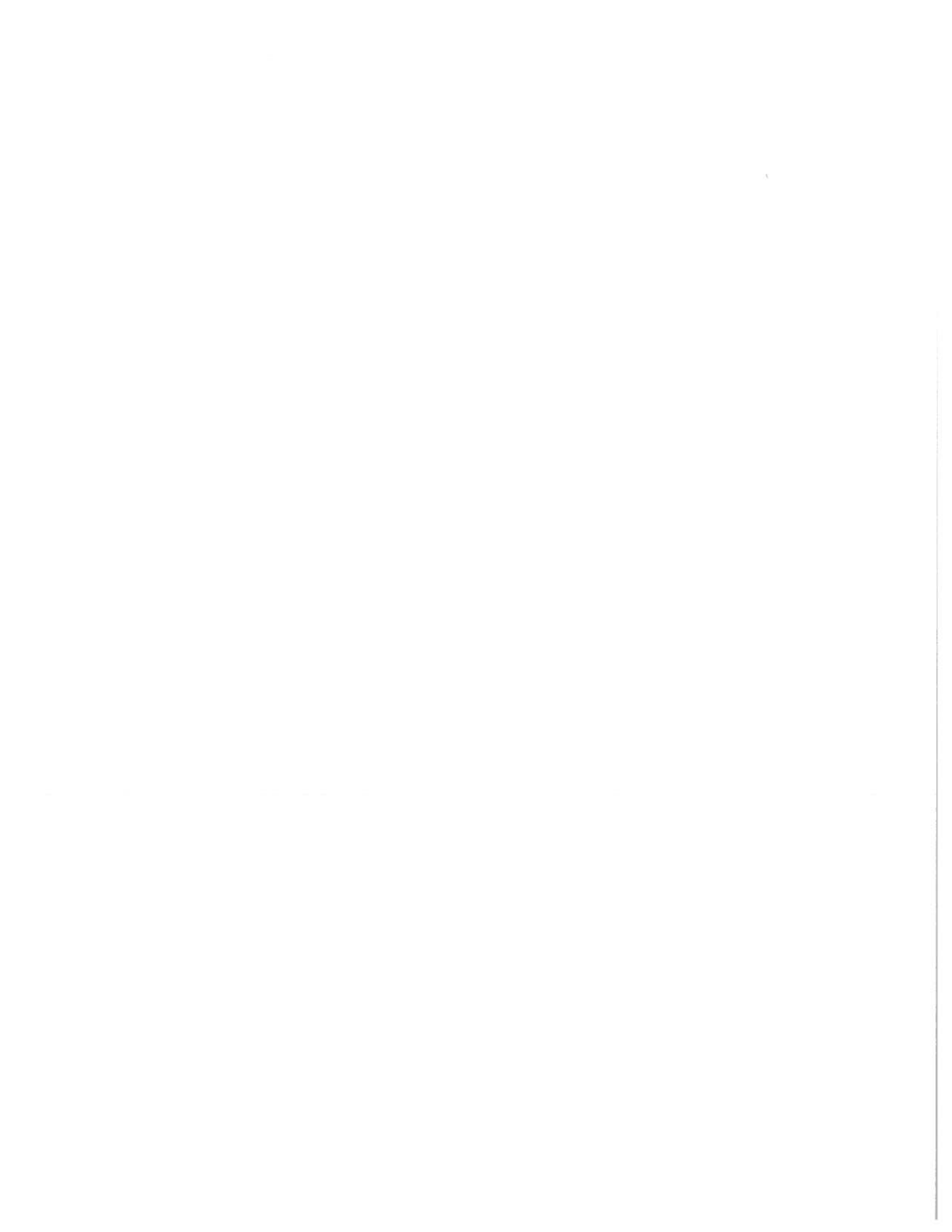
Description	Budget FY 2008	Actual YTD 10/01/07 - 6/30/08	Budget Variance
Personnel Services	\$ 5,273,187.00	\$ 3,281,507.35	\$ 1,991,679.65
Fringe Benefits	1,691,720.00	960,762.90	730,957.10
Payroll Cost (Subtotal)	6,964,907.00	4,242,270.25	2,722,636.75
Capital Outlay	432,000.00	14,794.11	417,205.89
Material, Supplies & Parts	107,500.00	82,419.23	25,080.77
Equipment	429,275.00	-	429,275.00
Repair & Maintenance	513,059.00	174,917.27	338,141.73
Utilities	566,768.00	477,834.89	88,933.11
Communication	298,437.00	249,927.06	48,509.94
Travel	356,043.00	160,683.62	195,359.38
Training	349,682.00	112,052.41	237,629.59
Professional Services	1,466,351.00	1,042,272.64	424,078.36
Insurance	725,000.00	264,380.01	460,619.99
Other Services & Charges	146,525.00	98,941.80	47,583.20
Other Operating Expenses (Subtotal)	5,390,640.00	2,678,223.04	2,712,416.96
Total Operating Expenses	\$ 12,355,547.00	\$ 6,920,493.29	\$ 5,435,053.71
Team GERS Technology Plan	5,764,334.00	3,032,017.35	2,732,316.65
Total Expenses	\$ 18,119,881.00	\$ 9,952,510.64	\$ 8,167,370.36



GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

ADMINISTRATIVE EXPENSES
OCTOBER 1, 2007 - JUNE 30, 2008

Description	10/1/07 - 6/30/08
Salaries & Wages	3,281,507.35
Fringe Benefits	960,762.90
Professional Services	1,042,272.64
Actuarial Services - Segal	75,000.00
Investment Advisory Services - Segal	232,500.00
Legal Fees	91,068.00
Interim Legal Counsel	55,917.56
Bert Smith and Company	95,000.00
Buck Consultants	33,942.21
ADP - Payroll Processing	230,132.16
Services	44,395.24
Accounting Services	10,150.00
Medical Service/Consulting	15,487.50
Stenographic Services	20,943.00
Security Services	137,736.97
	<u>1,042,272.64</u>
Team GERS	3,032,017.35
Maintenance and Repairs	174,917.27
Supplies	82,419.23
Insurance	264,380.01
Property and Casualty/General Liability	128,020.09
Directors and Officers/General Liability	123,500.00
Travel Policy	6,260.92
Vehicles	6,599.00
	<u>264,380.01</u>
Utilities	477,834.89
Other Operating Expenses	621,604.89
Advertising	34,468.20
Board Stipend	12,825.00
Catering	20,010.09
Communication	249,927.06
Equipment Rental	1,954.08
Miscellaneous Services	29,684.43
Training	112,052.41
Travel	160,683.62
	<u>621,604.89</u>
Capital Expenditures	14,794.11
Total	<u><u>\$9,952,510.64</u></u>



U.S VIRGIN ISLANDS GOVERNMENT EMPLOYEES RETIREMENT SYSTEM
Investment Fund
Comparison June 30, 2008 vs September 30, 2007

