



Vermont State Teachers Retirement System 403(b) Plan 940010 (Exclusive) 940060 (Non Exclusive)

Plan Summary

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Vice President and Managing Director

As of: **June 30, 2019**

*Report contains information up
through the last business day of
the period end.*

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Section I: Plan Summary

Plan Summary and Benchmark Trends

Historical Plan Statistics

	1/1/2018 - 12/31/2018
Total Participants Balances	\$98,505,442
Contributions*	\$10,129,733
Distributions*	(\$8,321,235)
Cash Flow	\$1,808,498
Account Balances	
Average Participant Balance	\$37,554
National Average Benchmark**	\$102,586
Asset Allocation	
% of Plan Assets in Stable Value	11.7%
<i>Prudential % of Plan Assets in Stable Value</i>	25.8%
% of Plan Assets for GoalMaker Participants	5.1%
Participation Rate in GoalMaker	10.2%
Number of Participants in GoalMaker	267
Number of Participants in One Fund	560
Number of Participants in Four or More Funds	1,773
Distributions	
Number of Distributions*	333
Amount of Distributions Representing Rollovers	\$7,483,368
% of Assets Distributed*	8.4%
Loans	
Number of New Loans	14
Number of Outstanding Active Loans	27
Average Loan Balance	\$7,670

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*Includes Rollovers

**External Benchmark Source: PLANSPONSOR Defined Contribution Annual Survey

Plan Demographics Summary

	1/1/2019- 3/31/2019	4/1/2019- 6/30/2019
Total Participants*	2,651	2,660
Active Participants	2,317	2,314
Terminated Participants	307	319
Suspended Participants	0	0
Other Participants**	0	0
Multiple Status Participants***	27	27
Average Participant Balance	\$41,650	\$43,754
Average Account Balance for Active Participants	\$42,923	\$44,726
Median Participant Balance	\$17,703	\$18,629
Median Participant Balance for Active Participants	\$18,288	\$19,578
Participants Age 50 and Over	1,372	1,378
Total Assets for Participants Age 50 and Over	\$79,490,421	\$83,794,079
Total (Contributions + Rollovers In)	\$3,094,088	\$3,640,078
Employee Contributions	\$2,286,327	\$3,231,278
Employer Contributions	\$151,598	\$171,794
Rollovers In	\$656,163	\$237,006
Total Distributions	(\$640,937)	(\$1,311,958)
Percentage of Assets Distributed	0.6%	1.1%
Market Value Gain / Loss****	\$10,110,666	\$3,881,952
Total Participant Balances	\$110,413,096	\$116,386,162

*Participant(s) with an account balance greater than \$0.

**Participant(s) who are not active, terminated or suspended, but have an account balance greater than \$0 (e.g. break-in-service, rehire, etc.).

*** Participant(s) with an account balance greater than \$0 in more than one participant status category (e.g. Active status in one subplan but Terminated status in another subplan).

****This is not the equivalent of a plan level return on investment due to the timing of additions, distributions and underlying investment performance.

Rollovers In is the total dollars credited to participant accounts within the period defined that originated in other qualified retirement plan accounts.

Total Participants includes count of participants with a balance and represents a unique count across all plans (i.e. if participant is in multiple plans, he/she will be counted only once).

Plan Features

GoalMaker	3/31/2019	6/30/2019
Plan Assets for Participants in GoalMaker	\$6,202,342	\$7,170,286
% of Plan Assets for GoalMaker Participants	5.6%	6.2%
# of Participants in GoalMaker	313	347
Participation Rate in GoalMaker	11.8%	13.1%
Prudential % of Participants in GoalMaker - As of 12/31/2018	50.8%	

Roth	3/31/2019	6/30/2019
Roth Assets	\$3,110,084	\$3,413,959
# of Participants in Roth	358	373
Participation Rate in Roth	13.5%	14.0%
Prudential % of Participants in Roth - As of 12/31/2018	12.5%	

Stable Value	3/31/2019	6/30/2019
Participation Rate in Stable Value	48.1%	48.5%
% of Plan Assets in Stable Value	10.8%	10.7%
Prudential % of Plan Assets in Stable Value - As of 12/31/2018	25.8%	

Transaction Summary

Transactions	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019
Total Enrollees*	53	32
Contribution Rate Increases for Active Participants**	5	1
Contribution Rate Decreases for Active Participants**	1	2
Total Contribution Rate Changes**	6	3
Number of Participants with Transfers	305	347
Loan Initiations	6	1
Distributions	64	75

*Number of participants that were enrolled into the plan within the reporting period. This can include those individuals who self enrolled or auto enrolled, if applicable on the plan. Rehires may not be included if their original enrollment date falls outside the reporting period.

**Sum of month over month contribution rate (% and \$) changes are for active participants during the reporting period. This excludes any terminations, enrollments or auto enrollments (if applicable on the plan) during the respective months in which contribution rate changes occurred.

