
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on September 19, 2024, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair
Michael P. Disharoon, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett (*remotely under § 2.2-3708.3(B)(4)*)
Susan T. Gooden, Ph.D.
Jessica L. Hood
Lindsey K. Pantele

Investment Advisory Committee:

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

VRS Staff:

Patricia Bishop, Jennifer Schreck, Andrew Junkin, Advait Apte, Rory Badura, Kevin Bliss, Sara Denson, Parham Behrooz, Matt Bennett, Jessica Budd, Jeanne Chenault, Michael Cooper, David Cotter, Juanita Cribbs, Valerie Disanto, Pam Elam, Laurie Fennell, Laura Fields, Jay Gentry, Holly Glass, JT Grier, Krystal Groff, Mehtab Haleem, Dane Honrado, KC Howell, Robert Irving, Sandy Jack, LaShaunda King, Chung Ma, Curt Mattson, Scott Mootz, Walker Noland, Laura Pugliese, Paula Reid, Mark Rein, Jummai Sarki-Hurd, Dan Schlussler, Kristy Scott, Michael Scott, Viet Tran, Emily Trent, Leslie Weldon, Scott Weaver, Dan Whitlock and Steve Woodall.

Guests:

Lauren Albanese, Financial Investment News; Jamie Bitz, Joint Legislative Audit and Review Commission; Chris Doll, CEM Benchmarking; Joe Ebisa, WithIntelligence.com; Julian Gasparo and Patrick Spitz, Auditor of Public Accounts; and Elizabeth Myers, Office of the Attorney General.

The meeting convened at 1:03 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the September 19, 2024, meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Following a motion by Ms. Pantele, and a second by Mr. Disharoon, the VRS Board of Trustees unanimously approved the minutes from its June 20, 2024, meeting.

Report of the Chief Investment Officer

Andrew Junkin, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-

approved levels. Mr. Junkin then discussed the New Investments and Terminations report, the Quarterly Diverse Investment Manager Engagement (DIME) report and the Quarterly External Investment Manager Referral report.

Mr. Andrews thanked Mr. Junkin for his report.

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), began his report by noting the IAC met on August 14, 2024, and approved the minutes from its April 10, 2024 meeting. Mr. Kochard noted that the Committee reviewed proposed changes to the Investment Advisory Committee charter with David Cotter, Director of Legislative and Government Affairs, and recommends approval of the changes to the Investment Advisory Committee charter. The Committee received the Chief Investment Officer's (CIO) report that included an overview of market conditions, asset allocation, tracking error and total fund performance as of June 30, 2024. The Committee then received the Portfolio Solution Group program review. Lastly, the Committee reviewed risk management, leverage, collaborative efforts of Dynamic Strategies and Risk-Based Investments and objectives, investment criteria and diligence framework with the Exposure Management Portfolio.

Mr. Andrews thanked Mr. Kochard for his report.

Annual CEM Benchmarking Report on Administration

Chris Doll of CEM Benchmarking, Inc., provided the annual Pension Administration Benchmarking Report for FY 2023 to the Board. CEM measures cost, and service levels and provides an analysis of performance relative to peer agencies, as well as comparative data and insights from a broader group of CEM-participating plans. The presentation focused on VRS compared to a peer group of other U.S.-based retirement systems with similar membership size. Areas of service reviewed and measured included the call center, VRS website (including myVRS), one-on-one membership counseling and presentations, pension inceptions and member statements.

With a cost of \$81 per active member and annuitant, VRS' total pension administration cost per active member and annuitant is \$36 below the peer group average of \$117. Mr. Doll provided a summary of the trend in total pension administration costs from 2016 to 2023. He noted that VRS' total pension administration cost per active member and annuitant increased by 2.4% per annum. During the same period, the average cost of peers with eight consecutive years of data increased by 2.7% per annum.

Mr. Doll advised that VRS achieved a total service score of 81, which is slightly below the peer group median of 82. VRS' service score has increased from 75 to 81 between 2016 and 2023. Further, the CEM service model was updated to capture the change in digital adoption and transformation in the pension industry over the last eight years. It also takes a more member-centric view with scores calculated by member journey.

