
Minutes

An electronic meeting of the Virginia Retirement System Board of Trustees was held on April 20, 2021 in accordance with § 2.2-3708.2(A)(3) of the *Code of Virginia* and in accordance with guidance provided in Item 4-0.01 of Chapter 552 of the 2021 Special Session I Acts of Assembly, with the following members participating:

Board members:

O'Kelly E. McWilliams, III, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
Michael P. Disharoon
William A. Garrett
Susan T. Gooden, Ph.D.
Wallace G. Harris, Ph.D. (*entered at 1:45 p.m.*)
W. Brett Hayes
Troilen G. Seward, Ed.S.

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, John Alouf, Advait Apt, Rory Badura, Parham Behrooz, Ty Bowers, Caroline Cardwell, Warren Chang, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Laurie Fennell, Brian Goodman, Katherine Grawe, JT Grier, Mehtab Haleem, Dane Honrado, KC Howell, Robert Irving, Wendy Jenkins, Ross Kasarda, Matthew Kubisiak, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Walker Noland, Greg Oliff, Angela Payne, Paula Reid, Jummai Sarki-Hurd, Dan Schlussler, Michael Scott, Jillian Sherman, Virginia Sowers, Lisa Turner, Dan Whitlock, Cindy Wilkinson, Steve Woodall and Nick Zizzo.

Guests:

Adam Rosatelli, Senate Finance and Appropriations Committee; Justin Ferrell, Auditor of Public Accounts; Jeremy Bennett, Virginia Association of Counties; Latosha Johnson, Department of Planning and Budget; Jamie Bitz and Kimberly Sarte, Joint Legislative Audit and Review Commission; Bea Snidow, Virginia Education Association; Rachel Furash, Goldman Sachs; Lauren Albanese, Financial Investment News; Bonnie Atwood, Virginia Capitol Connections Quarterly Magazine; Cyril Espanol, Pageant Media; and Steff Chavez, Mandate Wire.

The meeting convened at 1:01 p.m.

Opening Remarks

O'Kelly E. McWilliams, III, called the meeting to order and welcomed everyone to the April 20, 2021 meeting of the Virginia Retirement System Board of Trustees.

Mr. McWilliams noted that given the current circumstances related to COVID-19, the Board is unable to meet in person and, therefore, is using electronic means to hold the meeting. The meeting is being held in accordance with § 2.2-3708(A)(3) of the *Code of Virginia* and Item 4-0.01 of Chapter 552 of the 2021 Special Session I Acts of Assembly as they relate to conducting business during the pandemic.

Next, Mr. McWilliams took attendance with the following roll call of each of the trustees*:

Mr. Bell: Here
Mr. Disharoon: Here
Mr. Garrett: Here
Dr. Gooden: Here
Mr. Hayes: Here
Mr. Montgomery: Here
Ms. Seward: Here
Mr. McWilliams: Here

**Mr. Harris was not present at this time.*

Public Comment

In accordance with Item 4-0.01 of Chapter 552 of the 2021 Special Session I Acts of Assembly, the Board of Trustees opened the floor for public comment. Mr. McWilliams noted that no members of the public registered to comment at the electronic meeting.

Approve Minutes

Upon Ms. Seward's motion, with a second by Mr. Montgomery, the VRS Board of Trustees approved the minutes of the February 16, 2021 meeting upon the following roll call vote*:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

**Mr. Harris was not present for this vote.*

Report of the Investment Advisory Committee

Mr. Kochard, Chair of the Investment Advisory Committee (IAC), provided a report of the IAC's April 14, 2021 meeting to the Board. Mr. Kochard advised that, in accordance with its charter, the Committee elected Hance West to serve as Vice Chair. Chief Investment Officer, Ron Schmitz, provided an abbreviated report that covered current market conditions, asset allocation and performance, tracking error, and New Manager Hires and Terminations since the last IAC meeting.

The Committee reviewed a revised version of the Investment Belief Statements as requested by the Investment Policy Committee (IPC) of the Board. The IAC agreed with the proposed draft and requested that a section detailing fiduciary responsibilities be added for consideration.

