



December 3, 2021

MEMORANDUM

TO: VRS Board of Trustees

FROM: Patricia S. Bishop
Director

RE: Agenda Materials for December 7th Board Meeting

We are looking forward to the December 7th in-person Board meeting beginning at 9:30 a.m. in the VRS Boardroom. Enclosed is the agenda and meeting materials.

Due to the pandemic, listed below are some important reminders:

- As part of a COVID-19 self-screening protocol, please ask yourself if you are experiencing any of the following:
 - A new fever (100.4°F or higher) or a sense of having a fever.
 - A new cough that cannot be attributed to another health condition.
 - New shortness of breath or difficulty breathing that cannot be attributed to another health condition.
 - New chills that cannot be attributed to another health condition.
 - A new sore throat that cannot be attributed to another health condition.
 - New muscle aches (myalgia) that cannot be attributed to another health condition, or that may have been caused by a specific activity (such as physical exercise).
 - A new loss of taste or smell.
 - Have you had a positive test for the virus that causes COVID-19 disease within the past 10 days?
 - In the past 14 days, have you had close contact (within about 6 feet for 15 minutes or more) with someone with suspected or confirmed COVID-19?

If you are experiencing any of the above symptoms, please do not attend the meeting in person.

• Consistent with CDC and Richmond/Henrico Department of Health guidance, masks will be required for all Board members, VRS staff and visitors. Disposable masks will be provided as needed.

• Parking – Parking is available in the Bank of America deck accessed from Cary Street; a page with detailed instructions is attached. VRS covers the cost of your parking for Board and Committee meetings, and I will have parking vouchers at the meeting. In addition, reserved parking spaces are also available for Board members in the sub-basement level of the VRS parking deck located at 1200 E. Main Street.

To park in the VRS parking deck, you will need to enter the Bank Street entrance on the right side by swiping your VRS ID badge in front of the card reader to open the gate. Once you enter the deck keep straight, make a left, followed by 4 additional left turns which will put you in the sub-basement area of the parking deck. The reserved Board/Committee spaces are marked with a yellow sign. Once you park, please enter the glass doors, by swiping your VRS ID badge in front of the card reader, get on the elevator and press G which will take you to the Ground floor level of the building where the security guard is located along with the entrance/exit door to Main Street.

For your reference, the Audit and Compliance Committee will be meeting on Monday, December 6th at 2:00 p.m. In addition, the VRS Board retreat will begin on Tuesday, December 7th at 12:00 p.m., and the virtual VRS annual agency meeting will be held on December 15 at 9:30 a.m.

Again, we look forward to seeing you at the Board of Trustees meeting on Tuesday. If you have any questions, please feel free to contact me.

Attachments

cc: The Honorable K. Joseph Flores, Secretary of Finance
June Jennings, Office of the Secretary of Finance
Craig Burns, Department of Taxation
Michael Jay, House Appropriations Committee
Adam Rosatelli, Senate Finance Committee
Zack Borgerding, Auditor of Public of Accounts
Jon Howe, Department of Planning and Budget
Dean Lynch, VA Association of Counties
Katie Boyle, VA Association of Counties
Bea Snidow, VA Education Association
Jamie Bitz, Joint Legislative Audit & Review Commission
Kimberly Sarte, Joint Legislative Audit & Review Commission
Hal Greer, Joint Legislative Audit & Review Commission
Elizabeth Bushnell Myers, Office of the Attorney General
Jessica Ackerman, VA Municipal League
Lawrence Kochard, VRS Investment Advisory Committee
Bonnie Atwood, VA Retired Teachers Association



Board of Trustees Meeting
VRS, 1111 E. Main St., 3rd Floor Board Room
Tuesday, 12/7/2021
9:30 - 11:30 AM ET

I. Approve Minutes

• **November 16, 2021**

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II. Report of the Chief Investment Officer

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Plan Tracking Error - Page 14

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III. Report of the Defined Contribution Plans Advisory Committee

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IV. Report of the Audit and Compliance Committee

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V. Personnel Matter – Presentation from Korn Ferry

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VI. Report of the Director

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COIA and COE Update - Page 38

VII. Information Technology and Litigation Update (Closed Session)

Minutes

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

Board members:

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

Investment Advisory Committee:

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

VRS Staff:

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

Guests:

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

The meeting convened at 1:03 p.m.

Opening Remarks

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

Approval of Minutes

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

Report of the Investment Advisory Committee

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

Mr. McWilliams thanked Mr. Kochard for his report.

Report of the Chief Investment Officer

Ron Schmitz, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are all within Board-approved levels. Next, Mr. Schmitz discussed the New Investment and Terminations report.

Mr. McWilliams thanked Mr. Schmitz for his report.

Report of the Benefits and Actuarial Committee

The Board received the report of the Benefits and Actuarial Committee and placed it on file.

APPROVAL OF MINUTES

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

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

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

Key points from the presentation include:

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

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

Pensions

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

OPEBs

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

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

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

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

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

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

INFORMATION ITEM

2022 B&A Committee Meeting Schedule:

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

Mr. McWilliams thanked Mr. Garrett for his report.

Report of the Administration and Personnel Committee

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

APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the minutes of its September 15, 2021 meeting.

APPOINTMENT OF DEFINED BENEFIT CONTRIBUTION PLANS ADVISORY COMMITTEE MEMBER

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

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

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

PERSONNEL DISCUSSION

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

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

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

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

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

QUARTERLY BUDGET UPDATE

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

Proxy Voting Discussion

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

Mr. McWilliams thanked Mr. Whitlock for his presentation.