Investment Manager	June 30, 2008 Portfolio Value	September 30, 2007 Portfolio Value	Change in Portfolio Value	% Change
Employees Retirement System Fund - All Segments				
AllianceBernstein - Fixed Income Core	\$ 206,746,071.88	\$ 150,408,684.33	\$ 56,337,387.55	37.46%
AmeriCap Advisors - Large Cap Growth	24,289,324.17	30,706,751.27	(6,417,427.10)	-20.90%
Attilanus Fund I - Alternative Investment	67,450,336.00	58,854,677.00	8,595,659.00	14.60%
Bjurman, Barry - Small Cap Growth	30,880,769.48	42,194,304.52	(11,313,535.04)	-26.81%
Brandywine - Fixed Income International	134,495,321.33	128,976,410.20	5,518,911.13	4.28%
Brandywine - International Value	55,023,085.28	72,680,752.82	(17,657,667.54)	-24.29%
Fisher Investments - Small Cap Value	46,924,758.01	50,613,691.39	(3,688,933.38)	-7.29%
GeoNet LLC	8,038,507.61	-	8,038,507.61	-
GeoNet LLC Escrow	2,654,124.88	-	2,654,124.88	-
GERS Self Insurance Fund	2,880,699.94	-	2,880,699.94	-
LSV - Large Cap Value	99,290,989.66	129,687,722.28	(30,396,732.62)	-23.44%
MDL - Fixed Income Core*	-	55,663,748.79	(55,663,748.79)	-100.00%
NWQ - Large Cap Growth	93,938,097.74	115,831,520.74	(21,893,423.00)	-18.90%
Oberweis - Micro Cap	36,199,272.54	50,818,185.10	(14,618,912.56)	-28.77%
Oechsle - International Growth	51,064,266.05	65,265,627.15	(14,201,361.10)	-21.76%
PIMCO - Fixed Income Intermediate	122,030,843.78	119,423,067.64	2,607,776.14	2.18%
SSgA - Large Cap Core	2,427,998.90	3,162,379.28	(734,380.38)	-23.22%
Silvant Capital Management - Large Cap Growth	113,199,391.72	147,001,859.64	(33,802,467.92)	-22.99%
Turner Investment Partners	87,676,428.19	99,915,523.45	(12,239,095.26)	-12.25%
Union Heritage - Large Cap Core	34,304,007.96	37,405,539.93	(3,101,531.97)	-8.29%
USVI Securities Lending Income	1,301,356.60	945,461.83	355,894.77	37.64%
Total Fund	\$ 1,220,815,651.72	\$ 1,359,555,907.36	\$ (138,740,255.64)	-10.20%
Equity Segment:	55.31%	62.17%	Change in Value	Overall EQ%
AmeriCap Advisors - Large Cap Growth	\$ 24,289,324.17	\$ 30,706,751.27	\$ (6,417,427.10)	3.60%
Bjurman, Barry - Small Cap Growth	30,880,769.48	42,194,304.52	(11,313,535.04)	4.57%
Brandywine - International Value	55,023,085.28	72,680,752.82	(17,657,667.54)	8.15%
Fisher Investments - Small Cap Value	46,924,758.01	50,613,691.39	(3,688,933.38)	6.95%
LSV - Large Cap Value	99,290,989.66	129,687,722.28	(30,396,732.62)	14.71%
NWQ - Large Cap Growth	93,938,097.74	115,831,520.74	(21,893,423.00)	13.91%
Oberweis - Micro Cap	36,199,272.54	50,818,185.10	(14,618,912.56)	5.36%
Oechsle - International Growth	51,064,266.05	65,265,627.15	(14,201,361.10)	7.56%
SSgA - Large Cap Core	2,427,998.90	3,162,379.28	(734,380.38)	0.36%
Silvant Capital Management - Large Cap Growth	113,199,391.72	147,001,859.64	(33,802,467.92)	16.76%
Turner Investment Partners	87,676,428.19	99,915,523.45	(12,239,095.26)	12.98%
Union Heritage - Large Cap Core	34,304,007.96	37,405,539.93	(3,101,531.97)	5.08%
Total Equity	\$ 675,218,389.70	\$ 845,283,857.57	\$ (170,065,467.87)	100.00%
Fixed Income Segment:	37.95%	33.43%	Change in Value	Overall FI%
AllianceBernstein - Fixed Income Core	\$ 206,746,071.88	\$ 150,408,684.33	\$ 56,337,387.55	44.63%
Brandywine - Fixed Income International	134,495,321.33	128,976,410.20	5,518,911.13	29.03%
MDL - Fixed Income Core*	-	55,663,748.79	(55,663,748.79)	0.00%
PIMCO - Fixed Income Intermediate	122,030,843.78	119,423,067.64	2,607,776.14	26.34%
Total Fixed Income	\$ 463,272,236.99	\$ 454,471,910.96	\$ 8,800,326.03	100.00%
Alternative Investment Segment:	5.53%	4.33%	Change in Value	Overall AI%
Attilanus Fund I - Alternative Investment	\$ 67,450,336.00	58,854,677.00	\$ 8,595,659.00	100.00%
Total Alternative Investment	\$ 67,450,336.00	\$ 58,854,677.00	\$ 8,595,659.00	100.00%
Other Segment:	1.22%	0.07%	Change in Value	Overall Other%
USVI Securities Lending Income	\$ 1,301,356.60	\$ 945,461.83	\$ 355,894.77	8.75%
GeoNet LLC	8,038,507.61	-	8,038,507.61	54.04%
GeoNet LLC Escrow	2,654,124.88	-	2,654,124.88	17.84%
GERS Self Insurance Fund	2,880,699.94	-	2,880,699.94	19.37%
Total Other	\$ 14,874,689.03	\$ 945,461.83	\$ 13,929,227.20	100.00%

