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## Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on September 22, 2022, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, 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  
Lindsey K. Pantele

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair (*attended remotely*)

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Andrew Junkin, Rory Badura, Daniel Ball, Parham Behrooz, Kevin Bliss, Deardrian Carver, Lakiesha Cheatham, Jeanne Chenault, Michael Cooper, David Cotter, Harriet Covey, Juanita Cribbs, Valerie Disanto, Pam Elam, Barry Faison, Jonathan Farmer, Laurie Fennell, Josh Fox, Jay Gentry, Brian Goodman, JT Grier, Krystal Groff, KC Howell, Robert Irving, Ross Kasarda, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Walker Noland, Greg Oliff, Angela Payne, Steven Peterson, Laura Pugliese, Steven Ramirez, Paula Reid, Mark Rein, Dan Schlusser, Michael Scott, Virginia Sowers, Leslie Weldon, Dan Whitlock, Cindy Wilkinson, Steve Woodall and Nick Zizzo.

Guests:

Lauren Albanese, Financial Investment News; David Barry, Markets Group; Jeremy Bennett, Virginia Association of Counties; Jamie Bitz, Joint Legislative Audit and Review Commission; Joe Ebisa, With Intelligence; Emily Grimes, Department of Planning and Budget; Madeline Katz, Financial Times; Rob Kozlowski, Pensions & Investments; Elizabeth Myers, Office of the Attorney General; Erin Rodriguez, Auditor of Public Accounts; Adam Rosatelli, Senate Finance and Appropriations Committee; and Bea Snidow, Virginia Education Association.

The meeting convened at 1:00 p.m.

### Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the September 22, 2022, meeting of the Virginia Retirement System Board of Trustees. Mr. Andrews introduced the newest Board member, Lindsey Pantele, who is replacing Troilen Seward as her term had expired. Ms. Pantele is a teacher with Henrico County Public Schools, where she was selected as the county's Teacher of the Year in May of 2020. Ms. Pantele earned her undergraduate degree in English and Language Arts, and a Master's in Teaching from Christopher Newport University.

Next, Mr. Andrews commended Ms. Seward for her 10 years of service to the VRS Board of Trustees and acknowledged her contributions to VRS and education throughout the Commonwealth. Mr. Andrews advised a formal recognition of Ms. Seward's service will take place during the October Board meeting.

Mr. Andrews also introduced Andrew Junkin, who will succeed Ron Schmitz as the new Chief Investment Officer upon Mr. Schmitz's retirement in January 2023. Mr. Junkin joins VRS after serving as CIO for the state of Rhode Island and a fifteen-year tenure with Wilshire, the last five of which he served as president. Mr. Junkin will be working closely with Mr. Schmitz over the following months to provide continuity and facilitate an effective transition. Mr. Andrews thanked Mr. Schmitz for his leadership and assistance during the transition period.

#### **Approval of Minutes**

Following a motion by Mr. Montgomery, and a second by Mr. Bennett, the VRS Board of Trustees unanimously approved the minutes from its June 23, 2022, meeting.

#### **Committee Assignments**

Next, Mr. Andrews advised that with the appointment of a new Board member, updates to the committee assignments are required, in accordance with the Governance Policy. Upon a motion by Mr. Andrews, with a second by Mr. Montgomery, the Board unanimously approved the following changes to the committee assignments:

- Mr. Disharoon will fill the vacant seat on the Administration and Personnel Committee.
- Ms. Pantele will take Mr. Disharoon's seat on the Benefits and Actuarial Committee.

#### **Report of the Investment Advisory Committee**

Lawrence Kochard, Chair of the Investment Advisory Committee, began his report by noting the IAC met on August 18, 2022, and approved the minutes from its April 13, 2022, meeting. The Committee received the Chief Investment Officer's (CIO) report that included an overview of market conditions, asset allocation, tracking error and total fund performance as of June 30, 2022. The Committee was informed by the CIO that Public Equity was below its lower policy limit due to market action as of June 30, 2022. The Board previously approved new policy weights for the new fiscal year, and, as of July 1, 2022, the portfolio was within its allowable range. The Committee noted that returns, short- and long-term, have been favorable and all asset classes generally remain above their respective benchmarks.

The Committee also received the Portfolio Solutions Group program review. The Committee then participated in the forward returns and stress test scenarios discussion which included four prospective recovery scenario simulations and their potential implications for the long-term assumed rate of return, funded status, contribution rates and liquidity.

Mr. Andrews thanked Mr. Kochard for his report.

#### **Report of the Chief Investment Officer**

Ron Schmitz, CIO, began his report with a market overview and discussed asset allocation, total fund portfolio and tracking error, concluding that risk measures are within Board-approved levels.

Mr. Schmitz discussed in more detail the asset allocation positioning as of June 30, 2022, and more recently, as of September 12, 2022. Mr. Schmitz informed the Board, that as expected and previously disclosed, due to market action and not staff action, Public Equity had indeed fallen below its lower policy limit as of June 30, 2022. He told the Board their approval of the new policy weights at their last meeting had, as intended, moved Public Equity back within the allowable range. Mr. Schmitz then shared with the Board that continued market action was affecting the weightings of equity related exposures and the potential for another market-driven breach of policy was expected. He reviewed his previous and current view of looking at equity (public and private) exposure and positioning within the applicable allowable ranges on a combined basis for the total fund. As a result, Mr. Schmitz was not recommending any corrective action at this time. The Board agreed with Mr. Schmitz's evaluation of the situation and his recommendation.

