
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on April 20, 2023, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II (*remotely under § 2.2-3708.3(B)(1)*)
John M. Bennett (*remotely under § 2.2-3708.3(B)(1)*)
Michael P. Disharoon
Susan T. Gooden, Ph.D.
W. Brett Hayes
Jessica L. Hood
Lindsey K. Pantele

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, John Alouf, Advait Apte, Rory Badura, Parham Behrooz, Erica Billingslea, Kevin Bliss, Judy Bolt, Caroline Cardwell, Jeanne Chenault, Michael Cooper, Perry Corsello, David Cotter, Juanita Cribbs, Sara Denson, Valerie Disanto, Laurie Fennell, Laura Fields, Antonio Fisher, Josh Fox, Jay Gentry, Holly Glass, Katherine Grawe, JT Grier, Mehtab Haleem, Dane Honrado, KC Howell, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Vu Le, Chung Ma, Kidus Molla, Walker Noland, Greg Oliff, Angela Payne, Steve Peterson, Laura Pugliese, Steven Ramirez, Paula Reid, Mark Rein, Dan Schlussler, Kristy Scott, Michael Scott, Jillian Sherman, Larry Tentor, Việt Tran, Corey Turner, Leslie Weldon, Dan Whitlock, Cindy Wilkinson and Steve Woodall.

Guests:

Jamie Bitz, Joint Legislative Audit and Review Commission; Tom Cassara and Mike Faulkner, Agilis; Courtney Degen, Pensions & Investments; Gary Gammon and Erin Rodriguez, Auditor of Public Accounts; Emily Grimes, Department of Planning and Budget; Elizabeth Myers, Office of the Attorney General; and Bea Snidow, Virginia Education Association.

The meeting convened at 12:59 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the April 20, 2023, meeting of the Virginia Retirement System Board of Trustees. Mr. Andrews also introduced the newest Board member, Jessica Hood, and thanked her for her commitment to VRS and its members. Mr. Andrews also thanked William Garrett for his service and contributions to the Board.

After noting the meeting was being held in accordance with § 2.2-3708.3(B)(1) of the *Code of Virginia* and the VRS Remote Meeting Attendance Policy, Mr. Andrews took a roll call for attendance:

Mr. Bell: Present
Mr. Bennett: Present
Mr. Disharoon: Present
Dr. Gooden: Present
Mr. Hayes: Present
Ms. Hood: Present
Mr. Montgomery: Present
Ms. Pantele: Present
Mr. Andrews: Present

Approval of Minutes

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the VRS Board of Trustees approved the minutes from its February 9, 2023, meeting, as well as minutes of the March 21, 2023, and March 22, 2023, annual retreat upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Committee Assignments

Next, Mr. Andrews advised that, in accordance with the Governance Policy, the Board Chair is required to appoint committee members, subject to approval by the Board.

Following a motion by Mr. Andrews, with a second by Mr. Montgomery, the Board approved the proposed committee assignments upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), began his report by noting the IAC met on April 12, 2023, and approved the minutes from its previous 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. The IAC concluded that plan performance has been exceptional over the last decade and praised the efforts of staff.

The Committee received the program reviews and discussed key dynamics and topics unique to each program. The Committee noted that returns, short- and long-term, have been favorable and all asset classes generally remain above their respective benchmarks.

Andrew Junkin, VRS Chief Investment Officer, and Chung Ma, Managing Director, Portfolio Solutions Group, led a discussion on risk profile enhancement to allow for more diversification within the portfolio. The Committee also received a presentation on forward returns and scenario analysis.

Lastly, the Committee discussed proposed changes to the benchmarks related to Private Equity, Credit Strategies and Public Equity. The proposed changes more closely align the benchmarks with the programs' respective objectives and portfolio composition.

Mr. Andrews thanked Mr. Kochard for his report and the IAC for their professionalism, expertise and contribution to the health of the Fund.

Report of the Chief Investment Officer

Mr. Junkin began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin then discussed the New Investments and Terminations report, the Diverse Investment Manager Engagement (DIME) report and the Quarterly External Investment Manager Referral report.

Mr. Andrews thanked Mr. Junkin for his report.

Report of the Investment Policy Committee

The Board received the report of the Investment Policy Committee and placed it on file.

Approval of Minutes

Mr. Andrews began his report by noting the Committee approved the minutes of its February 9, 2023, meeting.

