



Administration and Personnel Committee (A&P) Meeting
VRS, 1111 E. Main St., 3rd Floor Board Room
Tuesday, 10/18/2022
11:00 AM - 12:00 PM ET

I. Approve Minutes

• **September 14, 2022**

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II. RBA – Revisions to the Investment Professionals’ Pay Plan

RBA - Amended Investment Pay Plan - Page 6

Investment Professionals Pay Plan_Clean - Page 7

Investment Professionals Pay Plan_Redline - Page 24

VRS Investment Pay Review_April 2022 - Page 42

III. RBA – Appointment and Reappointment of Investment Advisory Committee (IAC) Members

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Resume for Theodore Economou - Page 61

Bio for Thomas Gayner - Page 62

Bio for Larry Kochard - Page 63

Bio for Palmer Garson - Page 66

IV. RBA – Review Revised Governance Policy and Committee Charters

RBA - Amend Board Governance Documents (Rename A&P Committee) - Page 67

Edits to Board Governance Policy - Page 68

Edits to AFT Committee Charter - Page 88

Edits to A&C Committee Charter - Page 92

Edits to Code of Ethics - Page 98

Minutes

A regular meeting of the Virginia Retirement System Administration and Personnel Committee was held on September 14, 2022, with the following members participating:

A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
W. Brett Hayes
Troilen G. Seward, Ed.S.

Board members present:
John M. Bennett

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Andrew Junkin, Keisha Cheatham, Jeanne Chenault, Michael Cooper, Harriet Covey, Juanita Cribbs, Barry Faison, Jon Farmer, LaShaunda King, Curt Mattson, Angela Payne, Matt Priestas, Steven Ramirez, Paula Reid, Leslie Weldon and Cindy Wilkinson.

Guests:

Kimberly Sarte, Joint Legislative Audit and Review Commission.

The meeting convened at 1:01 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the September 14, 2022 meeting of the Administration and Personnel Committee.

Mr. Andrews welcomed Andrew Junkin, who will succeed Ron Schmitz as the new VRS Chief Investment Officer (CIO) when Mr. Schmitz retires at the end of the year. Mr. Junkin joins VRS after serving as CIO for the state of Rhode Island and a fifteen-year tenure with Wilshire Consulting, the last five of which he served as president. Mr. Junkin will be working closely with Mr. Schmitz over the following months to provide continuity and facilitate an effective transition. Mr. Andrews thanked Mr. Schmitz for his leadership and assistance during the transition period.

Approval of Minutes

Following Ms. Seward's motion, with a second by Mr. Montgomery, the Committee approved the minutes of its June 14, 2022, meeting.

Review Attainment of FY 2022 Agency Performance Outcomes (APOs) and Operational Measures

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2022 agency performance outcomes (APOs) and operational measures. The APOs represent agency stretch goals and the operational measures are a reflection of day-to-day business operations. Mr. Cooper noted that the agency had sixteen operational measures for the year, of which thirteen had to be accomplished in order to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate, which was affected by increased call volumes during peak times of the year, notably January and July. In

addition, Mr. Cooper noted the agency had four APOs for the fiscal year, with a target of completing at least three. Staff met this goal by successfully completing all four APOs.

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

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

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the Committee recommended approval of the action to the full Board of Trustees.

Mr. Andrews thanked Mr. Cooper for his presentation.

Review Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees

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

Upon a motion by Ms. Seward, with a second by Mr. Montgomery, the Committee recommended approval of the following action to the full Board of Trustees:

RBA: Performance bonuses for eligible administrative employees and Investment Department operations and administration employees.

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

Mr. Andrews thanked Ms. Reid for her presentation.

Budget Update

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

The Committee discussed the recent difficulties related to attracting and retaining staff, as well as project delays relating to supply chain issues. To address these challenges, VRS offers a hybrid work model which resonates well with team members, in addition to launching several initiatives to support professional development to ensure staff feel engaged and satisfied with the organization.

Mr. Andrews thanked Mr. Farmer for his report.

Informational Item

Next, as an information item, Mr. Andrews advised that the Audit and Compliance (A&C) Committee had reviewed and evaluated the performance of the Audit Director at its meeting on September 13, 2022. Each year, the A&C Committee reviews the Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. Based on its review and evaluation, the A&C Committee recommended that the Board approve a 7% performance bonus for the Audit Director. The Board will take up the following action at its September 22nd meeting.

RBA: Audit Director's performance review.

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

Other Business

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

Compensation and Benefits – CLOSED MEETING

Mr. Montgomery moved, with a second by Mr. Hayes, that the Administration and Personnel Committee of the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act to discuss the compensation and benefits of specific employees pursuant to the personnel exemption at *Code of Virginia § 2.2-3711(A)(1)*.

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

WHEREAS, the Administration and Personnel Committee of 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 this Committee that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Committee 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 Committee.

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

Mr. Montgomery: Aye

Mr. Hayes: Aye
Ms. Seward: Aye
Mr. Bennett: Aye
Mr. Andrews: Aye

Next, following a motion by Mr. Montgomery, with a second by Mr. Hayes, the Administration and Personnel Committee recommended approval of the following action to the full Board of Trustees:

RBA: FY 2022 Incentive Payments for Investment Professionals.

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

Upon a motion by Mr. Bennett, with a second by Mr. Montgomery, the Administration and Personnel Committee recommended approval of the following action to the full Board of Trustees:

RBA: VRS Director's Performance Review.

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

Mr. Andrews thanked the Committee and noted the Board of Trustees will meet September 22, 2022 at 1:00 p.m.

Adjournment

Following a motion by Ms. Seward, with a second by Mr. Montgomery, the Committee agreed to adjourn the meeting.

There being no further business, the meeting concluded at 3:09 p.m.

Chair

Date



Approve changes to Investment Professionals' Pay Plan.

Requested Action

The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan ("Pay Plan"), effective October 18, 2022.

Description/Background

The VRS Board of Trustees approved the current Pay Plan on June 23, 2022.

The proposed amendment accounts for a change in the incentive compensation calculation for certain Investments staff based on the McLagan Investment Pay Review dated April 2022, to better align with market indicators. The changes include:

- Decreasing the Senior Investment Analyst investment compensation target from 25% to 20%.
- Increasing the Investment Analyst investment compensation target from 5% to 10%.

A blacklined version of the revised Pay Plan is attached.

Authority for Requested Action

Code of Virginia § 51.1-124.22(A)(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



**VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN
Effective October 18, 2022**

Investment Professionals' Pay Plan Effective October 18, 2022

OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay plan after working with an independent compensation consultant. In addition, the Board has adopted benchmarks, recommended by an independent investment consultant, to be used as part of this pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay plan is designed to:

- Attract, motivate and retain skilled investment professionals by offering competitive compensation opportunities.
- Directly align compensation with long-term, superior relative and absolute investment performance.
- Reinforce risk management priorities and standards.
- Attract and retain senior investment professionals by deferring a portion of incentive compensation on a tax-deferred basis.
- Benefit all stakeholders – VRS' beneficiaries, VRS' employees, and Virginia's taxpayers – through a compensation plan that is clear, aligned with performance, competitive and cost effective.

Importantly, this pay plan anchors on two broad and long-standing philosophical principles:

1. VRS should pay base salaries consistent with the 75th percentile of a peer group of other leading public funds. The primary guidelines for determining VRS' leading public fund peer group will be (1) funds of similar size (AUM) as VRS and (2) funds with significant (>25%) assets managed internally. Additional criteria the Board may consider is asset allocation / diverse portfolio similar to VRS, degree of delegation to the CIO and staff, use of outside investment consultants, and Board pay decision making authority.
2. VRS should provide incentive compensation opportunities such that, in combination with base salary, total compensation levels approximate the median (50th percentile) of a blended group weighted 75% to the total compensation levels of leading peer group public funds and 25% to the total compensation levels of a broad range of private-sector firms that employ investment professionals.

I. Base Salary

SALARY RANGES

This pay plan establishes a salary range for each job class taking into account its relative importance to VRS and the salaries paid for comparable types of jobs in other leading public funds.

Minimum, midpoint, and maximum salary rates define the salary range for each job class/position. The midpoint of each job class/position approximates the 75th percentile of salaries of a peer group of leading public pension funds. Actual salaries can be higher or lower than the midpoint depending on factors such as job performance, professional education and certifications, the willingness to assume new and higher-level duties and responsibilities, the ability to learn quickly and apply new knowledge and skills, being a team player, and the length of time in the position.

Each position's salary range includes a defined:

- **Minimum** - the lowest base salary paid for a job within the job class/position.

Investment Professionals’ Pay Plan
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- **Midpoint** - represents the market salary paid to a fully qualified employee, who has the institutional knowledge and practical experience to fulfill independently all of the responsibilities of the job/position.
- **Maximum** - the highest salary rate for the job class/position.

| Grade | Position | Salary Range (\$ Thousands) | | |
|-------|--|-----------------------------|----------|----------|
| | | Min (\$) | Mid (\$) | Max (\$) |
| 10 | Chief Investment Officer/Chief Managing Director | 325 | 430 | 540 |
| 9 | Managing Director | 275 | 365 | 455 |
| 8 | Program Director | 235 | 315 | 395 |
| 7 | Director – Strategy, Research, Risk and/or Investment Decision Support | 205 | 275 | 345 |
| 6 | Senior Portfolio Manager | 205 | 275 | 345 |
| 5 | Portfolio Manager | 160 | 215 | 270 |
| 4 | Senior Investment Officer | 135 | 180 | 225 |
| 3 | Investment Officer | 105 | 140 | 175 |
| 2 | Senior Investment Analyst | 80 | 105 | 130 |
| 1 | Investment Analyst | 65 | 85 | 105 |

In considering the above salary range, it important to note the following:

- **Market Pay Reviews:** The VRS normally conducts a comparative market total pay study generally every two to three years to ensure competitiveness of the salary and incentive structures. Typically, the VRS conducts the study in the 1st quarter of the calendar year with an effective date of July 1 (the beginning of the fiscal year).
- **Changes in Salary Ranges:** The Board must approve changes to the salary scale and incentive structure.

Salary Adjustments

Oversight & Administration

VRS will implement pay actions consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, consistent with the Code of Virginia and the Appropriation Act. The Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

Merit Increases

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees’ pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their base salary for that performance cycle. Performance cycles are on a fiscal year basis (July 1 through June 30) and typically begin with an effective date of performance plans in the first quarter of the new fiscal year.
- The CIO will receive base salary increases as approved by the VRS Board of Trustees and in accordance with the terms in the CIO’s Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

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Starting Salaries

The starting salary for a new employee considers the rates presently paid to other employees in the department and those in the same job class (when applicable), the candidate's education, skills, work experience, and salary history. The starting salary normally does not exceed the salary grade midpoint.

Reallocation

Occurs when a job classification is reviewed by Human Resources and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

In-grade Adjustments

Occur to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, obtainment of a degree or certification, or significant increases in responsibilities within the job class. Unless the CIO authorizes an exception, adjustments will not exceed a 10% increase.

Promotions

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation). Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

Downward Assignment

Downward adjustment occurs when an employee changes positions whether voluntarily, or because of unsatisfactory performance, resulting in a downward change in job class. A reduction in salary may occur based on a review of the salary and range and the circumstances associated with the downward move. In downward assignments, an individual's salary cannot exceed the maximum of the new salary range.

II. Incentive Pay Plan

PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration and Personnel (A&P) Committee, administers the Incentive Plan (Plan) and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supportive of the pay plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.
- Consistent with the preceding paragraph, payment of incentives under this plan is not guaranteed.

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The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible to participate in this incentive plan, provided they:

- Are active VRS employees.
- Work for VRS at least forty hours per week. Plan participants who work less than full-time may be eligible to receive a prorated incentive payment. Wage employees are not eligible to participate in the plan.
- Receive an individual performance evaluation of at least "meets expectations" for the relevant performance year (i.e., the year preceding the normally scheduled year of payment).
- Remain in compliance with the VRS Investment Department Code of Ethics and Standards of Professional Conduct Policy.

Positions Eligible to Participate in the Investment Professional's Pay Plan

| |
|--|
| Chief Investment Officer/Chief Managing Director |
| Managing Director – Portfolio Solutions Group |
| Managing Director – Private Market Assets and DC Plans |
| Managing Director – Public Market Assets |
| Program Director |
| Director – Strategy, Research, Risk and/or Investment Decision Support |
| Senior Portfolio Manager |
| Portfolio Manager |
| Senior Investment Officer |
| Investment Officer |
| Senior Investment Analyst |
| Investment Analyst |

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution Plans, with both quantitative and qualitative elements.

Generally, employees on an approved leave of absence are considered active employees. The CIO will resolve all questions regarding eligibility, or in the case of the CIO, eligibility will be determined by the Board.

Participation in this Plan in any one year does not confer the right to participate in this Plan in any other year or to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

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OVERALL INCENTIVE PLAN MECHANICS

As described in more detail throughout this document, under the terms of this Plan:

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
 1. Total Fund relative investment performance
 2. Asset Class relative investment performance
 3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
 4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.
- Each participant's preliminary award would equal the sum of all of their performance adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute return. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +9.75%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for a return less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.
 - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute return.
 - All other awards paid in cash.

Generally, a Participant must be employed on the date of payment of the award. However, see INCENTIVE PLAN PROVISIONS, *Termination of Employment Due to Death, Disability or Retirement*.

INCENTIVE OPPORTUNITIES

Incentive opportunities will vary by position based on multiple criteria:

- The position's potential effect on the VRS' investment performance.
- Competitive market pay requirements.
- Internal equity considerations.
- Other factors determined by the CIO or, in the case of the Chief Investment Officer's position, by VRS' Board.

Actual awards can vary based on performance.

For the fiscal year ending June 30, 2023, and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

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| Incentive Levels | |
|--|---|
| VRS Position | Incentive¹ (% Salary) |
| Chief Investment Officer | 70 ² |
| Chief Managing Director | 70 ² |
| Managing Director – Portfolio Solutions Group | 65 ² |
| Managing Director – Private Market Assets and DC Plans | 65 ² |
| Managing Director – Public Market Assets | 65 ² |
| Program Director | 60 ² |
| Director – Strategy, Research, Risk and/or Investment Decision Support | 50 |
| Senior Portfolio Manager | 50 |
| Portfolio Manager | 40 |
| Senior Investment Officer | 30 |
| Investment Officer | 30 |
| Senior Investment Analyst | 20 |
| Investment Analyst | 10 |

¹Performance-adjusted preliminary awards can vary from zero to two times the incentive.

²A portion, up to 50%, of the positions’ earned incentives is subject to mandatory deferral.

INCENTIVE WEIGHTINGS

Each participant’s incentive award will be weighted or allocated to separate, stand-alone Plan components. Importantly, all participants have a portion of their incentive opportunities weighted:

- To the Total Fund Plan component – which helps reinforce the importance of collective success as measured by the Total Fund’s relative investment results.
- To the Qualitative Plan component – this helps reinforce achievement of specific initiatives and professional development.

Described below are the specific Plan weightings and the approach for determining awards under each of these Plan components.

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| Incentive Weightings by Plan Component | | | | | |
|--|---------------------|---|----------------------|----------------------|--------------|
| VRS Position | Total Fund % | Asset Class Multipliers % | Asset Class % | Qualitative % | Total |
| | | (% of total incentive weighted to each component) | | | |
| Chief Investment Officer/Chief Managing Director | 60 | 20 ¹ | | 20 | 100 |
| Managing Director – Portfolio Solutions Group | 60 | 20 ¹ | | 20 | 100 |
| Managing Director – Private Market Assets and DC Plans | 40 | 40 ² | | 20 | 100 |
| Managing Director – Public Market Assets | 40 | 40 ³ | | 20 | 100 |
| Program Director | 30 | 50 ⁴ | 50 | 20 | 100 |
| Director – Strategy, Research, Risk and/or Investment Decision Support | 30 | 50 ¹ | | 20 | 100 |
| Senior Portfolio Manager | 20 | | 60 | 20 | 100 |
| Portfolio Manager | 20 | | 60 | 20 | 100 |
| Senior Investment Officer | 20 | 60 ⁴ | 60 | 20 | 100 |
| Investment Officer | 20 | 60 ⁴ | 60 | 20 | 100 |
| Senior Investment Analyst | 20 | 30 ⁴ | 30 | 50 | 100 |
| Investment Analyst | 20 | 30 ⁴ | 30 | 50 | 100 |

¹Average multiplier based on the multipliers of all asset classes under the incumbent's purview.

²The MD Private Market Assets and DC Plans average multiplier is based on the multipliers of private market asset classes under the incumbent's purview.

³The MD Public Market Assets average multiplier is based on the multipliers of the public market asset classes under the incumbent's purview.

⁴These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

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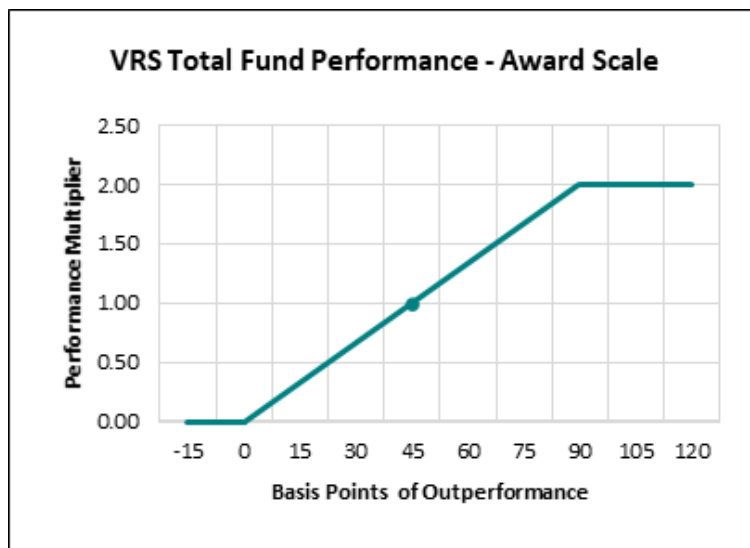
QUANTITATIVE PLAN COMPONENTS

These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 50%).

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and miscellaneous fees.
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS' relative investment performance:
 - Equals zero or less (i.e., no relative value added), then the VRS Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
 - Equals 45 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
 - Equals 90 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
 - Is anywhere between zero and 90 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.

Note: The Board approved the Verus recommended excess return objective (45 basis points) for the Total Fund at the June 15, 2020 meeting with an effective date of July 1, 2020. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (30 basis points) to be used until June 30, 2020, and the new excess return objective (45 basis points) to be used from July 1, 2020 onward.