Next, Mr. Schmitz discussed the New Investment and Terminations report, the Diverse Investment Manager Engagement (DIME) report, and the External Investment Manager Referral report.

Mr. Andrews thanked Mr. Schmitz for his report.

#### **Annual CEM Benchmarking Report on Administration**

Mike Heale of CEM Benchmarking, Inc., provided the annual Pension Administration Benchmarking Report for FY 2021 to the Board. CEM measures cost and service levels and provides an analysis of performance relative to peer agencies, as well as comparative data and insights from a broader group of CEM-participating plans. The presentation focused on VRS compared to a peer group of other U.S.-based retirement systems with similar membership size. Areas of service reviewed and measured included the call center, VRS website (including myVRS), one-on-one membership counseling and presentations, pension inceptions and member statements.

With a cost of \$81 per active member and annuitant, VRS' total pension administration cost per active member and annuitant is \$26 below the peer group average of \$107. Mr. Heale provided a summary of the trend in total pension administration costs from 2014 to 2021. He noted that VRS' total pension administration cost per active member and annuitant increased on average by 3.9% per annum, compared to a peer average of 1.9% per annum. This increase is mainly due to IT upgrade projects, like myVRS, and the introduction of new programs such as the Hybrid Retirement Plan, the Virginia Local Disability Program and communication initiatives for the Line of Duty Act.

Mr. Heale advised that VRS achieved a total service score of 81, which is above the peer group median of 79. VRS' service score has steadily increased since 2014, however, the COVID-19 pandemic impacted some areas of key service measures included in the service score. Areas specifically impacted were the call center and attendance of one-on-one member counseling and presentations. Despite these challenges, improvements to the agency's website by adding additional online tools, such as online retirement applications and refund requests, had a positive impact on the total service score.

Mr. Heale concluded by reiterating that VRS provides a relatively high level of service at a cost comparatively lower than its peers.

Mr. Andrews thanked Mr. Heale for his presentation and commended the VRS staff for achieving these exceptional results. In addition to having placed in the desirable quadrant for over a decade, Mr.

Andrews noted that providing a high level of service at a lower cost when compared to U.S. peers is a testament to staff's commitment to exceptional service and continuous improvement.

### **Report of the Defined Contribution Plans Advisory Committee**

The VRS Board of Trustees received the report of the Defined Contribution Plans Advisory Committee following its meeting on September 8, 2022 and placed it on file.

#### GOVERNING DOCUMENTS UPDATE

##### Defined Contribution Incentive Plan (DCIP) Plan Document Amendments and Amended DCIP Master Trust

Staff presented a Request for Board Action regarding amendments to the Defined Contribution Incentive Plan for VRS Personnel. On January 1, 2021, most Defined Contribution (DC) Plans were amended and restated to bring them up to date, but this plan was not updated. VRS worked with outside benefits counsel to amend and restate this plan to have language consistent among all plans. This plan has undergone several name changes since its inception 20 years ago. The last amendment and restatement occurred in May 2013; first amendment in November 2014, second amendment February 2017, and in September 2020 the plan name was changed to its current name. This document has been amended to include provisions of recent federal legislation and the format is now consistent with the other plan documents. This amendment removes restrictions and allows participants, at least age 55, to transfer assets from the plan into their cash match plan. It also includes the first amendment to the Master Trust, which changes the reference to the correct plan name and adds provisions to cover the return of mistaken contributions and strengthens compliance language for separate accounting.

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

**RBA: Approve Amended and Restated Defined Contribution Incentive Plan for VRS Personnel (DCIP) and First Amendment to the DCIP Master Trust.**

***Request for Board Action 2022-09-13: The VRS Board of Trustees approves the Amended and Restated Defined Contribution Incentive Plan for VRS Personnel (DCIP) (effective as of January 1, 2023) and the First Amendment to the DCIP Master Trust (effective September 22, 2022).***

#### ADMINISTRATION

##### Administrative Reports & Communications

Staff provided an overview of the DC plans, as well as an update on administrative reports for the second quarter of 2022. An overview of assets and accounts across the various defined contribution plans, as well as account trends, was also provided. VRS won National Association of Government Defined Contribution Administrators (NAGDCA) Leadership Awards in two categories – COVID-19 response and for participant communication and engagement. VRS is also a finalist for the NAGDCA Art Caple award, which will be announced later in September. Staff shared that assets have decreased since last quarter in the COV457/Cash Match Plan. Hybrid plan assets have also decreased; however, this plan continues to be consistent in account balance growth and voluntary contributions, with 47% maximizing at 4% and 47% contributing 1% or less. Highlights from Hybrid Automatic Escalation were shared, which

included interactive webpages for members and employers, an Employer Guide and a member poster in preparation for 2023. Staff also shared an overview of ORPHE assets, including participant counts and balances with DCP (MissionSquare) and TIAA. Further, staff provided updates from the Annual Review with MissionSquare, which addressed topics such as participant engagement, key accomplishments and future initiatives. In addition, staff offered an update regarding the Service Review with TIAA where total payouts, assets and engagement activity were presented.