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

Mr. Andrews thanked Mr. Doll for his presentation and commended the VRS staff for achieving these exceptional results. Mr. Andrews noted that providing a high level of service at a lower cost when compared to U.S. peers is a testament to staff's commitment to exceptional service and continuous improvement.

Report of the Defined Contribution Plans Advisory Committee

The VRS Board of Trustees received the report of the Defined Contribution Plans Advisory Committee following its meeting on September 12, 2024, and placed it on file.

APPROVAL OF MINUTES

The Committee approved the minutes of its May 23, 2024, meeting.

INVESTMENTS

Annual Investment Review

Staff provided the Committee with its annual investments review as of June 30, 2024, which included investments for the unbundled DC plans and the TIAA ORPHE. Staff explained that VRS uses white label naming convention for the unbundled DC plans investments and formal investment names for the bundled TIAA ORPHE due to TIAA operational constraints. Staff highlighted the target date portfolios and explained the objective is to address the full life cycle of a member's career. Staff also reviewed upcoming changes to the portfolios. This included the Target Date 2025 Portfolio's assets moving into the Retirement Portfolio in October 2024 because it was reaching its target date, the addition of the Target Date 2070 Portfolio, and various BlackRock enhancements to improve inflation responsiveness as a result of their asset class research.

Defined Contribution Plans Advisory Committee Charter Review

Staff reviewed changes to the Charter to ensure it accurately recites proper duties and procedures and reflects current Board governance best practices. Most of the changes were for clarification purposes, as well as to accurately articulate duties of officers, the proper entities performing functions, and to match specific code language. These changes will bring consistency across all committee charters.

The Committee recommends approval of the revisions to the Defined Contribution Plans Advisory Committee Charter.

ADMINISTRATION

Administration Reports & Communications

Staff provided an overview of the DC Plans and an update on administrative reports for the second quarter of 2024. An overview of assets and accounts across the various defined contribution plans, as well as account trends, was also provided.

Staff advised the Committee that total assets across all plans have increased 3% from the previous quarter. Hybrid Retirement Plan assets and accounts continue to increase as new members are added to the hybrid plan, which is now the primary plan. Staff spoke of the Eastern Virginia Medical School (EVMS)/Old Dominion University (ODU) merger, which was completed July 11, 2024, and the COV 457 SDBA de-commingling, where \$4.7M in Roth assets at Charles Schwab transferred to 180 new Roth SDBA accounts with MissionSquare. Further, staff provided updates on plan assets and accounts and hybrid voluntary contribution elections. ORPHE participation rates for DCP showed an increase in DCP elections and a decrease in TIAA elections. Staff also provided TIAA updates, which included an amendment to the record-keeping agreement and a targeted beneficiary campaign, as well upcoming DC Plans events.

DC Plans Recordkeeper Transition Update

Staff provided a project status on the DC Plans Recordkeeper transition to Voya. VRS staff have been meeting with MissionSquare and Voya in preparation for the transition. Communications have started going out to key stakeholders with additional meetings to follow. Highlights of the overall project were provided, along with an update on contracts, agreements and forms, reporting and procedures, participant and employer support, and other areas pertaining to the transition.

OTHER BUSINESS

Advice and Managed Accounts

A presentation covering investment advice and managed accounts, including monitoring of these services, was provided by Andrew Ness with Sageview Consulting. Mr. Ness conducted outreach to other plans to learn about their experiences in providing a hybrid benefit including assets and participant usage, monitoring and recommendations. He also presented a monitoring program for consideration, which includes reviewing and tracking demographics, engagement, personalization, asset allocation, performance, qualitative benchmarking and fee benchmarking. VRS administration staff will be responsible for oversight and monitoring of Voya Retirement Advisors' investment advice and professional managed account program.