Report of the Investment Policy Committee

The Board received the report of the Investment Policy Committee (including a paraphrased statement about fiduciary duty that was based on the Investment Policy Statement) and placed it on file.

APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the August 13, 2019 minutes, as well as the minutes of the following Brown Bag Lunch meetings: November 20, 2019, February 13, 2020 and November 17, 2020.

DISCUSSION AND REVIEW OF INVESTMENT BELIEF STATEMENTS

The IPC met to discuss the Investment Belief Statements previously adopted in 2015. Staff had made some minor edits to the original document to improve grammar and clarity as well as to better organize the document for cohesive flow.

Following the presentation and some discussion, the Committee recommended approval of the following action to the full Board of Trustees:

Request for Board Action 2021-04-4: The VRS Board of Trustees approves revisions to the VRS Defined Benefit Plan Investment Belief Statements.

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the action upon the following roll call vote*:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Mr. Montgomery**
Ms. Seward: Aye
Mr. McWilliams: Aye

**Mr. Harris was not present for this vote.*

***Mr. Montgomery was not able to cast a recorded vote during the roll call but following the CIO report he requested that the record reflect his affirmative vote for this motion.*

Report of the Chief Investment Officer

Mr. Schmitz began his report with a market overview and discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are all within Board-approved levels. Next, Mr. Schmitz discussed the New Investment and Terminations report and the Diverse Investment Manager Engagement (DIME) report.

Mr. McWilliams thanked Mr. Schmitz for his report.

Report of the Administration and Personnel Committee

The Board received the report of the Administration and Personnel Committee and placed it on file.

APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the minutes of its February 11, 2021 meeting.

REAPPOINTMENT OF DCPAC MEMBERS

Ms. Bishop reviewed the three members of the Defined Contribution Plans Advisory Committee whose terms are set to expire. Shannon Irvin, Rick Larson and David Winter are eligible for reappointment and have expressed interest in continuing to serve on the Committee.

***Request for Board Action 2021-04-5:** The Board reappoints Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2023.*

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the action upon the following roll call vote*:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

**Mr. Harris was not present for this vote.*

APPROVE REVISED FY 2021 AGENCY PERFORMANCE OUTCOME (APO) #4

Mr. Cooper reviewed the proposed revisions to APO #4, Cardinal HCM Project Implementation. Mr. Cooper explained that the overall Cardinal project schedule, managed by the Commonwealth's Department of Accounts, has been pushed back several months. Therefore, the components of APO #4 as initially approved by the Board are unattainable for reasons beyond the agency's control. Accordingly, VRS is recommending revisions to APO #4 to account for only the elements of the project that can be accomplished by June 30, 2021.

***Request for Board Action 2021-04-6:** The VRS Board of Trustees approves revisions to Agency Performance Outcome #4 for Fiscal Year 2021.*

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the action upon the following roll call vote*:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

**Mr. Harris was not present for this vote.*

APPROVE AMENDED ADMINISTRATIVE PAY PLAN, INVESTMENT OPERATIONS AND ADMINISTRATION STAFF PAY PLAN, AND INVESTMENT PROFESSIONALS' PAY PLAN

Ms. Reid advised the Committee that the Governor has approved the 2021 Appropriation Act, which includes a 5% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth's pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well. An additional change is proposed for the Investment Professionals' Pay Plan to indicate that VRS will implement pay actions consistent with the provisions of the Appropriation Act. This language is already provided in the Administrative Pay Plan and Investment Operations and Administration Staff Pay Plan.

Request for Board Action 2021-04-7: The VRS Board of Trustees approves amendments to the Administrative Pay Plan, the Investment Operations and Administration Staff Pay Plan and the Investment Professionals' Pay Plan.

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the action upon the following roll call vote*:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

**Mr. Harris was not present for this vote.*

STRATEGIC PLAN UPDATE

Ms. Bishop updated the Committee on the development of the agency's next strategic plan. VRS leadership is working with VCU's Performance Management Group to develop strategic goals and objectives for the five-year period beginning July 1, 2021.