- Selected participants whose responsibilities span multiple asset classes may have a portion of their incentive weighted to a component that is determined based on the average multipliers of asset

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classes they support. The intent of this Plan component is to recognize and reward superior relative investment performance, regardless of the level of the associated assets.

The Board is responsible for setting the basis point outperformance standards for the Total Fund. The CIO is responsible for setting the basis point outperformance standards for individual asset classes, subject to the Board's final review and approval.

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QUALITATIVE PLAN COMPONENT

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO’s discretion. The CIO obtains input from applicable senior staff regarding individual performance levels to help determine the qualitative rating. The qualitative rating is separate and distinct from the individual’s annual performance evaluation rating requirement for plan eligibility. This Plan component links participants’ incentive compensation to achievement of individual and/or position-specific performance objectives and VRS’ overall performance objectives. Actual awards under this plan component will reflect:

- Position and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:
 - Building an effective organization
 - Enhancing investment excellence
 - Developing staff

The Board will annually determine the CIO’s qualitative incentive multiplier after assessing attainment of the qualitative performance objectives, considering input and recommendations provided by the A&P Committee.

DETERMINING PRELIMINARY AWARDS

After the end of each fiscal year, a preliminary award will be determined for each Plan participant by aggregating all of their performance multiplier-adjusted weighted Plan components. In particular:

- Performance multipliers will be determined for each Plan component based on actual results.
- Preliminary payouts under each weighted Plan component will be determined by multiplying the incentive dollars weighted to that component by the associated performance multiplier.
- Total preliminary awards would be determined by adding up all of that participant’s weighted Plan components.

Illustrated below is this approach for a position with an incentive of \$80,000.

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | |
|----------------|-------------------------------|---|------------------------|---|----------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award **\$91,200**

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DETERMINING FINAL AWARDS

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

Scenario #1: The Total Fund's One-Year Absolute Return Is +5%

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | |
|----------------|-------------------------------|---|------------------------|---|----------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award \$91,200
 X no adjustment 0%

Final Award \$91,200

Scenario #2: The Total Fund's One-Year Absolute Return Is 9.75%

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | Actual Award |
|----------------|-------------------------------|---|------------------------|---|--------------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return
 Less Assumed Rate of Return 103%

Final Award \$93,936

Scenario #3: The Total Fund's One-Year Absolute Return Is -15%

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | Actual Award |
|----------------|-------------------------------|---|------------------------|---|--------------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return 85%

Final Award \$77,520

PAYING OUT FINAL AWARDS

Investment Professionals' Pay Plan Effective October 18, 2022

Board Review

Prior to payout of any and/or all awards, the CIO will present a schedule of aggregate incentives to the Board of Trustees, through the A&P Committee, in advance. This report will include, in aggregate, the awards, the multipliers awarded for each component, the actual dollar awards earned for each component and the total awards. Internal Audit and Human Resources will review the calculations. As requested by the A&P Committee, the CIO will provide additional information prior to the Board approving the payout of any and/or all awards.

Final Award Payout

Final awards will be paid out as follows:

- For VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards paid 100% in cash.

Timing of Cash Payouts

When the Board approves incentive awards, the VRS will make payments between July 1 and December 31 after VRS' fiscal year end.

•

INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this pay plan:***
 - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
 - Promoted employees and employees who transfer into another position covered in this pay plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage for each position held during the fiscal year.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of "Does Not Meet Expectations" are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). The incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the A&P Committee for the CIO's position, participants who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the plan.
- ***Clawback:*** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

III. Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP)

PARTICIPATION

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This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- Deferrals into this plan only occur in years when VRS' Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS' Board decides to pay incentive awards, 50% of participants' final awards up to specified IRC § 415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

INVESTMENT RETURN

Participants' deferred accounts in the DCPIP and the § 415(m) plan will earn an "investment return" (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

FUND TRANSFERS AND DISTRIBUTIONS

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

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TAXATION

Taxation of the amount contributed to the DCPIP and § 415(m) plans is deferred until distribution from the respective plan.

IV. Other Compensation Plan Information

Competitive Pay Increases

Competitive pay increases are an option available to retain a highly valued employee who has received a job offer from another employer. Requests for competitive pay increases should take into consideration the employee's experience, level of education, performance and contribution to the agency, and the salaries of other employees in comparable jobs. A written job offer must be received to provide a competitive pay increase.

Sign-on Bonuses

Investment professionals hired at the VRS may be eligible for sign-on bonuses, as described in the VRS Employee Sign-on Bonus Program Policy.

Relocation Expenses

Investment professionals hired at the VRS may be eligible for reimbursement of relocation expenses, if approved by the CIO. The reimbursement of the expenses must comply with the Department of Accounts Moving and Relocation Policy.

Employment at Will

The investment employees covered by this policy are exempt from the provisions of the Virginia Personnel Act and employment in these positions is at will. Just as the employee retains the right to resign at any time, the VRS has a similar right to end at will employment with or without cause. An at-will employee does not serve an introductory period. An at-will employee is not eligible to use the agency's grievance procedure to resolve employment disputes.

Investment employees covered by this policy are eligible for all other employment benefits and subject to agency policies that do not contradict their "at will" status.

409A Compliance

The intent of the Board is that payments and benefits under this plan either comply with Section 409A of the Internal Revenue Code and applicable guidance issued thereunder ("Code Section 409A") or qualify for an exemption from Code Section 409A and, accordingly, all provisions of this Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. The Board shall not take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A to the extent Code Section 409A applies to such payment or benefit. Notwithstanding any of the provisions of this pay plan, the Board shall not be liable to the employee if any payment or benefit which is to be provided pursuant to this Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

Investment Professionals' Pay Plan Effective October 18, 2022

CLASS STRUCTURE

The following descriptions are the summaries of VRS' investment professional job classes/positions:

Chief Investment Officer

The CIO manages and directs investment programs, determines appropriate program structure, implementation, and monitoring. The CIO manages investment professionals who are directly responsible for internal and external investment programs. The CIO heads the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The CIO collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

Managing Director

The Managing Director is a senior investment position reporting directly to the CIO. This position serves on the Investment Executive and Management Committees. The Executive Committee is a department wide resource to the CIO for management and administrative issues. The Management Committee participates in asset allocation and manager/fund allocation decisions.

Program Director

The Program Director has deep asset class knowledge and carries full managerial responsibility for a VRS investment program, including all internally and externally managed assets. The Program Director may also support multiple asset classes. The Program Director participates on the Investment Management Committee and regularly presents information to the IAC and the Board. The Program Director, as applicable, operates within an explicit risk budget and has investment performance objectives that are regularly measured. The Program Director has full responsibility for negotiating on behalf of VRS.

Director - Strategy, Research, Risk and/or Investment Decision Support

Strategy – The position within Strategy identifies and evaluates relative value-based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The position within Research has responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

Risk – The position within Risk has responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of a diverse collection of strategies designed to have low or negative correlation to other VRS asset classes.

Investment Decision Support – The position within Investment Decision Support has responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data

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warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

Senior Portfolio Manager

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers. The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience and sustained performance for the incumbents.

Portfolio Manager

The Portfolio Manager provides critical input to strategy development and is responsible for the more complicated and higher risk investments. The Portfolio Manager may delegate to the Senior Investment Officer certain portions of the investment program. The Portfolio Manager will begin to negotiate terms on behalf of VRS. The Portfolio Manager, from time to time, makes presentations and recommendations to the Management Committee, and perhaps the IAC and Board.

The Portfolio Manager supporting the Defined Contribution Plans is a senior investment position reporting directly to the Managing Director - Private Market Assets and DC Plans. This position provides critical input to the design, implementation, and monitoring of all investment related aspects of the VRS defined contribution plans (DC). Responsibilities include (1) evaluation and selection of new investment strategies, managers and/or funds, (2) negotiating terms on behalf of VRS, (3) monitoring and management of relationships with existing defined contribution investment managers, (4) implementing investment policy as determined by the VRS Board, (5) presenting to the Defined Contribution Plans Advisory Committee and the Board, and (6) any other projects or duties relating to the defined contribution program as may be assigned from time to time.

Senior Investment Officer

The Senior Investment Officer has higher level monitoring responsibilities that tend to involve higher risk and strategies that are more complicated. Some Senior Investment Officers may have day-to-day responsibilities for managing internal portfolios, subject to risk limits prescribed by the program director. The Senior Investment Officer will increasingly become involved in strategy development and formal recommendations to the Program Director.

Investment Officer

The Investment Officer, in addition to analytical responsibilities, may have direct responsibility for monitoring some portion of the existing portfolio, or some strategies or managers under consideration in the future. Such assignments will typically be in lower risk and less complicated strategies. The Investment Officer may continue to be involved in monitoring, compliance, and administration, but will also begin to make formal investment recommendations to the Program Director.

Senior Investment Analyst

The Senior Investment Analyst performs various types of analysis at the direction of more senior staff members. Analyst activities are geared around providing support for senior staff members more directly involved in the decision-making process. Such activities will include research, reporting, monitoring, compliance, and administration.

Investment Analyst

The Investment Analyst assists other investment professionals in their daily operations, including investment research and analysis, trading, and portfolio management. Analysts follow and report current market information relating to assigned sectors of the market. In addition, the Analyst conducts independent research on various topics, performs data maintenance, integrity, and report generation tasks.



**VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN
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OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay plan after working with an independent compensation consultant. In addition, the Board has adopted benchmarks, recommended by an independent investment consultant, to be used as part of this pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay plan is designed to:

- Attract, motivate and retain skilled investment professionals by offering competitive compensation opportunities.
- Directly align compensation with long-term, superior relative and absolute investment performance.
- Reinforce risk management priorities and standards.
- Attract and retain senior investment professionals by deferring a portion of incentive compensation on a tax-deferred basis.
- Benefit all stakeholders – VRS' beneficiaries, VRS' employees, and Virginia's taxpayers – through a compensation plan that is clear, aligned with performance, competitive and cost effective.

Importantly, this pay plan anchors on two broad and long-standing philosophical principles:

1. VRS should pay base salaries consistent with the 75th percentile of a peer group of other leading public funds. The primary guidelines for determining VRS' leading public fund peer group will be (1) funds of similar size (AUM) as VRS and (2) funds with significant (>25%) assets managed internally. Additional criteria the Board may consider is asset allocation / diverse portfolio similar to VRS, degree of delegation to the CIO and staff, use of outside investment consultants, and Board pay decision making authority.
2. VRS should provide incentive compensation opportunities such that, in combination with base salary, total compensation levels approximate the median (50th percentile) of a blended group weighted 75% to the total compensation levels of leading peer group public funds and 25% to the total compensation levels of a broad range of private-sector firms that employ investment professionals.

I. Base Salary

SALARY RANGES

This pay plan establishes a salary range for each job class taking into account its relative importance to VRS and the salaries paid for comparable types of jobs in other leading public funds. Minimum, midpoint, and maximum salary rates define the salary range for each job class/position. The midpoint of each job class/position approximates the 75th percentile of salaries of a peer group of leading public pension funds. Actual salaries can be higher or lower than the midpoint depending on factors such as job performance, professional education and certifications, the willingness to assume new and higher-level duties and responsibilities, the ability to learn quickly and apply new knowledge and skills, being a team player, and the length of time in the position.

Each position's salary range includes a defined:

- **Minimum** - the lowest base salary paid for a job within the job class/position.

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- **Midpoint** - represents the market salary paid to a fully qualified employee, who has the institutional knowledge and practical experience to fulfill independently all of the responsibilities of the job/position.
- **Maximum** - the highest salary rate for the job class/position.

| Grade | Position | Salary Range (\$ Thousands) | | |
|-------|--|-----------------------------|----------|----------|
| | | Min (\$) | Mid (\$) | Max (\$) |
| 10 | Chief Investment Officer/Chief Managing Director | 325 | 430 | 540 |
| 9 | Managing Director | 275 | 365 | 455 |
| 8 | Program Director | 235 | 315 | 395 |
| 7 | Director – Strategy, Research, Risk and/or Investment Decision Support | 205 | 275 | 345 |
| 6 | Senior Portfolio Manager | 205 | 275 | 345 |
| 5 | Portfolio Manager | 160 | 215 | 270 |
| 4 | Senior Investment Officer | 135 | 180 | 225 |
| 3 | Investment Officer | 105 | 140 | 175 |
| 2 | Senior Investment Analyst | 80 | 105 | 130 |
| 1 | Investment Analyst | 65 | 85 | 105 |

In considering the above salary range, it important to note the following:

- **Market Pay Reviews:** The VRS normally conducts a comparative market total pay study generally every two to three years to ensure competitiveness of the salary and incentive structures. Typically, the VRS conducts the study in the 1st quarter of the calendar year with an effective date of July 1 (the beginning of the fiscal year).
- **Changes in Salary Ranges:** The Board must approve changes to the salary scale and incentive structure.

Salary Adjustments

Oversight & Administration

VRS will implement pay actions consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, consistent with the Code of Virginia and the Appropriation Act. The Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

Merit Increases

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees' pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their base salary for that performance cycle. Performance cycles are on a fiscal year basis (July 1 through June 30) and typically begin with an effective date of performance plans in the first quarter of the new fiscal year.

- The CIO will receive base salary increases as approved by the VRS Board of Trustees and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

Starting Salaries

The starting salary for a new employee considers the rates presently paid to other employees in the department and those in the same job class (when applicable), the candidate's education, skills, work experience, and salary history. The starting salary normally does not exceed the salary grade midpoint.

Reallocation

Occurs when a job classification is reviewed by Human Resources and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

In-grade Adjustments

Occur to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, obtainment of a degree or certification, or significant increases in responsibilities within the job class. Unless the CIO authorizes an exception, adjustments will not exceed a 10% increase.

Promotions

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation). Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

Downward Assignment

Downward adjustment occurs when an employee changes positions whether voluntarily, or because of unsatisfactory performance, resulting in a downward change in job class. A reduction in salary may occur based on a review of the salary and range and the circumstances associated with the downward move. In downward assignments, an individual's salary cannot exceed the maximum of the new salary range.

II. Incentive Pay Plan

PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration and Personnel (A&P) Committee, administers the Incentive Plan (Plan) and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supportive of the pay plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.

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- Consistent with the preceding paragraph, payment of incentives under this plan is not guaranteed.

The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible to participate in this incentive plan, provided they:

- Are active VRS employees.
- Work for VRS at least forty hours per week. Plan participants who work less than full-time may be eligible to receive a prorated incentive payment. Wage employees are not eligible to participate in the plan.
- Receive an individual performance evaluation of at least "meets expectations" for the relevant performance year (i.e., the year preceding the normally scheduled year of payment).
- Remain in compliance with the VRS Investment Department Code of Ethics and Standards of Professional Conduct Policy.

| Positions Eligible to Participate in the Investment Professional's Pay Plan |
|---|
| Chief Investment Officer/Chief Managing Director |
| Managing Director – Portfolio Solutions Group |
| Managing Director – Private Market Assets and DC Plans |
| Managing Director – Public Market Assets |
| Program Director |
| Director – Strategy, Research, Risk and/or Investment Decision Support |
| Senior Portfolio Manager |
| Portfolio Manager |
| Senior Investment Officer |
| Investment Officer |
| Senior Investment Analyst |
| Investment Analyst |

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution Plans, with both quantitative and qualitative elements.

Generally, employees on an approved leave of absence are considered active employees. The CIO will resolve all questions regarding eligibility, or in the case of the CIO, eligibility will be determined by the Board.

Participation in this Plan in any one year does not confer the right to participate in this Plan in any other year or to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

OVERALL INCENTIVE PLAN MECHANICS

As described in more detail throughout this document, under the terms of this Plan:

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
 1. Total Fund relative investment performance
 2. Asset Class relative investment performance
 3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
 4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.
- Each participant's preliminary award would equal the sum of all of their performance adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute return. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +9.75%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for a return less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.
 - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute return.
 - All other awards paid in cash.

Generally, a Participant must be employed on the date of payment of the award. However, see INCENTIVE PLAN PROVISIONS, *Termination of Employment Due to Death, Disability or Retirement*.

INCENTIVE OPPORTUNITIES

Incentive opportunities will vary by position based on multiple criteria:

- The position's potential effect on the VRS' investment performance.
- Competitive market pay requirements.
- Internal equity considerations.
- Other factors determined by the CIO or, in the case of the Chief Investment Officer's position, by VRS' Board.

Actual awards can vary based on performance.

For the fiscal year ending June 30, ~~2022~~ **2023**, and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

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| Incentive Levels | |
|--|--------------------------------------|
| VRS Position | Incentive ¹ (% Salary) |
| Chief Investment Officer | 70 ² |
| Chief Managing Director | 70 ² |
| Managing Director – Portfolio Solutions Group | 65 ² |
| Managing Director – Private Market Assets and DC Plans | 65 ² |
| Managing Director – Public Market Assets | 65 ² |
| Program Director | 60 ² |
| Director – Strategy, Research, Risk and/or Investment Decision Support | 50 |
| Senior Portfolio Manager | 50 |
| Portfolio Manager | 40 |
| Senior Investment Officer | 30 |
| Investment Officer | 30 |
| Senior Investment Analyst | 25 <u>20</u> |
| Investment Analyst | 5 <u>10</u> |

¹Performance-adjusted preliminary awards can vary from zero to two times the incentive.

²A portion, up to 50%, of the positions' earned incentives is subject to mandatory deferral.

INCENTIVE WEIGHTINGS

Each participant's incentive award will be weighted or allocated to separate, stand-alone Plan components. Importantly, all participants have a portion of their incentive opportunities weighted:

- To the Total Fund Plan component – which helps reinforce the importance of collective success as measured by the Total Fund's relative investment results.
- To the Qualitative Plan component – this helps reinforce achievement of specific initiatives and professional development.

Described below are the specific Plan weightings and the approach for determining awards under each of these Plan components.