Discussion on Portfolio Diversification

In preparation for the upcoming discussion of the Asset Liability Study, Andrew Junkin, VRS Chief Investment Officer, and Chung Ma, Managing Director, Portfolio Solutions Group, led a discussion on portfolio diversification.

Report of the Defined Contribution Plans Advisory Committee

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

DC Plans Overview

Senator Bell began his report by noting staff provided an overview of the DC Plans, as well as an update on administrative reports for the fourth quarter of 2022. An overview of assets and accounts across the various defined contribution plans, as well as account trends, was also provided. It was also noted that a refresh was completed in December for the DCP website.

Staff advised the Committee that assets in the COV 457 and Cash Match Plans increased approximately 5% from the previous quarter. Hybrid Retirement Plan assets and accounts have increased 15% and 3%, respectively, during the same timeframe. Additional updates regarding voluntary participation rates, contribution elections and auto-escalation were also provided to the Committee. Further, staff provided details on plan asset allocation, ORPHE and upcoming DC Plans events.

DC Plans Unbundled Recordkeeper RFP Update

Staff provided an update on the DC Plans Recordkeeper RFP. Responses were due on December 2, 2022, and finalists will be determined by April 2023.

INVESTMENTS

Performance Reports

Staff provided an overview of the February 28, 2023, 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.

Callan 2023 Defined Contribution Trends Survey Highlights

Staff provided an overview of highlights from the Callan 2023 DC Trends survey, which was included in the meeting materials Appendix for the Committee to review. The Callan 2023 DC Trends survey results represented 99 large DC plan sponsors that span a range of industries across corporate, tax-exempt and government organizations.

Retirement Income Industry Update

Staff provided an update on the retirement income industry. Staff noted that public and corporate DC plan sponsors are focusing more on the distribution phase due to the shift in retirement income trends. Additional trends in retirement income were also presented to the Committee.

OTHER BUSINESS

Legislative Update

Staff reviewed the legislation that passed during the 2023 regular session of the General Assembly. Staff also reviewed the recently enacted SECURE 2.0 Act with the Committee, including the potential impacts to VRS plans.

DCPAC Appointments

Staff informed the Committee of the request for reappointment of Shannon Irvin, Rick Larson and David Winter to the DCPAC. The Committee made a motion to support the recommendation for reappointments by the Administration, Finance and Talent Management Committee.

DISCUSSION OF NEW IDEAS

Dr. Arun Muralidhar shared an article written by a colleague regarding retirement planning. The article, titled, “*The Crisis in Retirement Planning*” was shared with the Committee. Dr. Muralidhar indicated his intention to discuss this topic further at the Committee’s June meeting.

2023 MEETINGS

Senator Bell confirmed the remaining DCPAC meeting dates in 2023, all at 1:00 p.m.:

- Thursday, June 1st
- Thursday, September 7th
- Thursday, November 30th

Mr. Andrews thanked Senator 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 December 8, 2022, meeting.

AUDIT REPORTS

The Committee received two audit reports:

- The annual review of VRS’ *Conformance with VITA’s IT Security Program* determined as of January 1, 2023, VRS’ Security Policies and Standards generally conform with VITA’s mandatory Information Technology security program. There were no formal recommendations as a result of this review.
- The review of *Credit Strategies and Private Investment Partnerships Programs* determined VRS provided appropriate oversight and monitoring of the programs. There were no formal recommendations as a result of this review.

ANNUAL REPORT ON CODE OF ETHICS

The Internal Audit Director noted the Internal Audit department’s adherence to the VRS Code of Ethics, Institute of Internal Auditor’s Code of Ethics, and similar frameworks required by professional designations and memberships.

The Chief Operating Officer and the Regulatory and Legal Officer provided annual reports on their respective processes for communicating VRS’ Code of Ethics and Conduct and for monitoring

compliance, as required by the Audit and Compliance Committee Charter. Both indicated compliance with the reporting and certification requirements for their respective programs as of the meeting date.

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2022

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2022, the mid-point of the fiscal year.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

It was shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of November 1, 2022, through January 31, 2023.

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' plan actuary, Gabriel, Roeder, Smith & Company, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2023.

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, June 13, 2023, at 1:00 p.m.

Mr. Andrews thanked Mr. Montgomery for his report.