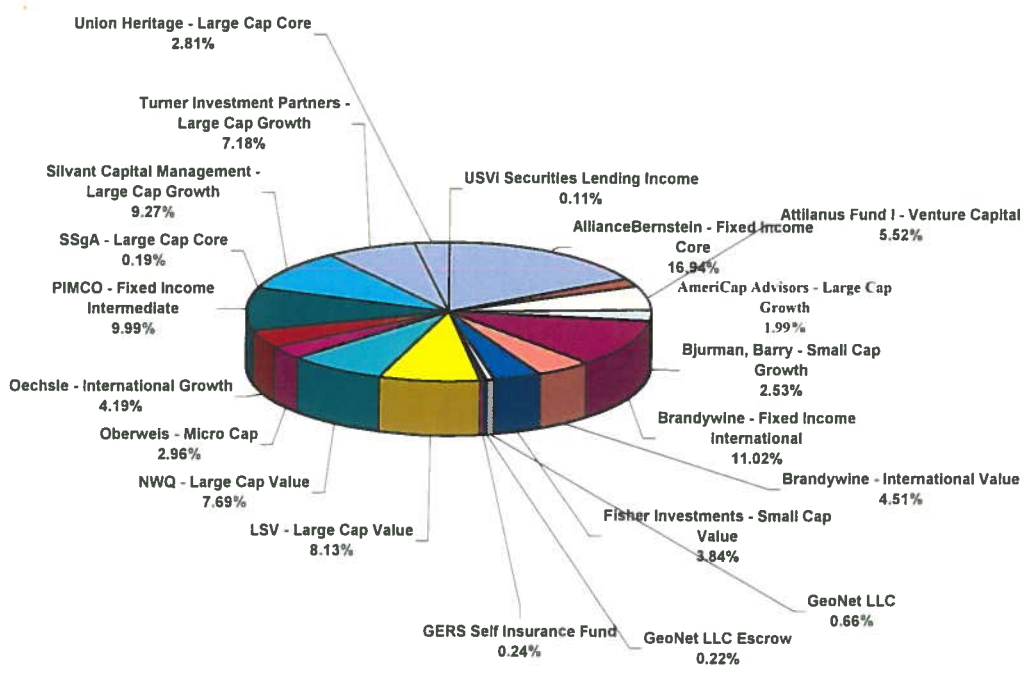
* Manager terminated as of October 31, 2007 and funds transitioned to AllianceBernstein