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| Incentive Weightings by Plan Component | | | | | |
|--|--------------|---|---------------|---------------|-------|
| VRS Position | Total Fund % | Asset Class Multipliers % | Asset Class % | Qualitative % | Total |
| | | (% of total incentive weighted to each component) | | | |
| Chief Investment Officer/Chief Managing Director | 60 | 20 ¹ | | 20 | 100 |
| Managing Director – Portfolio Solutions Group | 60 | 20 ¹ | | 20 | 100 |
| Managing Director – Private Market Assets and DC Plans | 40 | 40 ² | | 20 | 100 |
| Managing Director – Public Market Assets | 40 | 40 ³ | | 20 | 100 |
| Program Director | 30 | 50 ⁴ | 50 | 20 | 100 |
| Director – Strategy, Research, Risk and/or Investment Decision Support | 30 | 50 ¹ | | 20 | 100 |
| Senior Portfolio Manager | 20 | | 60 | 20 | 100 |
| Portfolio Manager | 20 | | 60 | 20 | 100 |
| Senior Investment Officer | 20 | 60 ⁴ | 60 | 20 | 100 |
| Investment Officer | 20 | 60 ⁴ | 60 | 20 | 100 |
| Senior Investment Analyst | 20 | 30 ⁴ | 30 | 50 | 100 |
| Investment Analyst | 20 | 30 ⁴ | 30 | 50 | 100 |

¹Average multiplier based on the multipliers of all asset classes under the incumbent's purview.

²The MD Private Market Assets and DC Plans average multiplier is based on the multipliers of private market asset classes under the incumbent's purview.

³The MD Public Market Assets average multiplier is based on the multipliers of the public market asset classes under the incumbent's purview.

⁴These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

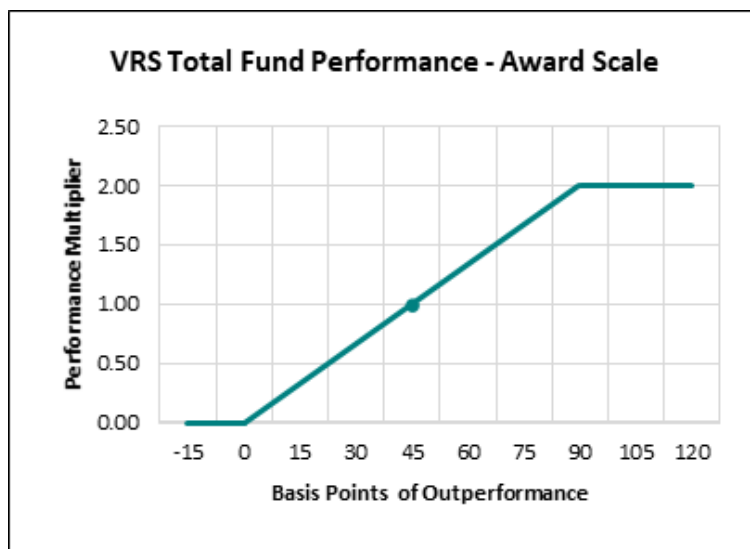
QUANTITATIVE PLAN COMPONENTS

These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 50%).

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and miscellaneous fees.
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS' relative investment performance:
 - Equals zero or less (i.e., no relative value added), then the VRS Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
 - Equals 45 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
 - Equals 90 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
 - Is anywhere between zero and 90 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.

Note: The Board approved the Verus recommended excess return objective (45 basis points) for the Total Fund at the June 15, 2020 meeting with an effective date of July 1, 2020. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (30 basis points) to be used until June 30, 2020, and the new excess return objective (45 basis points) to be used from July 1, 2020 onward.



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- Selected participants whose responsibilities span multiple asset classes may have a portion of their incentive weighted to a component that is determined based on the average multipliers of asset classes they support. The intent of this Plan component is to recognize and reward superior relative investment performance, regardless of the level of the associated assets.

The Board is responsible for setting the basis point outperformance standards for the Total Fund. The CIO is responsible for setting the basis point outperformance standards for individual asset classes, subject to the Board's final review and approval.

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QUALITATIVE PLAN COMPONENT

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion. The CIO obtains input from applicable senior staff regarding individual performance levels to help determine the qualitative rating. The qualitative rating is separate and distinct from the individual's annual performance evaluation rating requirement for plan eligibility. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this plan component will reflect:

- Position and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:
 - Building an effective organization
 - Enhancing investment excellence
 - Developing staff

The Board will annually determine the CIO's qualitative incentive multiplier after assessing attainment of the qualitative performance objectives, considering input and recommendations provided by the A&P Committee.

DETERMINING PRELIMINARY AWARDS

After the end of each fiscal year, a preliminary award will be determined for each Plan participant by aggregating all of their performance multiplier-adjusted weighted Plan components. In particular:

- Performance multipliers will be determined for each Plan component based on actual results.
- Preliminary payouts under each weighted Plan component will be determined by multiplying the incentive dollars weighted to that component by the associated performance multiplier.
- Total preliminary awards would be determined by adding up all of that participant's weighted Plan components.

Illustrated below is this approach for a position with an incentive of \$80,000.

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | |
|----------------|-------------------------------|---|------------------------|---|----------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award **\$91,200**

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DETERMINING FINAL AWARDS

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

Scenario #1: The Total Fund's One-Year Absolute Return Is +5%

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | |
|----------------|-------------------------------|---|------------------------|---|----------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award **\$91,200**
 X no adjustment _____ **0%**

Final Award **\$91,200**

Scenario #2: The Total Fund's One-Year Absolute Return Is 9.75%

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | Actual Award |
|----------------|-------------------------------|---|------------------------|---|--------------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award **\$91,200**

X 1+ Total Fund's One-Year Rate of Return
 Less Assumed Rate of Return _____ **103%**

Final Award **\$93,936**

Scenario #3: The Total Fund's One-Year Absolute Return Is -15%

| Plan Component | Weighted Portion of Incentive | | Performance Multiplier | | Actual Award |
|----------------|-------------------------------|---|------------------------|---|--------------|
| Total Fund | \$16,000 | X | 1.50 | = | \$24,000 |
| Asset Class | 48,000 | X | 1.00 | = | 48,000 |
| Qualitative | 16,000 | X | 1.20 | = | 19,200 |

Preliminary Award **\$91,200**

X 1+ Total Fund's One-Year Rate of Return _____ **85%**

Final Award **\$77,520**

PAYING OUT FINAL AWARDS

Board Review

Prior to payout of any and/or all awards, the CIO will present a schedule of aggregate incentives to the Board of Trustees, through the A&P Committee, in advance. This report will include, in aggregate, the awards, the multipliers awarded for each component, the actual dollar awards earned for each component and the total awards. Internal Audit and Human Resources will review the calculations. As requested by the A&P Committee, the CIO will provide additional information prior to the Board approving the payout of any and/or all awards.

Final Award Payout

Final awards will be paid out as follows:

- For VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards paid 100% in cash.

Timing of Cash Payouts

When the Board approves incentive awards, the VRS will make payments between July 1 and December 31 after VRS' fiscal year end.

-

INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this pay plan:***
 - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
 - Promoted employees and employees who transfer into another position covered in this pay plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage for each position held during the fiscal year.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of "Does Not Meet Expectations" are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). The incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the A&P Committee for the CIO's position, participants who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the plan.
- ***Clawback:*** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

III. Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP)

PARTICIPATION

This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- Deferrals into this plan only occur in years when VRS' Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS' Board decides to pay incentive awards, 50% of participants' final awards up to specified IRC § 415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

INVESTMENT RETURN

Participants' deferred accounts in the DCPIP and the § 415(m) plan will earn an "investment return" (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

FUND TRANSFERS AND DISTRIBUTIONS

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

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TAXATION

Taxation of the amount contributed to the DCPIP and § 415(m) plans is deferred until distribution from the respective plan.

IV. Other Compensation Plan Information

Competitive Pay Increases

Competitive pay increases are an option available to retain a highly valued employee who has received a job offer from another employer. Requests for competitive pay increases should take into consideration the employee's experience, level of education, performance and contribution to the agency, and the salaries of other employees in comparable jobs. A written job offer must be received to provide a competitive pay increase.

Sign-on Bonuses

Investment professionals hired at the VRS may be eligible for sign-on bonuses, as described in the VRS Employee Sign-on Bonus Program Policy.

Relocation Expenses

Investment professionals hired at the VRS may be eligible for reimbursement of relocation expenses, if approved by the CIO. The reimbursement of the expenses must comply with the Department of Accounts Moving and Relocation Policy.

Employment at Will

The investment employees covered by this policy are exempt from the provisions of the Virginia Personnel Act and employment in these positions is at will. Just as the employee retains the right to resign at any time, the VRS has a similar right to end at will employment with or without cause. An at-will employee does not serve an introductory period. An at-will employee is not eligible to use the agency's grievance procedure to resolve employment disputes.

Investment employees covered by this policy are eligible for all other employment benefits and subject to agency policies that do not contradict their "at will" status.

409A Compliance

The intent of the Board is that payments and benefits under this plan either comply with Section 409A of the Internal Revenue Code and applicable guidance issued thereunder ("Code Section 409A") or qualify for an exemption from Code Section 409A and, accordingly, all provisions of this Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. The Board shall not take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A to the extent Code Section 409A applies to such payment or benefit. Notwithstanding any of the provisions of this pay plan, the Board shall not be liable to the employee if any payment or benefit which is to be provided pursuant to this Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

CLASS STRUCTURE

The following descriptions are the summaries of VRS' investment professional job classes/positions:

Chief Investment Officer

The CIO manages and directs investment programs, determines appropriate program structure, implementation, and monitoring. The CIO manages investment professionals who are directly responsible for internal and external investment programs. The CIO heads the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The CIO collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

Managing Director

The Managing Director is a senior investment position reporting directly to the CIO. This position serves on the Investment Executive and Management Committees. The Executive Committee is a department wide resource to the CIO for management and administrative issues. The Management Committee participates in asset allocation and manager/fund allocation decisions.

Program Director

The Program Director has deep asset class knowledge and carries full managerial responsibility for a VRS investment program, including all internally and externally managed assets. The Program Director may also support multiple asset classes. The Program Director participates on the Investment Management Committee and regularly presents information to the IAC and the Board. The Program Director, as applicable, operates within an explicit risk budget and has investment performance objectives that are regularly measured. The Program Director has full responsibility for negotiating on behalf of VRS.

Director - Strategy, Research, Risk and/or Investment Decision Support

Strategy – The position within Strategy identifies and evaluates relative value-based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The position within Research has responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

Risk – The position within Risk has responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of a diverse collection of strategies designed to have low or negative correlation to other VRS asset classes.

Investment Decision Support – The position within Investment Decision Support has responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data

warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

Senior Portfolio Manager

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers. The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience and sustained performance for the incumbents.

Portfolio Manager

The Portfolio Manager provides critical input to strategy development and is responsible for the more complicated and higher risk investments. The Portfolio Manager may delegate to the Senior Investment Officer certain portions of the investment program. The Portfolio Manager will begin to negotiate terms on behalf of VRS. The Portfolio Manager, from time to time, makes presentations and recommendations to the Management Committee, and perhaps the IAC and Board.

The Portfolio Manager supporting the Defined Contribution Plans is a senior investment position reporting directly to the Managing Director - Private Market Assets and DC Plans. This position provides critical input to the design, implementation, and monitoring of all investment related aspects of the VRS defined contribution plans (DC). Responsibilities include (1) evaluation and selection of new investment strategies, managers and/or funds, (2) negotiating terms on behalf of VRS, (3) monitoring and management of relationships with existing defined contribution investment managers, (4) implementing investment policy as determined by the VRS Board, (5) presenting to the Defined Contribution Plans Advisory Committee and the Board, and (6) any other projects or duties relating to the defined contribution program as may be assigned from time to time.

Senior Investment Officer

The Senior Investment Officer has higher level monitoring responsibilities that tend to involve higher risk and strategies that are more complicated. Some Senior Investment Officers may have day-to-day responsibilities for managing internal portfolios, subject to risk limits prescribed by the program director. The Senior Investment Officer will increasingly become involved in strategy development and formal recommendations to the Program Director.

Investment Officer

The Investment Officer, in addition to analytical responsibilities, may have direct responsibility for monitoring some portion of the existing portfolio, or some strategies or managers under consideration in the future. Such assignments will typically be in lower risk and less complicated strategies. The Investment Officer may continue to be involved in monitoring, compliance, and administration, but will also begin to make formal investment recommendations to the Program Director.

Senior Investment Analyst

The Senior Investment Analyst performs various types of analysis at the direction of more senior staff members. Analyst activities are geared around providing support for senior staff members more directly involved in the decision-making process. Such activities will include research, reporting, monitoring, compliance, and administration.

Investment Analyst

The Investment Analyst assists other investment professionals in their daily operations, including investment research and analysis, trading, and portfolio management. Analysts follow and report current market information relating to assigned sectors of the market. In addition, the Analyst conducts

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independent research on various topics, performs data maintenance, integrity, and report generation tasks.



Investment Compensation Program Review

April 2022

Competitive Market Trends

Public Funds

- YE 2020 salaries and total cash compensation stay the course (i.e., up low single digits for those that received pay increases).
- While many funds froze pay last year due to the pandemic, these freezes have been lifted as the labor market and asset levels have rebounded.
- Significant turnover for EDs and CIOs across leading public funds, mostly due to retirements and to departures to the private sector (e.g., Maryland SRPS, North Dakota, New Mexico PERA, PA PSERS, CalSTRS, MOSERS, CalPERS, Penn SERS).
- Many funds continue to struggle in their executive search efforts, often due to: prohibitions about use of search firms, pay-related limitations/constraints, perceptions of challenging internal politics, and a robust labor market in the private sector (e.g., asset management firms, OCIOs, E&Fs, family offices, etc.).
- Many funds explore remote long-term work opportunities

Private Sector

- YE 2021 Market: The BIG maybe. The best pay year in over 20 years: high-water-mark absolute pay, the highest year-over-year percentage change in pay funding. In particular, if financial markets remain flat through year-end, then within diversified firms:
 - Bonus pools should be up 20% or more, driving payouts of 30%+ for top-performing senior-level employees.
 - Profits should be up by about the same amount.
- Hiring has normalized – Covid-related restraints have been lifted
- The HR agenda is largely focused on:
 1. Defining what return-to-the office really means:
 - The tactical: What are the protocols related to masks, vaccines, office space, etc.?
 - The soft stuff: How to drive innovation, reinforce culture, and assimilate new hires?
 2. DE&I. While a top strategic priority, quantitative progress will likely continue to fall short of stated objectives, given:
 - Low turnover and net hiring trending at about +5%.
 - An especially tight labor market for women and diverse talent – especially in investments.
 3. Supporting business change, often focused on tech, alternatives and non-US operations.

Introduction & Methodology

- Virginia Retirement System Board of Trustees (“VRS”) asked McLagan to assess the competitiveness of VRS’ investment professionals’ pay levels versus their Board-approved targeted pay positioning. Specifically, for:
 - Salaries, VRS targets the 75th percentile of leading public pension funds.
 - Target total compensation, VRS targets median total cash (weighted 75% to leading public pension funds and 25% to a broad range of private sector firms).
- In reviewing its current pay levels, VRS would like to ensure that it continues to:
 - Attract, motivate and retain its skilled investment professionals.
 - Benefit all stakeholders through a compensation plan that is clear, aligned with performance, competitive and cost effective.
 - Directly align compensation with long-term investment performance.
- To complete this review, McLagan:
 - Reviewed background materials provided by VRS (e.g., plan documents, JLARC reviews, updated survey matches, etc.).
 - Assembled pay data from McLagan’s proprietary *2020 Investment Management Surveys* for VRS’ long-standing blended peer group (weighted 75% to leading public funds and 25% to a broad range of private sector firms).
- In addition, McLagan also reviewed VRS’ current incentive plan structure which can be found later in this document.

Pay Level Analysis

■ **Base Salary**

- In aggregate, VRS’ base salary spend for 50 investment professionals of \$9.9M was positioned -9% below the targeted \$10.9M 75th percentile.

| | VRS Inv Prof | | Targeted Pay Positioning | Competitive Market | | | VRS Variance vs. Targeted Positioning |
|-------------|--------------|---------|--------------------------|--------------------|---------|----------|---------------------------------------|
| | # of Incs | Spend | | 25th | 50th | 75th | |
| Base Salary | 50 | \$9,933 | 75th %ile Public Funds | \$8,768 | \$9,829 | \$10,953 | -9% |

■ **Target Total Compensation**

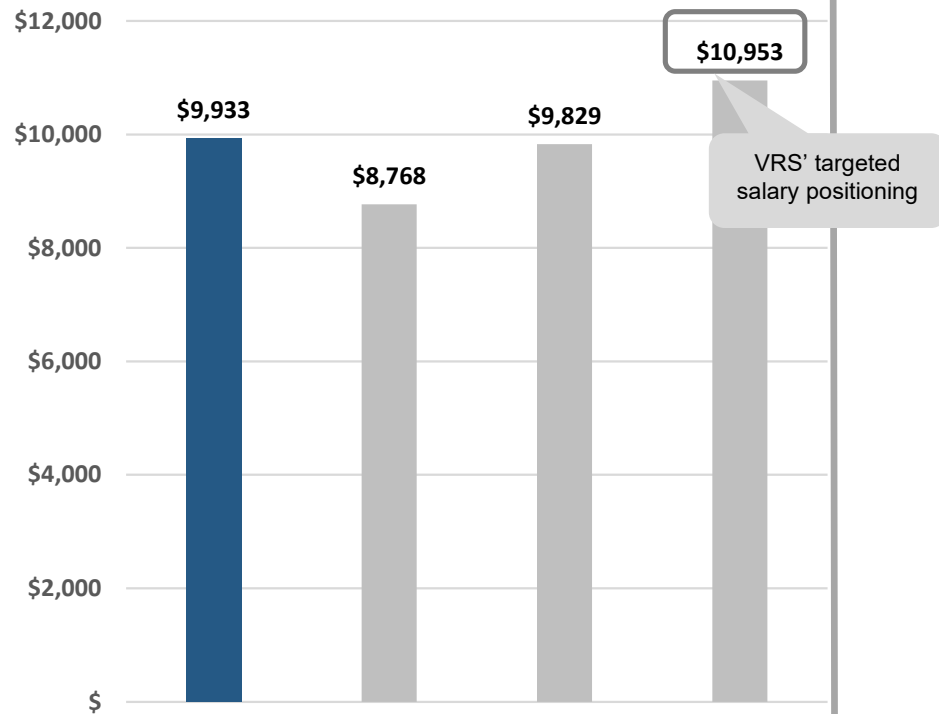
- VRS’ aggregate \$14.6M target total compensation (i.e., base salary + target incentives) fell 14% below the targeted \$17.0M median.

| | VRS Inv Prof | | Targeted Pay Positioning | Competitive Market | | | VRS Variance vs. Targeted Positioning |
|-------------------|--------------|----------|--------------------------|--------------------|----------|----------|---------------------------------------|
| | # of Incs | Spend | | 25th | 50th | 75th | |
| Target Total Comp | 50 | \$14,623 | Med 75% / 25% Blend | \$13,114 | \$17,027 | \$24,247 | -14% |

