
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on December 7, 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.
Troilen G. Seward, Ed.S.

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, John Alouf, Rory Badura, Parham Behrooz, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Jon Farmer, Josh Fox, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, Kristina Koutrakos, LaShaunda King, Matt Lacy, Chung Ma, Michael Marion, Curt Mattson, Steve McClelland, Walker Noland, Greg Oliff, Angela Payne, Steve Peterson, Paula Reid, Mark Rein, Dan Schlusser, Michael Scott, Jillian Sherman, Dan Whitlock, Cindy Wilkinson and Nick Zizzo.

Guests:

Elizabeth Myers, Office of the Attorney General; Bea Snidow, Virginia Education Association; Alex Meyer, Goldman Sachs; Zach Cziryak, Financial Investment News; John Balaod and Adam Rees, Pageant Media; and Steff Chavez, Mandate Wire.

The meeting convened at 9:31 a.m.

Opening Remarks

O’Kelly E. McWilliams, III, called the meeting to order and welcomed everyone to the December 7, 2021 meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Upon Mr. Montgomery’s motion, with a second by Mr. Bennett, the VRS Board of Trustees approved the minutes of the November 16, 2021 meeting.

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 Defined Contribution Plans Advisory Committee

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

WELCOME AND INTRODUCTION

Mr. Bell welcomed and introduced Mr. Ned Smither, the newest appointed member of the Committee. Mr. Smither is the Powhatan County Administrator and is filling the local government seat on the DCPAC.

ADMINISTRATION

Annual Administrative Expense Reports

Staff provided an overview of the administrative expense report and annual cost update for FY 2021, as required by the DCPAC Charter. The report provided both direct and indirect costs associated with administering VRS' defined contribution plans. Total administration costs related to participants and expenditures for FY 2021 were provided, along with a cost trend analysis over the five-year period from FY 2017 to FY 2021. Staff informed the committee of cost increases due to plan reviews being performed for all defined contribution plans.

Administrative Reports and Communications Update

Staff provided an update on administrative reports for the third quarter of 2021. Updates included an overview of the new DC Plans performance dashboards, which were developed along with MissionSquare Retirement. An overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives was also provided. Staff shared with the Committee an analysis and overview of efforts related to the third quarter focus on increasing contributions and enrollments among plan participants.

ORPHE Update

Staff provided an overview of ORPHE reports for the third quarter of 2021, including plan assets and accounts, and provider election data. Staff also provided an update on outreach activities and education initiatives, including the annual employer update and ORPHE open enrollment period.

ORPHE Employer Update Report

Mr. Larson provided an overview of the ORPHE Annual Employer Update hosted by VRS on September 30, 2021. He noted that 13 participating institutions were represented.

DC Plans Consultant RFP Update

Staff provided an update on the DC Plans Consultant RFP. Proposals received in response to the Consultant RFP are under review, and an award is expected by the end of January 2022.

INVESTMENTS

Performance Reports

Staff provided an overview of the October 31, 2021 performance reports to the DCPAC, including the unbundled DC plans investment options and the bundled TIAA investment menu in the Retirement Choice (RC) contract for ORPHE.

Staff informed the Committee that next year staff will perform a review of the benchmarks used for the stand-alone funds to either affirm continuing to use them or make changes as appropriate.

CEM Defined Contribution Plans Survey

Staff reviewed the CEM DC Plans 2020 survey results, which was comprised of 110 corporate and 25 public plans representing \$1.4 trillion in assets. Staff informed the Committee that the survey results included the unbundled DC Plans supplemental 457 Deferred Compensation Plan, in addition to the bundled TIAA program for ORPHE. Staff noted that the TIAA information was based solely on the TIAA RC contract. Staff included the CEM DC Survey Reports in the appendix of the agenda packet for the Committee to review.

Staff also advised that beginning with the 2020 report, CEM no longer includes a plan-specific benchmark cost as part of the free survey. Staff will be reviewing the service to determine whether to subscribe to the benchmarking service required to receive the plan-specific benchmark cost and will consider other options that may be available.

OTHER BUSINESS

Code of Ethics

Staff informed the Committee that an email notification would be forthcoming that includes instructions for completing the review of the Board of Trustees' Code of Ethics and Conduct, an annual requirement of VRS advisory committee members. Staff shared that Committee members will be able to electronically sign and submit the affirmation statement.

VRS Legislative Package

Staff informed the Committee that the Board of Trustees approved a legislative proposal that would separate the Board-certified defined benefit employer contribution rates from the statutory estimated defined contribution employer contribution rates and discussed the reasons for the change.

Discussion of New Ideas

No new business was brought before the Committee.

2022 MEETINGS

The Committee is scheduled to meet on the following dates in 2022, all at 1:00 p.m.:

- Thursday, March 24th
- Thursday, June 2nd
- Thursday, September 8th

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- Thursday, December 1st

Staff sent calendar invitations for the 2022 DCPAC meetings to DCPAC members as well as to the Board members.

Additionally, the ORPHE Annual Employer Update will be scheduled and will appear on the DCPAC agenda as an upcoming event. This is not a DCPAC meeting; however, members may attend if interested.