#### DC Plans Record Keeper Update

Staff provided an update on the DC Plans Consultant RFP. The RFP is in its final review prior to posting and will be issued this month. The RFP will be out for eight weeks after which the review process will start.

#### INVESTMENTS

##### Annual Investment Review

Staff announced the VRS Board of Trustees appointed Andrew Junkin to the Chief Investment Officer position. Staff reviewed investment duties and responsibilities of DCPAC. Staff provided the Committee with an overview of annual investments as of June 30, 2022, including the unbundled DC plans and investment options and the bundled TIAA ORPHE Retirement Choice (RC) investment menu options. Staff also informed the Committee of ongoing monitoring of DC investment trends and developments such as default investment options, investment menu structure, behavioral finance, investment advice and retirement income.

#### OTHER BUSINESS

##### Discussion of New Ideas

No new ideas were brought before the Committee.

##### 2022 MEETINGS

Senator Bell confirmed the following DCPAC meeting date for 2022:

- December 1, 2022, at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 29, 2022. This is not a DCPAC Committee meeting; however, members may attend if interested.

Mr. Andrews thanked Senator Bell for his report.

#### **Report of the Audit and Compliance Committee**

The VRS Board of Trustees 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 June 16, 2022, meeting.

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## AUDIT REPORTS

The Committee received two audit reports.

- The review of *Disability Retirements* concluded disability retirement processes are operating as expected and disability payments are valid, accurate and complete. There were no formal recommendations as a result of this review.
- The review of *Fixed Income and Securities Lending Programs* determined that VRS provides appropriate oversight and monitoring of the programs. There were no formal recommendations as a result of this review.

## INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2022

The Committee received the following updates:

### Internal Audit Director's Annual Report

The Audit Director provided the Committee with a summary of the Internal Audit Department's accomplishments over the past year as well as an overview of the department's initiatives and challenges for the coming fiscal year and the remainder of the long-range plan. She recognized the contributions of the Internal Audit team during the year.

The Audit Director explicitly confirmed the department and its staff are organizationally independent of the activities they examine. The Audit Director also discussed plans to augment the department's information technology audit resources to ensure the function will possess the appropriate qualifications to meet the needs of the proposed audit plan. The Audit Director also discussed the department's conformance with the Institute of Internal Auditors' *Standards* including review of the relevant charters and expected updates to *The Standards* effective 2024.

### Annual Report on the Audit Recommendation Follow-Up System (ARFUS)

The annual ARFUS Report as of June 30, 2022 was presented. The Audit Director noted ARFUS contained ten internal recommendations, one represented as implemented. Internal Audit reviewed and released one recommendation, leaving nine outstanding as of June 30, 2022.

### Annual Plan and Long-Range Plan Progress

The Audit Director discussed the annual plan results for the fiscal year ended June 30, 2022, along with the status of the long-range plan for the four years ending June 30, 2024. The Audit Director noted as of the conclusion of the second fiscal year of the long-range plan, modifications have been made to the remaining plan to accommodate the changing risk environment.

### Proposed FY 2023 Annual Audit Plan

The Audit Director discussed the proposed annual audit plan for fiscal year 2023, which is derived from the approved long-range audit plan. The Committee reviewed the plan and voted to recommend approval of the request for board action to the full Board of Trustees.

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

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**RBA: Approve FY 2023 Audit Plan**

***Request for Board Action 2022-09-14: The VRS Board of Trustees approves the proposed FY 2023 Annual Audit Plan.***

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

It was noted there was one Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of May 1, 2022 through July 31, 2022. The case was unsubstantiated and closed.

Miscellaneous Updates

The Committee received the following miscellaneous updates:

Results of Agency Performance Outcomes and Agency Operational Measures

The Audit Director discussed the Internal Audit Department's review of management's representations regarding the Agency Performance Outcomes and Operational Measures for the fiscal year ended June 30, 2022, noting nothing came to its attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

Internal Audit's Review of Investment Variable Performance Program

The Audit Director noted the Internal Audit Department completed its review of the Investment Department Variable Performance Program's proposed compensation amounts and determined they were accurately computed in accordance with the authorized pay plan.

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 Thursday, December 8, 2022, at 10:00 a.m.

AUDIT DIRECTOR'S PERFORMANCE EVALUATION

The Committee went into closed session to review the Audit Director's performance for the fiscal year ended June 30, 2022.

Upon return to open meeting, the Committee voted to recommend approval of the action to the full Board.

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

**RBA: Internal Audit Director's Performance Review**

***Request for Board Action 2022-09-15: The VRS Board of Trustees approves a 7% performance bonus for the Audit Director.***

Mr. Andrews thanked Mr. Montgomery for his report.

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### Report of the Administration and Personnel Committee

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

#### APPROVAL OF MINUTES

Mr. Andrews began his report by noting the Committee approved the minutes of its June 14, 2022, meeting.

#### REVIEW ATTAINMENT OF FY 2022 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2022 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had four APOs for the fiscal year, with a target of completing at least three. Staff met this goal by successfully completing all four APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate.

