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## Minutes

A meeting of the Investment Advisory Committee of the Virginia Retirement System was held on April 12, 2023 with the following members present:

Larry Kochard, Chairperson  
Hance West  
Michael Beasley  
Theodore Economou, joined remotely under § 2.2-3708.3  
Palmer Garson  
Tom Gayner  
Nancy Leake  
Bryan Lewis  
Rod Smyth

The following Board members were present:

A. Scott Andrews  
Joseph Montgomery  
John Bennett  
Michael Disharoon  
Brett Hayes

The following staff members were in attendance:

Trish Bishop, Andrew Junkin, Jennifer Schreck, Stephen Adelaar, John Alouf, Advait Apte, Rory Badura, Parham Behrooz, Matthew Bennett, Jeanne Chenault, Michael Cooper, Perry Corsello, Sara Denson, Laura Fields, Laurie Fennell, Josh Fox, Holly Glass, Katherine Grawe, JT Grier, Mehtab Haleem, K.C. Howell, Kristina Koutrakos, Matt Lacy, Vu Le, Chung Ma, Jennifer MacKnight, Curt Mattson, Moses Maxfield, Kidus Molla, Teresa Nguyen, Walker Noland, Greg Oliff, Steven Peterson, Steven Ramirez, Garrett Rhodes, Daniel Schlusser, Jenny Schoeller, Kristy Scott, Michael Scott, Viet Tran, Korey Turner, Leslie Weldon, Daniel Whitlock, Cindy Wilkinson, and Steve Woodall.

Also in attendance was Ira T. Astin, a member retiree; Lauren Albanese of Financial Investment News; Jamie Bitz with Joint Legislative Audit and Review Commission; Tom Cassara and James Walton of Agilis LLC; Joe Ebisa of Pageant Media; Gary Gammon of the Virginia Auditor of Public Accounts; Gregg Gethard of PEI Media; Madeline Katz of Financial Times; Mitchell King and Brigid Schutsky of BlackRock; Alton Wallace of Private Equity Career; and Nicholas Zizzo of SEI.

Mr. Kochard called the meeting to order at 8:59 a.m.

Mr. Kochard announced that Mr. Economou would be participating remotely in accordance with § 2.2-3708.3 of the Code of Virginia.

Mr. Kochard took a roll call of each Committee member for attendance purposes:

Mr. Lewis – present  
Mr. West – present  
Mr. Beasley – present  
Ms. Leake – not present (entered at 9:01, just after roll call)  
Ms. Garson – present  
Mr. Smyth – present  
Mr. Gayner – not present (entered at 9:20)  
Mr. Economou – present  
Mr. Kochard – present

#### **Minutes**

A motion was made by Mr. Smyth and seconded by Mr. Beasley to approve the minutes for the November 30, 2022 Committee meeting. The motion was unanimously approved via roll call:

Mr. Lewis – aye  
Mr. West – aye  
Mr. Beasley – aye  
Ms. Leake – aye  
Ms. Garson – aye  
Mr. Smyth – aye  
Mr. Economou – aye  
Mr. Kochard – aye

#### **CIO Report**

Mr. Junkin opened his CIO report by commenting on market conditions for the first part of the year. Mr. Junkin then presented the Asset Allocation Report, Performance Summary, and Total Fund Tracking Error Report as of December 31, 2022. Last, Mr. Junkin reviewed the New Investments and Terminations Report.

#### **Public Market Assets Program Reviews**

Mr. Grier provided a general overview of Public Market Assets and introduced each program to be covered in the review.

Mr. Whitlock and Mr. Schlussler provided a review of the Total Public Equity program and the Internal Equity Management program, respectively. Mr. Whitlock's review topics included an overview of program objectives, the team, markets, exposures, results, external

manager breakout including hires and terminations, Diverse Investment Management Engagement managers, and forward-looking plans and priorities. Mr. Schlussler's review topics included asset allocation, the team, markets, exposures, and results.

Mr. Behrooz and Mr. Oliff then provided a review of the Fixed Income program. Review topics included an overview of the team and the program, markets, exposures, results, and forward-looking plans and priorities.