U.S VIRGIN ISLANDS GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

Investment Fund
Month Ending June 30, 2008

Investment Manager	June 30, 2008 Portfolio Value	May 31, 2008 Portfolio Value	Change in Portfolio Value	Mgr %
Employees Retirement System Fund - All Segments				
AllianceBernstein - Fixed Income	\$ 206,757,832.96	\$ 206,827,913.23	\$ (70,080.27)	16.94%
AmeriCap Advisors - Large Cap C	24,280,757.15	27,225,726.20	(2,944,969.05)	1.99%
Attilanus Fund I - Venture Capital	67,450,336.00	59,286,610.00	8,163,726.00	5.52%
Bjorman, Barry - Small Cap Grow	30,880,337.83	32,830,011.60	(1,949,673.77)	2.53%
Brandywine - Fixed Income Intern	134,587,162.43	134,976,827.39	(389,664.96)	11.02%
Brandywine - International Value	55,029,856.29	59,672,745.05	(4,642,888.76)	4.51%
Fisher Investments - Small Cap Va	46,924,766.85	50,673,948.99	(3,749,182.14)	3.84%
GeoNet LLC	8,038,507.61	8,038,507.62	(0.01)	0.66%
GeoNet LLC Escrow	2,654,169.22	3,263,746.71	(609,577.49)	0.22%
GERS Self Insurance Fund	2,880,746.83	2,820,357.51	60,389.32	0.24%
LSV - Large Cap Value	99,290,998.93	113,475,355.98	(14,184,357.05)	8.13%
NWQ - Large Cap Value	93,943,533.20	104,182,285.44	(10,238,752.24)	7.69%
Oberweis - Micro Cap	36,196,684.80	38,127,217.05	(1,930,532.25)	2.96%
Oechsle - International Growth	51,096,821.55	54,657,257.06	(3,560,435.51)	4.19%
PIMCO - Fixed Income Intermedi	122,013,316.21	122,154,315.38	(140,999.17)	9.99%
SSgA - Large Cap Core	2,340,725.26	2,651,098.65	(310,373.39)	0.19%
Silvant Capital Management - Lar	113,199,430.09	125,373,219.84	(12,173,789.75)	9.27%
Turner Investment Partners - Larg	87,676,452.42	94,484,081.60	(6,807,629.18)	7.18%
Union Heritage - Large Cap Core	34,304,021.68	36,759,447.60	(2,455,425.92)	2.81%
USVI Securities Lending Income	1,303,611.14	992,786.25	310,824.89	0.11%
Total Fund	\$ 1,220,850,068.45	\$ 1,278,473,459.15	\$ (57,623,390.70)	100.00%
Equity Segment:	55.30%	57.89%	Change in Value	Overall EQ%
AmeriCap Advisors - Large Cap C	\$ 24,280,757.15	\$ 27,225,726.20	\$ (2,944,969.05)	3.60%
Bjorman, Barry - Small Cap Grow	30,880,337.83	32,830,011.60	(1,949,673.77)	4.57%
Brandywine - International Value	55,029,856.29	59,672,745.05	(4,642,888.76)	8.15%
Fisher Investments - Small Cap Va	46,924,766.85	50,673,948.99	(3,749,182.14)	6.95%
LSV - Large Cap Value	99,290,998.93	113,475,355.98	(14,184,357.05)	14.71%
NWQ - Large Cap Growth	93,943,533.20	104,182,285.44	(10,238,752.24)	13.91%
Oberweis - Micro Cap	36,196,684.80	38,127,217.05	(1,930,532.25)	5.36%
Oechsle - International Growth	51,096,821.55	54,657,257.06	(3,560,435.51)	7.57%
SSgA - Large Cap Core	2,340,725.26	2,651,098.65	(310,373.39)	0.35%
Silvant Capital Management - Lar	113,199,430.09	125,373,219.84	(12,173,789.75)	16.77%
Turner Investment Partners - Larg	87,676,452.42	94,484,081.60	(6,807,629.18)	12.99%
Union Heritage - Large Cap Core	34,304,021.68	36,759,447.60	(2,455,425.92)	5.08%
Total Equity	\$ 675,164,386.05	\$ 740,112,395.06	\$ (64,948,009.01)	100.00%
Fixed Income Segment:	37.95%	36.29%	Change in Value	Overall FI%
AllianceBernstein - Fixed Income	\$ 206,757,832.96	\$ 206,827,913.23	\$ (70,080.27)	44.62%
Brandywine - Fixed Income Intern	134,587,162.43	134,976,827.39	(389,664.96)	29.05%
PIMCO - Fixed Income Intermedi	122,013,316.21	122,154,315.38	(140,999.17)	26.33%
Total Fixed Income	\$ 463,358,311.60	\$ 463,959,056.00	\$ (600,744.40)	100.00%
Alternative Investment Segment:	5.52%	4.64%	Change in Value	Overall AI%
Attilanus Fund I - Venture Capital	\$ 67,450,336.00	59,286,610.00	\$ 8,163,726.00	100.00%
Total Alternative Investment	\$ 67,450,336.00	\$ 59,286,610.00	\$ 8,163,726.00	100.00%
Other Segment:	1.22%	0.93%	Change in Value	Overall Other%
USVI Securities Lending Income	\$ 1,303,611.14	\$ 992,786.25	\$ 310,824.89	8.76%
GeoNet LLC	8,038,507.61	8,077,000.00	(38,492.39)	54.03%
GeoNet LLC Escrow	2,654,169.22	155,789.67	2,498,379.55	17.84%
GERS Self Insurance Fund	2,880,746.83	2,640,311.63	240,435.20	19.36%
Total Other	\$ 14,877,034.80	\$ 11,865,887.55	\$ 2,770,712.05	100.00%

**Manager Allocation
as of
June 30, 2008**



**Asset Allocation
as of
June 30, 2008**