Mr. McWilliams asked about the Board's input in the strategic plan development process. Ms. Bishop advised that the Board's input is important to the plan and will be captured in the coming weeks as part of the overall process.

BUDGET UPDATE

Mr. Cooper provided an update on the agency's budget performance year-to-date as Barry Faison was unable to attend the meeting. Mr. Cooper explained that fiscal year-end projections indicate a balance of approximately \$9.9 million, which will be returned to the Fund as a result of planned reductions in spending due to impacts of the pandemic during FY 2021. This is a slight decrease from the projection provided at the Committee's February meeting, and is due to an increase in projected expenses related to the ongoing recruitment of mission-critical positions.

Mr. McWilliams inquired about the transfer of knowledge initiatives related to the completion of the Modernization project. Ms. Bishop noted the ongoing efforts to build out the IT team as contracted employees working on the Modernization project leave the agency. Further, VRS continues to enhance its documentation, including policies and procedures, to capture the system and process changes resulting from the Modernization initiative.

Mr. Harris asked for an update on the hiring of the Chief Technology and Security Officer position. Ms. Bishop advised the Committee that Mark Rein has been selected to fill the position and will begin on April 25, 2021. Mr. Rein comes to VRS with over 20 years of information systems and technology management experience, including 12 years serving as the CIO, Deputy CIO and Branch CTO for several large federal government agencies. VRS looks forward to welcoming Mr. Rein on April 25.

Report of the Audit and Compliance Committee

The Board received the report of the Audit and Compliance Committee and placed it on file.

APPROVAL OF MINUTES

Mr. Montgomery began his report by noting the Committee approved the minutes of its December 10, 2020 meeting.

AUDIT REPORTS

The Committee received two audit reports.

- The review of *Health Insurance Premiums and Credits* determined the retiree health insurance premiums withheld from retirees' benefits, transfer of such withholdings to the appropriate parties and Health Insurance Credit payments are valid and accurate. There was one formal recommendation as a result of this review.
- The review of *VRS' Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory Information Technology Security Program. While there was one recommendation outstanding from the prior year's review, there were no formal recommendations as a result of the current review.

ANNUAL REPORT ON CODE OF ETHICS

The Chief Operating Officer and the Chief Administrative Officer provided annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct and for monitoring compliance, as required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for their respective programs as of the meeting date.

QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its quarterly status report on the Modernization Program – Phase 4, discussing the current software status of the remaining member portal functionality, the implementation plan and related roll-out and business soft launch activities. Management also provided an overview of the online retirement pilot results.

Internal Audit presented its quarterly review results and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget and scope. Internal Audit acknowledged management's efforts and ongoing work, noting continued diligent management of resources across concurrent projects and initiatives remains critical to bringing the phase to a close timely. Currently, VRS' risk-averse approach anticipates full release of all features to members in Fall 2021 to ensure the integrity of VRS operations and its processing.

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2020

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2020, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

One alleged Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of November 1, 2020 through January 31, 2021 was presented to the Committee. The case alleged abuse of short-term disability benefits and was determined to be unfounded and therefore closed.

MISCELLANEOUS UPDATES

The Audit Director provided the Committee with the following updates:

Management's Quarterly Travel Expense and Per Diem Report

The Committee received management's quarterly travel expense and per diem report.

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2021.

Next Committee Meeting Date

The Committee's next meeting is scheduled for June 3, 2021 at 2 p.m.

Mr. McWilliams thanked Mr. Montgomery for his report.

Report of the Defined Contribution Plans Advisory Committee

The Board received the report of the Defined Contribution Plans Advisory Committee and placed it on file.

ADMINISTRATION

Administrative Reports and Communication Update

Mr. Bell began his report by noting staff provided an update of administrative reports for the fourth quarter of 2020. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives. Staff shared with the Committee an analysis and overview of initiatives related to the fourth quarter goal of improving asset allocation among plan participants.

ORPHE Update

Staff provided an overview of ORPHE reports for the fourth quarter of 2020, including plan assets and accounts, and provider election data. Staff also provided an update on outreach activities and education initiatives, including the ORPHE open enrollment period.