The Committee recommended approval of the request for board action to the full Board of Trustees.

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

**RBA: Attainment of FY 2022 APOs and Operational Measures (and corresponding lump-sum bonus)**

*Request for Board Action 2022-09-16: The VRS Board of Trustees approves the attainment of FY 2022 APOs and Operational Measures and a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

#### REVIEW PERFORMANCE BONUSES FOR ELIGIBLE ADMINISTRATIVE AND INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2022.

The Committee recommended approval of the request for board action to the full Board of Trustees.

Upon a motion by Mr. Andrews, with a second by Dr. Gooden, the VRS Board of Trustees approved the following action:

**RBA: Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees**



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***Request for Board Action 2022-09-17:*** The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.

#### BUDGET UPDATE

Jonathan Farmer, Budget and Performance Reporting Manager, presented the FY 2022 year-end budget results, explaining that VRS finished with an unexpended appropriation of approximately \$9.08 million, which will be returned to the Fund. Mr. Farmer next provided an update on the agency's FY 2023 budget, noting that expenses to date are in line with budgeted amounts.

#### INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR'S PERFORMANCE REVIEW)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance at its September 13, 2022 meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

#### OTHER BUSINESS (PROPOSED COMMITTEE NAME CHANGE)

Trish Bishop, VRS Director, presented information in support of a name change for the Administration and Personnel Committee. Ms. Bishop noted that after discussion with staff, research of other organizations and recognition of a desire to use more current language, staff recommends the Committee name be changed to Administration, Finance and Talent Management (AFT) Committee. The Committee agreed with the recommendation and directed staff to prepare necessary updates to the governance documents. Ms. Bishop noted that the changes will be presented to the A&P Committee at its next meeting, followed by two reviews by the Board as required by the Board Governance Policy.

#### COMPENSATION AND BENEFITS (CLOSED SESSION)

The Committee went into closed session to discuss benefits and compensation related to specific individuals.

Upon return to open meeting, the Committee recommended approval of two requests for board action to the full Board of Trustees.

Following a motion by Mr. Montgomery, with a second by Chief Garrett, the VRS Board of Trustees approved the following action:

#### **RBA: FY 2022 Incentive Pay for Investment Professionals**

***Request for Board Action 2022-09-18:*** The VRS Board of Trustees approves payment of an incentive amount of approximately \$7,343,564.18 for FY 2022 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2022 and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

Mr. Andrews advised the Board has established this pay plan in order to attract, retain and provide incentive for investment professionals. VRS' total fund outperformed a traditional 60/40 passively managed stock/bond index by over 10% and exceeded the assumed rate of return for the three-, five- and 10-year periods. The investment team also achieved 600 basis points of added value above the benchmark and, in light of market conditions for most of 2022, including inflation, war and supply chain disruptions, the team's performance has been outstanding. As reported by CEM, VRS' skilled negotiation of external investment management costs and effective cost management results in approximately \$61 million in savings per year, in addition to saving roughly \$40.9 million in external investment management fees as approximately one-third of plan assets are managed in-house. Mr. Andrews advised the VRS trust fund amount is its largest to date and the pay plan is essential in providing incentives to retain the expertise to manage a fund of this size.

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

#### **RBA: VRS Director's Performance Review**

***Request for Board Action 2022-09-19: The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 14, 2022 and a supplemental payment of \$85,000 made on December 1, 2022 as authorized in the 2022 Appropriation Act.***

Mr. Andrews advised VRS continues to advance in providing members and retirees convenient and effective ways to plan for their future and manage benefits. Mr. Andrews also commended staff for successfully navigating to a hybrid work environment after two years of remote work and accomplishing all four APOs and 15 of the 16 operational measures for the year. In addition, VRS earned several national and local awards that reflect the tremendous work and dedication of VRS staff on a day-to-day basis.

#### **Operational Update Series: Enterprise Risk Management**

Next, as part of the ongoing Operational Update Series, Ms. Bishop introduced Michael Cooper, Chief Operating Officer, who presented an update on VRS' Enterprise Risk Management (ERM) program. Mr. Cooper reviewed the key principles and benefits of ERM that involve looking at risk beyond the traditional sense, including looking at risk from a positive perspective, in order to leverage risk and identify opportunities and gain efficiencies.

Following its establishment, the ERM staff committee developed a risk portfolio and assessment implementation strategy centered around risk identification, assessment, response, monitoring and management. Mr. Cooper advised staff developed and executed a risk response plan based on the results of the assessment, as well as strategies for monitoring and reporting risk. The program also incorporates two-way communication and feedback between the Board and committees and the various roles within the agency.

Lastly, Mr. Cooper provided an overview of the program's next steps, which include increasing the understanding of ERM across the agency by providing education and training for VRS staff.

Mr. Andrews thanked Mr. Cooper for his presentation.

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### Signature and Custodial Authorization Resolutions

Ms. Bishop presented the Resolution for Master Custodial Services and the Resolution for Payment of Retirement System Funds in the State Treasury and Signing Official Documents. The documents set out the Board's intentions regarding authority to sign documents.