Operational Update Series: Annual Report Development

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

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

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

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

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

Report of the Director

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

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

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

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

Mr. McWilliams thanked Ms. Bishop for her report.

Litigation Update (Closed Session)

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

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

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

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

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

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

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

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

Other Business

Mr. McWilliams reviewed the following meeting schedule:

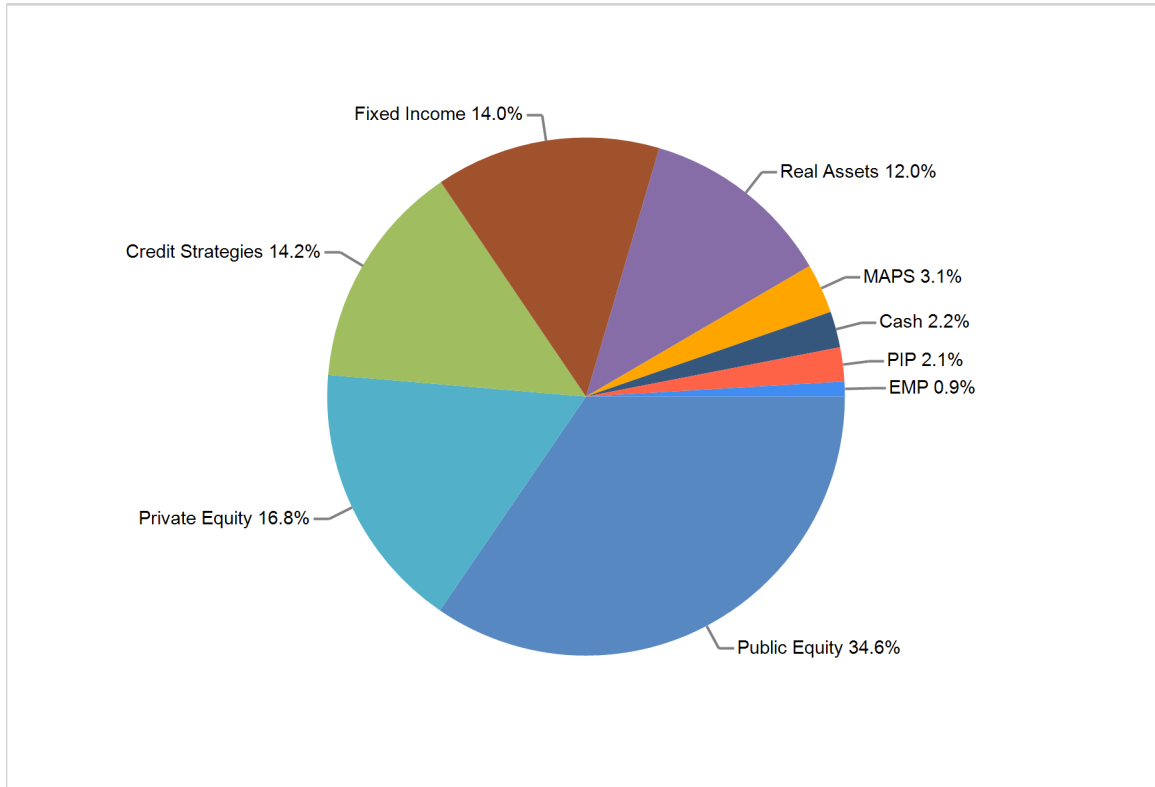
- Defined Contribution Plans Advisory Committee – December 2nd at 1:00 p.m.
- Audit and Compliance Committee – December 6th at 2:00 p.m.
- Board of Trustees – December 7th at 9:30 a.m.
- Board of Trustees Retreat – December 7th and 8th

Adjournment

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

Chair

Secretary



	<u>Current \$Bil</u>	<u>Current Weight</u>	<u>Policy Weight</u>	<u>Variance</u>	<u>Allowable Range</u>		<u>Internal %</u>
Total Fund	103.7						27.4%
Public Equity	35.8	34.6%	36.0%	-1.4%	-5%	+5%	37.3%
Fixed Income	14.6	14.0%	15.0%	-1.0%	-3%	+5%	95.1%
Credit Strategies	14.7	14.2%	14.0%	0.2%	-5%	+5%	
RS Credit	5.5	5.3%	5.6%	-0.3%			
NRS Credit	9.2	8.8%	8.4%	0.4%			
Real Assets	12.5	12.0%	14.0%	-2.0%	-5%	+5%	9.6%
Public RE	1.2	1.2%					99.9%
Private RE	7.3	7.1%					
Other RA	3.9	3.8%					
Private Equity	17.4	16.8%	14.0%	2.8%	-5%	+5%	
MAPS	3.2	3.1%	4.0%	-0.9%	-2%	+2%	
DSTRAT	1.7	1.7%					
RBI	1.5	1.4%					1.8%
PIP	2.2	2.1%	2.0%	0.1%	-2%	+2%	
EMP	1.0	0.9%	0.0%	0.9%		+3%	
Cash	2.3	2.2%	1.0%	1.2%	-1%	+4%	

	<u>Current \$Bil</u>	<u>Current Weight</u>	<u>Policy Limit</u>
Hedge Funds	11.5	11.1%	15.0%