DISCUSSION OF NEW IDEAS

Mr. Winter raised for discussion the Hybrid Retirement Plan as it pertains to voluntary participation rates and active election rates. He inquired as to the proper measure of comparison and whether there is an appropriate target or benchmark. Mr. Winter believes such information would be helpful to know if the hybrid plan is meeting its design goals. Staff mentioned that comparing voluntary contributions in other state hybrid plans is challenging because plan designs vary considerably across different plans,

notably with respect to employer matching contributions and automatic features. However, staff also noted that VRS has worked with its record keeper to develop award-winning campaigns to encourage savings. In addition, VRS has offered suggestions in formal legislative reports as well as at presentations to legislative and executive branch policy makers regarding various options that exist to improve outcomes for hybrid plan members, such as automatic enrollment, accelerating auto escalation and increased employer defined contribution plan percentages. Staff further note that JLARC will be looking at the Hybrid Retirement Plan and voluntary contributions later this year.

2024 MEETINGS

Dr. Gooden confirmed the remaining DCPAC meeting date in 2024, at 1:00 p.m. on Thursday, December 5, 2024.

Additionally, the ORPHE Annual Employer Update is scheduled for September 25, 2024, and will appear on the DCPAC agenda as an upcoming event. This is not a DCPAC meeting; however, members may attend if interested.

Mr. Andrews thanked Dr. Gooden for her report.

Report of the Audit and Compliance Committee

The VRS Board of Trustees received the report of the Audit and Compliance Committee following its meeting on September 18, 2024, and placed it on file.

APPROVAL OF MINUTES

Senator Bell began his report by noting the Committee approved the minutes of its June 11, 2024, meeting.

EXIT ON THE 2023 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2024 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The Auditor of Public Accounts (APA) reported the 2023 Employer Assurances Review, covering GASB Statements No. 68 and 75, has concluded. The APA has issued their related opinions for the pension and other post-employment benefit plans.

The APA also reported the 2024 VRS ACFR Audit is progressing as planned and is on schedule to be finished in advance of December 15, 2024.

INTERNAL AUDIT ASSURANCE REVIEWS

The Committee received the results for the following reviews completed by the Internal Audit Department:

Agency Performance Outcomes and Operational Measures

The Internal Audit Director discussed Internal Audit's review of management's representations regarding the agency performance outcomes and operational measures for the fiscal year ended June 30, 2024, noting nothing came to Internal Audit's attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

VRS' Investment Incentive Compensation

The Internal Audit Director noted Internal Audit completed its review of the Investment department's proposed incentive compensation amounts and determined they were accurately calculated in accordance with the authorized pay plan and related eligibility requirements were met.

AUDIT AND COMPLIANCE COMMITTEE CHARTER REVIEW

The Internal Audit Director reviewed proposed revisions to the Audit and Compliance Committee charter to align the charter language with changes to the Global Internal Audit Standards, provide clarity to some sections and reflect associated changes made across all board governance documents since the last review.

The Committee recommends approval of the changes to the Audit and Compliance Committee charter.

INTERNAL AUDIT DEPARTMENT CHARTER REVIEW

The Internal Audit Director reviewed proposed changes to the Internal Audit Department charter. As with the Audit and Compliance Committee charter, the revisions were suggested to align the charter with the *Global Internal Audit Standards*, provide clarity to some sections and address other changes resulting from the review of related VRS governance documents.

In accordance with its charter, the Committee approved the changes to the Internal Audit Department charter.

INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2024

The Committee received the following updates:

Internal Audit Department's Annual Report

The Internal Audit Director provided the committee with a summary of Internal Audit's accomplishments over the past year. She recognized the contributions of the Internal Audit team, highlighting their internal and external service during the year. The Internal Audit Director explicitly confirmed the department and its staff are organizationally independent of the activities they examine.

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

The annual ARFUS report as of June 30, 2024, was presented. The Internal Audit Director noted the ARFUS contained 14 recommendations, seven were represented as implemented, two of which were issued by the APA. Six recommendations were released, two with comment, leaving eight outstanding as of June 30, 2024.

Annual Plan and Long-Range Plan Progress

The Internal Audit Director discussed the fiscal year 2024 annual plan results as of June 30, 2024, along with the status of the long-range plan for the four years ending June 30, 2024.

PROPOSED FY 2025 – FY 2027 LONG RANGE PLAN

The Committee received the proposed long-range plan for fiscal years 2025-2027. The Internal Audit Director discussed the risk assessment and long-range development processes.

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

RBA: FY 2025-2027 Long Range Plan

Request for Board Action 2024-09-20: The VRS Board of Trustees approves the proposed FY 2025 – FY 2027 Long-Range Plan.