Ms. Bishop noted the changes to the documents reflect new roles and new team members. Leslie Weldon will be added as the new Chief Financial Officer following Mr. Faison's signature authority expiration and retirement on December 31, 2022. Andrew Junkin will be added as the new Chief Investment Officer upon Mr. Schmitz's signature authority expiration and retirement on January 1, 2023. In addition, Robert Robinson, Procurement Manager, and Richard Budaji, General Services Administrator, are added in keeping with their duties for executing purchase orders.

### Policy Update

Cindy Wilkinson, Director of Policy, Planning and Compliance, presented updates to the Freedom of Information Act (FOIA) Electronic Meeting Policy. Ms. Wilkinson advised that the General Assembly adopted amendments to FOIA, effective September 1, 2022, that change the methods by which public bodies can meet remotely or, in a new option, meet virtually when no members are physically present. Ms. Wilkinson reviewed the changes and updates to the policy and discussed the circumstances under which members of public bodies may participate remotely.

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

**RBA: Adopt a revised "FOIA Electronic Meeting Attendance Policy."**

***Request for Board Action 2022-09-20: The Board adopts a revised "FOIA Electronic Meeting Attendance Policy."***

Mr. Andrews thanked Ms. Wilkinson for her presentation.

### Report of the Director

Ms. Bishop, Director, began her report with an update on the agency road map for FY 2023, noting all projects are progressing as planned, as well as a review of New Coverage Elections.

Ms. Bishop announced that NAGDCA presented VRS with two Leadership Recognition Awards for the SmartStep Auto-Increase Awareness Campaign in the categories of COVID-19 Response and Participant Education and Communication. In addition, the campaign received the 2022 NAGDCA Art Caple President's Award, which recognizes a public sector retirement plan that has championed a participant-first mentality.

The VRS Member Guide received a Capital Award in the 2022 Virginia Public Relations competition from the Richmond Chapter of the Public Relations Society of America (PRSA). This award recognizes outstanding public relations tactics.

Lastly, Ms. Bishop advised staff will be polling Board members in the coming weeks for the 2023 meeting schedule.

Mr. Andrews thanked Ms. Bishop for her report.

**Information Technology and Litigation (Closed Session)**

Upon a motion by Mr. Montgomery, with a second by Mr. Hayes, the Virginia Retirement System Board of Trustees convened a closed meeting under the Virginia Freedom of Information Act for the purpose 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. Montgomery moved, with a second by Dr. Gooden, 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, § 2.2-3712 of the *Code of Virginia* requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, 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  
Chief Garrett: Aye  
Dr. Gooden: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Pantele: Aye  
Mr. Andrews: Aye

**Other Business**

Lastly, Mr. Andrews reviewed the following meeting schedule:


- Benefits and Actuarial Committee – October 17 at 1:00 p.m.
- Administration and Personnel Committee – October 18 at 11:00 a.m.
- Board of Trustees – October 18 at 1:00 p.m.

**Adjournment**

There being no further business and following a motion by Mr. Montgomery, with a second by Mr. Disharoon, the VRS Board of Trustees agreed to adjourn the meeting at 3:37 p.m.



Chair



Secretary

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## Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on September 8, 2022 at 1:02 p.m. and took up the following matters:

### **WELCOME**

Senator Bell welcomed Committee members, Board members, agency officials, representatives from stakeholder groups, and other members of the public joining in person and through electronic means, to the DCPAC.

### **GOVERNING DOCUMENTS UPDATE**

#### **Defined Contribution Incentive Plan (DCIP) Plan Document Amendments and Amended DCIP Master Trust**

Staff presented a Request for Board Action regarding amendments to the Defined Contribution Incentive Plan for VRS Personnel. On January 1, 2021, most DC Plans were amended and restated to bring them up to date, but this plan was not updated. VRS worked with outside benefits counsel to amend and restate this plan to have language consistent among all plans. This plan has undergone several name changes since its inception 20 years ago. The last amendment and restatement were in May 2013; first amendment in November 2014; second amendment February 2017 and in September 2020, the plan name was changed to its current name. This document has been amended to include provisions of recent federal legislation and the format is now consistent with our other plans. This amendment removes restrictions and allows participants, at least age 55, to transfer assets from the plan into their cash match plan. It also includes the first amendment to the Master Trust, which changes the reference to the correct plan name and adds provisions to cover the return of mistaken contributions and strengthens compliance language for separate accounting.

The Committee recommends approval of the following action to the Board of Trustees.

***Request for Board Action to Approve the Amended and Restated DCIP Plan Document and Approve First Amendment to DCIP Master Trust***

### **ADMINISTRATION**

#### **Administrative Reports & Communications**

Staff provided an overview of the DC plans, as well as an update on administrative reports for the second quarter of 2022. An overview of assets and accounts across the various defined contribution plans, as well as account trends was also provided. VRS won NAGDCA Leadership Awards in two categories – COVID-19 response and for participant communication and engagement. VRS is also a finalist for the NAGDCA Art Caple award, which will be announced in September. Staff shared that assets have decreased since last quarter in the COV 457/Cash Match Plan. Hybrid plan assets have also

decreased; however, this plan continues to be consistent in account balance growth and voluntary contributions, with 47% maximizing at 4% and 47% contributing 1% or less. Highlights from Hybrid Automatic Escalation were shared, which included interactive webpages for members and employers, an Employer Guide, and a member poster in preparation for 2023. Staff also shared an overview of ORPHE assets, including participant counts and balances with DCP (MissionSquare) and TIAA. Further, staff provided updates from the Annual Review with MissionSquare, which addressed topics such as participant engagement, key accomplishments, and future initiatives. In addition, staff offered an update regarding the Service Review with TIAA where total payouts, assets and engagement activity were presented.