Participant Activity

Call Center / Website Statistics	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019
Total Call Volume	179	117

Loans	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019
Amount of New Loans Taken	\$70,152	\$7,736
# of New Loans	6	1
# of Outstanding Active Loans	29	28
% of Participants have Outstanding Active Loans	1.1%	1.1%
Prudential % of Participants have Outstanding Active Loans - As of 12/31/2018	14.2%	

Enrollment by Age Group

	4/1/2019-6/30/2019						Grand Total
	Less than 25	25-34	35-44	45-54	55-64	65+	
Total	0	9	14	5	4	0	32

Asset Allocation/Net Activity By Age

April 1, 2019 to June 30, 2019

	Less than 25	25-34	35-44	45-54	55-64	65+	Total
Total Participant Balances	\$155,318	\$3,060,086	\$13,442,657	\$33,696,852	\$46,897,533	\$19,133,716	\$116,386,162
% Assets	0.1%	2.6%	11.6%	29.0%	40.3%	16.4%	100.0%
Average Contribution Rate (\$)	\$61	\$72	\$134	\$233	\$250	\$348	\$201
Average Contribution Rate (%)	15.0%	6.7%	6.3%	10.6%	28.7%	0.0%	10.0%
<i>Prudential Avg. Contribution Rate (%) as of 12/31/2018</i>	4.8%	5.8%	6.6%	7.8%	9.5%	11.1%	7.4%
Contributions	\$11,341	\$218,314	\$568,176	\$1,122,259	\$1,279,500	\$203,481	\$3,403,072
Rollovers In*	\$0	\$45,534	\$63,871	\$73,326	\$54,275	\$0	\$237,006
Total (Contributions + Rollovers In)	\$11,341	\$263,847	\$632,047	\$1,195,586	\$1,333,775	\$203,481	\$3,640,078
Cash Distributions	\$0	\$0	(\$353)	(\$16,367)	(\$37,100)	(\$80,898)	(\$134,718)
Rollovers Out	\$0	(\$25,615)	\$0	(\$50,198)	(\$386,618)	(\$714,809)	(\$1,177,240)
Total (Cash Distributions + Rollovers Out)	\$0	(\$25,615)	(\$353)	(\$66,565)	(\$423,718)	(\$795,707)	(\$1,311,958)
Net Activity	\$11,341	\$238,232	\$631,694	\$1,129,021	\$910,058	(\$592,225)	\$2,328,120
Total Participants	22	334	566	692	744	304	2,662
Average Account Balance	\$7,060	\$9,162	\$23,750	\$48,695	\$63,034	\$62,940	\$43,721
Median Account Balance	\$1,828	\$4,276	\$13,100	\$24,928	\$33,889	\$33,346	\$18,629
<i>Prudential Avg. Account Balance as of 12/31/2018</i>	\$2,900	\$13,375	\$39,050	\$76,411	\$106,786	\$113,266	\$64,203

*Rollovers In is the total dollars credited to participant accounts within the period defined that originated in other qualified retirement plan accounts.

Total Participants includes count of participants with a balance and represents a unique count across all plans (i.e. if participant is in multiple plans, he/she will be counted only once).

Plan Activity

Contributions by Fund

INVESTMENT OPTIONS	1/1/2019 - 3/31/2019	%	4/1/2019 - 6/30/2019	%	Change	%
VANGUARD INSTITUTIONAL INDEX FUND INSTITUTIONAL SHARES	\$493,991	20.3%	\$688,502	20.2%	\$194,511	39.4%
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND INSTITUTIONAL SHARES	\$350,271	14.4%	\$485,907	14.3%	\$135,636	38.7%
GUARANTEED LONG-TERM FUND	\$228,268	9.4%	\$345,607	10.2%	\$117,339	51.4%
VANGUARD TOTAL BOND MARKET INDEX FUND INSTITUTIONAL SHARES	\$236,074	9.7%	\$328,606	9.7%	\$92,532	39.2%
VANGUARD MID-CAP INDEX FUND INSTITUTIONAL SHARES	\$210,035	8.6%	\$290,889	8.6%	\$80,854	38.5%
VANGUARD SMALL-CAP INDEX FUND INSTITUTIONAL SHARES	\$199,400	8.2%	\$281,483	8.3%	\$82,084	41.2%
T. ROWE PRICE RETIREMENT I 2030 FUND I CLASS	\$197,668	8.1%	\$276,280	8.1%	\$78,611	39.8%
T. ROWE PRICE RETIREMENT I 2020 FUND I CLASS	\$157,352	6.5%	\$205,782	6.1%	\$48,430	30.8%
T. ROWE PRICE RETIREMENT I 2040 FUND I CLASS	\$108,040	4.4%	\$166,012	4.9%	\$57,972	53.7%
PIMCO TOTAL RETURN ESG FUND INSTITUTIONAL CLASS	\$96,327	4.0%	\$131,696	3.9%	\$35,369	36.7%
CALVERT EQUITY FUND CLASS I	\$39,893	1.6%	\$57,576	1.7%	\$17,683	44.3%
LORD ABBETT SHORT DURATION INCOME FUND CLASS I	\$31,220	1.3%	\$42,344	1.2%	\$11,124	35.6%
T. ROWE PRICE RETIREMENT BALANCED I FUND I CLASS	\$45,289	1.9%	\$39,526	1.2%	(\$5,763)	-12.7%
T. ROWE PRICE RETIREMENT I 2050 FUND I CLASS	\$16,736	0.7%	\$28,057	0.8%	\$11,322	67.7%
T. ROWE PRICE RETIREMENT I 2010 FUND I CLASS	\$13,363	0.6%	\$17,569	0.5%	\$4,206	31.5%
T. ROWE PRICE RETIREMENT I 2060 FUND I CLASS	\$8,014	0.3%	\$8,826	0.3%	\$812	10.1%
PAX GLOBAL ENVIRONMENTAL MARKETS FUND INSTITUTIONAL CLASS	\$5,985	0.3%	\$8,411	0.3%	\$2,426	40.5%
Total Assets Contributed	\$2,437,925	100.0%	\$3,403,072	100.0%	\$965,147	39.6%