Asset Liability Management Discussion

Next, Mr. Junkin introduced Tom Cassara and Mike Faulkner with Agilis, who led a discussion on asset liability management (ALM). VRS conducts asset liability modeling studies every three years to review strategic asset allocation, examine alternative asset allocations and confirm expected future rates of return. In addition, the study provides information regarding future trends in financial outcomes, anticipated future cash flow needs and identifies possible risks and mitigation strategies.

Mr. Cassara noted the asset liability study produces 20 years of 10,000 trials for each given investment scenario and stressed the importance of establishing decision criteria for reviewing the output and guiding decisions. These criteria must align with the goals of the Board. For the current study, the key measures of focus were future funded status, employer contribution levels as a percentage of payroll and cash flow needs. Mr. Cassara reviewed the key measures under several economic scenarios using the current fund allocation and noted that the current fund allocation supports the 6.75% long-term rate of return. Mr. Cassara also noted that the cash flow needs of the plans were expected to increase over the short- to mid-term as more members reach retirement age, which could require additional cash requirements over that time period. Mr. Cassara also reviewed alternate allocations and outcome observations for the funded status, contribution rates and cash flow needs for the State Plan. Next, Mr.

Faulkner provided an overview of four different economic scenarios and compared the cumulative expected returns and results for each. Mr. Faulkner noted the impact on funded status is somewhat mitigated by the level of contributions and all scenarios indicate an increase in cash flow needs over the next ten years. Lastly, Mr. Faulkner reviewed next steps, which include developing and refining risk measures, choosing alternative asset allocations to be modeled and performing an analysis summarizing the results.

Mr. Andrews thanked Mr. Cassara and Mr. Faulkner for their presentation.

Reports of the Administration, Finance and Talent Management Committee

The Board received the reports of the Administration, Finance and Talent Management Committee and placed them on file.

APPROVAL OF MINUTES

Mr. Andrews noted the Administration, Finance and Talent Management (AFT) Committee met on March 29, 2023, and approved the minutes of its December 8, 2022, meeting.

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS AND CHAIRPERSON

Andrew Junkin, Chief Investment Officer, advised the Committee that the terms for two members of the IAC are set to expire. Michael Beasley and Rod Smyth both expressed interest in continuing their service on the IAC. In addition, Mr. Junkin informed the Committee that the term of the IAC Chairperson is also set to expire, and that Lawrence Kochard indicated his interest in continuing to serve in that role.

Request for Board Action 2023-04-3: The Board reappoints to the Investment Advisory Committee: Michael Beasley for a two-year term ending June 20, 2025, and Rod Smyth for a two-year term ending June 20, 2025. The Board also reappoints Lawrence E. Kochard as Chairperson of the Investment Advisory Committee for a two-year term ending on May 31, 2025.

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

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

REAPPOINTMENT OF DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE (DCPAC) MEMBERS

Trish Bishop, Director, presented the recommendations for the reappointment of three members of the DCPAC. Ms. Bishop advised the Committee that Shannon Irvin, Rick Larson and David Winter all indicated their willingness to continue serving on the DCPAC.

Request for Board Action 2023-04-4: *The Board reappoints Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2025.*

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

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

APPROVE REVISED INVESTMENT PROFESSIONALS' PAY PLAN

Paula Reid, Director of Human Resources, provided an overview of the proposed amendments to the Investment Professionals' Pay Plan. Ms. Reid noted that the revisions include the removal of the Chief Managing Director position as it is no longer needed in the pay plan. Further, Ms. Reid advised the Committee that Item 483 of the 2022 Appropriation Act requires the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. Generally, the VRS Board of Trustees also adjusts the salary scales of its pay plans in accordance with the requirements of the Appropriation Act. This change, effective June 10, 2023, is consistent with the changes to be made to the Commonwealth's Classified Compensation Plan.

Ms. Reid also informed the Committee that if, subsequent to the approval of the RBA, an Appropriation Act is enacted in 2023 that provides any additional changes other than the 5% salary scale adjustments contained in Item 483 of the 2022 Appropriation Act, the Investment Professionals' Pay Plan will be amended to remain consistent with the changes made to the Commonwealth's Classified Compensation Plan.