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### **INVESTMENTS**

#### Annual Investment Review

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### **OTHER BUSINESS**

#### Discussion of New Ideas

No new ideas were brought before the Committee.

### **2022 MEETINGS**

Senator Bell confirmed the following DCPAC meeting date for 2022:

- December 1 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 29, 2022. 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 September 22, 2022.



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J. Brandon Bell, Chair  
Defined Contribution Plans Advisory Committee



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## Report

The Audit and Compliance Committee met on September 13, 2022. Mr. Montgomery welcomed committee members, Board members, agency officials, representatives from stakeholder groups and other members of the public joining in person and through electronic means. The committee discussed the following:

### APPROVAL OF MINUTES

The committee approved the minutes of its June 16, 2022 meeting.

### AUDIT REPORTS

The committee received two audit reports.

- The review of *Disability Retirements* concluded disability retirement processes are operating as expected and disability payments are valid, accurate and complete. There were no formal recommendations as a result of this review.
- The review of *Fixed Income and Securities Lending Programs* determined that VRS provides appropriate oversight and monitoring of the programs. There were no formal recommendations as a result of this review.

### INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2022

The committee received the following updates:

#### Internal Audit Department's Annual Report

The audit director provided the committee with a summary of the Internal Audit Department's accomplishments over the past year as well as an overview of the department's initiatives and challenges for the coming fiscal year and the remainder of the long-range plan. She recognized the contributions of the internal audit team during the year.

The audit director explicitly confirmed the department and its staff are organizationally independent of the activities they examine. The audit director also discussed plans to augment the department's information technology audit resources to ensure the function will possess the appropriate qualifications to meet the needs of the proposed audit plan. The audit director also discussed the department's conformance with the Institute of Internal Auditors' *Standards* including review of the relevant charters and expected updates to *The Standards* effective 2024.

#### Annual Report on the Audit Recommendation Follow-Up System (ARFUS)

The annual ARFUS Report as of June 30, 2022 was presented. The audit director noted ARFUS contained ten internal recommendations, one represented as implemented. Internal Audit reviewed and released one recommendation, leaving nine outstanding as of June 30, 2022.

#### Annual Plan and Long-Range Plan Progress

The audit director discussed the annual plan results for the fiscal year ended June 30, 2022, along with the status of the long-range plan for the four years ending June 30, 2024.

The audit director noted as of the conclusion of the second fiscal year of the long-range plan, modifications have been made to the remaining plan to accommodate the changing risk environment.

#### **PROPOSED FY2023 ANNUAL AUDIT PLAN**

The audit director discussed the proposed annual audit plan for fiscal year 2023, which is derived from the approved long-range audit plan. The committee reviewed the plan and voted to recommend approval of the following action to the full Board:

***Request for Board Action:** The VRS Board of Trustees approves the proposed FY2023 Annual Audit Plan.*

#### **QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES**

It was noted there was one Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of May 1, 2022 through July 31, 2022. The case was unsubstantiated and closed.

#### **MISCELLANEOUS UPDATES**

The committee received the following miscellaneous updates:

##### **Results of Agency Performance Outcomes and Agency Operational Measures**

The audit director discussed the Internal Audit Department's review of management's representations regarding the Agency Performance Outcomes and Operational Measures for the fiscal year ended June 30, 2022, noting nothing came to its attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

##### **Internal Audit's Review of Investment Variable Performance Program**

The audit director noted the Internal Audit Department completed its review of the Investment Department Variable Performance Program's proposed compensation amounts and determined they were accurately computed in accordance with the authorized pay plan.

##### **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 Thursday, December 8, 2022 at 10 a.m.

#### **AUDIT DIRECTOR'S PERFORMANCE EVALUATION**

The committee went into closed session to review the audit director's performance for the fiscal year ended June 30, 2022.

Upon returning to open meeting, the committee voted to recommend approval of the following action to the full Board:

***Request for Board Action:*** *The VRS Board of Trustees approves a 7% performance bonus for the audit director.*

Respectfully submitted to the Board of Trustees on September 22, 2022.



Joseph W. Montgomery, Chair  
Audit and Compliance Committee

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## Report

The Administration and Personnel Committee met on September 14, 2022 and discussed the following:

### **APPROVAL OF MINUTES**

The Committee approved the minutes of its June 14, 2022 meeting.

### **REVIEW ATTAINMENT OF FY 2022 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES**

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2022 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had four APOs for the fiscal year, with a target of completing at least three. Staff met this goal by successfully completing all four APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate.

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

***Request for Board Action:*** *The VRS Board of Trustees approves (i) the attainment of FY 2022 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

### **REVIEW PERFORMANCE BONUSES FOR ELIGIBLE ADMINISTRATIVE AND INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES**

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2022.