PROPOSED FY 2025 ANNUAL PLAN

The Internal Audit Director presented the proposed annual plan for fiscal year 2025, noting it was derived directly from the approved long-range plan.

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

RBA: Approve FY 2025 Annual Audit Plan

Request for Board Action 2024-09-21: The VRS Board of Trustees approves the proposed FY2025 Annual Audit Plan.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

The Internal Audit Director shared the results of the investigation into two Fraud, Waste and Abuse Hotline complaints reported to Internal Audit during the period of May 1, 2024, through July 31, 2024, noting both cases were closed.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Management's Quarterly Travel Expense and Per Diem Report

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

Committee Meeting Schedule for Calendar Year 2025

The Committee received a schedule of Audit and Compliance Committee meeting dates for 2025.

Next Committee Meeting Date

The final 2024 committee meeting is scheduled for Thursday, December 12, 2024, at 10 a.m.

NEW STANDARDS: CHIEF AUDIT EXECUTIVE POSITION QUALIFICATIONS AND COMPETENCIES

The Internal Audit Director provided the committee an overview of position qualifications and competencies for a chief audit executive in conformance with the requirements of the new *Global Internal Audit Standards*. In addition, the committee received a timeline of related upcoming committee activities and responsibilities.

AUDIT DIRECTOR'S PERFORMANCE EVALUATION (CLOSED SESSION)

The Committee went into closed session to review the Internal Audit Director's performance for the fiscal year ended June 30, 2024.

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

RBA: Internal Audit Director's Performance Review

Request for Board Action 2024-09-22: The VRS Board of Trustees approves a 7% performance bonus for the Audit Director.

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

RBA: Approve a Salary Adjustment for the Audit Director

Request for Board Action 2024-09-23: The VRS Board of Trustees approves a 3% salary adjustment for the Audit Director.

Mr. Andrews thanked Senator Bell for his report.

On behalf of the Board, Mr. Andrews thanked the Audit Director and the Internal Audit team for their professionalism and dedication to supporting the agency by providing thorough reviews that serve as an important resource for the Board and staff. The Board greatly appreciates their strategic focus and recommendations for continuous improvement.

Report of the Administration, Finance and Talent Management Committee

The VRS Board of Trustees received the report of the Administration, Finance, and Talent Management Committee following its meeting on September 18, 2024, and placed it on file.

APPROVAL OF MINUTES

Mr. Andrews began his report by noting the Committee approved the minutes of its June 11, 2024, meeting.

REVIEW REVISED BOARD GOVERNANCE POLICY AND COMMITTEE CHARTERS

Sandy Jack, Director of Policy, Planning and Compliance, reviewed the proposed changes to the Board Governance Policy and Committee charters. Ms. Jack explained the rationale for the revisions, noting that the documents were last reviewed comprehensively in 2017. Ms. Jack further advised the Committee that upon a recommendation for approval by the Committee, the full Board is required to review the governance documents two times before taking action.

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

Request for Board Action: The VRS Board of Trustees approves amendments to the Board's Governance Policy and to the charters for each of the Board's standing committees and advisory committees.

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS

Andrew Junkin, Chief Investment Officer, informed the Committee of three IAC members due for reappointment. Mr. Junkin indicated that Theodore Economou, Palmer Garson and Larry Kochard have been active and engaged participants of the IAC, and each are willing to continue their service on the IAC.

BUDGET UPDATE

Jon Farmer, Budget and Performance Reporting Manager, presented the FY 2024 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$9.73 million, which will be returned to the Fund. Mr. Farmer next provided an update on the agency's FY 2025 budget, noting that expenses to date are in line with budgeted amounts.

PAY PLANS OVERVIEW

Paula Reid, Director of Human Resources, and Curt Mattson, Chief Administrative Officer, reviewed the agency's three pay plans: Administrative Pay Plan, Investment Professionals' Pay Plan and the Investment Operations and Administrative Pay Plan. Ms. Reid and Mr. Mattson explained the purpose and key components for each of the three plans.