Overview – Base Salaries and Target Total Cash

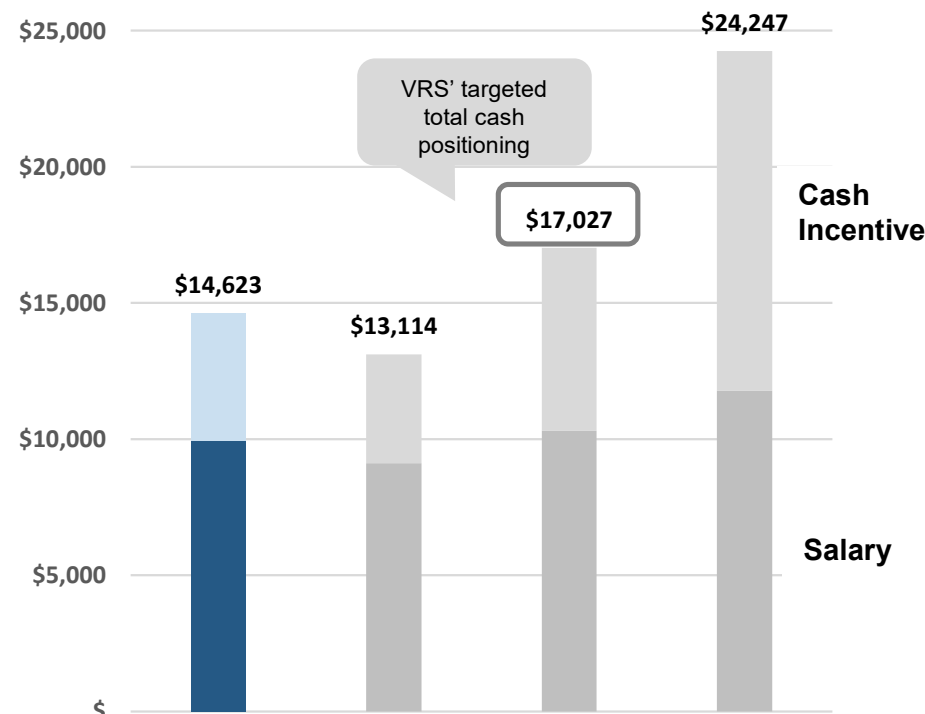
Aggregate spend for 50 VRS incumbents

VRS' Salaries vs. Leading Public Funds



| | VRS | Leading Public Funds | | |
|----------|---------|----------------------|---------|----------|
| | | 25th | 50th | 75th |
| Salary | \$9,933 | \$8,768 | \$9,829 | \$10,953 |
| Variance | | 13% | 1% | -9% |

VRS' Target Total Cash vs. 75/25 Blend



| | VRS | 75th Pub Fund / 25% Priv Sect | | |
|-------------------|-----------------|-------------------------------|-----------------|-----------------|
| | | 25th | 50th | 75th |
| Salary | \$9,933 | \$9,115 | \$10,301 | \$11,771 |
| Cash Incentive | \$4,689 | \$3,999 | \$6,726 | \$12,476 |
| Total Cash | \$14,623 | \$13,114 | \$17,027 | \$24,247 |
| Variance | | 12% | -14% | -40% |

Note: VRS' Pay Philosophy is to target base salaries at the 75th percentile of leading public funds with total cash compensation targeted at the median of the 75/25 blended peer group.

Pay Level Analysis Base Salaries

- In aggregate, VRS' salary spend is positioned 9% below the 75th percentile of other leading public funds. 76% of staff are paid below the 75th percentile.
- The incumbent-weighted positioning is driven by the more junior levels, whose aggregate salary spend fell 14%, 27% and 13% below the market 75th percentile, respectively.

| VRS Investment Management | Salary | # EEs Matched | Leading Public Funds Base Salary | | | Positioning vs 75th Percentile | | VRS vs 75th |
|---------------------------|----------------|---------------|----------------------------------|----------------|-----------------|--------------------------------|------------|-------------|
| | | | 25th | 50th | 75th | % Under | % Over | |
| Chief Investment Officer | \$470 | 1 | \$397 | \$450 | \$546 | 100% | 0% | -14% |
| Managing Director | 1,000 | 3 | 757 | 881 | 983 | 33% | 67% | 2% |
| Program Director | 2,040 | 7 | 1,690 | 1,863 | 1,996 | 43% | 57% | 2% |
| Director | 1,142 | 5 | 1,013 | 1,138 | 1,251 | 80% | 20% | -9% |
| Senior Portfolio Manager | 461 | 2 | 398 | 454 | 499 | 50% | 50% | -7% |
| Portfolio Manager | 2,518 | 13 | 2,201 | 2,494 | 2,800 | 77% | 23% | -10% |
| Senior Investment Officer | 1,088 | 7 | 1,000 | 1,119 | 1,270 | 86% | 14% | -14% |
| Investment Officer | 952 | 9 | 1,057 | 1,158 | 1,308 | 100% | 0% | -27% |
| Senior Investment Analyst | 262 | 3 | 256 | 273 | 302 | 100% | 0% | -13% |
| Total | \$9,933 | 50 | \$8,768 | \$9,829 | \$10,953 | 76% | 24% | -9% |

Base Salaries + Target Incentives

- While salaries are largely competitive across all levels, target total cash is less competitive. In aggregate, VRS' target total compensation spend fell 14% below the median of the 75/25 blended peer group.
- 88% of VRS incumbents have target total cash levels below the targeted median of the 75/25 blended peer group.
- It is important to note that all positions have the opportunity to earn more than median compensation for maximum levels of performance (see Appendix).

| VRS Investment Management | T. Cash | # EEs Matched | Blended Peer Group | | | Positioning vs 75th Percentile | | VRS vs 50th |
|---------------------------|-----------------|---------------|--------------------|-----------------|-----------------|--------------------------------|------------|-------------|
| | | | 25th | 50th | 75th | % Under | % Over | |
| Target Total Cash | | | | | | | | |
| Chief Investment Officer | \$798 | 1 | \$619 | \$794 | \$1,114 | 0% | 100% | 0% |
| Managing Director | 1,650 | 3 | 1,430 | 1,917 | 3,041 | 100% | 0% | -14% |
| Program Director | 3,264 | 7 | 2,729 | 3,610 | 5,741 | 100% | 0% | -10% |
| Director | 1,713 | 5 | 1,813 | 2,329 | 3,352 | 100% | 0% | -26% |
| Senior Portfolio Manager | 692 | 2 | 645 | 908 | 1,387 | 100% | 0% | -24% |
| Portfolio Manager | 3,526 | 13 | 2,977 | 4,003 | 5,473 | 77% | 23% | -12% |
| Senior Investment Officer | 1,415 | 7 | 1,299 | 1,642 | 1,952 | 100% | 0% | -14% |
| Investment Officer | 1,238 | 9 | 1,311 | 1,489 | 1,774 | 89% | 11% | -17% |
| Senior Investment Analyst | 327 | 3 | 291 | 334 | 415 | 67% | 33% | -2% |
| Total | \$14,623 | 50 | \$13,114 | \$17,027 | \$24,247 | 88% | 12% | -14% |

Pay Level Analysis

VRS Midpoints

- While the previous pages focused on actual salaries and incentive opportunities, the below analysis focuses on VRS' target midpoints.
- Most targeted salary midpoints fell slightly below the public fund 75th percentile while most targeted total compensation midpoints fell below the median of the targeted 75/25 blend.

| Position | Salary Grade | Base Salary | | | Sal + Target Incentive | | | |
|--|--------------|-------------|---------------|------------|------------------------|-------------|--------------|------------|
| | | Current Mid | Pub Fund 75th | Variance % | % Sal | Current Mid | 75/25 Median | Variance % |
| Chief Investment Officer | 12 | 408 | 546 | -25% | 70% | 694 | 794 | -13% |
| Deputy Chief Investment Officer | 11 | 336 | -- | -- | 65% | 554 | -- | -- |
| Managing Director | 10 | 326 | 328 | -1% | 65% | 538 | 639 | -16% |
| Program Director | 9 | 265 | 285 | -7% | 60% | 424 | 516 | -18% |
| Director - Strategy, Research, or Risk | 8 | 242 | 250 | -3% | 50% | 363 | 466 | -22% |
| Senior Portfolio Manager | 7 | 242 | 249 | -3% | 50% | 363 | 454 | -20% |
| Portfolio Manager | 6 | 210 | 215 | -2% | 40% | 294 | 308 | -5% |
| Risk Manager, Research Manager | 5 | 188 | -- | -- | 30% | 244 | -- | -- |
| Senior Investment Officer | 4 | 155 | 181 | -15% | 30% | 202 | 235 | -14% |
| Investment Officer | 3 | 116 | 145 | -20% | 30% | 151 | 165 | -9% |
| Senior Investment Analyst | 2 | 94 | 101 | -6% | 25% | 118 | 111 | 6% |
| Investment Analyst | 1 | 77 | -- | -- | 5% | 81 | -- | -- |

Pay Level Analysis

VRS' Current and Proposed Salary Ranges

The survey data used in this exhibit differs from the prior pages. The data used on slides 10 & 11 has been aged to reflect the most recent performance year.

- To remain competitive with other leading public funds, McLagan proposes the below changes to VRS' salary range structure:
 - Proposed changes to the current salary range using VRS target midpoints (75th percentile of public fund peers).
 - Compress the below levels:
 - Deputy CIO and Managing Director
 - Portfolio Manager and Manager

| Grade | Position | Current Salary Range | | | PF 75th %ile | Proposed Salary Range | | |
|-------|---------------------------------|----------------------|-------|-------|-----------------|-----------------------|-------|-----|
| | | Min | Mid | Max | | Min | Mid | Max |
| 12 | Chief Investment Officer | \$327 | \$408 | \$489 | \$579 | 325 | \$430 | 540 |
| 11 | Deputy Chief Investment Officer | 269 | 336 | 403 | 364 | 275 | 365 | 455 |
| 10 | Managing Director | 260 | 326 | 391 | 348 | | | |
| 9 | Program Director | 212 | 265 | 317 | 303 | 235 | 315 | 395 |
| 8 | Director | 193 | 242 | 290 | 265 | 205 | 275 | 345 |
| 7 | Senior Portfolio Manager | 193 | 242 | 290 | 265 | 205 | 275 | 345 |
| 6 | Portfolio Manager | 168 | 210 | 251 | 228 | 160 | 215 | 270 |
| 5 | Manager | 150 | 188 | 225 | -- | | | |
| 4 | Senior Investment Officer | 124 | 155 | 185 | 192 | 135 | 180 | 225 |
| 3 | Investment Officer | 92 | 116 | 139 | 154 | 105 | 140 | 175 |
| 2 | Senior Investment Analyst | 75 | 94 | 113 | 107 | 80 | 105 | 130 |
| 1 | Investment Analyst | 61 | 77 | 91 | 88 | 65 | 85 | 105 |

Note: The Public Fund survey data has been aged 3% per year from 2020 to 2022 for base salaries.

VRS' Proposed Salaries & Target Total Comp

The survey data used in this exhibit differs from the prior pages. The data used on slides 10 & 11 has been aged to reflect the most recent performance year.

- Incorporating VRS' current target incentives (as a percent of salary) and proposed salary ranges, the variance to market median total cash is approximately +/- 10% in all instances except for the Director and Senior Portfolio Manager levels.

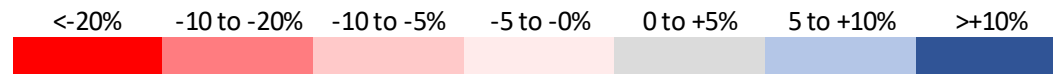
| Position | Salary Grade | VRS - Proposed Salary Range | | | Sal + Target Incentive | | | | | | |
|-----------------------------|--------------|-----------------------------|----------|---------|------------------------|---------|----------|---------|--------------|-------------|------------|
| | | | | | Target T.Comp Range | | | | 75/25 Median | Variance \$ | Variance % |
| | | Minimum | Midpoint | Maximum | IC % Sal | Minimum | Midpoint | Maximum | | | |
| Chief Investment Officer | 10 | \$325 | \$430 | \$540 | 70% | \$553 | \$731 | \$918 | \$832 | -\$101 | -12% |
| Dep CIO / Managing Director | 9 | 275 | 365 | 455 | 65% | 454 | 602 | 751 | 670 | -67 | -10% |
| Program Director | 8 | 235 | 315 | 395 | 60% | 376 | 504 | 632 | 540 | -36 | -7% |
| Director | 7 | 205 | 275 | 345 | 50% | 308 | 413 | 518 | 484 | -72 | -15% |
| Senior Portfolio Manager | 6 | 205 | 275 | 345 | 50% | 308 | 413 | 518 | 484 | -72 | -15% |
| Portfolio Manager / Manager | 5 | 160 | 215 | 270 | 40% | 224 | 301 | 378 | 323 | -22 | -7% |
| Senior Investment Officer | 4 | 135 | 180 | 225 | 30% | 176 | 234 | 293 | 246 | -12 | -5% |
| Investment Officer | 3 | 105 | 140 | 175 | 30% | 137 | 182 | 228 | 173 | 9 | 5% |
| Senior Investment Analyst | 2 | 80 | 105 | 130 | 20% | 96 | 126 | 156 | 117 | 9 | 8% |
| Investment Analyst | 1 | 65 | 85 | 105 | 10% | 72 | 94 | 116 | -- | -- | -- |

Note: The Public Fund survey data has been aged 3% per year from 2019 to 2021 for total cash compensation. The private sector data has been aged 7% per year from 2019 to 2021 for total cash compensation.

Investment Professional Total Compensation 2017 - 2020

- Overall, total compensation for all employees within US public funds tends to increase modestly each year (approximately +0% to +4%).
- Investment functions however, have seen larger increases each year. Since 2017, total compensation for investment professionals within public funds has increased low- to mid-single digits at median.
- Important to note, the below covers only constant incumbents (present in all three years) and those within the investment functions (e.g., portfolio management, research, trading, etc.).

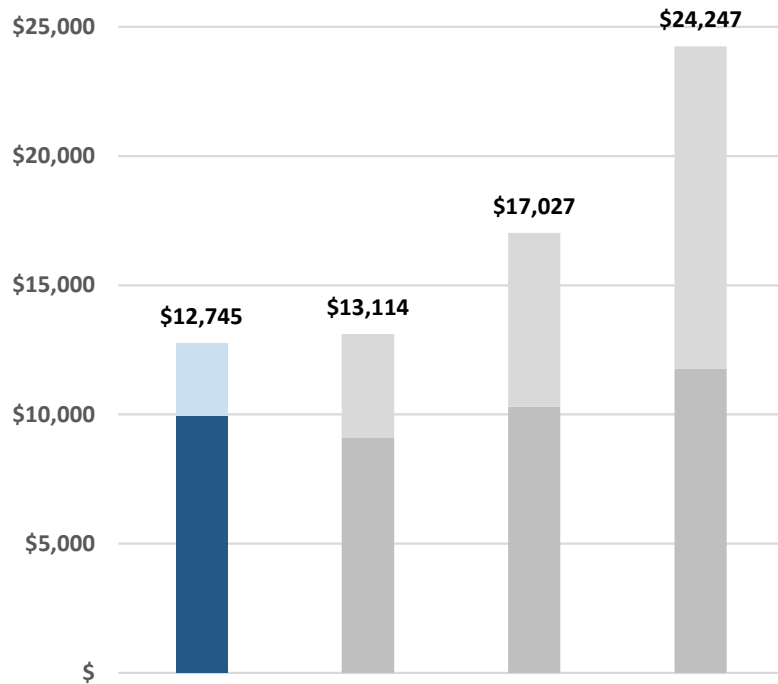
| Investment Only | All Constant Incs | | | Only Bonus Eligible Constant Incs | | |
|--------------------|------------------------|------------|------------|-----------------------------------|------------|------------|
| | % Δ Total Compensation | | | % Δ Total Compensation | | |
| | '17 to '18 | '18 to '19 | '19 to '20 | '17 to '18 | '18 to '19 | '19 to '20 |
| \$0 - \$100K | 8% | 8% | 5% | 9% | 7% | 4% |
| \$100K - \$200K | 6% | 5% | 3% | 7% | 5% | 3% |
| \$200K - \$300K | 4% | 7% | 2% | 4% | 7% | 3% |
| \$300K - \$500K | 2% | 6% | 5% | 2% | 7% | 5% |
| \$500K+ | 3% | 0% | 4% | 3% | 0% | 4% |
| # of Constant Incs | 1,565 | | | 958 | | |



Appendix I

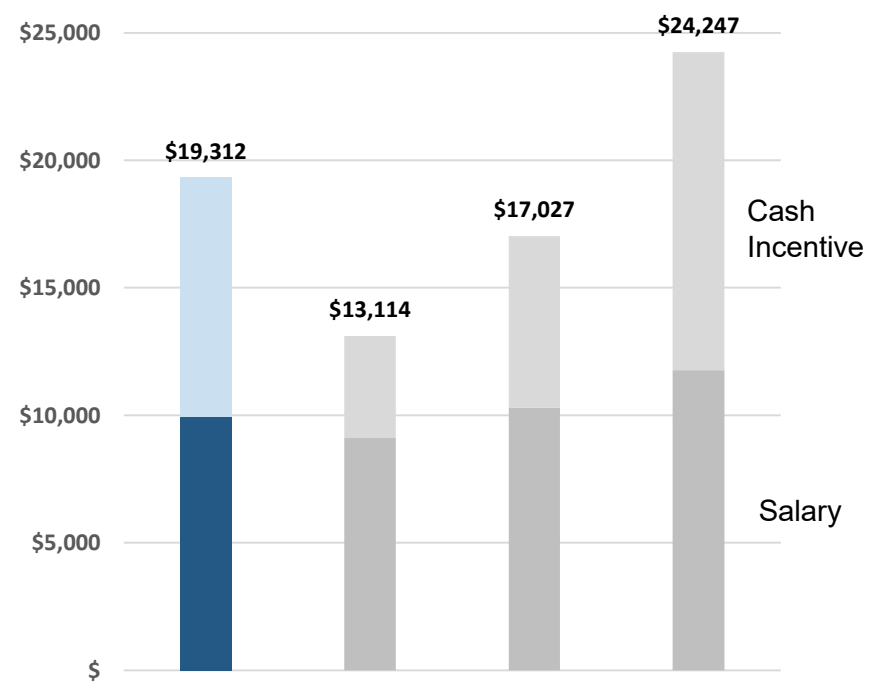
Overview – Maximum and Actual Total Cash