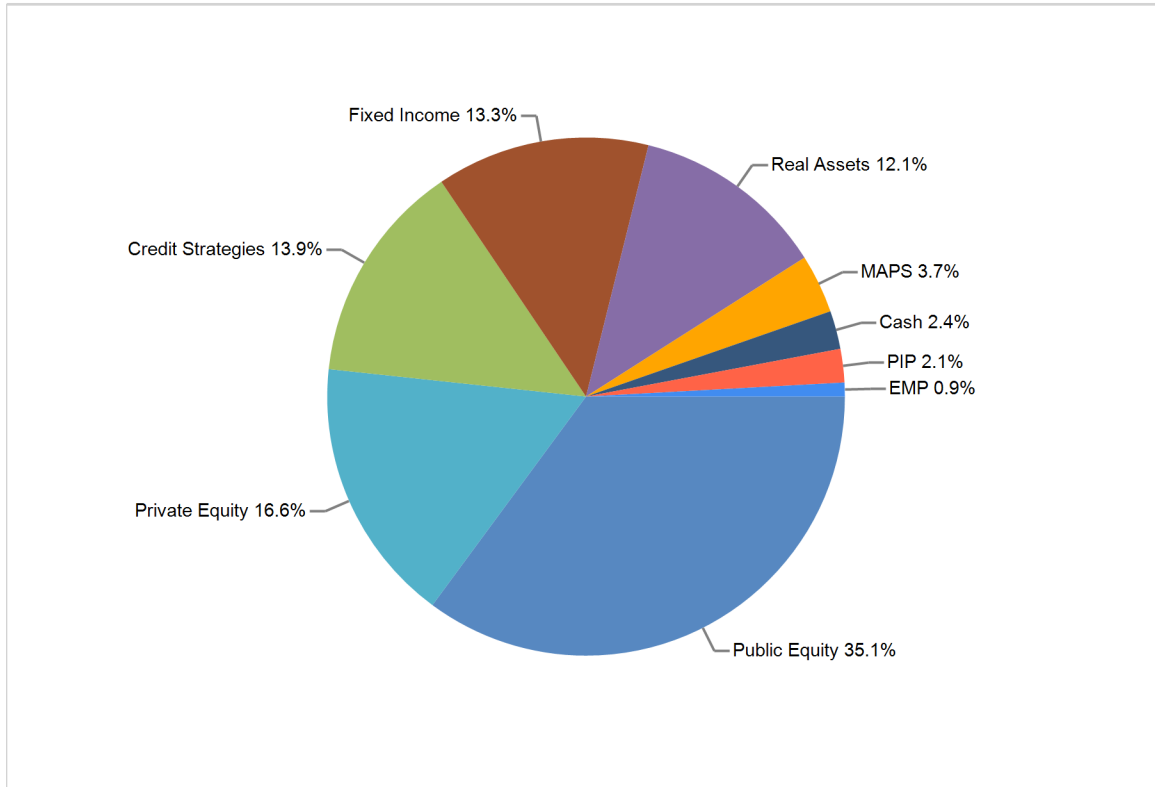
3 Year Tracking Error	
Total Fund:	3.26%
Total Public:	1.10%

*Total Fund includes the following amt held by the Treasurer of VA: \$ 256 million

• The values shown for each asset class on this report may differ from the VRS Monthly Performance Report due to adjustments related to derivative positions in the Rebalance Account, pending transactions, and certain accruals. The values on this report are a more descriptive representation of the Virginia Retirement System's true economic exposure to each asset class. (3 adjustments applied)

*Total Fund and Total Public tracking error are calculated using monthly returns, then annualized

* Differences in totals are due to rounding.



	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
Total Fund	104.3						27.6%
Public Equity	36.6	35.1%	36.0%	-0.9%	-5%	+5%	38.3%
Fixed Income	13.9	13.3%	15.0%	-1.7%	-3%	+5%	96.2%
Credit Strategies	14.5	13.9%	14.0%	-0.1%	-5%	+5%	
RS Credit	5.2	5.0%	5.6%	-0.6%			
NRS Credit	9.2	8.8%	8.4%	0.4%			
Real Assets	12.6	12.1%	14.0%	-1.9%	-5%	+5%	10.0%
Public RE	1.3	1.2%					99.9%
Private RE	7.4	7.1%					
Other RA	4.0	3.8%					
Private Equity	17.3	16.6%	14.0%	2.6%	-5%	+5%	
MAPS	3.8	3.7%	4.0%	-0.3%	-2%	+2%	
DSTRAT	2.3	2.2%					4.7%
RBI	1.5	1.4%					1.9%
PIP	2.2	2.1%	2.0%	0.1%	-2%	+2%	
EMP	0.9	0.9%	0.0%	0.9%		+3%	
Cash	2.5	2.4%	1.0%	1.4%	-1%	+4%	

	Current \$Bil	Current Weight	Policy Limit
Hedge Funds	11.5	11.1%	15.0%

3 Year Tracking Error
Total Fund: 3.29%
Total Public: 1.15%

*Total Fund includes the following amt held by the Treasurer of VA: \$ 377 million

• The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class (5 adjustments applied)

*Total Fund and Total Public tracking error are calculated using monthly returns, then annualized

* Differences in totals are due to rounding.