Pensions & Investments 2021 Eddy Award

Staff noted that VRS and TIAA won the Pensions & Investments 2021 Eddy Award in March for the ORPHE 2020 plan changes initiative.

INVESTMENTS

Performance Reports

Staff provided an overview of the February 28, 2021 performance reports to the DCPAC.

Staff informed the Committee that Wells Fargo recently reached an agreement with two private equity firms (GTCR LLC and Reverence Capital Partners, L.P.) to acquire Wells Fargo Asset Management. The transaction includes VRS' stable value investment manager Galliard Capital Management. Galliard is a subsidiary of Wells Fargo. Staff also provided an update to the Pending Account VRSIP for the VRSIP fund on the unbundled DC Plans investment menu.

Callan 2021 DC Trends Survey Highlights

Staff provided an overview of highlights from the Callan 2021 DC Trends survey results, which represented 93 large DC plan sponsors that span a range of industries across corporate, tax-exempt, and government organizations.

Staff included the Callan 2021 DC Trends Survey in the meeting materials Appendix for the Committee to review.

VRS Defined Contribution Plans Investment Belief Statements

Staff provided the Committee with a copy of the VRS Defined Contribution Plans Investment Belief Statements. The Committee and staff will review the document and discuss suggested changes during the June 24 DCPAC meeting for consideration by the Board.

OTHER BUSINESS

DCPAC Appointment

Staff informed the Committee of the request for reappointment of Shannon Irvin, Rick Larson, and David Winter, each to a two-year term ending June 20, 2023. Their current term expires June 20, 2021.

Staff informed the Committee of the resignation of Kathy Seay from the DCPAC, effective April 1, 2021, due to her retirement. Ms. Seay's Committee term expires on June 20, 2022. A recommendation has not yet been received to fill Ms. Seay's unexpired term but will be brought to the Committee at a future date. Staff also noted the seat formerly held by Mr. Carlson remains vacant.

The Committee recommended approval of the RBA to reappoint to the DCPAC Shannon Irvin, Rick Larson, and David Winter to the Administration and Personnel Committee and the full Board.

NEW BUSINESS

Staff advised that Ms. Irvin had suggested that in advance of salary increases included in the Appropriation Act, VRS and ICMA-RC should perform outreach to employees encouraging increased savings in the various VRS-administered defined contribution plans.

2021 MEETINGS

Staff confirmed the following DCPAC meeting dates for 2021:

- June 24 at 1:00 p.m.
- September 2 at 1:00 p.m.
- December 2 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 2021. This is not a DCPAC Committee meeting; however, members may attend if interested.

Mr. McWilliams thanked Mr. Bell for his report.

Report of the Benefits and Actuarial Committee

The Board received the report of the Benefits and Actuarial Committee and placed it on file.

APPROVAL OF MINUTES

In Mr. Harris' absence, Mr. Garrett presented the B&A report and noted the Committee approved the minutes of its February 11, 2021 meeting.

EXPERIENCE STUDY

The study is required by statute to be performed at least once every four years to validate assumptions and make necessary adjustments based on a comparison of actual VRS experience to the expected experience based on current assumptions. The study reviews economic and demographic assumptions, actuarial methods, and funding policies providing gain/loss analysis over the prior four years as well as cost impact analysis of any proposed changes. In addition, the study considers recommendations made in the quadrennial actuarial audit conducted by JLARC's actuary.

Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the results from the Experience Study and provided recommendations and cost impacts associated with the proposed changes.

As described in their presentation, Cavanaugh Macdonald recommends changing the mortality assumption from a margin approach on a headcount-weighted basis to a generational mortality approach on a benefits-weighted basis. Overall, this change results in increased liabilities and higher expected contribution rates.

Following the presentation and some discussion the Committee approved an RBA recommending that the Board accept the results of the Experience Study. This RBA has been slightly changed from the RBA presented to the Committee in order to clarify the method change being recommended and to more specifically reflect the information presented to the Committee.