The Committee members engaged in general discussion throughout the reviews provided.

**Discuss Risk Profile Enhancement**

Mr. Junkin and Mr. Ma led a discussion regarding the VRS Investment Risk Profile and the introduction of leverage as a tool for risk mitigation. Mr. Junkin discussed the motivation for looking at leverage, provided a definition of leverage, and detailed the key tenets for the use of leverage. Mr. Ma discussed the use of asset allocation leverage, the benefits and considerations for the use of this type of leverage in the VRS Investment portfolio, the cost of implementation, and provided an example of what asset allocation leverage would look like in the current portfolio.

The Committee members engaged in general discussion throughout the reviews provided.

**Forward Returns and Scenario Analysis**

Dr. Peterson and Mr. Badura led the Forward Returns and Scenarios discussion. Dr. Peterson discussed the forward returns of the State Plans', External Managers' forward returns comparison, and the VRS Long Term Forward Returns. In addition, Dr. Peterson discussed the forward returns attribution. Mr. Badura then presented five different scenarios and the impact of each scenario on funded status, contribution rates, and liquidity.

**Discuss Proposed Benchmark Changes**

Next, Mr. Junkin led a discussion on a proposed benchmark change for Private Equity and Credit Strategies. Specifically, Mr. Junkin recommended adjusting the regional weights of the current Private Equity benchmark to better reflect the global private equity opportunity set. In addition, Mr. Junkin recommended removing Investment Grade from the Credit Strategies portfolio and benchmark, and reweighting the Credit Strategies benchmark to 50% High Yield Bonds and 50% Bank Loans. Last, Mr. Junkin recommended a benchmark study be conducted to review alternative ways to benchmark Public Equity.

The recommended benchmarks are:

Private Equity: The regional benchmarks of the MSCI ACWI IMI Index (net VRS tax rates) lagged by three months, weighted to reflect the Private Equity opportunity set (currently 75% North America, 20% Europe, and 5% Asia and Emerging Markets) effective January 1, 2024.

Credit Strategies: A blend of the Morningstar LSTA Performing Loan Index (50%) and Bloomberg US High Yield Ba/B Issuer Cap Index (50%) effective July 1, 2023.

Private Investment Partnerships: The recommended change to the Private Equity benchmark also impacts the Private Investment Partnerships benchmark. Therefore, the Private Investment Partnerships benchmark would be the weighted average of the custom Private Equity Benchmark (the regional benchmarks of the MSCI ACWI IMI Index (net VRS tax rates) lagged by three months, weighted to reflect the Private Equity opportunity set (currently 75% North America, 20% Europe, and 5% Asia and Emerging Markets)) (33%), the NCREIF Private Real Estate Benchmark (ODCE Index (net) lagged by three months) (25%), the Other Real Assets Custom Benchmark (the CPI-U Index plus 400 basis points per annum lagged by three months) (8%), the Bloomberg US High Yield Ba/B 2% Issuer Cap Index (17%), and the Morningstar LSTA Performing Loan Index (17%) effective January 1, 2024

After some discussion, the committee indicated its agreement with both proposed benchmark changes, as well as with the study to examine the Public Equity benchmark.

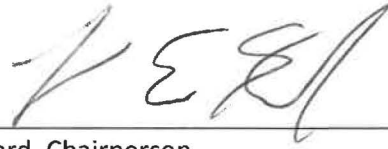
#### Adjournment

Ms. Garson made a motion to adjourn the meeting. Mr. Smyth seconded the motion. Mr. Kochard asked for the Committee members to vote on the motion, the motion was unanimously approved via roll call:

Mr. Lewis – aye  
Mr. West – aye  
Mr. Beasley – aye  
Ms. Leake – aye  
Ms. Garson – aye  
Mr. Smyth – aye  
Mr. Gayner - aye  
Mr. Economou – aye  
Mr. Kochard – aye.

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The meeting was adjourned at 12:19 p.m.



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Larry Kochard, Chairperson