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

***Request for Board Action:*** *The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

### **BUDGET UPDATE**

Jonathan Farmer, Budget and Performance Reporting Manager, presented the FY 2022 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$9.08 million, which will be returned to the Fund. Mr. Farmer next provided an update on the agency’s FY 2023 budget, noting that expenses to date are in line with budgeted amounts.

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**INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR'S PERFORMANCE REVIEW)**

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance at its September 13, 2022 meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the committee for informational purposes.

**OTHER BUSINESS (PROPOSED COMMITTEE NAME CHANGE)**

Trish Bishop, VRS Director, presented information in support of a name change for the Administration and Personnel Committee. Ms. Bishop noted that after discussion with staff, research of other organizations and recognition of a desire to use more current language, staff recommends the committee name be changed to Administration, Finance and Talent Management (AFT) Committee. The Committee agreed with the recommendation and directed staff to prepare necessary updates to the governance documents. Ms. Bishop noted that the changes will be presented to the A&P Committee at its next meeting, followed by two reviews by the Board as required by the Board Governance Policy.

**COMPENSATION AND BENEFITS (CLOSED SESSION)**

The Committee went into closed session to discuss benefits and compensation related to specific individuals.

Upon returning to open meeting, the Committee recommends the approval of the following actions to the full Board:

***Request for Board Action:*** *The VRS Board of Trustees approves payment of an incentive amount of approximately \$7,343,564.18 for FY 2022 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2022 and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

***Request for Board Action:*** *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 14, 2022 and supplemental payment of \$85,000 made on December 1, 2022 as authorized in the 2022 Appropriation Act.*

Submitted to the Board of Trustees on September 22, 2022.



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A. Scott Andrews, Chair  
Administration and Personnel Committee

***RESOLUTION  
FOR MASTER CUSTODIAL SERVICES***

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by *Code of Virginia* § 51.1-149, on this 22<sup>nd</sup> day of September 2022, it is HEREBY

PREVIOUS DESIGNATIONS REVOKED

**RESOLVED**, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign investment invoices and actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control as well as actions involving administrative matters and proxies within their custodial control are hereby revoked; and

VRS ASSET TRANSFERS AND ACCOUNT PAYMENTS

**BE IT FURTHER RESOLVED**, that dual signatures, one of which shall be from the Director of the Virginia Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director, or the Chief Technology Officer and the second shall be from the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer or the Investments Office Administrator, are hereby required and that those persons are designated and authorized by the Board to sign for all actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control that (i) are not initiated by an authorized investment advisor associated with the settlement of a purchase or sale transaction and (ii) are not for the payment of investment management, consulting or custodian fees. If investment personnel are unavailable, any two of the listed VRS administrative personnel could sign. However, in no event shall both signatures be those of investment department personnel; and

VRS ACCOUNT ADMINISTRATIVE MATTERS

**BE IT FURTHER RESOLVED**, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer, the Investments Office Administrator, the Controller and the Manager of Investment Accounting are designated by the Board as those additional persons authorized to open and close accounts and take other administrative actions for the VRS accounts not involving the signing of official documents in the name of the Board of Trustees of the VRS or the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control; and

PROXIES

**BE IT FURTHER RESOLVED**, that the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as the persons authorized to sign proxies for the VRS accounts; and

COMPLIANCE

**BE IT FURTHER RESOLVED**, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as those persons authorized to sign for all actions involving compliance issues to include, but not be limited to, class action suits, tax exemptions, authorized signatures, stock and bond powers, required resolutions as needed, etc.

**ATTEST:**



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A. Scott Andrews, Chair  
VRS Board of Trustees



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Patricia S. Bishop  
Secretary to the Board/VRS Director

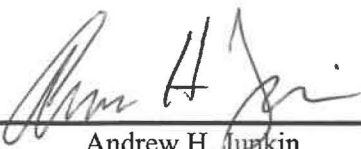



**VIRGINIA RETIREMENT SYSTEM AUTHORIZED SIGNATURES  
FOR MASTER CUSTODIAL SERVICES**


  
Patricia S. Bishop  
Director

  
Ronald D. Schmitz  
Chief Investment Officer  
(through January 1, 2023)

  
Barry C. Faison  
Chief Financial Officer  
(through December 31, 2022)


  
Andrew H. Junkin  
Chief Investment Officer  
(effective January 2, 2023)


  
Leslie B. Weldon  
Chief Financial Officer


  
Mark A. Rein  
Chief Technology and Security Officer


  
Michael P. Cooper  
Chief Operating Officer

  
Robert L. Irving  
Customer Services Director

  
Curtis M. Mattson  
Chief Administrative Officer - Investments

  
Laurie L. Fennell  
Investments Compliance Officer

  
Abida W. Arezo  
Investment Accounting Manager

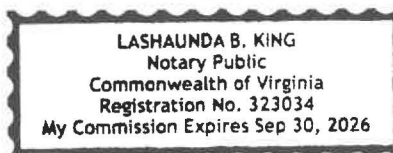
  
Danita R. Barnes  
Investments Office Administrator

**COMMONWEALTH OF VIRGINIA  
CITY OF RICHMOND, TO-WIT:**

The foregoing instrument was acknowledged before me this 22<sup>nd</sup> day of September 2022 by A. Scott Andrews; Patricia S. Bishop; Ronald D. Schmitz; Andrew H. Junkin; Barry C. Faison; Mark A. Rein; Michael P. Cooper; Robert L. Irving; Curtis M. Mattson; Leslie B. Weldon; Laurie L. Fennell, Abida W. Arezo and Danita R. Barnes.

