
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on November 16, 2021 in Richmond, Virginia with the following members participating:

Board members:

O’Kelly E. McWilliams, III, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
William A. Garrett
Dr. Susan T. Gooden, Ph.D.
W. Brett Hayes
Troilen G. Seward, Ed.S.

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair (*by phone*)

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Rory Badura, Parham Behrooz, Caroline Cardwell, Ryan Carlson, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Barry Faison, Laurie Fennell, Brian Goodman, Katherine Grawe, JT Grier, Dane Honrado, KC Howell, Robert Irving, Wendy Jenkins, Kristina Koutrakos, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Peter Murphy, Walker Noland, Greg Oliff, Angela Payne, Mark Rein, Dan Schlussler, Michael Scott, Jillian Sherman, Virginia Sowers, Korey Turner, Leslie Weldon, Dan Whitlock, Cindy Wilkinson and Nick Zizzo.

Guests:

Larry Langer, Alisa Bennett, and Brad Wild, Cavanaugh Macdonald Consulting, LLC; Elizabeth Myers, Office of the Attorney General; Adam Rosatelli, Senate Finance and Appropriations Committee; Erin Rodriguez, Auditor of Public Accounts; Latosha Johnson, Department of Planning and Budget; Morgan Quicke, Richmond County; Tyler Sanders, University of Richmond; Janet Areson, Virginia Municipal League; Lauren Albanese, Financial Investment News; John Balaod, Pageant Media; and Steff Chavez, Mandate Wire.

The meeting convened at 1:03 p.m.

Opening Remarks

O’Kelly E. McWilliams, III, called the meeting to order and welcomed everyone to the November 16, 2021 meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Upon Mr. Montgomery’s motion, with a second by Mr. Garrett, the VRS Board of Trustees approved the minutes of the October 14, 2021 meeting.

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), provided a report on the IAC's November 10, 2021 meeting. Mr. Kochard noted the Committee discussed current market conditions, asset allocation and tracking error. The IAC also received the annual private market program reviews from staff and discussed performance and results.

Mr. McWilliams thanked Mr. Kochard for his report.

Report of the Chief Investment Officer

Ron Schmitz, Chief Investment Officer, 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.

Mr. McWilliams thanked Mr. Schmitz 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

Mr. Garrett began his report by noting the Committee approved the minutes of its October 13, 2021 meeting.

2021 ACTUARIAL VALUATION RESULTS FOR POLITICAL SUBDIVISION RETIREMENT PLANS, THE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP), LOCAL HEALTH INSURANCE CREDIT (HIC), AND THE LINE OF DUTY ACT (LODA) FUND

Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the June 30, 2021 actuarial valuation results for the Political Subdivision Retirement Plans, the Virginia Local Disability Program (VLDP), the Local Health Insurance Credit (HIC), and the Line of Duty Act (LODA) fund.

Key points from the presentation include:

- The June 30, 2021 valuations are used to set the contribution rates for fiscal years 2023 and 2024.
- Since the prior valuation, there have been several significant changes to assumptions as well as plan experience that differed from what was assumed, which will impact future contribution rates. Factors impacting the results include:
 - Assumption changes
 - Investment return
 - Cost of living adjustments (COLA) less than expected
 - Demographic changes

- The most significant change was to the mortality assumptions, which included moving to a generational mortality improvement scale. This generally increased liabilities for pension plans and had mixed results on OPEB plans.
- The 2021 investment return of 27.5% had an immediate positive impact to funded status on the market value of assets basis. The investment gain is phased in over a five-year period due to actuarial smoothing of assets for funding calculations.

Pensions

- In aggregate, the employer contribution rates for political subdivision pension plans had a small increase from 8.33% during the last rate-setting valuation to 8.79% as of the current valuation. Actual impacts will vary by employer, but a majority of plans will have a change in contribution rate of less than 1%.
- Funded status in aggregate increased from 86.4% as of June 30, 2020 to 87.2% as of June 30, 2021 on an actuarial value of assets basis. Nearly two-thirds of the local pension plans are at least 90% funded on an actuarial value of assets basis. On a market value basis, nearly 90% of plans are 90% funded.