Participant Distribution Statistics

Distribution Type	Amount of Withdrawals Taken				# of Withdrawals			
	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019	Change	% Change	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019	Change	% Change
Termination	\$442,048	\$1,164,652	\$722,604	163%	21	24	3	14%
Direct Transfer	\$101,417	\$31,795	(\$69,623)	-69%	3	4	1	33%
QDRO	\$48,079	\$6,548	(\$41,531)	-86%	1	1	0	0%
In-Service Withdrawal	\$21,693	\$54,451	\$32,758	151%	6	6	0	0%
Required Minimum Distribution	\$11,245	\$16,086	\$4,841	43%	6	7	1	17%
Death Distribution	\$2,550	\$23,455	\$20,905	820%	3	6	3	100%
Hardship Withdrawal	\$5,174	\$6,188	\$1,014	20%	2	1	(1)	-50%
Installment Payment	\$8,537	\$8,784	\$247	3%	21	26	5	24%
Return of Excess Deferrals/Contributions	\$194	\$0	(\$194)	-100%	1	0	(1)	-100%
Grand Total	\$640,937	\$1,311,958	\$671,021	105%	64	75	11	17%

4/1/2019 - 6/30/2019						
Distribution Sub-Type	Amount of Withdrawals Taken			# of Withdrawals		
	Age < 50	Age >= 50	Total	Age < 50	Age >= 50	Total
Rollover	\$25,615	\$1,151,624	\$1,177,240	1	20	21
Cash	\$16,720	\$117,998	\$134,718	4	50	54
Grand Total	\$42,335	\$1,269,622	\$1,311,958	5	70	75

Termination - A withdrawal that is taken when the participant is active and terminating from employment or is already in a 'Terminated' status.

Direct Transfer - Non-taxable transfer of participant assets from one type of tax-deferred retirement plan or account to another.

QDRO - Distribution taken by the recipient of a QDRO. This could include required minimum distributions, installment payments, etc.

In-Service Withdrawal - A distribution that is taken while the participant is still active, before termination from employment.

Required Minimum Distribution - Minimum amounts that a participant must withdraw annually upon reaching a certain age or retirement. This would exclude any beneficiary or QDRO accounts.

Death Distribution - Distribution taken by a beneficiary. This could include required minimum distributions, installment payments, etc.

Hardship Withdrawal - A distribution which is requested by a participant because of an immediate and heavy financial need that cannot be satisfied from other resources.

Installment Payment - An Installment distribution is a payment option that disburses funds over time (i.e. monthly, quarterly, yearly).

Return of Excess Deferrals/Contributions - Could include Actual Contribution Percentage (ACP), Actual Deferral Percentage (ADP), Excess Deferrals, Excess Annual Editions and/or Ineligible Contributions.

Participant Loan Statistics

Loan Initiations	Amount of Loans Taken				# of Active Loans			
	1/1/2019-3/31/2019	4/1/2019-6/30/2019	Change	% Change	as of 3/31/2019	as of 6/30/2019	Change	% Change
General Purpose	\$70,152	\$7,736	(\$62,415)	(89%)	28	27	(1)	(4%)
Residential	\$0	\$0	\$0	0%	1	1	0	0%
Grand Total	\$70,152	\$7,736	(\$62,415)	(89%)	29	28	(1)	(3%)

	1/1/2019-3/31/2019	4/1/2019-6/30/2019
# of Outstanding Active Loans	29	28
# of New Loans	6	1
Average Loan Balance	\$8,505	\$8,383
Total Outstanding Loan Balance	\$246,641	\$234,719

Participant Transaction Statistics

	7/1/2018 - 9/30/2018	10/1/2018 - 12/31/2018	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019
Call Center				
Unique Callers	145	136	106	80
Total Call Volume	259	233	179	117

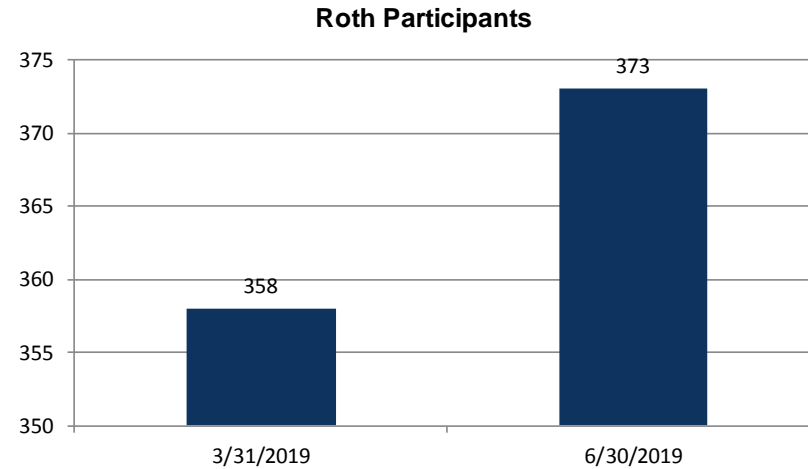
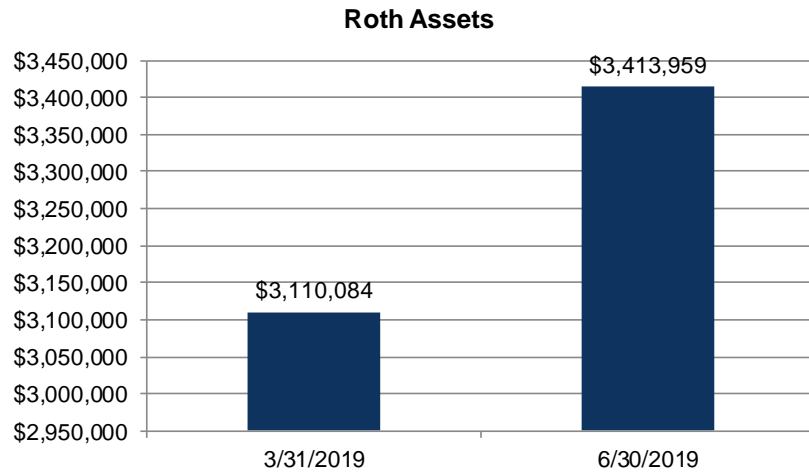
Call Center Reason Category	7/1/2018 - 9/30/2018	10/1/2018 - 12/31/2018	1/1/2019 - 3/31/2019	4/1/2019 - 6/30/2019
Account Explanations	84	48	41	28
Allocation Changes & Exchange	6	2	0	0
Contributions	9	7	6	2
Disbursements	90	81	68	66
Enrollments	2	2	1	0
Forms	1	0	0	0
Fund Information	1	9	3	0
Hardships	0	0	3	1
IFX	0	1	0	0
IVR or Web Assistance	33	45	18	5
Loans	17	23	12	9
Other	0	1	2	1
Payment Questions	0	0	0	0
Plan Explanations	7	6	4	2
Regen Reg Letter	0	0	0	1
Status of Research	2	0	0	0
Tax Information	0	0	8	1
Website Processing	7	8	13	1
Total	259	233	179	117