Request for Board Action 2023-04-5: *The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan ("Pay Plan"), effective June 10, 2023.*

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

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye

Mr. Montgomery: Aye

Ms. Pantele: Aye

Mr. Andrews: Aye

APPROVE REVISED ADMINISTRATIVE PAY PLAN AND INVESTMENT OPERATIONS AND ADMINISTRATION PAY PLAN

Ms. Reid next updated the Committee on proposed revisions to the Administrative and Investment Operations and Administration Pay Plans. Similar to the changes for the Investment Professionals' Pay Plan, a 5% increase to the minimum and maximum of the salary scales is proposed for both plans, consistent with changes made to the Commonwealth's Classified Compensation Plan. Further consistent with the proposed changes to the Investment Professionals' Pay Plan, should an Appropriation Act be enacted in 2023, subsequent to the approval of the RBA, that provides any additional changes other than the 5% salary scale adjustments contained in Item 483 of the 2022 Appropriation Act, the Administrative Pay Plan and Investment Operations and Administration Pay Plan will be amended to be consistent with the changes made to the Commonwealth's Classified Compensation Plan.

Request for Board Action 2023-04-6: The VRS Board of Trustees approves an amended Administrative Pay Plan and Investment Operations and Administration Staff Pay Plan, effective June 10, 2023.

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

Mr. Bell: Aye

Mr. Bennett: Aye

Mr. Disharoon: Aye

Dr. Gooden: Aye

Mr. Hayes: Aye

Ms. Hood: Aye

Mr. Montgomery: Aye

Ms. Pantele: Aye

Mr. Andrews: Aye

QUARTERLY BUDGET UPDATE

Jon Farmer, Budget and Performance Reporting Manager, provided an update on the FY 2023 budget. Mr. Farmer advised the Committee that VRS began the fiscal year with approximately \$119 million and through February 2023 has expended approximately \$69 million. Mr. Farmer noted that the agency is on track to conclude the fiscal year with an estimated \$14.8 million in unexpended appropriation.

CLOSED SESSION

The Committee next convened a closed meeting under the Virginia Freedom of Information Act to discuss information that describes the design, function, operation or access control features of a security system which is used to control access to or use of an automated data processing system, pursuant to the public safety exemption at § 2.2-3711(A)(19) of the *Code of Virginia*, and for consultation with legal counsel pursuant to § 2.2-3711(A)(8) of the *Code of Virginia*.

Next, Mr. Andrews presented the AFT Committee report following its meeting on April 20, 2023.

APPROVAL OF MINUTES

The Committee approved the minutes of its March 29, 2023, meeting.

APPROVE REVISED ADMINISTRATIVE PAY PLAN

Paula Reid, Director of Human Resources, presented the proposed changes to the Administrative Pay Plan. Ms. Reid advised the Committee that CBIZ Compensation Consulting (CBIZ) conducted a comprehensive compensation study for administrative staff with the objective of enhancing the agency's ability to attract, retain and motivate qualified individuals, establish structures that are flexible in meeting changing needs, and is well-aligned with broader agency goals and strategies.

Ms. Reid outlined the recommendations offered by CBIZ, including:

- Increase the compensation of all applicable employees to the minimum of their respective proposed salary ranges.
- Implement the compensation plan uniformly across all positions.
- Consider compression-based pay adjustments as appropriate in the future.
- Implement additional methods to reward employee performance and move individuals through pay grades.
- Conduct a comprehensive market review every three to five years.

Regarding changes specific to the Administrative Pay Plan, Ms. Reid advised the Committee of the following recommendations:

- Institute a new job grade system to replace the current plan to create a consistent system for evaluating employee roles and providing more flexibility in rewarding employees based on their skills.
- Add in-grade salary adjustments for changes in job duties and employee retention, consistent with recent changes made to the Department of Human Resource Management Compensation Policy 3.05.

Request for Board Action 2023-04-7: The Virginia Retirement System Board of Trustees approves an amended Administrative Pay Plan ("Pay Plan"), effective May 10, 2023, and approves the adoption of the recommendations of the compensation market study conducted by CBIZ, Inc.