OPEBs

- The average contribution rate for HIC for political subdivisions increased from 0.64% to 0.72%. This is mostly due to payroll increasing less than expected, as well as more schools electing the extra \$1.00 benefit and the Additional Funding Contribution and “At-Risk” Surcharge. However, rates will vary by employer.
- Funded status for the HIC for political subdivisions in aggregate continued to trend upward, rising from 31.9% as of June 30, 2020 to 40.2% as of June 30, 2021.
- Contribution rates for VLDP for Teachers and Political subdivisions remained relatively level compared to the prior rate setting. Funded ratios increased for both VLDP plans rising to 98.6% for VLDP teachers and to 112.0% for VLDP political subdivisions.

Alisa Bennett of Cavanaugh Macdonald Consulting, LLC, provided the results for the Line of Duty Act (LODA) fund.

- Due to actions taken by the General Assembly in the 2021 session, the LODA premium rate increased by \$5.24 for FY 2022 to \$722.55 in response to additional presumptions and conditions covered under the Workers’ Compensation Act.
- Due to the “pay-as-you-go” funding, required by statute for the LODA fund, LODA premiums are generally expected to increase each rate setting period due to increases in covered members and increases in the cost of health care.
- For FY 2023 and FY 2024 the LODA premium rate will decrease to \$681.84 per full-time equivalent (FTE).
- The rate decrease is due in large part to investment income and an end of year asset balance of \$7.5 million. The excess assets will be used to offset costs for fiscal years 2023 and 2024.

- Investment income overshadowed small increases in liabilities due to assumption changes related to the experience study as well as an unanticipated increase of 14.50% in the Medicare Part B premium.
- No explicit changes related to COVID-19 were incorporated at this time due to the level of uncertainty regarding the impact of both plan costs and contribution levels going forward.

Upon a motion by Mr. Garrett, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

Request for Board Action 2021-11-24: Approve contribution rates for political subdivisions, the Health Insurance Credit for certain political subdivisions, the Virginia Local Disability Program and the Line of Duty Act Fund, effective for FY 2023 and FY 2024.

INFORMATION ITEM

2022 B&A Committee Meeting Schedule:

- February 9 at 1:00 p.m.
- June 6 at 1:00 p.m.
- October 17 at 1:00 p.m.
- November 14 at 1:00 p.m.

Mr. McWilliams thanked Mr. Garrett 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 September 15, 2021 meeting.

APPOINTMENT OF DEFINED BENEFIT CONTRIBUTION PLANS ADVISORY COMMITTEE MEMBER

Trish Bishop, Director, informed the Committee that a new appointment to the DCPAC has been identified. Mr. Ned Smither, County Administrator for Powhatan County, has been nominated to fill the unexpired term of Ms. Kathy Seay.

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

Request for Board Action 2021-11-25: The Board appoints Edward N. (Ned) Smither to the Defined Contribution Plans Advisory Committee (DCPAC) to fill the unexpired term of Kathleen T. Seay, which ends June 20, 2022.

PERSONNEL DISCUSSION

O’Kelly E. McWilliams, III, advised the Committee of the forthcoming retirements of the Chief Investment Officer, Ron Schmitz, and the Chief Financial Officer, Barry Faison.

Mr. Schmitz joined VRS in October 2011 and has overseen significant growth to the fund while successfully navigating substantial market shifts. Specifically, during his tenure as the longest serving CIO for VRS, the fund more than doubled in size, moving from \$51 billion in 2011 to over \$103 billion, as of September 30, 2021. In addition, Mr. Schmitz championed an increase in private asset investments, as well as an increase of both internally managed assets and co-investments. These increases have been unquestionable wins for the fund, as can be seen with the record return of 27.5% earned as of June 30, 2021. Mr. Schmitz will remain with VRS through the end of 2022.