Definitions:

Unique Callers – The number of individuals that spoke to a Participant Service Center Representative during the reporting period (e.g., If the same individual called five times during the reporting period, they would only be counted once).

Total Call Volume – The number of calls to a Participant Service Center Representative during the reporting period (e.g., If the same individual called five times during the reporting period, they would be counted five times).

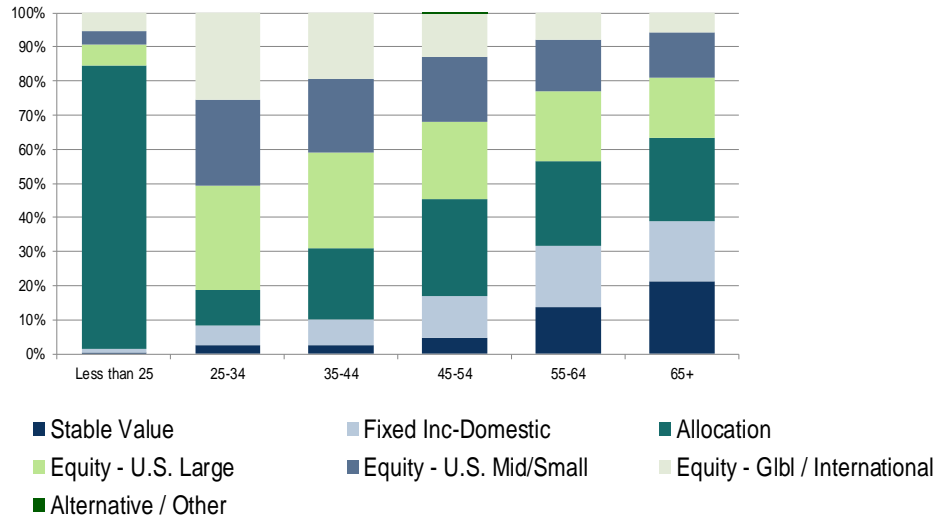
Roth Summary



	3/31/2019	6/30/2019
Roth Assets	\$3,110,084	\$3,413,959
# of Participants in Roth	358	373
Participation Rate in Roth	13.5%	14.0%
Prudential % of Participants in Roth - As of 12/31/2018	12.5%	

Investment Diversification

Assets by Asset Class and Age as of June 30, 2019



Asset Allocation

Asset Class	Your Plan Assets as of 6/30/2019	Your Plan % as of 6/30/2019
Stable Value	\$12,419,828	10.7%
Fixed Inc-Domestic	\$17,194,052	14.8%
Allocation	\$29,180,721	25.1%
Equity - U.S. Large	\$25,234,667	21.7%
Equity - U.S. Mid/Small	\$19,798,077	17.0%
Equity - Gbl / International	\$12,396,788	10.7%
Alternative / Other	\$162,028	0.1%
Total Participant Balances	\$116,386,162	100.0%

Fund Utilization By Age as of June 30, 2019

	Less than 25	25-34	35-44	45-54	55-64	65+	Total
Average # of Funds per Participant	4.1	5.3	5.3	5.1	4.5	3.9	4.8
<i>Prudential Participants Avg. # of Funds per Participant as of 12/31/2018</i>	6.1	6.0	5.8	5.6	5.4	4.1	5.5
% of Plan Assets in Stable Value	0.2%	2.5%	2.5%	4.7%	13.5%	21.3%	10.7%
<i>Prudential % of Plan Assets in Stable Value as of 12/31/2018</i>	11.3%	10.1%	12.3%	17.5%	29.3%	47.1%	25.8%