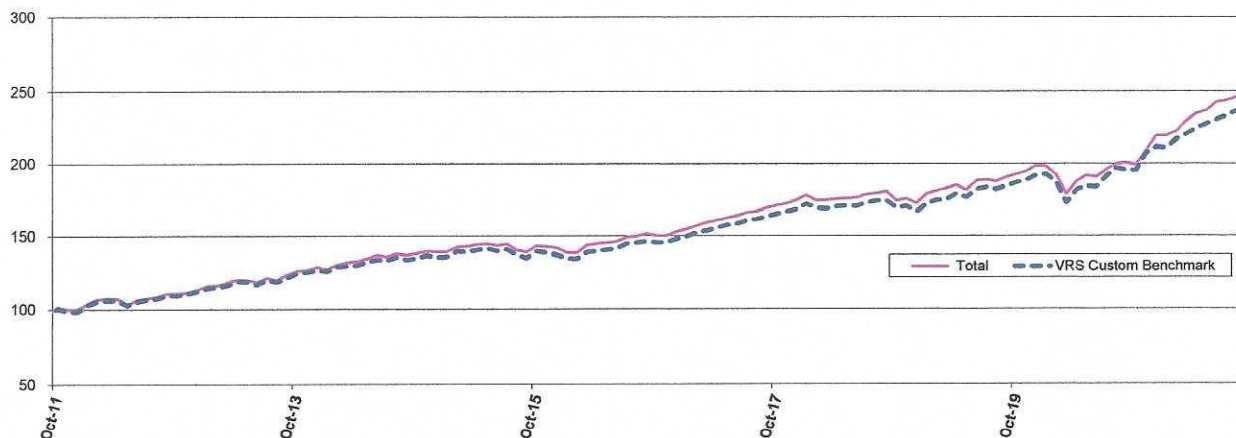
PERFORMANCE SUMMARY
Rolling Periods Ending
September 30, 2021



TOTAL FUND PERFORMANCE

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
Total Public Equity Strategies	12.0	12.3	11.8	31.3	-0.5	-3.4	-0.5	13.6	35,834
<i>Benchmark</i>	12.1	13.1	12.8	29.4	-1.0	-4.0	-1.0	11.7	
Total Fixed Income	4.0	4.1	7.0	1.8	0.1	-0.8	0.1	-0.3	13,601
<i>Benchmark</i>	3.1	3.0	5.5	-0.1	0.1	-0.9	0.1	-1.3	
Total Credit Strategies	7.6	7.6	8.3	16.2	2.3	1.6	2.3	9.6	14,711
<i>Benchmark</i>	6.4	5.9	6.3	8.1	1.0	0.3	1.0	3.8	
Total Real Assets	10.4	8.2	7.2	14.0	3.4	2.8	3.4	10.6	12,468
<i>Benchmark</i>	8.8	6.3	5.8	10.2	3.2	0.5	3.2	7.9	
Total Private Equity	16.8	21.6	24.0	55.7	12.5	12.5	12.5	39.0	17,409
<i>Benchmark</i>	14.8	18.1	18.1	41.9	7.3	1.2	7.3	31.1	
Total Private Investment Partnerships	n/a	10.7	11.0	30.6	6.8	6.8	6.8	23.9	2,205
<i>Benchmark</i>	n/a	10.2	10.1	20.1	3.9	0.9	3.9	14.9	
Total Multi-Asset Public Strategies	n/a	n/a	5.7	15.8	0.3	-0.8	0.3	6.6	3,227
<i>Benchmark</i>	n/a	n/a	8.2	12.7	0.1	-1.6	0.1	5.5	
Total Fund	10.0	10.5	11.3	24.3	2.6	1.2	2.6	13.8	103,710
<i>VRS Custom Benchmark</i>	9.3	9.8	10.2	19.3	1.3	-1.3	1.3	10.2	

10-Year Performance
Indexed to 100



Effective July 2013, the VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

The VRS Cash Account, the Treasurer Short-Term Investment Account, the VRS Rebalancing Account, transition activity and accounts with market values of less than \$1 million are included in the Total Fund's market value. Differences in market value totals are due to rounding.

Total Fund Tracking Error

Figure 1: Policy Tracking Error Rolling Three Year - Plan (as of 9/30/2021)

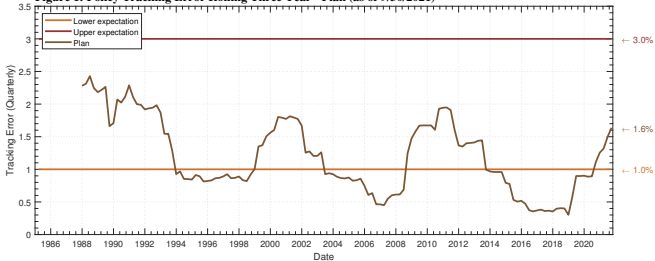
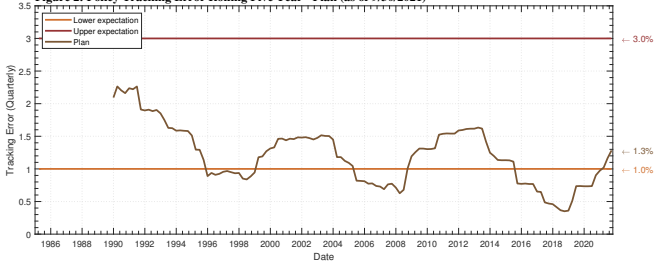


Figure 2: Policy Tracking Error Rolling Five Year - Plan (as of 9/30/2021)



Program	Action	Effective Date	Commitment/ Current Value	Funding/ Defunding Period	Description
Fixed Income	Terminated	11/12/2021	\$166 Million	Immediate	AQR Systematic High Yield – AQR shut down their long-only fixed income business.
Credit Strategies	Hired	11/04/2021	\$215 Million	4 Years	Sixth Street Opportunities Partners V – A control-oriented distressed and opportunistic credit fund.
Private Equity	Hired	11/12/2021	\$40 Million	6 Years	GTCR Strategic Growth Fund I – A U.S. middle market buyout fund targeting growth companies in four core domains: financial services & technology; healthcare; growth business services; and, technology, media & telecommunications.
Private Equity	Hired	11/16/2021	\$200 Million	6 Years	* TSG 9 – A large market fund targeting consumer-branded growth companies.