INFORMATION ITEM

Lastly, Mr. Garrett noted the B&A Committee schedule:

- June 9, 2021 at 1:00 p.m.
- October 13, 2021 at 10:00 a.m.
- November 15, 2021 at 1:00 p.m.

Mr. McWilliams thanked Mr. Garrett for his report.

Report of the Director

Ms. Bishop began her report with the New Coverage Elections and an update on the VRS Agency Roadmap for FY 2021. She advised that all projects are progressing as planned or have been completed, with the exception of the Upgrade to Angular Framework and Cardinal Payroll Implementation projects. Staff continues to monitor these projects and will provide updates as they become available.

Ms. Bishop also provided the Board with an update regarding the plan to return staff to the building and the physical changes to the office environment. She advised that employees will be sent a survey and focus groups will be scheduled for discussions on the phased-in return-to-office plan. Staff will continue to work remotely through June 30, 2021.

Next, Ms. Wilkinson discussed Item 4-0.01 of the 2021 Appropriation Act that allows public bodies to hold meetings remotely and is directly tied to the state of emergency currently in effect related to the

COVID-19 pandemic. She advised that once there is no longer a declared state of emergency that makes it impractical or unsafe to assemble, a physical quorum of the Board and committees must be present. Ms. Wilkinson noted that there had been amendments to the Freedom of Information Act (FOIA) that increased slightly the number of meetings a member may attend remotely outside of emergencies.

Ms. Bishop then made the following announcements:

- ICMA-RC is becoming MissionSquare Retirement, a new name and brand that reinforces the company's history and solidifies its vision for the future.
- Mark Rein will join VRS as the new Chief Technology and Security Officer on April 25th.
- On March 17th, through its Proxy Voting and Litigation Policy, the Board authorized VRS' participation in phase two of the Barclays litigation following the unsuccessful prelitigation settlement negotiations in phase one.
- At its February 16th meeting, the Board authorized VRS to sign onto a brief in the United States Supreme Court case of *Goldman Sachs v. Arkansas Teacher Retirement System*. The brief was filed on March 3rd and a decision in this matter is expected in mid-June.

Mr. McWilliams thanked Ms. Bishop for her report.

Due to earlier technical difficulties, Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the results from the Experience Study and provided recommendations and cost impacts associated with the proposed changes following the conclusion of the Director's report.

Mr. McWilliams thanked Mr. Langer and Ms. Bennett for their presentation. The Board then considered the following RBA:

Request for Board Action 2021-04-8: The VRS Board of Trustees approves its plan actuary's recommendations as presented in the Experience Study (7/1/2016 to 6/30/2020) to change various assumptions, including: certain demographic assumptions regarding mortality rates, retirement rates, withdrawal rates, and disability rates; method changes regarding the timing of plan decrements, as well as various Other Post-Employment Benefits (OPEB) specific assumptions related to the Line of Duty Plan, Health Insurance Credit program, and the VSDP and VLDP disability programs.

Upon a motion by Mr. Harris, with a second by Mr. Montgomery, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye

Mr. McWilliams: Aye

Other Business

Lastly, Mr. McWilliams noted the following meeting schedule:

- Administration and Personnel Committee – June 2, 2021
- Audit and Compliance Committee – June 3, 2021
- Benefits and Actuarial Committee – June 9, 2021
- Board of Trustees – June 10, 2021

Adjournment

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the Board agreed to adjourn the meeting upon the following roll call vote:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

There being no further business, the meeting concluded at 2:25 p.m.



Chair



Secretary

Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 56 of the 2020 Special Session I Acts of Assembly, the Investment Policy Committee convened electronically on March 24, 2021 at 1:00 p.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the August 13, 2019 meeting minutes, as well as the minutes of the following Brown Bag Lunch meetings: November 20, 2019, February 13, 2020 and November 17, 2020.

DISCUSSION AND REVIEW OF INVESTMENT BELIEF STATEMENTS

The IPC met to discuss the Investment Belief Statements previously adopted in 2015 as a prelude. Staff had made some minor edits to the original document to improve grammar and clarity as well as to better organize the statements for cohesive flow.