Utilization by Fund as of June 30, 2019

INVESTMENT OPTIONS	Balance	% Invested in Fund	# of Ppts
VANGUARD INSTITUTIONAL INDEX FUND INSTITUTIONAL SHARES	\$22,932,369	19.7%	1,844
GUARANTEED LONG-TERM FUND	\$12,419,828	10.7%	1,289
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND INSTITUTIONAL SHARES	\$12,246,513	10.5%	1,793
VANGUARD MID-CAP INDEX FUND INSTITUTIONAL SHARES	\$10,632,503	9.1%	1,866
T. ROWE PRICE RETIREMENT I 2030 FUND I CLASS	\$10,436,554	9.0%	201
VANGUARD TOTAL BOND MARKET INDEX FUND INSTITUTIONAL SHARES	\$10,330,371	8.9%	1,652
VANGUARD SMALL-CAP INDEX FUND INSTITUTIONAL SHARES	\$9,165,574	7.9%	1,826
T. ROWE PRICE RETIREMENT I 2020 FUND I CLASS	\$8,875,207	7.6%	178
T. ROWE PRICE RETIREMENT I 2040 FUND I CLASS	\$4,836,398	4.2%	163
PIMCO TOTAL RETURN ESG FUND INSTITUTIONAL CLASS	\$4,764,056	4.1%	1,253
T. ROWE PRICE RETIREMENT BALANCED I FUND I CLASS	\$2,509,875	2.2%	174
CALVERT EQUITY FUND CLASS I	\$2,302,298	2.0%	147
LORD ABBETT SHORT DURATION INCOME FUND CLASS I	\$2,099,625	1.8%	339
T. ROWE PRICE RETIREMENT I 2010 FUND I CLASS	\$2,044,220	1.8%	59
T. ROWE PRICE RETIREMENT I 2050 FUND I CLASS	\$415,487	0.4%	31
SELF DIRECTED BROKERAGE ACCOUNT	\$162,028	0.1%	3
PAX GLOBAL ENVIRONMENTAL MARKETS FUND INSTITUTIONAL CLASS	\$150,275	0.1%	46
T. ROWE PRICE RETIREMENT I 2060 FUND I CLASS	\$62,980	0.1%	16
Total	\$116,386,162	100.0%	

The funds in **bold** type denote inclusion in the GoalMaker® product.

GoalMaker® Participation

as of 6/30/2019

	9/30/2018	12/31/2018	3/31/2019	6/30/2019
Plan Assets for Participants in GoalMaker	\$3,552,923	\$5,018,186	\$6,202,342	\$7,170,286
# of Participants in GoalMaker	170	267	313	347
Participation Rate in GoalMaker	6.6%	10.2%	11.8%	13.1%
% of Plan Assets for GoalMaker Participants	3.3%	5.1%	5.6%	6.2%

Prudential Book of Business For Plans Offering GoalMaker – As of 12/31/2018

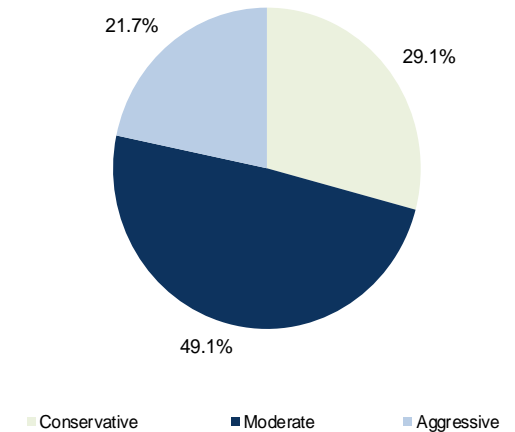
The participation rate in GoalMaker is 50.8%.

The percentage of plan assets for GoalMaker participants is 20.7%.

Participant Age Range	Conservative		Moderate		Aggressive		Total
	Active/Suspended	Terminated	Active/Suspended	Terminated	Active/Suspended	Terminated	
Less than 25	1	0	4	0	3	0	8
25-34	9	0	34	1	28	0	72
35-44	6	0	67	0	29	0	102
45-54	14	0	50	1	17	0	82
55-64	14	2	41	2	14	0	73
65+	4	0	5	0	1	0	10
Total	48	2	201	4	92	0	347

Participant Age Range	Conservative		Moderate		Aggressive		Total
	Active/Suspended	Terminated	Active/Suspended	Terminated	Active/Suspended	Terminated	
Less than 25	\$1,380	\$0	\$11,088	\$0	\$5,688	\$0	\$18,157
25-34	\$12,359	\$0	\$149,288	\$27,609	\$273,517	\$0	\$462,773
35-44	\$110,251	\$0	\$949,465	\$0	\$419,473	\$0	\$1,479,188
45-54	\$207,522	\$0	\$1,483,207	\$9,080	\$445,983	\$0	\$2,145,793
55-64	\$1,194,862	\$346,889	\$715,878	\$39,671	\$348,403	\$0	\$2,645,702
65+	\$216,489	\$0	\$137,381	\$0	\$64,802	\$0	\$418,672
Total	\$1,742,863	\$346,889	\$3,446,307	\$76,360	\$1,557,867	\$0	\$7,170,286

Percentage of Assets by GoalMaker® Participation Portfolio - As of 6/30/2019



8.9%

average contribution rate (%) for active GoalMaker participants

Due to rounding, pie chart may not equal 100%

0.8 Years

average length of time GoalMaker participants have been enrolled in GoalMaker

13.0%

GoalMaker participation rate for those who actively elected GoalMaker

Rep Stats

	7/1/2018 - 9/30/2018	10/1/2018- 12/31/2018	1/1/2019- 3/31/2019	4/1/2019- 6/30/2019	Total
Group Presentations	4	5	0	0	9
Individual Participant Meetings	93	238	118	92	541
New Enrollments as a result of Group/Individual Meeting*	47	43	33	22	145
GoalMaker as a result of Group/Individual Meeting*	48	75	35	30	188
Contribution Rate Increases	16	67	26	18	127
Number of Rollovers	1	11	9	17	38
Rollover Dollars	\$151	\$130,782	\$229,252	\$237,005	597,190