Mr. Faison has served VRS for more than 42 years, including as Chief Financial Officer since December 2001. During Mr. Faison’s tenure, VRS has received the prestigious Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for 39 consecutive years. Mr. Faison intends to retire effective July 1, 2022.

The contributions and leadership provided to VRS and the Commonwealth by Mr. Schmitz and Mr. Faison have been immeasurable. VRS is grateful for their service.

Korn Ferry has been hired to lead the national search for VRS’ next CIO. An executive search firm will also be engaged to lead the national search for VRS’ next CFO.

QUARTERLY BUDGET UPDATE

Mr. McWilliams concluded his report by noting Ms. Bishop reviewed the quarterly budget report with the Committee. A copy of the report was also provided to the Committee for its review.

Proxy Voting Discussion

Dan Whitlock, Director of Global Equity, reviewed the FY 2021 Corporate Governance Report and provided an overview of the Proxy Voting and Litigation Policy with the Board. He advised that Institutional Shareholder Services, Inc. (ISS) continues to provide proxy research and implementation services for VRS. During FY 2021, VRS staff reviewed and evaluated these services and determined that ISS continues to meet the needs of VRS.

Mr. McWilliams thanked Mr. Whitlock for his presentation.

Operational Update Series: Annual Report Development

Ms. Bishop next introduced Caroline Cardwell, Public Relations and Communications Strategist, and Leslie Weldon, Controller, who presented an overview of VRS’ Annual Report Development.

Ms. Caldwell advised that VRS publishes the Annual Comprehensive Financial Report (ACFR), which contains financial, investment, actuarial and statistical analyses of performance for each fiscal year. In addition, VRS produces the Popular Annual Financial Report (PAFR), a condensed version of the CAFR, that contains highlights and a summary video. These reports are distributed to the Governor of Virginia, the General Assembly and the Board of Trustees, as well as posted to the agency website.

Ms. Weldon provided an overview of Wdesk, a collaborative cloud platform the agency utilizes in the production of VRS' annual reports. The software allows users to input and edit data, streamline processes and collaborate simultaneously. Staff can import financial statements, track edits, add narrative content, graphics and images, as well as generate black-line documents for review.

During development, information included in the report is reviewed by the Auditor of Public Accounts and the Department of Accounts for inclusion in the Commonwealth's annual report. In addition, the published report is reviewed by the Government Finance Officers Association of the United States and Canada (GFOA), which has awarded VRS the Certificate of Achievement for Excellence in Financial Reporting for 39 consecutive years, as well as the award for Outstanding Achievement in Popular Annual Financial Reporting for five consecutive years.

Mr. McWilliams thanked Ms. Caldwell and Ms. Weldon for their presentation.

Report of the Director

Ms. Bishop reviewed the new coverage elections and an update on the agency roadmap for FY 2022. She advised that all projects are progressing as planned, apart from a scheduling delay related to the Cloud Migration project. Staff will continue to monitor these projects and provide updates as they become available.

Ms. Bishop advised that VRS received the Public Pension Coordinating Counsel's award for meeting professional standards for plan funding and administration, which is set forth in the public pension plans standards. This is the 18th year that VRS has been recognized for meeting these standards.

Lastly, Ms. Bishop provided the following updates to the Board:

- The Joint Legislative Audit and Review Commission (JLARC) will meet on December 13, 2021 to present its annual review of VRS' portfolio and investment performance.
- The annual Code of Ethics and Standards of Conduct training will be distributed to the Board electronically in December.
- The virtual VRS Agency Annual Meeting is scheduled for December 15, 2021 to celebrate employee and agency achievements.

Mr. McWilliams thanked Ms. Bishop for her report.

Litigation Update (Closed Session)

Mr. Montgomery moved, with a second by Mr. Bennett, that the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act for the purpose of consultation with legal counsel about actual, pending litigation pursuant to the consultation with legal counsel exemption contained in *Code of Virginia* § 2.2-3711(A)(7).