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

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye

Ms. Pantele: Aye
Mr. Andrews: Aye

Commending Resolution for William A. Garrett

Mr. Andrews presented the following commending resolution of service of Chief William A. Garrett:

WHEREAS, William A. Garrett was appointed to serve on the Virginia Retirement System Board of Trustees beginning February 2018 and concluding February 2023; and

WHEREAS, Chief Garrett served as a Member and then as Chair of the Benefits and Actuarial Committee, evaluating information presented on plan benefits, funding, and actuarial principles, contributing to committee discussions, and serving in these roles with commitment and distinction; and

WHEREAS, Chief Garrett also served as a Member of the Chief Investment Officer Search Committee, evaluating candidates and the skills that are needed to sustain the system in the future; and

WHEREAS, Chief Garrett served the members and retirees of the system with steady leadership, paired with experience in and extensive knowledge of the essential roles performed by local government employees in the Commonwealth and demonstrated servant leadership by unfailingly supporting and acknowledging the accomplishments and contributions of VRS staff; and

NOW, THEREFORE, BE IT RESOLVED, that on April 20, 2023, we, the members of the Board of Trustees of the Virginia Retirement System, hereby acknowledge Chief Garrett's loyal and faithful service to the Board of Trustees, the Virginia Retirement System, its members, retirees, and the Commonwealth of Virginia, and are grateful for his contributions, stewardship, and commitment as a member of the Board of Trustees.

Report of the Director

Ms. Bishop began her report with an update on the agency roadmap for FY 2023, noting all projects are progressing as planned with the exception of the Hyper Converged Infrastructure (HCI) data center migration. This project is delayed due to a change in the data center cage relocation. Ms. Bishop then reviewed the new Employer Coverage Elections.

Next, Ms. Bishop announced the National Conference on Public Employee Retirement Systems (NCPERS) recently presented VRS with a Certificate of Transparency for furthering open disclosure, increasing the range of available data and contributing to the public's understanding of public retirement systems.

Lastly, Ms. Bishop advised that the Conflict of Interests Act (COIA) training must be completed by May 1, 2023, and filings were due to the Virginia Ethics Council on February 1, 2023.

FOIA Update

Next, Cindy Wilkinson, Director of Policy, Planning and Compliance, provided an overview of the changes to the Freedom of Information Act (FOIA) related to remote attendance. Ms. Wilkinson advised the General Assembly adopted the changes, effective September 1, 2022, which include four reasons for which individual members of a public body may participate remotely, however, a physical quorum is still

required. In addition, Ms. Wilkinson discussed the circumstances under which public bodies may meet electronically due to a declared state of emergency or other specified reason.

Mr. Andrews thanked Ms. Bishop and Ms. Wilkinson for their presentations.

Other Business

Lastly, Mr. Andrews reviewed the following upcoming meeting schedule:

- Defined Contribution Plans Advisory Committee – June 1
- Administration, Finance and Talent Management Committee – June 13
- Audit and Compliance Committee – June 13
- Benefits and Actuarial Committee – June 14
- Board of Trustees – June 15

Adjournment

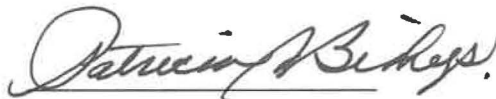
Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees agreed to adjourn the meeting upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

The meeting concluded at 2:25 p.m.



Chair



Secretary

Report

The Investment Policy Committee met on April 20, 2023, and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 9, 2023, meeting.

DISCUSSION ON PORTFOLIO DIVERSIFICATION

In preparation for the upcoming discussion of the Asset Liability Study, Andrew Junkin, VRS Chief Investment Officer, and Chung Ma, Managing Director, Portfolio Solutions Group, led a discussion on portfolio diversification.

Submitted to the Board of Trustees on April 20, 2023.



Scott Andrews, Chair
Investment Policy Committee

Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on March 30, 2023, at 1:00 p.m. and took up the following matters:

WELCOME AND INTRODUCTION

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

ADMINISTRATION

DC Plans Overview

Staff provided an overview of the DC Plans, as well as an update on administrative reports for the fourth quarter of 2022. An overview of assets and accounts across the various defined contribution plans, as well as account trends was also provided. It was also noted that a refresh was completed in December for the DCP website.

Staff advised the Committee that assets in the COV 457 and Cash Match Plans increased approximately 5% from the previous quarter. Hybrid Retirement Plan assets and accounts have increased 15% and 3%, respectively, during the same timeframe. Additional updates regarding voluntary participation rates, contribution elections and auto-escalation were also provided to the Committee. Further, staff provided details on plan asset allocation, ORPHE and upcoming DC Plans events.

DC Plans Unbundled Recordkeeper RFP Update

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INVESTMENTS

Performance Reports

Staff provided an overview of the February 28, 2023, 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.