*The manager is considered DIME under the definition that considers industry best practices and defines an ownership threshold of greater than or equal to 33% and less than 51% of firm ownership or carry.

Report

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

WELCOME AND INTRODUCTION

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

ADMINISTRATION

Annual Administrative Expense Reports

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

Administrative Reports and Communication Update

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

ORPHE Update

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

ORPHE Employer Update Report

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

DC Plans Consultant RFP Update

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

INVESTMENTS

Performance Reports

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

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

CEM Defined Contribution Plans Survey

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

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

OTHER BUSINESS

Code of Ethics

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

VRS Legislative Package

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

Discussion of New Ideas

No new business was brought before the Committee.

2022 MEETINGS

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

- Thursday, March 24th
- Thursday, June 2nd
- Thursday, September 8th
- Thursday, December 1st

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

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

There was no other business to come before the Committee.

Submitted to the Board of Trustees on December 7, 2021.

J. Brandon Bell, Chair
Defined Contribution Plans Advisory Committee

Report

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

APPROVAL OF MINUTES

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

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

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

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

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

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

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

AUDIT REPORTS

The Committee received one audit report.

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

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

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

QUALITY ASSURANCE REVIEW OF THE INTERNAL AUDIT DEPARTMENT

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

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Management's Quarterly Travel Expense and Per Diem Report

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

Next Committee Meeting Date

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

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

Joseph W. Montgomery, Chair
Audit and Compliance Committee



Virginia Retirement System



December 2021

Korn Ferry Team

Michael Kennedy



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Michael Kennedy is a Senior Client Partner in the Atlanta office of Korn Ferry and a member of the firm's Global Financial Services Market. He leads the firm's efforts in the pension sector and has conducted senior level searches for the largest pension plans in the country. He has conducted Chief Investment Officer assignments for pension funds, endowments and foundations, Taft-Hartley plans and asset management organizations. He is also a co-leader in the firm's diversity efforts, and has worked with numerous financial services organizations in the development and implementation of diversity recruiting efforts.

Prior to joining Korn Ferry, Mr. Kennedy's career experience was in corporate finance and asset management. He previously worked in senior roles at General Electric Capital Corporation and Wachovia. He started his financial services career as an Equity Research Analyst at JP Morgan Investment Management Group.

In 2010, Mr. Kennedy was nominated by President Obama, and confirmed by the US Senate, to the Federal Retirement Thrift Investment Board, the largest retirement plan in the country. In 2011, President Obama designated him as Chairman. With assets exceeding \$460 billion, the Federal Retirement Thrift Investment Board develops and establishes policies governing the Thrift Savings Plan (TSP). In 2014, Mr. Kennedy was recognized for his leadership by Sovereign Wealth Institute's publication, *Sovereign Wealth Quarterly*, which ranked him as #5 on its list of the top 100 public investors globally. Also in 2014, Mr. Kennedy was reappointed by President Obama to

another four-year term as Chairman.

Prior to joining the Federal Retirement Thrift Investment Board, Mr. Kennedy served for 14 years as a Trustee at the Employees Retirement System of Georgia. During part of his tenure, he served as the Board Chair and Chairman of the Investment Committee. During his term as Chairman of the Investment Committee, he was involved in moving the plan into alternative investments, including private equity.

Mr. Kennedy currently sits on the Board of the University of North Carolina at Chapel Hill Investment Foundation Fund Board and also serves as a national co-chair of the UNC capital campaign. He previously served as Chairman of the UNC Board of Visitors. In addition to his UNC involvement, Mr. Kennedy has served on the Board of Trustees of the Phillips Exeter Academy in Exeter, New Hampshire.

In the Atlanta community, he has been involved with the Communities-In-Schools program, serving in numerous leadership roles including Board Chair. He has also been involved in the Harvard Business Club of Atlanta and the National Association of Securities Professionals.

Mr. Kennedy earned a Master in Business Administration from Harvard Business School. He received a Bachelor's degree with highest honors in History and Political Science from the University of North Carolina at Chapel Hill.



Korn Ferry Team

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In his role at Korn Ferry, Jesse helps place senior professionals for some of the most prominent regional, national, and international asset managers and financial services companies.

Jesse joined Korn Ferry in 2021 from Rice Search Partners, a boutique, retained executive search firm focused across the buy- and sell-sides in the financial services industry, primarily placing senior leaders in the legal, compliance, risk, operations, controls, governance, and finance functions. Prior to Rice Search Partners, Jesse spent a year with Korn Ferry as a member of the Asset Management Practice in New York.

Jesse earned a B.A. in Economics and International Affairs from Lafayette College in Easton, Pennsylvania. He grew up in Livingston, New Jersey.