*Enrollments above obtained by TDA Education Representatives

School Districts / Supervisory Unions 403b Plan Balance

Addison Northwest SD (006503)	\$1,892,214.42
Champlain Valley School District (006514)	\$13,544,384.71
Colchester School District (006515)	\$7,905,748.51
Caledonia Central SU (006516)	\$359,001.02
Essex North SU (006517)	\$698,433.87
Essex Westford Unified SD (006518)	\$29,297,160.17
Maple Run Unified SD (006519)	\$6,819,059.84
Grand Isle Supervisory Union (006523)	\$524,466.99
Lamoille South SU (006526)	\$1,558,482.78
Greater Rutland Central SU (006537)	\$1,157,126.24
South Burlington Sd (006544)	\$16,511,608.10
Windsor Central Modfd Unfd Un SD (006556)	\$1,815,862.70

Concord School District (016516)	\$207,016.49
Alburgh Town SD (016523)	\$698,202.29
Quarry Valley Unified Union SD (016537)	\$1,182,661.96
Barnard Academy (016556)	\$320,784.55
Lunenburg School District (026516)	\$514,426.85
Windsor Central Mod Unif Un SD (026556)	\$2,852,351.55
Rutland Town SD (036537)	\$826,930.19
South Hero Town SD (056523)	\$237,800.73
Champlain Islands UUSD (066523)	\$741,164.35

School Districts / Supervisory Unions 403b Plan Balance

Mt. Abraham Unified School Distr (006502)	\$186,528.46
Burlington SD (006509)	\$492,821.71
Kingdom East SD District (006511)	\$1,753,521.51
Chittenden East SU (006513)	\$1,333,318.00
Franklin Northeast SU (006520)	\$4,000,531.76
Lamoille North SU (006525)	\$591,661.47
Milton Town SD (006527)	\$77,678.27
North Country SU (006529)	\$3,937.06
Orleans Central SU (006534)	\$223,429.05
Orleans Southwest SU (006535)	\$115,600.90
Huntington School District (016513)	\$155,129.58
Mt. Mansfield Mod. Union SD (026513)	\$3,539,770.02

Washington West SU (006551)	\$2,477,563.41
Windham Southeast SU (006554)	\$1,921,972.05
Windham Southwest SU (006555)	\$108,590.81
Winooski SD (006560)	\$1,178,528.37
Patricia A Hannaford Career Cen. (006561)	\$180,459.39
Two Rivers Supervisory Union (006562)	\$341,013.78

Lamoille North Mod Unif Union SD (016525)	\$674,669.95
Town of Lowell SD (016529)	\$13,618.08
Brattleboro Union HS District (016554)	\$1,088,075.35
Twin Valley Unified Union SD (016555)	\$330,698.85
Green Mtn USD (016562)	\$331,931.11

School Districts / Supervisory Unions 403b Plan Balance

Cambridge School District (026525)	\$25,993.82
Jay Westfield Joint Elem School (026529)	\$19,072.70
Town of Brattleboro SD (026554)	\$363,781.50
Southern Valley Unified Union SD (026555)	\$105,143.21
Ludlow Mt Holly Union USD (026562)	\$264,977.49

Dummerston School District (036554)	\$201,307.67
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Town of Guilford SD (046554)	\$111,899.23
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Putney Town School District (056554)	\$132,780.06
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Vernon School District (066554)	\$9,888.92
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Assets and contributions reflect actual participant account balances and do not include outstanding loan balances, forfeitures, and / or expense account assets.

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Section II: Economic Outlook



ECONOMIC OUTLOOK: FREQUENTLY ASKED QUESTIONS

by **Robert F. DeLucia, CFA**
Consulting Economist

The equity market faces certain headwinds in the short term but should rally later this year and 2020. Most likely catalysts for a shift in equity momentum include a more substantive and durable US-China agreement on trade; positive surprises in company earnings reports; policy rate cuts by the Federal Reserve at both its July and September FOMC meetings; a strengthening in US manufacturing; and concrete news of a rebound in Chinese imports.

Summary and Major Conclusions:

- The recent truce between China and the US reached at the G-20 summit in Osaka must be kept in perspective. In the plus column, the two countries agreed to a freeze on tariffs for an unspecified period and to resume negotiations.
- In the negative column, the most crucial strategic trade issues involving technology theft remain unresolved and could require years of negotiations. The most likely medium-term outcome would be an agreement to open China's markets in exchange for a phase-out of US tariffs.
- Following an outright boom in 2018, US corporate earnings slowed abruptly in recent quarters, and have currently stabilized on a lofty plateau. While the growth rate has peaked for this cycle, the absolute level of company earnings has not peaked and should increase in both 2020 and 2021.
- Wall Street warnings of severe weakness in the domestic economy are not supported by the facts. Real wages are increasing at a solid pace; consumer and service sector spending is strong; payrolls are expanding; the US banking system is the healthiest in decades; and credit conditions are extremely favorable.
- Monthly employment data from the Labor Department are notoriously volatile, as evidenced in recent reports. A smoothed average covering a several-month timeframe reveals a moderate but steady decline in new job creation over the past six months.
- Many economists have been surprised by the unusual stability in inflation because of their failure to understand the unique long-term structural forces that continue to exert downward pressure on inflation. The most important of these forces is fierce global competition that deprives businesses of pricing power.
- Persistently low inflation can also be explained by the rapid pace of technological innovation that has resulted in steadily declining operating costs. Companies continue to adopt new business models that emphasizes cost-reduction in the production and distribution of goods and services.