Callan 2023 Defined Contribution Trends Survey Highlights

Staff provided an overview of highlights from the Callan 2023 DC Trends survey, which was included in the meeting materials Appendix for the Committee to review. The Callan 2023 DC Trends survey results represented 99 large DC plan sponsors that span a range of industries across corporate, tax-exempt, and government organizations.

Retirement Income Industry Update

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OTHER BUSINESS

Legislative Update

Staff reviewed DC plan-related legislation that passed during the 2023 regular session of the General Assembly. Staff also reviewed the recently enacted SECURE 2.0 Act with the Committee, including the potential impacts to VRS plans.

DCPAC Appointments

Staff informed the Committee of the request for reappointment of Shannon Irvin, Rick Larson and David Winter to the DCPAC. The Committee made a motion to support the recommendation by the Administration, Finance and Talent Management Committee to reappointments.

DISCUSSION OF NEW IDEAS

Dr. Arun Muralidhar shared an article written by a colleague regarding retirement planning. The article, titled "*The Crisis in Retirement Planning*" was shared with the Committee. Dr. Muralidhar indicated his intention to discuss this topic further at the Committee's June meeting.

2023 MEETINGS

Senator Bell confirmed the remaining DCPAC meeting dates in 2023, all at 1:00 p.m.:

- Thursday, June 1st
- Thursday, September 7th
- Thursday, November 30th

There was no other business to come before the Committee.

Submitted to the Board of Trustees on April 20, 2023.

J Brandon Bell

J Brandon Bell (Apr 19, 2023 13:38 EDT)

J. Brandon Bell, Chair

Defined Contribution Plans Advisory Committee

Report

The Audit and Compliance Committee met on March 29, 2023. 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 December 8, 2022 meeting.

AUDIT REPORTS

The committee received two audit reports.

- The annual review of VRS' *Conformance with VITA's IT Security Program* determined as of January 1, 2023 VRS' Security Policies and Standards generally conform with VITA's mandatory Information Technology security program. There were no formal recommendations as a result of this review.
- The review of *Credit Strategies and Private Investment Partnerships Programs* determined VRS provides appropriate oversight and monitoring of the programs. There were no formal recommendations as a result of this review.

ANNUAL REPORT ON CODE OF ETHICS

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

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2022

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2022, the mid-point of the fiscal year.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

It was shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of November 1, 2022 through January 31, 2023.

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' actuary, Gabriel, Roeder, Smith & Company, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2023.

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, June 13, 2023 at 1 p.m.

Respectfully submitted to the Board of Trustees on April 20, 2023.



Joseph W. Montgomery, Chair
Audit and Compliance Committee

Report

The Administration, Finance and Talent Management Committee met on March 29, 2023, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its December 8, 2022, meeting.

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS AND CHAIRPERSON

Andrew Junkin, Chief Investment Officer, advised the Committee that the terms for two members of the IAC are set to expire. Michael Beasley and Rod Smyth both expressed interest in continuing their service on the IAC. In addition, Mr. Junkin informed the Committee that the term of the IAC Chairperson is also set to expire, and that Lawrence Kochard indicates his interest in continuing to serve in that role.

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

Request for Board Action: *The Board reappoints to the Investment Advisory Committee: Michael Beasley for a two-year term ending June 20, 2025, and Rod Smyth for a two-year term ending June 20, 2025. The Board also reappoints Lawrence E. Kochard as Chairperson of the Investment Advisory Committee for a two-year term ending on May 31, 2025.*

REAPPOINTMENT OF DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE (DCPAC) MEMBERS

Trish Bishop, Director, presented the recommendations for the reappointment of three members of the DCPAC. Ms. Bishop advised the Committee that Shannon Irvin, Rick Larson and David Winter all indicated their willingness to continue serving on the DCPAC.

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

Request for Board Action: *The Board reappoints Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2025.*

APPROVE REVISED INVESTMENT PROFESSIONALS' PAY PLAN

Paula Reid, Director of Human Resources, provided an overview of the proposed amendments to the Investment Professionals' Pay Plan. Ms. Reid noted that the revisions include the removal of the Chief Managing Director position as it is no longer needed in the pay plan. Further, Ms. Reid advised the Committee that Item 483 of the 2022 Appropriation Act requires the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. Generally, the VRS Board of Trustees also adjusts the salary scales of its pay plans in accordance with the requirements of the Appropriation Act. This change, effective June 10, 2023, is constituent with the changes to be made to the Commonwealth's Classified Compensation Plan.