Following the presentation and some discussion, the Committee recommended approval of the following action to the full Board of Trustees:

Request for Board Action: *The VRS Board of Trustees approves the revisions to the VRS Defined Benefit Plan Investment Belief Statements.*

Submitted to the Board of Trustees on April 20, 2021.



O'Kelly E. McWilliams, III, Chair
Investment Policy Committee

Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 552 of the 2021 Special Session I Acts of Assembly, the Administration and Personnel Committee convened electronically on April 19, 2021 at 10:00 a.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 11, 2021 meeting.

REAPPOINTMENT OF DCPAC MEMBERS

Trish Bishop reviewed the three members of the Defined Contribution Plans Advisory Committee whose terms are set to expire. Shannon Irvin, Rick Larson and Dave Winter are eligible for reappointment and have expressed interest in continuing to serve on the Committee.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board approves the reappointment of Shannon Irvin, Rick Larson and David Winter to the Defined Contribution Plans Advisory Committee, each for a two-year term ending June 20, 2023.*

APPROVE REVISED FY 2021 AGENCY PERFORMANCE OUTCOME (APO) #4

Michael Cooper reviewed the proposed revisions to APO #4, Cardinal HCM Project Implementation. Mr. Cooper explained that the overall Cardinal project schedule, managed by the Commonwealth's Department of Accounts, has been pushed back several months. Therefore, the components of APO #4 as initially approved by the Board are unattainable for reasons beyond the agency's control. Accordingly, VRS is recommending revisions to APO #4 to account for the elements of the project that can be accomplished by June 30, 2021.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board approves the revisions to Agency Performance Outcome #4 for Fiscal Year 2021.*

APPROVE AMENDED ADMINISTRATIVE PAY PLAN, INVESTMENT OPERATIONS AND ADMINISTRATION STAFF PAY PLAN, AND INVESTMENT PROFESSIONALS' PAY PLAN

Paula Reid advised the Committee that the Governor has approved the 2021 Appropriation Act, which includes a 5% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth's pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well. An additional change is proposed for the Investment Professionals' Pay Plan to indicate that VRS will implement pay actions consistent with the provisions of the Appropriation Act. This language is already provided in the Administrative Pay Plan and Investment Operations and Administration Staff Pay Plan.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board approves amendments to the Administrative Pay Plan, the Investment Operations and Administration Staff Pay Plan and the Investment Professionals' Pay Plan.*

STRATEGIC PLAN UPDATE

Ms. Bishop updated the Committee on the development of the agency's next strategic plan. VRS leadership is working with VCU's Performance Management Group to develop strategic goals and objectives for the five-year period beginning July 1, 2021.

Mr. McWilliams asked about the Board's input in the strategic plan development process. Ms. Bishop advised that the Board's input is important to the plan and will be captured in the coming weeks as part of the overall process.

BUDGET UPDATE

Mr. Cooper provided an update on the agency's budget performance year-to-date as Barry Faison was unable to attend the meeting. Mr. Cooper explained that fiscal year-end projections indicate a balance of approximately \$9.9 million, which will be returned to the Fund as a result of planned reductions in spending due to impacts of the pandemic during FY 2021. This is a slight decrease from the projection provided at the Committee's February meeting, and is due to an increase in projected expenses related to the ongoing recruitment of mission-critical positions.

Mr. McWilliams inquired about the transfer of knowledge initiatives related to the completion of the Modernization project. Ms. Bishop noted the ongoing efforts to build out the IT team as contracted employees working on the Modernization project leave the agency. Further, VRS continues to enhance its documentation, including policies and procedures, to capture the system and process changes resulting from the Modernization initiative.

Bo Harris asked for an update on the hiring of the Chief Technology and Security Officer position. Ms. Bishop advised the Committee that Mark Rein has been selected to fill the position and will begin on April 25, 2021. Mr. Rein comes to VRS with over 20 years of information systems and technology management experience, including 12 years serving as the CIO, Deputy CIO and Branch CTO for several large federal government agencies. VRS looks forward to welcoming Mr. Rein on April 25.