Korn Ferry Team

Kendra Marion



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Delivering results for clients

- Kendra Marion is a Senior Director, Assessment Services and co-leads Korn Ferry's North American Search Assessment practice. In this role, she assesses executives and consults with clients to identify the most qualified candidates for the key roles that drive the success of their organizations.
- In addition to selection, Ms. Marion leverages her psychology and assessment expertise to coach executives, offering insight and feedback, and helping them to accelerate into new positions.
- Ms. Marion is a specialist in understanding the way talent management supports organizations. She has diverse career experience, working in the public sector as well as the private resource sector in talent management and leadership development.

Academic and Professional background

Ms. Marion holds a Master of Applied Science degree in Industrial/Organizational psychology from the University of Waterloo and an Honours B.A. in Psychology from Wilfrid Laurier University.

Ms. Marion is an ICF credentialed coach.

She is fluent in English and Portuguese, and has lived in countries on 3 continents.

Expertise

- Prior to joining Korn Ferry, Ms. Marion worked for a mining organization where she created and managed leadership development initiatives globally. In addition, Ms. Marion worked for a public sector organization in talent management program development and implementation. Beyond Canada, Ms. Marion has collaborated with colleagues in the United States, Africa, Australia, and South America to produce locally relevant programs.
- With over 17 years' experience in talent management, executive assessment and career placement, Ms. Marion approaches assessment and coaching with a strong sense of the skills required for leaders to succeed.
- She has assessed or coached in numerous industries: financial services, professional services, mining, oil & gas, consumer goods, retail, technology and the public sector.



Chief Investment Officer Representative Engagements

Company

Attorney's Liability Assurance Association

CalPERS

Fort Worth Employees Retirement Fund

Indiana Public Employees Retirement System (INPRS)

Los Angeles Fire & Police Pension System

Maryland State Retirement Agency

Minnesota State Board of Investments

New Jersey State Police & Fire Retirement System

New York City Retirement System

New York State Common

North Carolina Treasurer's Office

North Dakota Retirement and Investment Office

North Shore University Hospitals

Pennsylvania State Employees Retirement System

Rotary International



Chief Investment Officer Representative Engagements (continued)

Company
School Employees Retirement System of Ohio
South Carolina Retirement System
State of Connecticut
Utah Retirement System
Virginia Retirement System
Wyoming Retirement System



Search Strategy: Chief Investment Officer

Scenario 1

Pension Funds /
Health Systems,
Endowments &
Foundations

Implications

- Known quantity & reputation
- Immediate knowledge of role
- Proven track record
- Easy to reference 360
- Could be more expensive & harder to extract
- References will be important

Scenario 2

Consulting Firms / OCIO

Implications

- Known quantity & reputation
- Proven track record
- Easy to reference 360
- Could be more expensive & harder to extract
- References will be important

Scenario 3

Investment Management
Firms / Alternative
Investment Firms

Implications

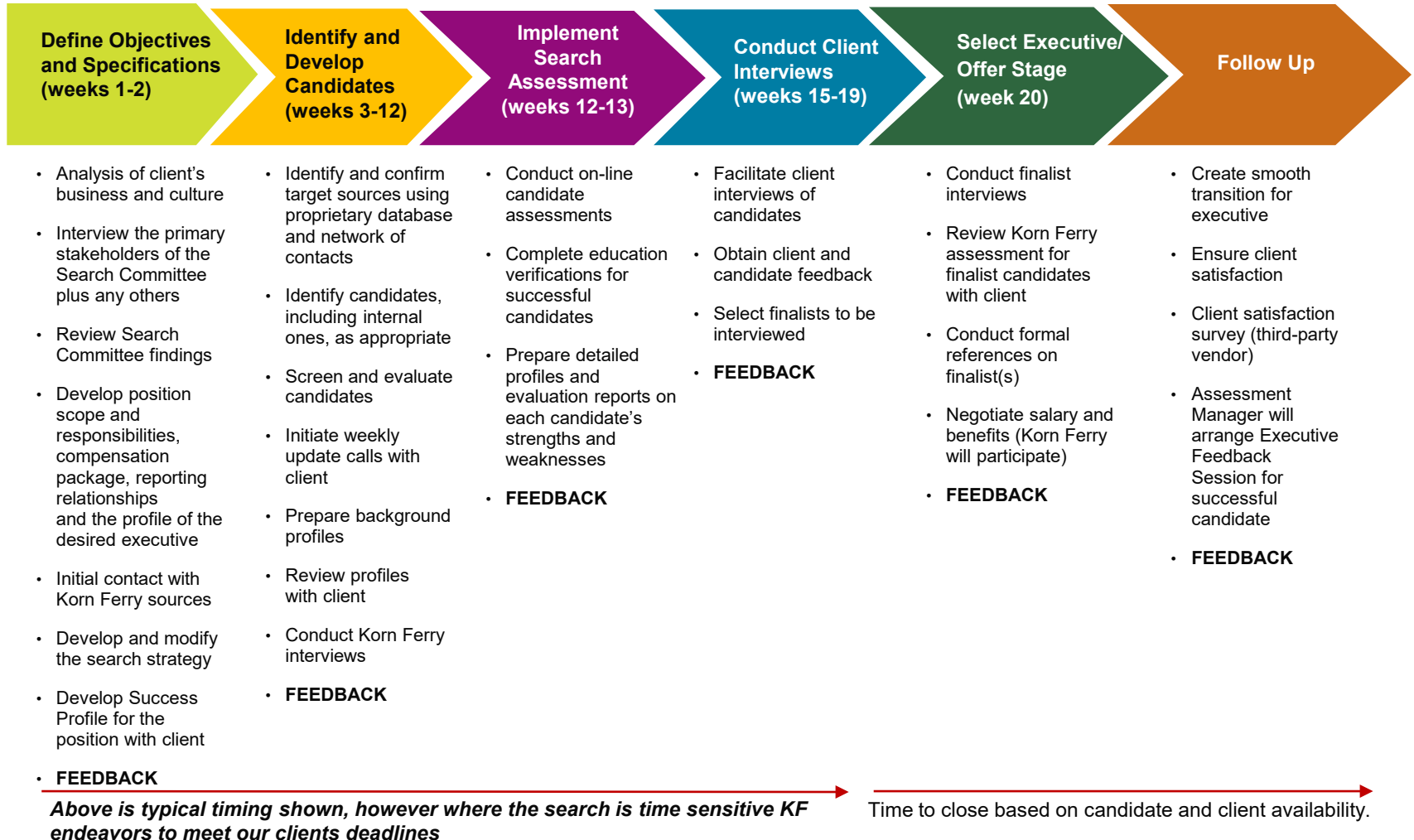
- Known quantity & reputation
- Varying levels of current market knowledge
- Understands role from different perspective
- Proven track record
- Will not have pension perspective
- References will be important