VRS' Actual Total Cash vs. 75/25 Blend



| | VRS | 75th Pub Fund / 25% Priv Sect | | |
|-------------------|-----------------|-------------------------------|-----------------|-----------------|
| | | 25th | 50th | 75th |
| Salary | \$9,933 | \$9,115 | \$10,301 | \$11,771 |
| Cash Incentive | \$2,811 | \$3,999 | \$6,726 | \$12,476 |
| Total Cash | \$12,745 | \$13,114 | \$17,027 | \$24,247 |
| Variance | | -3% | -25% | -47% |

VRS' Maximum Total Cash vs. 75/25 Blend



| | VRS | 75th Pub Fund / 25% Priv Sect | | |
|-------------------|-----------------|-------------------------------|-----------------|-----------------|
| | | 25th | 50th | 75th |
| Salary | \$9,933 | \$9,115 | \$10,301 | \$11,771 |
| Cash Incentive | \$9,379 | \$3,999 | \$6,726 | \$12,476 |
| Total Cash | \$19,312 | \$13,114 | \$17,027 | \$24,247 |
| Variance | | 47% | 13% | -20% |

Base Salaries + Maximum Incentives

- Consistent with its pay philosophy, all VRS positions have the opportunity to earn above-median pay for superior performance (e.g., all incentive components at maximum). As with previous years, VRS' \$19.3M maximum total cash falls between the \$17.0M median and \$24.2M 75th percentile.

| VRS Investment Management | T. Cash | # EEs Matched | Blended Peer Group T. Cash | | | Positioning vs 75th Percentile | | VRS vs 50th |
|---------------------------|-----------------|---------------|----------------------------|-----------------|-----------------|--------------------------------|------------|-------------|
| | | | 25th | 50th | 75th | % Under | % Over | |
| Maximum Total Cash | | | | | | | | |
| Chief Investment Officer | \$1,127 | 1 | \$619 | \$794 | \$1,114 | 0% | 100% | 42% |
| Managing Director | 2,301 | 3 | 1,430 | 1,917 | 3,041 | 33% | 67% | 20% |
| Program Director | 4,488 | 7 | 2,729 | 3,610 | 5,741 | 0% | 100% | 24% |
| Director | 2,284 | 5 | 1,813 | 2,329 | 3,352 | 60% | 40% | -2% |
| Senior Portfolio Manager | 923 | 2 | 645 | 908 | 1,387 | 50% | 50% | 2% |
| Portfolio Manager | 4,533 | 13 | 2,977 | 4,003 | 5,473 | 15% | 85% | 13% |
| Senior Investment Officer | 1,741 | 7 | 1,299 | 1,642 | 1,952 | 29% | 71% | 6% |
| Investment Officer | 1,524 | 9 | 1,311 | 1,489 | 1,774 | 56% | 44% | 2% |
| Senior Investment Analyst | 393 | 3 | 291 | 334 | 415 | 0% | 100% | 18% |
| Total | \$19,312 | 50 | \$13,114 | \$17,027 | \$24,247 | 28% | 72% | 13% |

Base Salaries + Actual Earned Incentives

- Based on actual earned incentives, VRS' \$12.7M total cash spend fell 25% below the \$17.0M median reflecting that for these 50 incumbents, actual payouts were below both target and maximum.

| VRS Investment Management | T. Cash | # EEs Matched | Blended Peer Group | | | Positioning vs 75th Percentile | | VRS vs 50th |
|---------------------------|-----------------|---------------|--------------------|-----------------|-----------------|--------------------------------|-----------|-------------|
| | | | 25th | 50th | 75th | % Under | % Over | |
| Actual Total Cash | | | | | | | | |
| Chief Investment Officer | \$602 | 1 | \$619 | \$794 | \$1,114 | 100% | 0% | -24% |
| Managing Director | 1,402 | 3 | 1,430 | 1,917 | 3,041 | 100% | 0% | -27% |
| Program Director | 2,742 | 7 | 2,729 | 3,610 | 5,741 | 86% | 14% | -24% |
| Director | 1,645 | 5 | 1,813 | 2,329 | 3,352 | 100% | 0% | -29% |
| Senior Portfolio Manager | 512 | 2 | 645 | 908 | 1,387 | 100% | 0% | -44% |
| Portfolio Manager | 3,114 | 13 | 2,977 | 4,003 | 5,473 | 92% | 8% | -22% |
| Senior Investment Officer | 1,310 | 7 | 1,299 | 1,642 | 1,952 | 100% | 0% | -20% |
| Investment Officer | 1,119 | 9 | 1,311 | 1,489 | 1,774 | 100% | 0% | -25% |
| Senior Investment Analyst | 299 | 3 | 291 | 334 | 415 | 100% | 0% | -10% |
| Total | \$12,745 | 50 | \$13,114 | \$17,027 | \$24,247 | 96% | 4% | -25% |

Leading Public Funds Peer Group

| Leading Public Funds Peer Group | | |
|--|---------------|----------------------|
| | AUM | % Internally Managed |
| California Public Employees' Retirement System | \$394.7 | |
| California State Teachers' Retirement System | 254.1 | |
| New York State & Local Retirement System | 225.9 | |
| Florida State Board Administration | 169.7 | |
| Teacher Retirement System of Texas | 160.0 | |
| New York State Teachers' Retirement System | 125.6 | |
| Washington State Investment Board | 107.5 | |
| State of Wisconsin Investment Board | 116.5 | |
| Ohio Public Employees' Retirement System | 104.2 | |
| State Teachers Retirement System of Ohio | 71.5 | |
| Michigan State Retirement Systems | 77.7 | |
| Colorado Public Employees Retirement Association | 52.0 | |
| Hig Quartile | \$183.8 | 61% |
| Median | 121.0 | 51% |
| Low Quartile | 97.6 | 43% |
| Virginia Retirement System | \$92.1 | 29% |

*Amounts for VRS were provided by VRS to McLagan.

Private Sector Firm Summary

| All Private Sector | | | | |
|---|------------|---------------------------|---------------|----------------|
| | # Firms | 12/31/19 AUM (\$Billions) | | |
| | | LowQ | Median | HighQ |
| Investment Mangement Firms | 162 | \$14.9 | \$53.1 | \$218.6 |
| Banks (Investment Management Department) | 24 | 15.8 | 38.6 | 88.6 |
| Insurance Companies (Investment Management Departments) | 39 | 26.1 | 63.1 | 97.3 |
| Endowments & Foundations | 54 | 1.9 | 3.3 | 7.2 |
| Corporate Plan Sponsors | 11 | 1.7 | 6.0 | 17.6 |
| Total | 290 | \$7.0 | \$28.4 | \$101.2 |



Reappoint IAC members and appoint new IAC member.

Requested Action

The Board reappoints Theodore Economou, Thomas Gayner and Lawrence Kochard to the Investment Advisory Committee, each for a two-year term ending September 13, 2024, February 19, 2025, and February 16, 2025, respectively, and appoints Palmer P. Garson for a two-year term ending October 16, 2024.

Rationale for Requested Action

Theodore Economou, Thomas Gayner and Lawrence Kochard currently serve on the Investment Advisory Committee (IAC) and are willing to be reappointed for another two-year term. Mr. Economou most recently served as CIO for Lombard Odier Investment Managers. Mr. Gayner is Co-Chief Executive Officer of Markel Corporation. Mr. Kochard is the Chief Investment Officer at Makena Capital Management.

Palmer P. Garson has been a Managing Director of Silvercrest Asset Management Group since 2013, and she has 30 years of service in the financial services industry, beginning in investment banking and private equity and progressing to wealth management. Earlier in her career, she co-founded Jefferson Capital Partners, a private equity firm, and developed extensive finance experience while working for Morgan Stanley & Co., A.G. Edwards and Mellon Bank. Ms. Garson also served one term as a member of the VRS Board of Trustees from 2005 to 2010. Ms. Garson has a Bachelor of Arts degree from Duke University and a Master of Business Administration from the Darden Graduate School of Business at the University of Virginia. A copy of her biography is attached.

Authority for Requested Action

Code of Virginia § 51.1-124.26 requires the Board to appoint an Investment Advisory Committee to provide the Board with sophisticated, objective, and prudent investment advice, which will further assist the Board in fulfilling its fiduciary duty as trustee of the funds of the Retirement System.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date

THEODORE ECONOMOU, CFA

Board Member and Advisor

- Board positions in Europe, USA and Asia
 - 30-year executive career spanning public corporations and governmental organizations
 - Advising financial & investment organizations representing more than \$100bn in assets
 - Asset management experience covering private assets, public assets and real assets.
-

BOARD AND ADVISORY MANDATES

EUROBANK PRIVATE BANK LUXEMBOURG SA (Luxembourg) 2022 – Present

Member of the Board of Directors

Member of the Audit & Remuneration Committee, and of the Risk Committee.

METHAK INVESTMENT HOLDING (Jeddah, Saudi Arabia) 2022 – Present

Member of the Board of Directors

Methak IH is the investment arm of the Methak Educational Endowment

VIRGINIA RETIREMENT SYSTEM (Virginia, USA) 2013 – Present

Member, Investment Advisory Committee

Attend 3 investment committee and board meetings per year to advise on the management of US\$100 billion in assets owned by the retirement system for the government employees of the commonwealth of Virginia, USA.

CLAREMONT GRADUATE UNIVERSITY (California, USA) 2014 – Present

**Member of the Board, Financial Engineering Advisory Board ,
The Peter Drucker and Masatoshi Ito Graduate School of Management**

Provide guidance and expertise on the use of quantitative strategies by institutional investors

PRIVATE FAMILY TRUST (Geneva, Switzerland) 2013–Present

Advisor & proxy holder

Manage a portfolio of 100 apartments in the city of Geneva.

LOMBARD ODIER PENSION FUND (Geneva, Switzerland) 2014 – 2020

Chair, Investment Committee

Led restructuring of 1.5Bn CHF investment portfolio to target higher performance.

- Restructured Base portfolio around time horizons in order to reconcile return, risk, and liquidity goals and constraints with the Foundation Board requirements • Designed and implemented 1(e) excess pension program launched in January 2018.
- Increased private assets allocation to 30% of total.
- Lombard Odier Pension Fund won « high commendation » at the 2019 Pension Fund Awards sponsored by Investment & Pensions Europe (IPE).

Getting to know Tom Gayner



Thomas "Tom" Gayner is Co-Chief Executive Officer of Markel Corporation, a diverse financial holding company including insurance, reinsurance, and investment operations around the world. Markel is listed on the Fortune 500 and is headquartered in Richmond, Virginia, with 61 offices in 16 countries.

Tom joined Markel in 1990 and oversees all investing activities. He is also responsible for Markel Ventures, a wholly owned subsidiary which acquires controlling interests in manufacturing, technology, and service companies.

Prior to Markel, Tom served as Vice President of Davenport & Company LLC of Virginia and as a certified public accountant with PricewaterhouseCoopers LLP.

Tom serves as the Chairman of the Board of the Davis Series Mutual Funds and on the boards of the Graham Holdings, Cable One, and Markel. He is a member of the Investment Advisory Committee of the Virginia Retirement System.

Tom is a graduate of the University of Virginia and The Lawrenceville School.

Contact

lkochard@gmail.com

www.linkedin.com/in/larry-kochard-4a21b6b (LinkedIn)

Top Skills

Alternative Investments

Hedge Funds

Asset Management

Honors-Awards

Rodney H. Adams Award for
Endowment Management

Publications

Using a Z-score Approach to
Combine Value and Momentum in
Tactical Asset Allocation

Low-Volatility Cycles: The Influence
of Valuation and Momentum on Low-
Volatility Portfolios

Larry Kochard

Chief Investment Officer at Makena Capital Management, LLC
Charlottesville, Virginia, United States

Summary

Larry Kochard is the Chief Investment Officer (CIO) at Makena Capital Management. He is also a Managing Director and a member of the firm's Executive Committee. Larry was previously the Chief Executive Officer and Chief Investment Officer of the University of Virginia Investment Management Company (UVIMCO).

In addition to being CIO of Makena, Larry serves on the board of Janus Henderson Group (where he chairs the compensation committee), is Chair of the Investment Advisory Committee of the Virginia Retirement System, and is on the board of the Virginia Museum of Fine Arts (VMFA). Larry has also served on the boards of the Virginia Environmental Endowment (VEE), VCU Investment Management Co., and The College of William and Mary Foundation (W&M). He chaired the investment committees at VEE and W&M, and is currently a member of the investment committee of the VMFA. He also guest lectures and teaches investment classes at the University of Virginia. Larry is the co-author with Cathleen Rittereiser of *Foundation and Endowment Investing: Philosophies and Strategies of Top Investors and Institutions*. Featuring profiles of successful chief investment officers, the book was published by John Wiley and Sons in December 2007.

Larry holds a BA in Economics from the College of William & Mary, an MBA in Finance and Accounting from the University of Rochester, an MA and PhD in Economics from the University of Virginia, and is a CFA charter holder. He is married and has four children.

Experience

Makena Capital Management, LLC

Chief Investment Officer

January 2018 - Present (4 years 10 months)

Menlo Park, CA

Janus Henderson Group
Board member
2008 - Present (14 years)

UVIMCO
CEO/CIO
January 2011 - December 2017 (7 years)
Charlottesville, VA

Georgetown University
Chief Investment Officer
July 2004 - December 2010 (6 years 6 months)
Manage \$1 billion endowment and seven full-time staff members.

Virginia Retirement System
6 years

Managing Director of Equity and Hedge Fund Investments
2001 - 2004 (3 years)

- Managed \$30 billion of the \$40 billion pension fund for public employees and teachers.
- Managed 16 investment professionals.
- Managed \$27 billion public equity program.
- Public equity portfolio included money managed internally (\$6 billion), in addition to hiring, managing and firing external money managers.
- Portfolio included US and non-US investments.
- Managed \$1.2 billion hedge fund program.
- Managed \$2 billion private equity program.
- Actively involved in asset allocation decisions.
- Managed \$500 million defined contribution program.
- Restructured public equity program.
- Lead staff person on the corporate governance task force (2002).

Member, Investment Advisory Committee
1998 - 2001 (3 years)

The Investment Advisory Committee (IAC) advises the Board of Trustees regarding investments of the pension fund for public employees and teachers in Virginia. The IAC is responsible for advising the Board on recommendations made by the staff regarding the merits of active and passive investment strategies, as well as internal and external investment programs. The IAC recommends long-term asset allocation ranges and new asset classes for

approval by the Board of Trustees, and approves target asset allocations within the long-term ranges.

1990 to 1993

This period was spent in Sacramento, California, recuperating from an illness. During this time I volunteered to manage Muriel Johnson's campaign for Sacramento County Supervisor (she won and is completing her eleventh year in office), and started preparations for my doctoral studies in Economics.

Goldman Sachs

Vice President

1986 - 1989 (3 years)

Capital Markets

- Capital markets Coverage Officer for Savings & Loans, Mortgage Banks and Government Agencies.
- Helped clients manage the liability side of their balance sheets.
- Coordinated the execution of new debt and preferred issues in the public and private markets.
- Assisted clients with hedging interest rate and currency risks.
- Helped clients manage their capital structure through innovative financing approaches.

Education

University of Virginia

Ph.D., Economics · (1994 - 1999)

University of Virginia

MA, Economics · (1996)

University of Rochester - William E. Simon Graduate School of Business Administration

MBA, Finance and Accounting · (1978 - 1980)

William & Mary

VA, Economics · (1974 - 1978)

Palmer P. Garson**Managing Director – Silvercrest Asset Management Group**

Palmer P. Garson joined Silvercrest Asset Management as a Managing Director in 2013. Palmer's more than 30-year career in financial services began in investment banking and private equity and progressed to wealth management. Earlier in her career, she co-founded Jefferson Capital Partners, a private equity firm, and developed extensive finance experience while working for Morgan Stanley & Co., A.G. Edwards and Mellon Bank. Palmer currently serves as a trustee for the Mary Morton Parsons Foundation, the Virginia Foundation of Independent Colleges and Saint Mary's School. She has served on numerous investment committees and is currently active with VCIMCO (VCU's Endowment), Randolph College, Virginia Foundation of Independent Colleges, Saint Mary's School (chair) and The Order of St. John. Palmer has also been active with Collegiate School where she was board chair on two separate occasions. She is also a former trustee for the Duke Alumni Association and the Darden School Foundation. Palmer has a Bachelor of Arts degree from Duke University and a Master of Business Administration from the Darden Graduate School of Business at the University of Virginia.



Amend Board governance documents to reflect the renaming of the Administration and Personnel Committee to the Administration, Finance and Talent Management Committee.

Requested Action

The Virginia Retirement System Board of Trustees approves amendments to its Governance Policy; the Administration and Personnel Committee charter; the Audit and Compliance Committee charter; and, the Code of Ethics and Conduct to accommodate the change in the name of the Administration and Personnel Committee to the Administration, Finance and Talent Management Committee.

Description/Background

At its September 14, 2022, meeting, the Administration and Personnel Committee agreed to recommend to the Board that its name be changed to the **Administration, Finance and Talent Management Committee**. There are several governance-related documents that require amendments.

The affected documents are:

- Board Governance Policy;
- Administration and Personnel Committee charter;
- Audit and Compliance Committee charter; and
- Code of Ethics and Conduct.

In accordance with its duties under the Administration and Personnel Committee charter, the Administration and Personnel Committee reviewed the Board’s Governance Policy, the two affected committee charters, the Code of Ethics and Conduct and the proposed amendments. The Administration and Personnel Committee concurs with and recommends the proposed amendments.

In accordance with the Board’s Governance Policy, the Administration and Personnel Committee presented the proposed Governance Policy and committee charter amendments at a prior Board meeting to allow the changes to be voted on for final approval at today’s meeting.

Authority for Requested Action

Code of Virginia § 51.1-124.22(A)(8) authorizes the Board to make determinations necessary to carry out the provisions of Title 51.1 of the Code of Virginia.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date

BOARD OF TRUSTEES GOVERNANCE POLICY

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BOARD OF TRUSTEES GOVERNANCE POLICY

I. PURPOSE

This Governance Policy is established to:

- A. Set forth the policies and procedures pursuant to which the Board of Trustees will fulfill its statutory and fiduciary responsibilities;
- B. Ensure that the Board will perform its functions in a manner that is consistent with and in furtherance of the principles set forth below; and
- C. Facilitate the organized, efficient, and cohesive functioning of the Board.

II. AUTHORITY

Title 51.1 of the *Code of Virginia* establishes the Virginia Retirement System (“VRS”) as an independent agency of the Commonwealth, and sets forth the purpose, powers, and duties of the Board of Trustees (the “Board”) relative to its responsibilities as administrator and trustee of the retirement systems and plans provided for therein and in Article X, Section 11 of the Constitution of Virginia.