Submitted to the Board of Trustees on April 20, 2021.



O'Kelly E. McWilliams, III, Chair
Administration and Personnel Committee

Report

In accordance with Item 4-0.01 of Chapter 56 of the 2020 Special Session I Acts of Assembly of the *Code of Virginia* as it relates to conducting business during the COVID-19 pandemic, the Audit and Compliance Committee convened electronically on March 16, 2021 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its December 10, 2020 meeting.

AUDIT REPORTS

The Committee received two audit reports.

- The review of *Health Insurance Premiums and Credits* determined the retiree health insurance premiums withheld from retirees' benefits, transfer of such withholdings to the appropriate parties and Health Insurance Credit payments are valid and accurate. There was one formal recommendation as a result of this review.
- The review of *VRS' Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory Information Technology security program. While there was one recommendation outstanding from the prior year's review, there were no formal recommendations as a result of the current review.

ANNUAL REPORT ON CODE OF ETHICS

The Chief Operating Officer and the Chief Administrative Officer provided annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct and for monitoring compliance, as required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for their respective programs as of the meeting date.

QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its quarterly status report on the Modernization Program - Phase 4, discussing the current software status of the remaining member portal functionality, the implementation plan and related roll-out and business soft launch activities. Management also provided an overview of the online retirement pilot results.

Internal Audit presented its quarterly review results and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget and scope. Internal Audit acknowledged management's efforts and ongoing work, noting continued diligent management of resources across concurrent projects and initiatives remains critical to bringing the phase to a close timely. Currently, VRS' risk adverse approach anticipates full release of all features to members in Fall 2021 to ensure the integrity of VRS operations and its processing.



AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2020

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2020, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

One alleged Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of November 1, 2020 through January 31, 2021 was presented to the Committee. The case alleged abuse of short-term disability benefits and was determined to be unfounded and therefore closed.

MISCELLANEOUS UPDATES

The Audit Director provided the Committee with the following updates:

Management's Quarterly Travel Expense and Per Diem Report

The Committee received management's quarterly travel expense and per diem report.

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2021.

Next Committee Meeting Date

The Committee's next meeting is scheduled for June 3, 2021 at 2 p.m.

Respectfully submitted to the Board of Trustees on April 20, 2021.


Joseph W. Montgomery, Chair
Audit and Compliance Committee

Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 56 of the 2020 Special Session I Acts of Assembly, the Defined Contribution Plans Advisory Committee (DCPAC) convened electronically on April 15, 2021 at 1:00 p.m., and took up the following matters:

ADMINISTRATION

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the fourth quarter of 2020. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives. Staff shared with the Committee an analysis and overview of initiatives related to the fourth quarter goal of improving asset allocation among plan participants.

ORPHE Update

Staff provided an overview of ORPHE reports for the fourth quarter of 2020, including plan assets and accounts, and provider election data. Staff also provided an update on outreach activities and education initiatives, including ORPHE open enrollment period.

Pensions & Investments 2021 Eddy Award

Staff noted that VRS and TIAA won the Pensions & Investments 2021 Eddy Award in March for the ORPHE 2020 plan changes initiative.

INVESTMENTS

Performance Reports

Staff provided an overview of the February 28, 2021 performance reports to the DCPAC.

Staff informed the Committee Wells Fargo recently reached an agreement with two private equity firms (GTCR LLC and Reverence Capital Partners, L.P.) to acquire Wells Fargo Asset Management. The transaction includes VRS' stable value investment manager Galliard Capital Management. Galliard is a subsidiary of Wells Fargo. Staff also provided an update to the Pending Account VRSIP for the VRSIP fund on the unbundled DC Plans investment menu.

Callan 2021 DC Trends Survey Highlights

Staff provided an overview of highlights from the Callan 2021 DC Trends survey results, which represented 93 large DC plan sponsors that span a range of industries across corporate, tax-exempt, and government organizations.

Staff included the Callan 2021 DC Trends Survey in the meeting materials Appendix for the Committee to review.