  
LaShaunda B. King, Notary Public

My commission expires September 30, 2026.



**RESOLUTION**  
**FOR PAYMENT OF RETIREMENT SYSTEM FUNDS**  
**IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS**

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by *Code of Virginia* § 51.1-149, on this 22<sup>nd</sup> day of September 2022 it is hereby

**RESOLVED**, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign vouchers and Voucher Transmittals issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury are hereby revoked; and

**BE IT FURTHER RESOLVED**, that the State Treasurer, the Director of Operations, and the Director of Cash Management and Investments, or their designees, are hereby designated by the Board as those persons authorized to sign only those vouchers issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury which are contained in Agency Business Unit 15800 Account Number 103607, which has been designated by the Comptroller as the short-term investment account, including but not limited to, funds used to purchase short-term securities to mature within two (2) years and to effect repurchase agreements involving securities of varying maturities which are held as short-term investments; and

**BE IT FURTHER RESOLVED**, that the Director of the Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director and the Chief Technology Officer, whose signatures appear herein, are hereby designated by the Board as those persons authorized to sign Voucher Transmittals issued by the Retirement System for the payment of any and all funds of the Retirement System in the State Treasury and any and all accounts designated by the Comptroller as Retirement System funds accounts, including Agency Business Unit 15800 Account Number 103607, provided that such Voucher Transmittals shall be initialed by appropriate supervisory and management level staff personnel; and

**BE IT FURTHER RESOLVED**, that the Chief Financial Officer, the Customer Services Director and the Chief Technology Officer are not authorized to sign a Voucher Transmittal prepared in their respective department; and

**BE IT FURTHER RESOLVED**, that the Director of the Retirement System, the Chief Operating Officer, the Chief Investment Officer or the Chief Administrative Officer - Investments are hereby designated full authority to sign any and all official documents in the name of the Board of Trustees of the Virginia Retirement System including, but not limited to, leases, deeds, contracts, equity index futures and options on such futures, signature cards, minutes and purchase orders; and

**BE IT FURTHER RESOLVED**, that the following persons are hereby designated by the Board as those additional persons authorized to sign any and all purchase orders and contracts in the name of the Board of Trustees of the Virginia Retirement System: (i) the Chief Financial Officer, provided that the amount of the transaction does not exceed \$500,000; (ii) the Procurement Manager, provided that the amount of the transaction does not exceed \$250,000; and (iii) the General Services Administrator, provided that the amount of the transaction does not exceed \$30,000.

**BE IT FURTHER RESOLVED**, that a copy of this resolution shall be forward immediately to the Office of the Comptroller.

**ATTEST:**


  
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A. Scott Andrews  
Chairman, VRS Board of Trustees

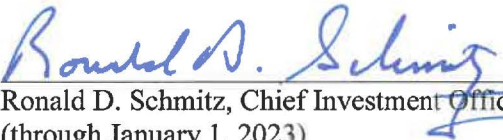
  
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Patricia S. Bishop  
Secretary to the VRS Board of Trustees

**SIGNATURE PAGE  
FOR PAYMENT OF RETIREMENT SYSTEM FUNDS  
IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS**

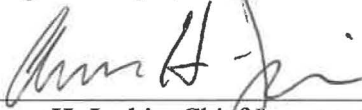
  
Patricia S. Bishop, Director

  
Mark A. Rein, Chief Technology and Security Officer

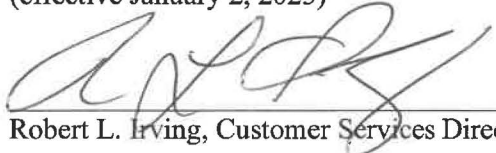
  
Barry C. Faison, Chief Financial Officer  
(through December 31, 2022)


  
Ronald D. Schmitz, Chief Investment Officer  
(through January 1, 2023)

  
Leslie B. Weldon, Chief Financial Officer

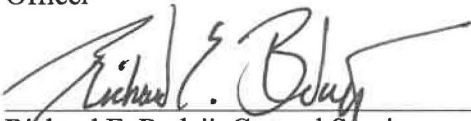
  
Andrew H. Junkin, Chief Investment Officer  
(effective January 2, 2023)

  
Michael P. Cooper, Chief Operating Officer

  
Robert L. Irving, Customer Services Director


  
Curtis M. Mattson, Chief Administrative Officer

  
Robert G. Robinson, Procurement Manager

  
Richard E. Budaji, General Services Administrator

COMMONWEALTH OF VIRGINIA  
CITY OF RICHMOND, TO-WIT:

The foregoing instrument was acknowledged before me this 23<sup>rd</sup> day of June 2022 by A. Scott Andrews; Patricia S. Bishop; Barry C. Faison; Mark A. Rein; Ronald D. Schmitz; Michael P. Cooper; Robert L. Irving and Curtis M. Mattson.

  
LaShaunda B. King, Notary Public

My commission expires Sept. 30, 2022.