- The central theme with respect to the housing market is a fundamental shortage of single-family homes at a time of significant pent-up demand for housing. The supply of single-family homes for sale is hovering near all-time lows.
- Falling mortgage rates, rapid growth in household incomes, a strong rebound in household formations, and a healthy labor market should boost the demand for single-family homes.
- The equity market faces certain formidable headwinds in the short term but should rally later this year and in 2020. Most likely catalysts for a shift in equity momentum include a more substantive and durable US-China agreement on trade; positive surprises in company earnings reports; a strengthening in US manufacturing; and news of a rebound in Chinese imports.

World financial markets continue to be jolted by rapidly changing economic, political, policy, and geopolitical developments, each of which has contributed to increased volatility in asset prices. This week's *Economic Perspective* responds to common questions regarding the outlook for the economy.

HOW SHOULD INVESTORS INTERPRET RECENT DEVELOPMENTS INVOLVING US TRADE POLICY?

The recent truce between China and the US reached at the G-20 summit in Osaka must be kept in perspective. In the plus column, the two countries agreed to freeze tariffs for an unspecified period, and to resume negotiations that broke down in early May. China also agreed to increase its imports of US agricultural goods. Mutual agreement of the status quo means continuation of US tariffs of 25% on roughly \$315 billions of Chinese exports and retaliatory Chinese tariffs of 25% on \$115 billions of US exports.

In the negative column, the agreement was no more than a handshake, and the most crucial strategic trade issues — those involving a broad range of unfair trade practices on the part of the Chinese government — remain unresolved. These include intellectual property theft; forced technology transfers imposed on US subsidiaries doing business in China; dumping of Chinese-made goods onto the world market at below-cost prices; and various arbitrary non-tariff restrictions placed on Chinese imports.

What should investors expect from here? My low-conviction assumption is that the two countries will ultimately accept a more comprehensive agreement, whereby China will agree to open its markets and remove various restrictions on US exports. The result is likely to be a significant increase in the current \$125 billions of US exports. In exchange, the US will agree to phase out the current 25% tariffs on \$315 billions of Chinese imports. However, a substantive agreement on critical technology-related issues could require years of negotiations.

HAVE CORPORATE PROFITS PEAKED FOR THE CURRENT BUSINESS CYCLE?

Following an outright boom in 2018, corporate earnings slowed abruptly in recent quarters and have stabilized on a lofty plateau. Business profits tend to move in tandem with nominal (current dollar) US GDP, which is currently in a slowdown phase. Therefore, based upon my expectations for a solid recovery in US GDP in 2020, profit growth should accelerate once again next year.

Major conclusions with respect to US company earnings are as follows:

- ◆ Earnings growth peaked in 2018 at an annual rate of 25%
- ◆ The absolute level of earnings has **not** peaked: Following the current period of stabilization, another upleg in company earnings should begin in 2020
- ◆ Following a period of minimal growth during most of this year, company earnings could expand at a 10% to 15% rate in 2020 and by 5% to 10% in 2021

A RECENT REPORT FROM MORGAN STANLEY CONCLUDED THAT “BUSINESS CONDITIONS ARE AT THEIR WORST LEVEL SINCE THE 2008 FINANCIAL CRISIS.” DOES THIS ANALYSIS HAVE MERIT?

I am unable to find any tangible evidence to support such an extreme analysis. It is true that the **rate** of economic growth is in a slowdown phase that could persist for a while longer. It is also true that the manufacturing sector is in a slump and that growth in monthly employment data has been in a slowing trend. These conditions can best be captured in the recent slowdown in trendline GDP growth from 3% in 2018 to only 2% this year. However, these factors on their own do not equate to a recession any time soon.

The underlying strength of the US economy can be best measured by the following factors:

- ◆ Real wages are increasing at the fastest rate in several years
- ◆ Spending in the service and household sectors is growing at a 2.5% pace
- ◆ Various measures indicate that the demand for labor remains strong
- ◆ The US banking system is the healthiest in many decades
- ◆ Credit conditions are extremely favorable as measured by credit availability
- ◆ Housing construction appears to be on a recovery path
- ◆ The small business sector is expanding at a solid pace

- ◆ Although currently on a plateau, measures of corporate profitability — such as profit margins and return on shareholders' equity — are at multi-year highs

In short, I find it very difficult to accept the conclusion that current business conditions are at their worst level since the 2008 financial crisis. The performance of the US economy in 2018 was the best since the 1990s; current underlying conditions are slightly less favorable, but are expected to improve steadily as 2020 unfolds.

HOW SHOULD INVESTORS INTERPRET THE RECENT VOLATILITY IN EMPLOYMENT DATA?

Monthly employment data from the Labor Department are notoriously volatile, as evidenced in recent reports. For example, monthly increases in the number of workers on nonfarm payrolls are as follows: 224,000 (June), 72,000 (May), 216,000 (April), 153,000 (March), 56,000 (February), and 312,000 (January). As I have discussed on numerous occasions, a smoothed average over a several-month timeframe paints a more accurate picture.

A smoothed average calculated over recent months reveals the following: An average increase in net new jobs of **172,000** over the past three months; an average of **180,000** over the past six months; and an average of **195,000** over the past 12 months. This monthly trend portrays a slowing trend over the past 12 months — but is far from a collapse.

There are two primary questions for investors: How fast is the labor market weakening, and what are the reasons for the slowdown? A composite of employment data suggests that the slowdown in hiring is occurring at a moderate pace and that the labor market remains healthy. The single most reliable gauge of the health of labor markets is the weekly report on initial claims for unemployment insurance, which has stabilized at a 50-year low.