Pursuant to Title 51.1, the Board administers and is trustee of the funds of the Virginia Retirement System Trust, including Plan 1, Plan 2, the defined benefit component of the Hybrid Retirement Plan, and Plan 1 and Plan 2 hazardous duty benefits for political subdivision employees; the State Police Officers’ Retirement System Trust, including Plan 1 and Plan 2; the Virginia Law Officers’ Retirement System Trust, including Plan 1 and Plan 2; the Judicial Retirement System Trust, including Plan 1 and Plan 2, and the defined benefit component of the Hybrid Retirement Plan for judges; the Virginia Sickness and Disability Program (VSDP) Trust for state employees, including VSDP long-term care; the Virginia Local Disability Program (VLDP) Trust for eligible school division and political subdivision employees, including VLDP long-term care; a disability retirement option for certain members not covered under VSDP or VLDP; the Hybrid 457 Deferred Compensation Plan; the Hybrid 401(a) Cash Match Plan; the Optional Retirement Plan for Political Appointees, the Optional Retirement Plan for School Superintendents, the Optional Retirement Plan for Employees of Higher Education (ORPHE); the Commonwealth of Virginia 457 Deferred Compensation Plan; the Virginia Cash Match Plan; the Virginia Supplemental Retirement Plan; the Group Life Insurance Program; the Retiree Health Insurance Credit Program; and the Line of Duty Death and Health Benefits Trust Fund.

In addition, pursuant to Title 51.1, the Board administers or has substantial oversight responsibilities for the Benefit Restoration Plan, the Commonwealth of Virginia Voluntary Group Long Term Care Insurance Program, and the Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund Program, as well as benefit eligibility determinations under the Line of Duty Act in Title 9.1.

III. PRINCIPLES

A. COMMITMENT:

The Board is dedicated to seeing that VRS accomplishes its mission and fulfills its vision. These are:

Mission: "VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service."

Vision: "To be the trusted leader in the delivery of benefits and services to those we serve."

B. GOVERNING STYLE:

1. To achieve its commitment, the Board will govern with an emphasis on:
 - a) Outward vision and strategic leadership rather than administrative focus;
 - b) Encouraging diversity of viewpoints;
 - c) Maintaining a clear distinction between the roles of the Board and those of the Director, the Chief Investment Officer, and the Audit Director;
 - d) Collective determination rather than individual decision-making; and
 - e) Being proactive rather than reactive.

2. Accordingly, in all of its deliberations, actions, and decisions, the Board will be guided by the following principles:
 - a) The Board's focus will be to set long-term objectives and goals for members, retirees and beneficiaries, not on day-to-day administrative operations;
 - b) The Board will set broad organizational values and perspectives to guide VRS staff;
 - c) The Board will exercise whatever self-discipline is needed to govern with excellence. Discipline will apply to matters such as preparation for meetings, attendance, policy-making principles, respect of clarified roles, and speaking with one voice;

- d) The Board will be accountable to the members, retirees and beneficiaries for competent, conscientious and effective accomplishment of its obligations; and no officer, individual, or committee of the Board will usurp this role or hinder this commitment.
- e) The Board will monitor its own processes and performance, and it will ensure the continuity and advancement of its governance capability by orientation of new Board members and ongoing training and development of all Board members.

IV. STRUCTURE AND FUNCTION OF THE BOARD

A. COMPOSITION

1. The members of the Board are appointed, serve, and can be removed pursuant to *Code of Virginia* § [51.1.124.20](#), as it may be amended from time to time:
 - a) The VRS Board is composed of nine members, each appointed for a term of five years. No member may serve for more than two consecutive five-year terms and, should a member be appointed to complete the remainder of a former member's term, he or she may serve only one complete five-year term thereafter.
 - b) The Governor appoints five Board members and the Joint Rules Committee of the General Assembly appoints four members of the Board. All appointments must be confirmed by the General Assembly.
 - c) Of the five members appointed by the Governor, two shall have a minimum of five years of experience in the direct management, analysis, supervision or investment of assets; one shall have at least five years of direct experience in the management and administration of employee benefit plans; one shall be a local employee; and, one shall be a faculty member or employee of a state-supported institution of higher education.
 - d) Of the four members appointed by the General Assembly, two shall have a minimum of five years of experience in the direct management, analysis, supervision or investment of assets; one shall be a state employee; and one shall be a teacher.
 - e) Board members are subject to removal from office only as set forth in sections 24.2-230 through 24.2-238 of the Code of Virginia.
2. All new Board members shall complete an orientation program as soon as practicable after the date of their appointment to the Board.
3. All Board members shall sign an affirmation pledging to uphold both the letter and the spirit of the attached Board of Trustees Code of Ethics and Conduct as

soon as practicable after the date of their appointment to the Board, and at least annually thereafter.

B. STANDARD OF CARE

As provided in Article X, Section 11 of the Constitution of Virginia:

“The General Assembly shall maintain a retirement system for state employees and employees of participating political subdivisions and school divisions. The funds of the retirement system shall be deemed separate and independent trust funds, shall be segregated from all other funds of the Commonwealth, and shall be invested and administered solely in the interests of the members and beneficiaries thereof. Neither the General Assembly nor any public officer, employee, or agency shall use or authorize the use of such trust funds for any purpose other than as provided in law for benefits, refunds, and administrative expenses, including but not limited to legislative oversight of the retirement system. Such trust funds shall be invested as authorized by law. Retirement system benefits shall be funded using methods which are consistent with generally accepted actuarial principles. The retirement system shall be subject to restrictions, terms, and conditions as may be prescribed by the General Assembly.”

The Board standard of care is further described in § 51.1-124.30 of the *Code of Virginia*:

“The Board shall discharge its duties with respect to the Retirement System solely in the interest of the beneficiaries thereof and shall invest the assets of the Retirement System with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board shall also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.” *Code of Virginia* § 51.1-124.30.C.

“No officer, director or member of the Board or of any advisory committee of the Retirement System or any of its tax exempt subsidiary corporations whose actions are within the standard of care in subsection C above shall be held personally liable for losses suffered by the Retirement System on investments made under the authority of this chapter.” *Code of Virginia* § 51.1-124.30.D.

C. CHAIRPERSON

The Governor designates which of the nine members of the Board shall serve as chairperson, subject to confirmation by the General Assembly. In accordance with § 51.1-124.20(D) of the *Code of Virginia*, the chairperson may serve no more than two two-year terms.

The chairperson is charged with:

1. Facilitating the operation of Board meetings;
2. Reviewing proposed agendas for Board meetings;
3. Presiding over meetings of the Board;
4. When required, certifying any actions taken by the Board;
5. Communicating on behalf of the Board to outside entities interested in VRS; and
6. Performing such additional duties as provided herein or as may be set by resolution of the Board.

D. VICE-CHAIRPERSON

The vice-chairperson is a member of the Board, elected by a majority vote of the Board. The election of the vice-chairperson shall take place at the first regular meeting following the installation of a new chairperson or at the first regular meeting following the reappointment of the chairperson. The vice-chairperson is elected for a two-year term, and may be re-elected for two additional terms.

In the event of the absence or incapacity of the chairperson, the vice-chairperson shall preside over Board meetings, and shall fulfill such other duties and responsibilities of the chairperson as may be necessary.

E. SECRETARY

The Director shall act as secretary to the Board. The Director shall continue to serve as secretary until such time as he or she is unable or unwilling to continue to do so, or until such time as the Board appoints another secretary.

The Secretary to the Board has the following duties and responsibilities:

1. To maintain a current list of the membership of the Board and of each committee;
2. To notify Board members of meetings;
3. To coordinate and disseminate information to the members of the Board;
4. To maintain official minutes and records of all proceedings of the Board;
5. To respond to requests received by VRS under the Freedom of Information Act (FOIA);
6. To accept service of process on behalf of the Board;
7. To notify Board members of training and filing requirements related to the State and Local Government Conflict of Interests Act (COIA);
8. To prepare, prior to each meeting, an agenda for use by the presiding chairperson; and
9. To coordinate presentations for the Board.

F. MEETINGS/ATTENDANCE

The Board determines and approves a regular meeting schedule on an annual basis. Changes in the schedule may be made in coordination with the Board members. The Board is authorized to schedule additional meetings, if deemed necessary, after giving appropriate notice to all members of the Board and to the public.

Attendance at Board meetings is considered to be an essential element of a Board member's fiduciary responsibility. Therefore, members are expected to attend all meetings unless there are extenuating circumstances that prevent such attendance.

G. PROCEDURAL STANDARDS

1. The rules contained in the current edition of *Robert's Rules of Order Newly Revised* shall govern all proceedings of the Board and VRS committee meetings insofar as they are applicable and not inconsistent with any of the policies adopted by the Board. Special note is to be made of the rules provided for procedure in small boards which are deemed to be appropriate for use in all meetings contemplated in these policies, including meetings of all advisory, standing, and special committees.
2. Unless otherwise specified by the Board, voting by proxy is not allowed.
3. A majority of members of the Board shall constitute a quorum at Board meetings.
4. Except as otherwise specified herein, approval of an action or decision shall be by a majority of those voting.

H. RESPONSIBILITIES AND DUTIES OF THE BOARD

To fulfill its fiduciary and administrative responsibilities, the Board may, as necessary, review, monitor, and oversee the following items, among others:

1. Agency mission and vision
2. Budget vs. Actual expenditures
3. Internal controls
4. Strategic plan and objectives
5. Design of Defined Benefit plans and programs
6. Design of Group Life and other Insurance programs
7. Design of Defined Contribution programs
8. Performance of Director, Audit Director, and Chief Investment Officer
9. Investment performance
10. Funded status
11. Actuarial valuations and demographic and economic assumptions
12. Financial health of VRS through review of financial statements

To fulfill its fiduciary and administrative responsibilities, the Board shall approve the following items, among others, as needed:

1. Governance documents
2. Agency Performance Objectives
3. Agency compensation plans
4. Funding policy and contribution rates
5. Asset allocation targets (policy risk/reward parameters)
6. Allowable ranges around the policy targets
7. Total fund and program level benchmarks
8. Active risk limits relative to policy
9. Defined Benefit Plan Investment Policy Statement
10. Defined Contribution Plans Investment Policy Statements
11. Investment Belief Statements for defined benefit and defined contribution plans
12. Appointments to Standing, Special, and Advisory Committees
13. Appointment and termination of Custodian Bank
14. Appointment and termination of Plan Actuary
15. Appointment of Director, Audit Director, and Chief Investment Officer
16. Investment and administrative budgets
17. Legislation to be introduced at VRS request
18. Cost of living increases where approval is required by statute
19. Internal Audit long-term and annual work plans.

V. CONNECTION OF THE BOARD TO VRS OPERATIONS

The Board is connected to the operations, conduct, and achievements of VRS through the Director, the Chief Investment Officer, and the Audit Director.

The individuals in these three positions are appointed, employed, monitored, and evaluated directly by the Board. They constitute the Board's only link to each area of VRS. Therefore, as specified below, all authority and accountability of the VRS staff, as far as the Board is concerned, is considered the authority and accountability of one of these three people.

The Director and the Chief Investment Officer are responsible for direct operational decision making and administration of the policies and guidelines established by the Board. The power to delegate authority, to execute contracts, or sign official documents on behalf of the Board rests solely with the Board, and this authority is exercised by signature resolutions passed by the Board from time to time.

A. DIRECTOR

Pursuant to *Code of Virginia* § 51.1-124.22(A), the Board shall appoint a Director, who shall not be a member of the Board, to serve as the chief administrative officer of the VRS at the pleasure of the Board.

The Board herewith delegates to the Director full responsibility to administer the provisions of Title 51.1 of the *Code of Virginia* under the general direction of the Board and in compliance with the statutes and such policies, rules, guidelines, and procedures as the Board may adopt.

This delegation includes, but is not limited to, the following duties and authority:

1. Determining the accuracy and timeliness of all payments due to VRS;
2. Accounting for and depositing payments made to VRS;
3. Making payment and distributing funds consistent with Title 51.1 of the *Code of Virginia* and other applicable state and federal laws and regulations;
4. Responding to all correspondence regarding rights and benefits of members and employers;
5. Assisting committees of the Board in the discharge of their functions, including providing an orientation program to Board members as soon as practicable after the date of their appointment, in coordination with the CIO and Audit Director;
6. Maintaining VRS records, files, and documents;
7. Developing and maintaining communications and relationships with other state agencies, public retirement systems, and organizations involved with or having an impact on public retirement issues;
8. Representing VRS before the General Assembly and/or any of its committees and agencies on matters relating to the administration of VRS;
9. Serving as liaison with legal, medical, and actuarial professionals and third party administrators;
10. Monitoring the activities and performance of consultants and outside service providers hired by VRS;
11. Developing, approving, and monitoring progress towards completion of divisional business plans and projects;
12. Overseeing the day-to-day administrative operations of VRS;
13. Assigning duties to administrative staff;
14. Determining the appropriate organizational structure and staffing for all functions of VRS other than those performed by the investment and internal audit departments;
15. Determining administrative staff compensation within the parameters of the current compensation plan;
16. Developing, implementing, and supervising plans, policies, standards, programs, and services for applicable personnel;
17. Hiring, retaining, and terminating administrative staff;
18. Providing the Board and the Board chairperson with timely information necessary to discharge their fiduciary duties;
19. Developing, amending, and refining policies for Board approval, including, but not limited to, the following:
 - a) Strategic plan and objectives;
 - b) Service quality standards;

- c) Agency performance evaluation; and
- d) Other administrative policies;
- 20. Issuing final case decisions regarding applications for disability retirement and other matters that have been appealed pursuant to the Administrative Process Act;
- 21. Evaluating and establishing service credits;
- 22. Verifying eligibility for, computing, and paying service retirement allowances;
- 23. Determining whether to discontinue recovery of and waive overpayments, and reporting such determinations to the Benefits and Actuarial Committee when it is outside of normal business operations;
- 24. Making determinations regarding new and/or amended employer coverage;
- 25. Approving and authorizing payment of refund requests;
- 26. Adjudicating questions regarding interpretation and application of relevant law and policy;
- 27. Referring questions to the Board when the determination would be precedent-setting;
- 28. Developing and maintaining the administrative portion of the VRS budget ;
- 29. Monitoring Agency-wide expenditures versus budget;
- 30. Developing and implementing internal controls;
- 31. Coordinating with the Chief Investment Officer in such a manner as to ensure operational efficiency at both the Board and agency levels;
- 32. Absent express Board action otherwise, performing the duties of Secretary to the Board; and
- 33. Performing such additional duties when directed to do so by the Board.

The power to delegate authority to disburse or transfer public funds or assets, execute contracts, or sign official documents on behalf of the Board rests solely with the Board. Therefore, only the Director and any other staff member so authorized by any signature resolutions approved by the Board, and consistent with such signature resolutions, may execute contracts and official documents on behalf of VRS and authorize the disbursement or transfer of public funds or assets of VRS. This authority may not be further delegated by the Director to any other person or persons.

The Director may, however, as he or she deems reasonable, delegate any other of the Director's responsibilities, duties, and authority to members of the administrative staff in order to facilitate the efficient functioning of VRS.

B. CHIEF INVESTMENT OFFICER

Pursuant to *Code of Virginia* § 51.1-124.24(A), the Board shall appoint a Chief Investment Officer ("CIO"), who shall not be a member of the Board, to direct, manage and administer the investment department at the pleasure of the Board.

The Board herewith delegates to the CIO full responsibility to devise and approve investment strategies that are intended to move the defined benefit and defined

contribution plans investment programs towards their broad objectives and goals. As such, the CIO should be free to devise any strategy that is within the policies and guidelines as the Board may adopt.

This delegation includes, but is not limited to, the following duties and authority:

1. Planning, organizing and directing the investment work of VRS;
2. Implementing investment policies and strategies established by the Board;
3. Determining asset allocation within the guidelines established by the Board;
4. Supervising, evaluating, and monitoring the investment portfolio and associated investment activities;
5. Hiring and/or terminating consultants;
6. Hiring and/or terminating investment managers;
7. Developing and maintaining the investment department portion of the VRS budget;
8. Developing and implementing internal controls;
9. Implementing investment-related regulatory requirements;
10. Providing the Board and the Board Chairperson with timely information necessary to discharge their fiduciary duties;
11. Representing VRS before the General Assembly and/or any of its committees and agencies on investment matters;
12. Determining the appropriate organizational structure and staffing for the investment functions of VRS;
13. Determining investment staff compensation within the parameters of the current compensation plan;
14. Developing, implementing, and supervising plans, policies, standards, programs, and services for investment personnel;
15. Hiring, retaining, and terminating investment staff;
16. Overseeing the day-to-day investment operations;
17. Responding to applicable correspondence regarding investment matters;
18. Assisting committees of the Board in the discharge of their functions, including providing an orientation program to Board members as soon as practicable after the date of their appointment, in coordination with the Director and Audit Director;
19. Monitoring activities and performance of internal and external investment managers;
20. Recommending to the Board the appointment, replacement, and termination of the custodian bank;
21. Maintaining necessary systems and technology for investment management and support of all investment functions, in compliance with applicable Virginia Information Technologies Agency (VITA) security standards;
22. Developing, amending, and refining policies for Board approval, including, but not limited to, the following:
 - a) VRS Defined Benefit Plan Investment Policy Statement;

- b) VRS Defined Benefit Plan Investment Belief Statements
 - c) VRS Investment Policy Statement For An Unbundled Defined Contribution Plan Structure;
 - d) VRS Investment Policy Statement For A Bundled Defined Contribution Plan Structure;
 - e) VRS Defined Contribution Plans Investment Belief Statements; and
 - f) Other applicable investment policies;
- 23. Monitoring compliance with and continued appropriateness of the defined benefit and the defined contribution plans fund policies and guidelines;
 - 24. Coordinating with the Director in such a manner as to ensure operational efficiency at both the Board and agency levels; and
 - 25. Performing such additional duties when directed to do so by the Board.

The power to delegate authority to disburse or transfer public funds or assets, execute contracts, or sign official documents on behalf of the Board rests solely with the Board. Therefore, only the CIO and any other staff member so authorized by any signature resolutions approved by the Board, and consistent with such signature resolutions, may execute contracts and official documents on behalf of VRS. This authority may not be further delegated by the CIO to any other person or persons. The CIO may, however, as he or she deems reasonable, delegate any other of the CIO's responsibilities, duties, and authority to members of the investment staff in order to facilitate the efficient functioning of the investment department of VRS. Notwithstanding the foregoing, an authorized entity may execute necessary documents on behalf of VRS as may be required by contract or agreement.