VRS Defined Contribution Plans Investment Belief Statements

Staff provided the Committee with a copy of the VRS Defined Contribution Plans Investment Belief Statements. The Committee and staff will review the document and discuss suggested changes during the June 24 DCPAC meeting for consideration by the Board.

OTHER BUSINESS

DCPAC Appointment

Staff informed the Committee of the request for reappointment of Shannon Irvin, Rick Larson, and David Winter, each to a two-year term ending June 20, 2023. Their current term expires June 20, 2021.

Staff informed the Committee of the resignation of Kathy Seay from the DCPAC, effective April 1, 2021, due to her retirement. Ms. Seay's Committee term expires on June 20, 2022. A recommendation has not yet been received to fill Ms. Seay's unexpired term but will be brought to the Committee at a future date. Staff also noted the seat formerly held by Mr. Carlson remains vacant.

Recommend RBA for Reappointment of DCPAC Members

The Committee recommends approval of the following action to the Administration and Personnel Committee and the full Board:

Request for Board Action: *The Board reappoints Shannon T. Irvin, Rick Larson, and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), for a two-year term ending June 20, 2023.*

NEW BUSINESS

Staff advised that Ms. Irvin had suggested outreach to employees in advance of salary increases included in the Appropriation Act.

2021 MEETINGS

Staff confirmed the following DCPAC meeting dates for 2021:

- June 24 at 1:00 p.m.
- September 2 at 1:00 p.m.
- December 2 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 2021. This is not a DCPAC Committee meeting, however, members may attend if interested.

There was no other business to come before the Committee.

That concludes my report to the Board.

Submitted to the Board of Trustees on April 20, 2021.



J. Brandon Bell, Chair
Defined Contribution Plans Advisory Committee

Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 552 of the 2021 Special Session I Acts of Assembly, the Benefits and Actuarial Committee convened electronically on April 19, 2021 at 1:00 p.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 11, 2021 meeting.

EXPERIENCE STUDY

The study is required by statute to be performed at least once every four years to validate assumptions and make necessary adjustments based on a comparison of actual VRS experience to the expected experience based on current assumptions. The study reviews economic and demographic assumptions, actuarial methods, and funding policies providing gain/loss analysis over the prior four years as well as cost impact analysis of any proposed changes. In addition, the study considers recommendations made in the quadrennial actuarial audit conducted by JLARC's actuary.

Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the results from the Experience Study and provided recommendations and cost impacts associated with the proposed changes.

Larry and Alisa will provide a summary of the recommendations to the Board of Trustees.

As described in their presentation, Cavanaugh Macdonald recommends changing the mortality assumption from a margin approach on a headcount weighted basis to a generational mortality approach on a benefits weighted basis. Overall, this change results in increased liabilities and higher expected contribution rates.

Following the presentation and some discussion the Committee approved an RBA recommending that the Board accept the results of the Experience Study. This RBA has been slightly changed from the RBA presented to the Committee in order to clarify the method change being recommended and to more specifically reflect the information presented to the Committee.

The Committee recommended approval of the following action to the full Board of Trustees:

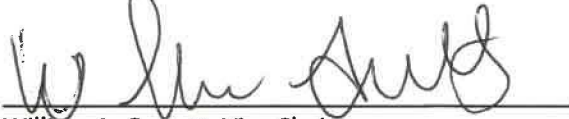
Request for Board Action: The VRS Board of Trustees approves its plan actuary's recommendations as presented in the Experience Study (7/1/2016 to 6/30/2020) to change various assumptions, including: certain demographic assumptions regarding mortality rates, retirement rates, withdrawal rates, and disability rates; method changes regarding the timing of plan decrements, as well as various Other Post-Employment Benefits (OPEB) specific assumptions related to the Line of Duty Plan, Health Insurance Credit program, and the VSDP and VLDP disability programs.

INFORMATION ITEM

B&A Committee Meeting Schedule

- June 9, 2021 at 1:00 p.m.
- October 13, 2021 at 10:00 a.m.
- November 15, 2021 at 1:00 p.m.

Submitted to the Board of Trustees on April 20, 2021.



William A. Garrett, Vice Chair
Benefits and Actuarial Committee