Mr. McWilliams thanked Mr. Bell for his report.

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 September 13, 2021 meeting.

EXIT ON THE AUDITOR OF PUBLIC ACCOUNTS (APA) 2021 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The APA informed the Committee the audit work over the 2021 VRS Annual Comprehensive Financial Report (ACFR) was in its final stage. Upon completion, the APA anticipates issuing an unmodified opinion on VRS' financial statements. They noted their companion "Report on Internal Controls and Compliance" would be issued either later in December or early January and at this time they do not anticipate including any formal recommendations.

ENTRANCE WITH THE APA REGARDING EMPLOYER ASSURANCES (GASB 68 AND 75)

The APA next provided the Committee with an overview of its upcoming examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual comprehensive financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements:

- No. 68, which focuses on employer reporting over pension plans, and
- No. 75, which deals with employer reporting over other post-employment benefit plans.

The APA anticipates issuing its opinions on these matters on or about June 30, 2022.

AUDIT REPORTS

The Committee received one audit report.

- The review of *Retiree Payroll and Changes* determined VRS processes associated with the monthly retiree payroll and changes to it, as well as the annual generation and distribution of the related 1099-R tax data and forms, are working as expected. There were no formal recommendations as a result of this review.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

One alleged Fraud, Waste and Abuse complaint reported to Internal Audit via the Office of the State Inspector General during the period August 1, 2021 through October 31, 2021 was presented to the Committee. The case was determined to be unfounded and therefore closed.

QUALITY ASSURANCE REVIEW OF THE INTERNAL AUDIT DEPARTMENT

The Audit Director presented the results of the Department's Annual Quality Assurance Improvement Program Review as of June 30, 2021, noting the review concluded there is reasonable assurance that the VRS Internal Audit Department is operating in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Management's Quarterly Travel Expense and Per Diem Report

The Committee received Management's Quarterly Travel Expense and Per Diem report.

Next Committee Meeting Date

The Committee's next meeting is scheduled for Tuesday, March 29, 2022 at 2 p.m.

Mr. McWilliams thanked Mr. Montgomery for his report.

Personnel Matter – Presentation from Korn Ferry

Trish Bishop, Director, advised that VRS has engaged Korn Ferry, a global organizational consulting firm, to lead in the search for VRS' next Chief Investment Officer as Mr. Schmitz will be retiring in late 2022. Michael Kennedy, Senior Client Partner, provided an overview of the firm's executive search and recruitment process, as well as the proposed timeline. Mr. Kennedy also reviewed Korn Ferry's candidate interview and assessment practices with the Board.

Following the presentation, Mr. McWilliams noted that all Board members are welcome to serve on the search committee and additional details will be forthcoming.

Report of the Director

Ms. Bishop provided 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.

Next, 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 virtual VRS Agency Annual Meeting is scheduled for December 15, 2021 to celebrate employee and agency achievements.
- The annual Code of Ethics and Conduct training will be distributed to the Board electronically and affirmation statements are due by December 31, 2021.

- The Annual Conflict of Interest filing period begins January 1, 2022 and filings are due by February 1, 2022. Information will be distributed via email from the Virginia Conflict of Interest and Ethics Advisory Council.

Ms. Bishop noted that VRS employees participated in the agency walk/run to raise funds for the Commonwealth of Virginia Campaign (CVC). Ms. Bishop also advised that following this meeting, the Board retreat will begin at 12:00 p.m.

Mr. McWilliams thanked Ms. Bishop for her report.

Due to technical difficulties, the Board was provided a link to view the “VRS Investments: Episode 1 – Our Focus” video.

Information Technology and Litigation Update (Closed Session)

Mr. Disharoon 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 purposes of (a) consultation with legal counsel about actual or probable litigation pursuant to the exemption contained in *Virginia Code* § 2.2-3711(A)(7), and (b) discussion of an information technology system or software program where discussion in an open meeting would jeopardize the security of such information technology system or software program, pursuant to the exemption contained in *Virginia Code* § 2.2-3711(A)(19).

Upon return to open meeting, Mr. Disharoon moved, with a second by Mr. Bennett, 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. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Other Business

Following Mr. Bell's suggestion, the Board agreed to collaborate with staff to review its policies regarding masking and COVID prevention as the agency looks to return to the office in 2022.

Adjournment

There being no further business and following a motion by Mr. Montgomery, with a second by Mr. Bell, the VRS Board of Trustees agreed to adjourn the meeting at 11:01 a.m.


Chair


Secretary

Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on December 2, 2021 at 1:00 p.m. and took up the following matters:

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There was no other business to come before the Committee.

Submitted to the Board of Trustees on December 7, 2021



J. Brandon Bell, Chair
Defined Contribution Plans Advisory Committee

Report

The Audit and Compliance Committee met on December 6, 2021 and discussed the following:

APPROVAL OF MINUTES

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

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Next Committee Meeting Date

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Respectfully submitted to the Board of Trustees on December 7, 2021.


Joseph W. Montgomery, Chair
Audit and Compliance Committee