C. AUDIT DIRECTOR

The Board shall appoint an Audit Director, who reports directly to the Board through the Audit and Compliance Committee, to serve at the pleasure of the Board.

The Board herewith delegates to the Audit Director full responsibility to provide objective analyses, appraisals, recommendations, and pertinent comments concerning the implementation of and adherence to established policies and procedures throughout VRS.

This delegation includes, but is not limited to, the following duties and authority:

- 1. Reviewing and appraising the soundness, adequacy and applications of accounting, financial, and other operating controls, and promoting effective control at a reasonable cost;
- 2. Ascertaining the extent of compliance with established policies, plans, and procedures;
- 3. Ascertaining the extent to which assets are accounted for and safeguarded from losses of all kinds;
- 4. Ascertaining the reliability of financial data developed within the organization;

5. Recommending operating improvements;
6. Developing a comprehensive long-range audit plan and implementing the plan after review and approval by the Audit and Compliance Committee and approval by the Board;
7. Approving audit scopes and objectives; audit procedures; sampling plans; and, the extent of Information System audit coverage;
8. Supervising examinations of VRS operations and other special projects;
9. Ensuring all audit procedures are performed and are documented in accordance with departmental policies and procedures;
10. Revising the long-range and annual audit plans, as necessary, to accommodate changing needs and unexpected events;
11. Reporting to the Audit and Compliance Committee on a regular basis and, when necessary, reporting directly to the Board;
12. Assisting committees of the Board in the discharge of their functions, including providing an orientation program to Board members as soon as practicable after the date of their appointment, in coordination with the Director and CIO;
13. Monitoring implementation of audit recommendations;
14. Determining the appropriate organizational structure and staffing for the internal audit department;
15. Hiring, retaining, and terminating a professional and proficient audit staff;
16. Determining Internal Audit staff compensation within the parameters of the current compensation plan.
17. Establishing an Internal Audit Department Charter; and
18. Performing such additional duties when directed to do so by the Board.

The Audit Director has sole authority to determine the scope of internal audit activities, and shall not be restricted by the Director or the CIO.

The Audit Director shall have unrestricted access to all VRS activities, records, properties, and personnel pertinent to each area under review. Special arrangements shall be made for the examination of records that are confidential in nature.

The Audit Director shall have direct access to the Director and to the CIO in any instance where the Audit Director believes such access is needed to fulfill the stated objectives of the Department.

The Audit Director may, as he or she deems reasonable, delegate any of the Audit Director's responsibilities, duties, and authority to members of the internal audit staff in order to facilitate the efficient functioning of the internal audit department.

VI. COMMITTEES

A. ADVISORY COMMITTEES

Pursuant to *Code of Virginia* § 51.1-124.26, the Board shall appoint an Investment Advisory Committee to provide the Board with sophisticated, objective, and prudent investment advice to serve at the pleasure of the Board.

In addition, the Board may appoint such advisory committees as it deems necessary to further assist it in fulfilling its fiduciary duty as trustee of the VRS funds. The Board shall also set forth the purpose and authority of the advisory committee.

The recommendations of an advisory committee are not binding upon the Board.

Each advisory committee may include no more than two (2) Board members. No individual Board member may serve on more than one advisory committee. Other than such Board members, no elected or appointed official may serve on any such advisory committees.

Appointment to an advisory committee shall require a two-thirds vote of the Board. Advisory committee members serve at the pleasure of the Board and may be removed by a majority vote of the Board.

The Board of Trustees Code of Ethics and Conduct shall also apply to all advisory committee members, who shall sign an affirmation pledging to uphold both the letter and the spirit of that Code as soon as practicable after the date of their appointment to the advisory committee, and at least annually thereafter.

Once appointed by the Board, an advisory committee shall develop a committee charter subject to approval and adoption by the Board. Each advisory committee charter shall include a statement of the purpose and authority for which the committee was appointed, a description of the committee's duties and responsibilities, and an overview of the composition and operating procedures of the committee.

The Board has established the following advisory committees:

1. INVESTMENT ADVISORY COMMITTEE (REQUIRED BY LAW)

The purpose of the Investment Advisory Committee is to provide the Board with sophisticated, objective, and prudent investment advice. It shall consist of seven to nine members.

The Investment Advisory Committee shall, except for the defined contribution plans investments:

- a) Review, evaluate, and monitor investments and investment opportunities;

- b) Make appropriate recommendations to the Board about such investments and investment opportunities; and
- c) Make recommendations to the Board about overall asset allocation.

2. DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE

The purpose of the Defined Contribution Plans Advisory Committee (DCPAC) is to review matters relating to or affecting plan administration, plan design and investments of the various defined contribution plans established pursuant to the *Code of Virginia* and to make recommendations to the Board regarding those matters.

In addition to the duties and responsibilities outlined in its charter, the DCPAC shall assist the Board with its statutory responsibilities to review and oversee the policies and procedures constituting the process by which the Board reviews and determines whether to approve requests by institutions of higher education that seek to withdraw from participation in the Optional Retirement Plan for Employees of Institutions of Higher Education.

B. STANDING COMMITTEES

The Board may establish such standing committees as it determines would be necessary or helpful in fulfilling its responsibilities.

The purpose and authority of a standing committee must be carefully set forth to avoid conflict with authority delegated to the Director, the CIO, and/or the Audit Director.

Once created, a standing committee shall remain in existence until such time as the Board takes the necessary action to dissolve it.

Unless otherwise specified, all standing committees established by the Board are subject to the following principles and guidelines:

1. Standing committees are to focus their efforts on matters of material significance to the VRS Board, and refrain from any involvement in operational details or decision-making that are the responsibility of the Director, the CIO, and/or the Audit Director.
2. Standing committees may assist the Board by suggesting policy alternatives for Board consideration.
3. A standing committee does not speak or act for the Board, unless the Board specifically delegates such authority to it for a specific and time-limited purpose.
4. Each standing committee shall notify all Board members of the time and place of all committee meetings. Board members may choose to attend any committee meeting, regardless of whether or not they are members of the committee. Any

member of the VRS Board who is not a member of the standing committee but is present at a meeting of that committee may serve as an alternate to an absent member of the committee for purposes of constituting a quorum, and any such participation shall not be considered voting by proxy. Moreover, any VRS Board member who is not a member of the standing committee but is present at a meeting of that committee shall have all the rights and privileges afforded to a member of the committee while present at such meeting, including voting and being counted toward a quorum, and any such participation shall not be considered voting by proxy.

Once established by the Board, a standing committee shall develop a committee charter subject to approval and adoption by the Board. Each committee charter shall include a statement of the purpose and authority for which the committee was established, a description of the committee's duties and responsibilities, and an overview of the composition and operating procedures of the committee.

The Board has established the following standing committees:

1. ADMINISTRATION, ~~FINANCE AND TALENT MANAGEMENT AND PERSONNEL~~ COMMITTEE

The purpose of the Administration, ~~Finance and Talent Management and Personnel~~ Committee is to review matters relating to or affecting administrative functions, personnel plans, the budget, and finance, and to make recommendations to the full Board regarding those matters.

2. AUDIT AND COMPLIANCE COMMITTEE

The purpose of the Audit and Compliance Committee is to review matters relating to or affecting internal and external audit, including, but not limited to, VRS' financial reporting process, systems of internal control, auditing procedures and process, and process for monitoring compliance with laws, regulations and the Code of Conduct; and to submit reports or make recommendations to the full Board regarding those matters.

3. BENEFITS AND ACTUARIAL COMMITTEE

The purpose of the Benefits and Actuarial Committee is to review matters relating to or affecting benefits, benefit administration, and actuarial soundness of all plans administered by VRS except for the defined contribution plans, and to make recommendations to the full Board regarding those matters.

4. INVESTMENT POLICY COMMITTEE

The purpose of the Investment Policy Committee is to facilitate the determination of appropriate defined benefit plan investment policies, setting guidelines under which those policies will be carried out, and to make appropriate recommendations to the full Board regarding those policies and guidelines. It is the intent of the Board that all substantive concerns, discussions, and recommendations regarding VRS investment policy be directed to the Investment Policy Committee for vetting and reporting back to the Board for action, if any.

C. SPECIAL COMMITTEES

The Board may establish a special committee, as needed, to carry out a specified task. Upon completion of the task for which it was established, and presentation of its final report to the Board, a special committee shall cease to exist. A special committee may not be appointed to perform a task that falls within the assigned function of any existing standing or advisory committee.

VII. RELATIONSHIP WITH THE PUBLIC

Because it is a public body responsible for the management of public funds, the VRS Board has the responsibility to conduct its business in an environment that is open to public scrutiny. In doing so, the VRS Board shall operate in full compliance with both the letter and the spirit of the Virginia Freedom of Information Act (FOIA) and the State and Local Government Conflict of Interests Act (COIA).

A. PRINCIPLES

1. VRS shall maintain open communication with the public, the employers, and members it serves, and the news media.
2. VRS shall make public information available in as efficient a manner as possible, while protecting the confidentiality of the members, retirees, beneficiaries, and employers it serves.
3. The public shall be granted access to all meetings and to all records of meetings of the Board and Board committees except for such meetings as are closed pursuant to and in accordance with FOIA.

B. COMMUNICATION WITH THE MEDIA

1. The Chairperson of the Board is authorized to act as spokesperson for the Board and for VRS.
2. The Chairperson may delegate all or a part of this authority as he or she deems appropriate, subject to approval by the Board. The Board herewith approves the following delegation:

- a) The Director or his or her designee is authorized to act as spokesperson regarding administrative and operational matters.
- b) The CIO or his or her designee is authorized to act as spokesperson regarding investment matters.
3. The Chairperson shall, to the extent possible, review all official press releases regarding Board policy, activities, or other matters prior to publication.

VIII. OPINIONS OF THE ATTORNEY GENERAL

Pursuant to *Code of Virginia* § 2.2-505(A), requests from VRS for written advice in the form of official advisory opinions from the Attorney General must be made in writing by the Board Chairperson or by the Director. Before requesting an official advisory opinion of the Attorney General, the Director shall review the request with and obtain the prior approval of the Board Chairperson and, where feasible, the Board of Trustees.

IX. AMENDMENT OF GOVERNANCE POLICY

The VRS Board of Trustees Governance Policy and committee charters, in whole or in part, may be altered, amended, modified, and/or rescinded, and new policies or provisions may be adopted in lieu thereof, by a two-thirds vote of the Board, provided that a copy of the proposed amendment is submitted in writing at the preceding regular meeting,

In the case of urgent and/or extraordinary circumstances requiring the immediate action of the Board, the Board may amend a policy or provision at the same meeting at which the proposed amendment is introduced, provided that such action is by unanimous consent. Furthermore, any such amendment must be submitted for reconsideration at the next Board meeting and, only if it then is reaffirmed by a two-thirds vote, shall such amendment permanently become a part of the Governance Policy or committee charter.

Notwithstanding the foregoing, the Administration, Finance and Talent Management and Personnel Committee shall periodically review the Governance Policy and committee charters. The Committee shall report its findings and recommended changes to the Board.

X. VALIDITY OF GOVERNANCE POLICY

In the event any of the provisions set forth in the Governance Policy shall be deemed to be invalid as a result of any conflict with a provision of the *Code of Virginia* or the Appropriation Act, such conflict shall not invalidate the entirety of the Governance

Policy, but the remaining provisions of the Governance Policy shall continue in full force and effect.

In the event any of the provisions set forth in the Governance Policy are found to be in conflict with any provision(s) of the committee charters adopted hereunder, the Governance Policy shall supersede and take precedence over any conflicting provisions of a committee charter.

COMMITTEE CHARTER FOR THE
ADMINISTRATION ~~AND PERSONNEL~~, FINANCE AND TALENT MANAGEMENT
COMMITTEE

PURPOSE

The purpose of the Administration ~~and Personnel~~, Finance and Talent Management Committee (Committee) is to review matters relating to or affecting administrative functions, personnel plans, the budget, and finance, and to make recommendations to the full Board regarding those matters.

AUTHORITY

The Committee is authorized to request, gather, and consider whatever information it deems relevant to the matters brought before it, and to report its findings or recommendations on those matters to the Board. The Committee is not empowered to take any further or independent action unless such action is specifically authorized or directed by the Board.

DUTIES AND RESPONSIBILITIES

To fulfill the purpose for which it was established, the Committee shall perform the following:

1. Review administrative issues identified by the Board, the Director, or the Chief Investment Officer and make recommendations to the Board regarding such issues.
2. Review VRS budget proposals and make related recommendations to the Board.
3. Regularly review the status of the budget in relation to actual expenditures and identify for the Board any areas in need of attention.
4. Review and make recommendations to the Board regarding VRS's mission and strategic plan and objectives as needed.
5. Review and make recommendations to the Board regarding requests for carry-forward funds, additional revenue appropriations, transfers of appropriations from the second year to the first year of a biennium, and transfers between programs in timely fashion so as to enable the Board to act on these issues before they are forwarded to the Department of Planning and Budget.

6. Review and make recommendations to the Board regarding non-budgeted purchasing requests that exceed the Director's authority as set forth in the VRS purchasing guidelines.
7. Review and make recommendations to the Board regarding the establishment of or changes to personnel and compensation policies and plans.
8. Review and make recommendations to the Board regarding the annual Agency Performance Outcomes and related Agency Operating Standards.
9. Review and make recommendations to the Board regarding the performance of the Director and the Chief Investment Officer.
10. Work with the Chief Investment Officer and the chairperson of the Investment Advisory Committee to identify potential new members for the Investment Advisory Committee and to determine which candidate(s) will be recommended to the Board for appointment to the Investment Advisory Committee.
11. Review each member of the Investment Advisory Committee who is eligible for reappointment and determine whether to recommend that the member be reappointed by the Board.
12. Investigate any allegations or complaints regarding violation(s) of the Board's Code of Ethics and Standards of Conduct and report findings to the Board, together with recommendations regarding action to be taken.
13. Periodically, as needed, review the Board's Governance Policy and committee charters, and recommend such changes as are deemed appropriate.
14. Perform such other duties when directed to do so by the Board.

COMPOSITION

The Committee is composed of at least three (3) and no more than five (5) Board members: The chairperson of the Board, the vice-chairperson of the Board, and additional Board members appointed by the chairperson of the Board, subject to approval by the Board.

The terms of the chairperson and vice-chairperson of the Committee run concurrently with their terms as chairperson and vice-chairperson of the Board. The other Committee members are appointed for a two-year term, and may be reappointed for additional two-year terms.

OFFICERS

Chairperson

The VRS Board chairperson shall serve as the chairperson of the Committee.

The chairperson is charged with:

1. Facilitating the operation of the Committee meetings;
2. Reviewing proposed agendas for Committee meetings;
3. Presiding over meetings of the Committee;
4. Reporting to the Board on the matters considered by the Committee, and the recommendations of the Committee; and
5. Performing such additional duties as are required to facilitate the Committee's fulfillment of its responsibilities.

Vice-Chairperson

The VRS Board vice-chairperson shall serve as the vice-chairperson of the Committee.

In the event of the absence or incapacity of the Committee chairperson, the vice-chairperson shall preside at meetings of the Committee and shall fulfill such other duties and responsibilities of the chairperson as may be necessary.

Secretary

The Director, or the Director's designee, shall act as secretary to the Committee. The Director shall continue to serve as secretary until such time as he or she is unable or unwilling to continue to do so, or until such time as the Committee appoints another secretary.

The secretary has the following duties:

1. Help the chairperson develop the agenda for Committee meetings;
2. Notify Committee members of meetings;
3. Coordinate and distribute information to Committee members;
4. Act as liaison between the Committee and VRS staff;
5. Coordinate matters on the agenda and presentations for the Committee; and
6. Maintain the minutes and records of all Committee meetings.

CONDUCT OF BUSINESS

1. The rules contained in the current edition of *Robert's Rules of Order Newly Revised* shall govern all Committee meetings insofar as they are applicable and not inconsistent with any of the policies adopted by the Board, including this

- charter, with particular attention to the rules provided for conduct of business in committees.
2. Unless otherwise specified by the Board, voting by proxy is not allowed.
 3. A majority of the appointed members of the Committee shall constitute a quorum at meetings of the Committee. For the purposes of determining the presence of a quorum, an abstention or disqualification shall be considered an absence. However, any member of the Board who is not a member of the Committee but is present at a Committee meeting may serve as an alternate to an absent member of the Committee for purposes of constituting a quorum, and any such participation shall not be considered voting by proxy. Moreover, any Board member who is not a member of the Committee but is present at a Committee meeting shall have all the rights and privileges afforded to a Committee member while present at such meeting, including voting and being counted toward a quorum, and any such participation shall not be considered voting by proxy. The presence of any alternate at a Committee meeting and the participation by any Board member who is not a member of the Committee shall be recorded in the minutes of the Committee meeting.
 4. Except as otherwise specified herein, approval of an action or decision shall be by a majority of those Committee members present and voting at a Committee meeting.
 5. The Committee chairperson will seek at all times to develop a consensus of opinion among Committee members in order to be able to present clear and concise recommendations to the Board. In the event that a consensus is not obtainable, the Committee chairperson will present the range of opinions and their rationale to the Board.
 6. The Committee chairperson will report to the Board on the content and results of each Committee meeting. The chairperson or vice-chairperson will sign all meeting minutes, as applicable.
 7. The Committee will generally meet at least twice per year and more often if necessary to meet the objectives listed in this charter.

CHANGES IN THE CHARTER

The Committee may, from time to time, deem it necessary to alter, amend, modify, or rescind all or a part of this charter. Such revisions, once approved by a majority vote of the Committee, shall be submitted to the Board for final approval. If approved by a two-thirds vote of the Board, such revisions shall be incorporated into and made a part of this charter.

COMMITTEE CHARTER

AUDIT AND COMPLIANCE COMMITTEE

PURPOSE

The purpose of the Audit and Compliance Committee (Committee) is to review matters relating to or affecting internal and external audit, including, but not limited to, VRS' financial reporting process, systems of internal control, auditing procedures and process, and process for monitoring compliance with laws, regulations, and the Code of Conduct, and to submit reports or make recommendations to the full Board regarding those matters.

AUTHORITY

The Committee is authorized to request, gather, and consider whatever information it deems relevant to the matters brought before it, and to report its findings or recommendations on those matters to the Board. The Committee is not empowered to take any further or independent action unless such action is specifically authorized or directed by the Board.