With respect to causes, there are several factors that might explain the mild slowdown in hiring, but the most obvious is the anxiety and confusion surrounding US trade policy. In principle, most firms are inherently reluctant to expand operations during periods of uncertainty. It seems reasonable to assume that net job creation will continue to moderate in coming months until there is greater clarity regarding trade policy.

WHY HAS INFLATION FALLEN SHORT OF ECONOMIST FORECASTS?

The primary explanation is that most economists have not considered various long-term structural forces that are exerting downward pressure on inflation. These forces fall into three categories:

- ◆ Fiercely competitive conditions within the global economy that have deprived businesses of pricing power
- ◆ The rapid pace of technological innovation resulting in rapid substitution of capital for labor resulting in steadily declining operating costs
- ◆ Widespread implementation of new business models that emphasize cost-reduction in the production and distribution of goods and services

The Internet provides a readily available source of price comparisons for consumers, thereby reinforcing price restraint among producers. E-commerce, as exemplified by Amazon, offers more cost-effective delivery and distribution channels. The growing use of robots to automate factories, retail stores, and warehouses achieve cost efficiencies that can be passed on to consumers in the form of lower selling prices.

An additional factor is the extraordinary strength of the US dollar, which recently rose to its highest level since 2002. A rising dollar exerts downward pressure on import prices; competitive pressures force domestic producers to match the lower prices of imported goods. US import prices are currently declining at a 2% annual rate.

Business cycle-related forces will eventually trigger a temporary rise in inflation, but not within the next year. Inflation is a lagging indicator and should continue to soften in lagged response to global economic weakness and a strong dollar. A cyclical rise in inflation next year should push core consumer inflation back to 2%, with a possible cyclical peak of 2.5% in 2022.

WHY SHOULD INVESTORS BE OPTIMISTIC REGARDING THE OUTLOOK FOR RESIDENTIAL CONSTRUCTION?

An expected rebound in the housing market has not yet occurred, as depicted in disappointing monthly data on housing sales and new construction. Nonetheless, there is cause for optimism, based upon simple supply and demand analysis.

The central theme with respect to the residential housing market is that there is currently a fundamental shortage of single-family homes at a time of significant pent-up demand for housing. This conclusion is reflected in several data points:

- ◆ The number of existing homes for sale currently numbers 1.75 million, the lowest in more than two decades. The number of unsold homes is the equivalent of only four months' supply, more than 35% below its long-term average.
- ◆ The vacancy rate for single-family rental homes has plunged to 1.45%, the lowest level in more than 25 years.
- ◆ New construction has failed to keep pace with household formation, the ultimate determinant of the underlying demand for housing. New household formation has averaged 1.35 million over the past several years, and has recently accelerated to 1.5 million over the past two years, well in excess of housing starts of 1.2 million.
- ◆ Because of financial constraints, young adults are currently renting to a larger extent than ever before. The mix of rental and ownership is in the process of shifting back to ownership, although this reversal could unfold at a slow pace.
- ◆ Applications for mortgage loans are at the highest level since 2007.
- ◆ Falling mortgage rates and a healthy labor market should boost the demand for single-family houses. Thirty-year fixed-rate mortgage rates have declined from 5% to less than 4% in recent months.

My forecast assumes that residential construction will increase at an 8-10% rate in 2020, augmenting real GDP growth by 0.5%.

WHAT CATALYSTS ARE NEEDED TO SPARK A SUSTAINED RALLY IN WORLD EQUITY MARKETS?

By way of background, my forecast assumes that the economy is experiencing an interim slowdown that will not culminate in a recession. I also assume that the rate of economic growth will accelerate later this year and in 2020, accompanied by a recovery in company earnings. With the Federal Reserve in an accommodative mode for an extended period, the path of least resistance for the equity market should be upward.

That said, the equity market faces certain formidable economic and geopolitical headwinds in the short term. Most likely catalysts for a shift in equity momentum include the following:

- ◆ A more substantive agreement on trade between China and the US, perhaps involving Chinese initiatives to open its market and to purchase more US goods in exchange for a rollback of US tariffs

- ◆ Positive surprises in company earnings reports along with more optimistic forward guidance for investors regarding business prospects in 2020
- ◆ A bottoming and subsequent rebound in US manufacturing indicators
- ◆ Policy rate cuts by the Federal Reserve at both its July and September FOMC meetings
- ◆ News of a rebound in China's economy, most notably import demand, which would be a signal to investors that the world economy would also recover with a time lag

The bottom line is that a combination of investor concerns over trade policy, US and world economic weakness, and profit margin pressures is likely to act as headwinds for the equity market for a while longer. I continue to believe that 2020 will be a good year for both the economy and the financial markets.



Robert F. DeLucia, CFA, was formerly Senior Economist and Portfolio Manager for Prudential Retirement. Prior to that role, he spent 25 years at CIGNA Investment Management, most recently serving as Chief Economist and Senior Portfolio Manager. He currently serves as the Consulting Economist for Prudential Retirement. Bob has 45 years of investment experience.

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Russell 2000 Small-Cap Index: Is an index measuring the performance of approximately 2,000 small-cap companies within the United States.

S&P 500® Index: Measures the performance of 500 widely held stocks in US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid 1989, this composition has been more flexible and the number of issues in each sector has varied. It is market capitalization-weighted.

State Street Investor Confidence Index: measures investor confidence or risk appetite quantitatively by compiling actual buying and selling patterns of institutional investors.

US Trade-Weighted Dollar Index: An index that measures the value of the US dollar in relationship with other currencies, statistically weighted on the basis of importance to the US as trading partners.

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