Diversity outreach efforts



Proposed Timeline

We use a 6-step approach to our searches that fully integrates the client's executive team in the decision making at each critical juncture



Tentative Timeline

*Weekly Calls

*Status Reports updated Weekly

Weeks 1 – 2	Calls/in-person meetings with various stakeholders (search committee members, Board members, relevant staff, etc.).
Week 3	Initiate candidate outreach. Preliminary discussion on position description and KF4D.
Week 4 to 8	Candidate Outreach.
Week 9	Candidate Outreach. Potential in-person meeting with Search Committee. Establish tentative interview dates for first and second rounds.
Week 10 to 12	Candidate Outreach.
Week 13	Candidate Outreach. Discussion of candidate slate with search committee to select initial list of candidates for potential interviews. Confirm potential interview dates for first and second round interviews.
Week 15 or 16	First round candidate interviews (education verification completed on each candidate prior to interview).
Week 19	Second round interviews.
Week 20	Reference checks; salary negotiations; offer extended.



**Korn Ferry
Four Dimensional
Executive
Assessment**



KF-4D Candidate Assessment Tool

Why is it important?



- **World-leading:** our most credible tool yet for evaluating talent.
- **Powerful:** puts an incredible range of Korn Ferry expertise at your fingertips and gives you unprecedented levels of control over the assessment process.
- **Convenient:** works on any device and offers all the real-time functionality and convenience of an app.
- **Validated:** predictions are made based on years of research and the results of over 2.5 million assessments.
- **Sophisticated:** rich visual representations of assessment results offer you deep insight into every candidate.



Companies that used Korn Ferry's assessment tool during the executive recruitment process were **eight times more likely to hire an executive who will be promoted within three years** – compared to new hires where Korn Ferry's assessment tool was not used in the recruitment process.

*Korn Ferry Institute study, 2012

**Included in the executive search fee.*



Holistic Approach Korn Ferry Four Dimensions of Leadership (KF4D) Framework

By leveraging the largest set of data on talent – more than 4 million assessments – Korn Ferry has insight into the dimensions of talent crucial for executives. The four dimensions include competencies, traits, drivers, and experiences. Taking all four dimensions into account provides a holistic view of how each candidate's qualities fit the role.



Off Limits

Company

CalPERS

Chicago Teachers' Pension Fund

Fort Worth Employees Retirement Fund

Los Angeles County Employees Retirement Agency (LACERA)

Los Angeles Fire & Police Pension System

Maine Public Employees Retirement System (MainePERs)

Minnesota State Board of Investments

New Jersey State Police & Fire Retirement System

New York City Retirement System

State of Wisconsin Investment Board

State Teachers Employees Retirement System of Ohio

Utah Retirement System

Virginia Retirement System



Contact Information

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Thank you





VRS Project Portfolio FISCAL YEAR 2022 November 2021 - Monthly Status

Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- Project timeline
- N/S Not started

		2021						2022							
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Agency Performance Objectives (APOs)	Status														
Cloud Migration	▲														
ERM Implementation	●														
Records Management Program - Phase 1 Implementation	●														
Cardinal HCM Implementation - The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)	●														
IT Initiatives¹	Status														
Upgrade Angular JS Framework to Angular	●														
IT Security - Fraud Prevention Initiatives	N/S														
Security Maturity Assessment	●														
Sagitec Framework Upgrade	●														
SharePoint Online	●														
Other Projects²	Status														
Employee Engagement Initiative Implementation	●														
Implement Performance Management Evaluation Process	●														
Develop FY 22-26 Strategic Plan Operational Initiatives	●														
VSDP and VLDP Long Term Care Plans RFP	●														
Implement Enterprise Electronic Signature Solution	N/S														
Develop and Implement Strategy to switch 'Retiree News' letter from Print to Electronic	N/S														
LODA Annual Report	●														
Develop Strategy and Begin CCC Customer Experience Survey	N/S														
Develop Strategy for Handling Undelivered Mail Received by VRS and TPAs	N/S														
Death Match Services RFP (current services end September 30)	●														
Convert Paper Personnel Files to Electronic	N/S														
Employees Job Descriptions Update - Phase 1 ³	●														
Post Pandemic Return to the Office	●														
Operational/Ongoing Activities	Status														
COLA 2021	★														
FYE 2021	★														
Retirement Wave 2021	★														
Teacher Contracts	★														
MBPs	★														
Annual Code of Ethics Training	●														
Annual Security Awareness Training	●														
FOIA Training	N/S														
ACFR	●														
PAFR	●														
GASB 67	●														
GASB 68	N/S														
GASB 74	●														
GASB 75	N/S														
Actuarial Valuations	●														
myVRS Annual Updates	N/S														
1099/W2	N/S														