Ms. Reid also informed that Board that if, subsequent to the approval of the RBA, an Appropriation Act is enacted in 2023 that provides any additional changes other than the 5% salary scale adjustments contained in Item 483 of the 2022 Appropriation Act, the Investment Professionals' Pay Plan will be amended to remain consistent with the changes made to the Commonwealth's Classified Compensation Plan.

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

Request for Board Action: The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan, effective June 10, 2023.

APPROVE REVISED ADMINISTRATIVE PAY PLAN AND INVESTMENT OPERATIONS AND ADMINISTRATION PAY PLAN

Ms. Reid next updated the Committee on proposed revisions to the Administrative and Investment Operations and Administration Pay Plans. Similar to the changes for the Investment Professionals' Pay Plan, a 5% increase to the minimum and maximum of the salary scales is proposed for both plans, consistent with changes made to the Commonwealth's Classified Compensation Plan. Further consistent with the proposed changes to the Investment Professionals' Pay Plan, should an Appropriation Act be enacted in 2023, subsequent to the approval of the RBA, that provides any additional changes other than the 5% salary scale adjustments contained in Item 483 of the 2022 Appropriation Act, the Administrative Pay Plan and Investment Operations and Administration Pay Plans will be amended to be consistent with the changes made to the Commonwealth's Classified Compensation Plan.

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

Request for Board Action: The VRS Board of Trustees approves an amended Administrative Pay Plan and Investment Operations and Administration Staff Pay Plan, effective June 10, 2023.

QUARTERLY BUDGET UPDATE

Jon Farmer, Budget and Performance Reporting Manager, provided an update on the FY 2023 budget. Mr. Farmer advised the Committee that VRS began the fiscal year with approximately \$119 million and through February 2023 has expended approximately \$69 million. Mr. Farmer noted that the agency is on track to conclude the fiscal year with an estimated \$14.8 million in unexpended appropriation.

CLOSED SESSION

The Committee next convened a closed meeting under the Virginia Freedom of Information Act to discuss information describes the design, function, operation or access control features of a security system which is used to control access to or use of an automated data processing system, pursuant to the public safety exemption at § 2.2-3711(A)(19) of the *Code of Virginia*, and for consultation with legal counsel pursuant to § 2.2-3711(A)(8) of the *Code of Virginia*.

Submitted to the Board of Trustees on April 20, 2023.



A. Scott Andrews, Chair
Administration, Finance and Talent Management Committee

Report

The Administration, Finance and Talent Management Committee met on April 20, 2023, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its March 29, 2023, meeting.

APPROVE REVISED ADMINISTRATIVE PAY PLAN

Paula Reid, Director of Human Resources, presented proposed changes to the Administrative Pay Plan. Ms. Reid advised the Committee that CBIZ Compensation Consulting (CBIZ) conducted a comprehensive compensation study for administrative staff with the objective of enhancing the agency's ability to attract, retain and motivate qualified individuals, establish structures that are flexible in meeting changing needs, and is well-aligned with broader agency goals and strategies.

Ms. Reid outlined the recommendations offered by CBIZ, including:

- Increase the compensation of all applicable employees to the minimum of their respective proposed salary ranges.
- Implement the compensation plan uniformly across all positions.
- Consider compression-based pay adjustments as appropriate in the future.
- Implement additional methods to reward employee performance and move individuals through pay grades.
- Conduct a comprehensive market review every three to five years.

Regarding changes specific to the Administrative Pay Plan, Ms. Reid advised the Committee of the following recommendations:

- Institute a new job grade system to replace the current plan to create a consistent system for evaluating employee roles and providing more flexibility in rewarding employees based on their skills.
- Add in-grade salary adjustments for changes in job duties and employee retention, consistent with recent changes made to the Department of Human Resource Management Compensation Policy 3.05.

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

Request for Board Action: *The Virginia Retirement System Board of Trustees approves an amended Administrative Pay Plan ("Pay Plan"), effective May 10, 2023, and approves the adoption of the recommendations of the compensation market study conducted by CBIZ, Inc.*

Submitted to the Board of Trustees on April 20, 2023.



A. Scott Andrews, Chair
Administration, Finance and Talent Management Committee