Upon return to open meeting, Mr. Montgomery moved, with a second by Ms. Seward, the following resolution:

WHEREAS, the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, *Code of Virginia* § 2.2-3712 requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

The Board approved the resolution upon the following roll call vote:

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

Following the Board's return from closed session, Mr. Mattson confirmed that funds recovered as a result of a lawsuit are returned to the fund and program that incurred the loss.

Other Business

Mr. McWilliams reviewed the following meeting schedule:

- Defined Contribution Plans Advisory Committee – December 2nd at 1:00 p.m.
- Audit and Compliance Committee – December 6th at 2:00 p.m.
- Board of Trustees – December 7th at 9:30 a.m.
- Board of Trustees Retreat – December 7th and 8th

Adjournment

There being no further business and following a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees agreed to adjourn the meeting at 2:44 p.m.



Chair

Patricia Bishop

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Secretary

Report

The Benefits and Actuarial Committee met on November 15, 2021 and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its October 13, 2021 meeting.

2021 ACTUARIAL VALUATION RESULTS FOR POLITICAL SUBDIVISION RETIREMENT PLANS, THE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP), LOCAL HEALTH INSURANCE CREDIT (HIC), AND THE LINE OF DUTY ACT (LODA) FUND

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- Since the prior valuation, there have been several significant changes to assumptions as well as plan experience that differed from what was assumed, which impacted contribution rates. Factors impacting the results include:
 - Assumption changes
 - Investment return
 - COLAs less than expected
 - Demographic changes
- The most significant change was to the mortality assumptions, which included moving to a generational mortality improvement scale. This generally increased liabilities for pension plans and had mixed results on OPEB plans.
- The 2021 investment return of 27.5% had an immediate positive impact to funded status on the market value of asset basis. The gain is phased in over a five-year period due to actuarial smoothing of assets for funding calculations.

Pensions

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- Due to the “pay-as-you-go” funding required by statute for the LODA fund, we generally expect LODA premiums to increase each rate setting due to increases in covered members and increases in the cost of health care.
- For FY 2023 and FY 2024 the LODA premium rate will decrease to 681.84 per full-time equivalent (FTE).
- The rate decrease is due in large part to investment income and an end of year asset balance of \$7.5 million. The excess assets will be used to offset costs for fiscal years 2023 and 2024.
- Investment income overshadowed small increases in liabilities due to assumption changes related to the experience study as well as an unanticipated increase of 14.50% in the Medicare Part B premium.
- No explicit changes related to COVID-19 were incorporated at this time due to the level of uncertainty regarding the impact of both plan costs and contribution levels going forward.

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

Request for Board Action: *Approve contribution rates for political subdivisions, the Health Insurance Credit for certain political subdivisions, the Virginia Local Disability Program and the Line of Duty Act Fund, effective for FY 2023 and FY 2024.*

INFORMATION ITEM

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- February 9 at 1:00 p.m.
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- November 14 at 1:00 p.m.

Submitted to the Board of Trustees on November 16, 2021.

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William A. Garrett, Chair
Benefits and Actuarial Committee

Report

The Administration and Personnel Committee met on November 16, 2021 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its September 15, 2021 meeting.

APPOINTMENT OF DEFINED BENEFIT CONTRIBUTION PLANS ADVISORY COMMITTEE MEMBER

Trish Bishop, Director, informed the committee that a new appointment to the DCPAC has been identified. Mr. Ned Smither, County Administrator for Powhatan County, has been nominated to fill the unexpired term of Ms. Kathy Seay.

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

Request for Board Action: *The Board approves the appointment of Mr. Edward N. “Ned” Smither to the Defined Contribution Plans Advisory Committee to fill the unexpired term of Kathleen T. Seay, which ends June 20, 2022.*

PERSONNEL DISCUSSION

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Korn Ferry has been hired to lead the national search for VRS’ next CIO. An executive search firm will also be engaged to lead the national search for VRS’ next CFO.

QUARTERLY BUDGET UPDATE

Ms. Bishop reviewed the quarterly budget report with the committee. A copy of the report was also provided to the Committee for its review.

Submitted to the Board of Trustees on November 16, 2021.



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