Operational/Ongoing Activities	Status	2021						2022						
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Annual Roadmap Review	N/S													
Biennium Budget	●													
FYE 2022	N/S													
Retirement Wave 2022	N/S													
Commonwealth Bond Disclosure	●													
ORPHE Surcharge Billing for FY 2023	N/S													
Data Fixes	●													
ALM Backlog Prioritization	●													
Employer Compliance Review	N/S													
VRS Fund Sensitivity and Stress Testing Report for GA	N/S													
Legislation FY 2022 - Placeholder	N/S													

¹ Initiatives led directly by Technology Services.

² Other initiatives are led by other business units and supported by Technology Services.

³ Update Employee Job Descriptions Phase 1 scope focuses on updating, reviewing and finalizing job descriptions. The corresponding system changes (RAMS) will be part of phase 2.

Yellow Status Items

Item	Due Date	Comments
Cloud Migration	TBD	Due to scope and schedule issues with the migration vendor, VRS leadership decided to pause the project and re-evaluate the approach. However, necessary foundational work such as documenting current systems will continue and a revised approach and roadmap will be finalized in the next few months.

Red Status Items

Item	Due Date	Comments
N/A		

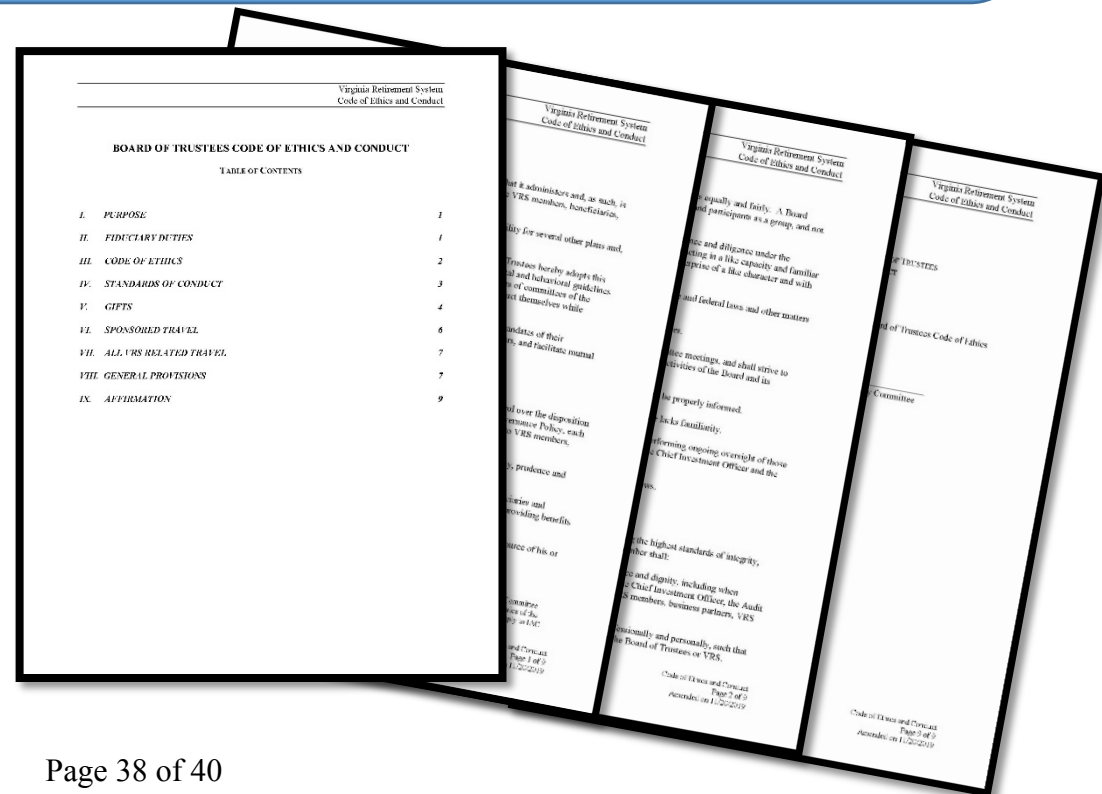
Realignments/Adjustments

Item	Due Date	Comments
N/A		

Annual Code of Ethics and Conduct Review

- Materials will be distributed via email 1st week in December
- Members are required to sign and return the affirmation statement
- Contact Michael Cooper with any questions or concerns

Affirmation Statements Due
December 31, 2021



Annual Conflict of Interest Filing

- Filing period begins January 1, 2022
- Covers activity from January 1, 2021 – December 31, 2021
- Information will be distributed via email from the Virginia Conflict of Interest and Ethics Advisory Council
- Contact LaShaunda King with any questions or concerns

Filings Due February 1, 2022



VRS Investments: Episode 1 – Our Focus



Note: Video may lag during presentation due to individual viewers' network connectivity.

Video can be accessed here:

<https://bit.ly/3IAMyxh>