DUTIES AND RESPONSIBILITIES

To fulfill the purpose for which it was established, the Committee shall perform the following:

1. Monitor internal and external audit functions and report to the Board following each Committee meeting on the reports and matters presented to or considered by the Committee.
2. Review the effectiveness of internal and external auditing methods including coordination of efforts. (Note: While members of the Committee are expected to become sufficiently familiar with the accounting practices of VRS so that they are able to do this, they are not expected to become accounting experts. They may, as necessary and in good faith, rely upon the professional accounting expertise of the Audit Director and of the external auditors.)

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3. Review and make recommendations to the Board regarding both the annual and long-range audit plans developed by the Audit Director and provide feedback in response thereto.
4. Monitor progress of work on the annual work plan through review of the Audit Director's semi-annual progress reports, and reports of any revisions made to the work plan.
5. Receive and review reports of the Audit Director and report on same to the Board with recommendations, if any, for necessary action.
6. Make appropriate inquiries of management and the Audit Director to determine whether there are inappropriate scope or resource limitations.
7. Consider the effectiveness of the VRS' internal control system, including information technology security and control.
8. Receive and review reports from the Audit Director regarding the effectiveness and sufficiency of the internal audit department including the appropriateness of the department's funding and organizational structure. Determine whether requests by the Audit Director for changes in the staffing of that department should be submitted to the Administration ~~and Personnel~~, Finance and Talent Management Committee.
9. Review annual report of the Audit Recommendation Follow-Up System and monitor status of management's progress in response to audit recommendations.
10. Review and approve changes to the Internal Audit Department Charter.
11. Ensure that an independent, full-scope quality assurance review of the internal audit department is performed at least once every five years, review the report of such review, recommend to the Board what, if any, corrective actions are necessary, and monitor the implementation of such corrective actions as are mandated by the Board.
12. Ensure the internal audit department has unrestricted access to all VRS activities, records, properties, and personnel applicable to the area under review. The Board has endorsed this right and has resolved that the scope of internal audit activities not be restricted by actions of management.
13. Provide the opportunity for meetings between the Committee and the Audit Director whenever the Committee or Audit Director finds such to be necessary.
14. Review and make recommendations to the Board regarding the performance of the Audit Director.
15. In cases where the Director or the Chief Investment Officer disagrees with an audit recommendation, the matter shall be presented to the Committee, which shall make an initial determination as to whether the audit recommendation requires management action or should be deleted and will present that determination to the Board for a final decision.
16. Receive and review reports from management regarding the process for communicating the VRS Code of Conduct to agency personnel, and for monitoring compliance therewith. This includes the processes and compliance

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- mechanisms in place for both administrative and investment department personnel.
17. Conduct entrance and exit conferences with the Auditor of Public Accounts, and report to the Board on the scope and substance of those meetings.
 18. As necessary, request permission from the full Board to retain independent counsel (through the Office of the Attorney General), accountants, or others to advise the Committee.
 19. Receive and review reports of the Auditor of Public Accounts and any other external auditors, and report on same to the Board with recommendations, if any, for necessary action. Review the annual financial statements and other sections of the annual report, and consider whether they are complete and consistent with information known to Committee members, and to the best of their knowledge reflect appropriate accounting principles. Have management and the external auditors review all matters required to be communicated to the Committee under generally accepted government auditing standards. Allow for meetings with the external auditors to discuss any matters that the Committee or auditors believe should be discussed.
 20. Periodically consider the desirability of an audit by an independent accounting firm and, if such audit is deemed necessary, present such a recommendation to the Board together with a list of candidate firms.
 21. Perform such other duties when directed to do so by the Board.

COMPOSITION

The Committee is composed of at least three (3) Board members appointed by the chairperson of the Board, subject to approval by the Board.

Each member is appointed for a two-year term, and may be reappointed for additional two-year terms.

OFFICERS

Chairperson

The VRS Board chairperson shall appoint the chairperson of the Committee, subject to approval by the Board.

The Committee chairperson is appointed for a two-year term, and may be reappointed for additional two-year terms.

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The chairperson is charged with:

1. Facilitating the operation of the Committee meetings;
2. Reviewing proposed agendas for Committee meetings;
3. Presiding over meetings of the Committee;
4. Reporting to the Board on the matters considered by the Committee, and the recommendations of the Committee; and
5. Performing such additional duties as are required to facilitate the Committee's fulfillment of its responsibilities.

Vice-Chairperson

The Committee shall elect its vice-chairperson at the first meeting following the appointment or reappointment of a chairperson, or at the first meeting following such time as a sitting vice-chairperson becomes unable or unwilling to complete his or her term.

The term of the vice-chairperson shall commence upon election and shall terminate at the first meeting of the Committee following the appointment or reappointment of a Committee chairperson.

In the event of the absence or incapacity of the Committee chairperson, the vice-chairperson shall preside at meetings of the Committee and shall fulfill such other duties and responsibilities of the chairperson as may be necessary.

Secretary

The Audit Director, or the Audit Director's designee, shall act as secretary to the Committee. The Audit Director shall continue to serve as secretary until such time as he or she is unable or unwilling to continue to do so, or until such time as the Committee appoints another secretary.

The secretary has the following duties:

1. Help the chairperson develop the agenda for Committee meetings;
2. Notify Committee members of meetings;
3. Coordinate and distribute information to Committee members;
4. Act as liaison between the Committee and VRS staff;
5. Coordinate matters on the agenda and presentations for the Committee; and
6. Maintain the minutes and records of all Committee meetings.

CONDUCT OF BUSINESS

1. The rules contained in the current edition of *Robert's Rules of Order Newly Revised* shall govern all Committee meetings insofar as they are applicable and not inconsistent with any of the policies adopted by the Board, including this charter, with particular attention to the rules provided for conduct of business in committees.
2. Unless otherwise specified by the Board, voting by proxy is not allowed.
3. A majority of the members of the Committee shall constitute a quorum at meetings of the Committee. For the purposes of determining the presence of a quorum, an abstention or disqualification shall be considered an absence. However, any member of the Board who is not a member of the Committee but is present at a Committee meeting may serve as an alternate to an absent member of the Committee for purposes of constituting a quorum, and any such participation shall not be considered voting by proxy. Moreover, any Board member who is not a member of the Committee but is present at a Committee meeting shall have all the rights and privileges afforded to a Committee member while present at such meeting, including voting and being counted toward a quorum, and any such participation shall not be considered voting by proxy. The presence of any alternate at a Committee meeting and the participation by any Board member who is not a member of the Committee shall be recorded in the minutes of the Committee meeting.
4. Except as otherwise specified herein, approval of an action or decision shall be by a majority of those Committee members present and voting at a Committee meeting.
5. The Committee chairperson will seek at all times to develop a consensus of opinion among Committee members in order to be able to present clear and concise recommendations to the Board. In the event that a consensus is not obtainable, the Committee chairperson will present the range of opinions and their rationale to the Board.
6. The Committee chairperson will report to the Board on the content and results of each Committee meeting. The chairperson or vice-chairperson will sign all meeting minutes, as applicable.
7. The Committee shall meet at least four times per year.

CHANGES IN THE CHARTER

The Committee may, from time to time, deem it necessary to alter, amend, modify, or rescind all or a part of this charter. Such revisions, once approved by a majority vote of the Committee, shall be submitted to the Board for final approval. If

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approved by a two-thirds vote of the Board, such revisions shall be incorporated into and made a part of this charter.

BOARD OF TRUSTEES CODE OF ETHICS AND CONDUCT

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I. PURPOSE

The VRS Board is the trustee of the funds of the plans that it administers and, as such, is obligated to discharge all of its duties solely in the interest of the VRS members, beneficiaries, and participants of all said plans.

In addition, the Board is charged with oversight responsibility for several other plans and, as to these, the Board has fiduciary obligations.

In furtherance of these duties and obligations, the Board of Trustees hereby adopts this Code of Ethics and Conduct, which is established to define the ethical and behavioral guidelines within which all Board of Trustees members and non-Board members of committees of the Board (hereafter referred to as Board members) are expected to conduct themselves while serving as Board members.

Adherence to this Code will allow the Trustees to pursue the mandates of their Governance Policy, foster harmonious relations between Board members, and facilitate mutual respect and public confidence.

II. FIDUCIARY DUTIES

By virtue of the authority given to the VRS Board to exercise control over the disposition of the assets and funds described in Section II of the Board of Trustees Governance Policy, each Board member is a fiduciary and, as such, owes a special duty to VRS and to VRS members, beneficiaries, and participants.¹

As a fiduciary, each Board member shall adhere to the duties of loyalty, prudence and following plan documents. In doing so, each Board member shall:

- A. Discharge his or her duties solely in the interest of the members, beneficiaries and participants of the VRS systems and plans for the exclusive purpose of providing benefits to VRS members, beneficiaries and participants.

¹ Members of the Investment Advisory Committee (IAC) and Defined Contribution Plans Advisory Committee (DCPAC) are not members of the Board of Trustees and therefore are not considered fiduciaries of the Virginia Retirement System. Unless otherwise stated, references to fiduciary duties do not apply to IAC and DCPAC members.

- B. Be loyal to VRS members, beneficiaries and participants, and not to the source of his or her appointment.
- C. Treat all VRS members, beneficiaries and participants equally and fairly. A Board member's loyalty is to VRS members, beneficiaries and participants as a group, and not to individuals or groups of individuals.
- D. Discharge his or her duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- E. Be informed so as to be familiar with applicable state and federal laws and other matters relating to his or her duties as a Board member.
- F. Strive to understand and work towards VRS objectives.
- G. Prepare for and attend all Board and assigned committee meetings, and shall strive to maintain a continuing awareness of the actions and activities of the Board and its committees.
- H. Take advantage of educational opportunities so as to be properly informed.
- I. Seek out expert assistance in matters where he or she lacks familiarity.
- J. In conjunction with all Board members, engage in performing ongoing oversight of those employed directly by the Board (i.e., the Director, the Chief Investment Officer and the Audit Director).
- K. Review and follow all plan documents and related laws.

III. CODE OF ETHICS

In adhering to the Board's commitment to upholding the highest standards of integrity, ethical principles and professional conduct, each Board member shall:

- A. Conduct himself or herself with integrity, competence and dignity, including when dealing with fellow Board members, the Director, the Chief Investment Officer, the Audit

Director, all VRS advisory committee members, VRS members, business partners, VRS employees, other stakeholders and the public.

- B. Maintain high ethical and moral character, both professionally and personally, such that his or her conduct shall not reflect negatively upon the Board of Trustees or VRS.
- C. Use proper care and exercise independent professional judgment.
- D. Maintain the confidentiality of information owned, obtained or developed by VRS, including information provided in closed meetings.
- E. Adhere to the Commonwealth of Virginia's State and Local Government Conflict of Interests Act ([Code of Virginia § 2.2-3100 et seq.](#)).
- F. Take affirmative steps to avoid breaches of duty (through negligence or intentional action or omission), unauthorized communication with individuals seeking to influence the Board and unauthorized communications with individuals who may receive personal gains as a result of Board actions.
- G. Recognize that all VRS business transactions must be based on integrity, competence and financial merit and benefit to VRS members, beneficiaries and participants, and not on personal relationships.
- H. Disclose in writing to the Board chair and secretary any outside business or financial interest that could influence the impartial discharge of his or her official responsibilities and duties.

IV. STANDARDS OF CONDUCT

In furtherance of the Board's commitment to seeing that VRS accomplishes its mission and fulfills its vision, each Board member shall:

- A. Refrain from engaging in conduct that would discredit or compromise the integrity of the Board of Trustees and VRS.
- B. Avoid any conflict of interest with respect to his or her fiduciary responsibilities, including:

1. Not using his or her position to obtain employment at VRS for themselves, family members or close associates.
 2. Not seeking, accepting or being offered a position of employment at VRS until five years after the termination of his or her service on the Board or any advisory committee.
 3. Abstaining from a vote on any issue in which he or she has an unavoidable conflict of interest, as referenced in Section III (H). He or she may participate in the discussion concerning the issue unless a majority of the Board votes otherwise.
- C. In conjunction with all Board members, provide oversight of the Director, Chief Investment Officer and Audit Director, who are delegated responsibility to administer the day-to-day operations of the organization as outlined in the Board's Governance Policy. While providing oversight, each Board member shall not:
1. Give orders or directions to any employee of VRS, except to the Director, Chief Investment Officer and Audit Director.
 2. Become involved in operational management.
- D. Discuss in open Board meetings all substantive matters. Board members who contact VRS staff on substantive matters are encouraged to communicate the same to all other Board members.
- E. Refer all proposals or other communications regarding potential or existing investments or other contracts or services directly to the Chief Investment Officer or the Director, as appropriate.
- F. Take proactive steps to avoid communication or contact with prospective or actual applicants or bidders upon the release of any procurement vehicle for the selection of advisors, managers, consultants, contractors or any other vendor.
- G. File, as a condition to becoming a Board member and as required thereafter, a disclosure statement of personal interests and such other information required in accordance with [§ 2.2-3100 et seq. of the Code of Virginia](#).
- H. Adhere to the responsibilities of a co-fiduciary by not enabling, knowingly participating in or concealing a breach by another Board member. If a Board member is aware of a

breach he or she shall take all reasonable steps to prevent or halt such breach and report it to the Board chair and secretary.

V. GIFTS

In accordance with Commonwealth of Virginia’s State and Local Government Conflict of Interests Act ([Code of Virginia § 2.2-3100 et seq.](#)), each Board member shall avoid the appearance of impropriety regarding the acceptance of gifts. The *Code of Virginia* defines “gifts” as any gratuity, favor, discount, entertainment, hospitality, loan, forbearance or other item having monetary value. It includes services as well as gifts of transportation, local travel, lodging and meals, whether provided in-kind, by purchase of a ticket, payment in advance or reimbursement after the expense has been incurred.

In furtherance of this objective, each Board member shall not:

- A. Accept gifts from any person or entity engaged in business with VRS.
- B. Receive, accept, seek or solicit, directly or indirectly, anything of economic value as a gift, gratuity or favor from a person if it reasonably could be expected that the gift, gratuity or favor would:
 - 1. Influence the vote, action or judgment of the Board member.
 - 2. Be considered as part of a reward for action or inaction.
- C. Accept or receive any gift through an intermediary, if he or she knows, or has reason to know, that the gift originated from a source that would make the gift prohibited under this policy.
- D. Accept a gift if the source of the gift is not identified. If the source of any gift cannot be ascertained, the gift shall be donated to a suitable charitable organization or otherwise discarded.
- E. Accept any complimentary work, analysis or other “favor” offered or performed by a current, prospective or potential vendor of VRS that is intended to benefit personally the involved Board member if such work, analysis or other “favor” is offered to or performed for such Board member because of his or her capacity as a Trustee of the Virginia Retirement System.

- F. Solicit, encourage, or accept entertainment, including but not limited to meals, refreshments or entry fees from a current, prospective or potential vendor of VRS.
- G. Accept cash, cash equivalents or securities of any value.

Board members should direct questions regarding gifts to the Board secretary, who may request or direct the Board member to request clarification from the Virginia Conflict of Interest and Ethics Advisory Council.

VI. SPONSORED TRAVEL

For the purposes of this policy:

“Sponsored travel” shall mean payment of travel and related expenses by a source other than VRS or the person(s) traveling on behalf of VRS.

“Source of funds” shall be the person or entity directly providing the reimbursement to VRS and not others who may pay dues or otherwise provide funding to that person or entity.

A Board member, acting in his or her capacity as such, may accept sponsored travel to give a speech, participate in a panel or seminar, or provide a similar service at a professional or educational conference, convention or seminar when his or her participation is requested due to the experience, expertise or opinions related to the performance of his or her duties for VRS provided that:

- A. The source of the funds is not a person or entity that is in a business relationship with VRS, has ever been in a business relationship with VRS or potentially may enter into a business relationship with VRS.
- B. The speech, seminar, or other forum for which the sponsored travel has been offered will not be publicized, promoted, or represented in any way as being sponsored by a person or entity that is in a business relationship with VRS, has ever been in a business relationship with VRS or potentially may enter into a business relationship with VRS.
- C. The sponsored travel is specifically approved as herein provided.
- D. The Board maintains a public record of all such sponsored travel, as set forth herein.

- E. Approval of sponsored travel shall be sought, obtained and recorded as follows:
1. A written request to accept sponsored travel shall include:
 - a) A description of the event to be attended.
 - b) Identification of the person or entity that has offered to pay the expenses.
 - c) A description of the expenses that will be covered or reimbursed.
 - d) The names of the persons to whom the request has been submitted.
 2. All requests for sponsored travel by Board members, its committee members, the Director, the Chief Investment Officer and the Audit Director shall be approved by the Audit and Compliance Committee. Requests for such approval shall be submitted to the Director who will forward the requests to the Audit and Compliance Committee for approval.
 3. The Audit and Compliance Committee will, to the extent practical, approve or disapprove the request within three (3) business days of having received it.
- F. Records of all sponsored travel shall be maintained as follows:
1. A report of all sponsored travel, including a copy of the original request and an itemization of all expenses paid for, shall be submitted along with all other reports of travel for review by the Audit and Compliance Committee.
 2. The Audit and Compliance Committee shall report to the Board on all sponsored travel, which report shall be maintained in the minutes of the Board.
- G. The Director, Chief Investment Officer and Audit Director may, in his or her discretion and pursuant to the duties and responsibilities delegated to them, adopt this policy for application to travel by VRS staff or otherwise amend the policies and procedures for travel and reimbursement as they pertain to VRS staff.

VII. ALL VRS RELATED TRAVEL

No spouse, family member or other invitee of a Board member traveling on behalf of VRS may accompany the Board member unless the spouse, family member, invitee or Board

member pays for all additional or incremental costs and expenses associated with such attendance.

VIII. GENERAL PROVISIONS

- A. This Code of Ethics and Conduct shall not be construed as excusing any Board member from any other restrictions of state or federal law concerning conflicts of interest and fiduciary duties, nor shall it be construed as superseding such state or federal law.
- B. Any breach of this Code of Ethics and Conduct shall be referred to the Administration ~~and Personnel~~, Finance and Talent Management Committee, which shall investigate, as necessary, and report its findings to the Board together with a recommended course of action.
- C. All Board members will sign an affirmation, annually, pledging to uphold this Code of Ethics and Conduct.

IX. AFFIRMATION

VIRGINIA RETIREMENT SYSTEM BOARD OF TRUSTEES
CODE OF ETHICS AND CONDUCT

I hereby pledge to uphold the Virginia Retirement System Board of Trustees Code of Ethics and Conduct.

Member Name

Board or Advisory Committee

Signature

Date