REVIEW ATTAINMENT OF FY2024 AGENCY PERFORMANCE OUTCOMES (APOS) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2024 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had five APOs for the fiscal year, with a target of completing at least four. Staff met this goal by successfully completing all five APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fourteen of the sixteen operational measures. The only measures not met for the year were the call abandonment rate and preventable employee turnover. Mr. Cooper advised the Committee that a new call management solution is being implemented that will provide new tools to help address the call abandonment rate. Regarding the preventable employee turnover measure, Mr. Cooper explained that this was isolated to a few small areas of the agency that are being addressed, and HR is leading an employee engagement survey initiative for the entire organization, all aimed at reducing preventable employee turnover. After some discussion by the Committee, staff advised that it will consider changes to the metrics and presentation of the call abandonment rate and preventable employee turnover.

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

Ms. Reid presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2024.

INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR’S PERFORMANCE REVIEW)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director’s performance at its September 18, 2024, meeting. Each year, the A&C Committee reviews the Internal Audit Director’s performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes. A copy of the request for board action to provide a 3% salary increase to the Audit Director was also shared with the Committee for informational purposes.

COMPENSATION AND BENEFITS (CLOSED SESSION)

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

Mr. Andrews then presented Requests for Board Action as related to the report.

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

Request for Board Action 2024-09-24: The Board reappoints (i) Theodore Economou for a two-year term ending September 13, 2026, (ii) Palmer Garson for a two-year term ending October 16, 2026, and (iii) Lawrence Kochard for a two-year term ending February 19, 2027.

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

RBA: Attainment of FY 2024 Agency Performance Outcomes (APOs) and Operational Measures

Request for Board Action 2024-09-25: The VRS Board of Trustees approves the attainment of FY 2024 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. Disharoon, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

RBA: FY 2024 Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees

Request for Board Action 2024-09-26: The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.

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

RBA: FY 2024 Incentive Pay for Investment Professionals

Request for Board Action 2024-09-27: The VRS Board of Trustees approves payment of an incentive amount of approximately \$10,510,344.60 for FY 2024 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2024, and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

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

RBA: FY 2024 Director's Performance Review

Request for Board Action 2024-09-28: The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 16, 2024, and supplemental payment of \$95,000 made on November 29, 2024, as authorized in the 2024 Appropriation Act.

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

RBA: Approve Salary Adjustment for the Chief Investment Officer

Request for Board Action 2024-09-29: *The VRS Board of Trustees approves an 8% salary adjustment for the Chief Investment Officer (CIO).*

Mr. Andrews commended the Investments team for their continued success, which was reflected in the 9.9% return for FY 2024 and its outperformance of its long-term benchmarks, exceeding the 6.75% assumed rate of return and its custom benchmark for the 5-, 10-, 15- and 20-year periods. Mr. Andrews further thanked the Administration team for all of their accomplishments during FY 2024, including meeting its targets for the Agency Performance Outcomes (APOs) and operational measures (OMs), and for continuing to beat the agency's peers in its high service score and lower cost of service delivery.

Revised Board Governance Policy and Committee Charters (1st Review)

Sandy Jack, Director of Policy, Planning and Compliance, reviewed the proposed changes to the Board Governance Policy and Committee charters. Ms. Jack explained the rationale for the revisions, noting that the documents were last reviewed comprehensively in 2017. Ms. Jack further advised the Board that upon a recommendation for approval the full Board is required to review the governance documents two times before taking action.

The matter will come before the Board again at the October 17, 2024 meeting.

Report of the Director

Ms. Bishop, Director, began her report with an update on the agency road map for FY 2024 and FY 2025, noting all projects are progressing as planned, as well as a review of New Coverage Elections.

Ms. Bishop presented an overview of Actuarial Measures and Key Indicators for fiscal year ending 2024. The overview included a comparison of the actual fund market value vs the expected for FY 2024; an update of the expected unrecognized asset gains/losses at year end; expected vs actual pension cash flows and the average increase in CPI year to date. Ms. Bishop also provided estimated impacts on plan funded status and contribution rates associated with 9.9% fund return from 2024.

Ms. Bishop announced The Government of Finance Officers Association of the United States and Canada (GFOA) honored VRS with a Certificate of Achievement for Excellence in Financial Reporting for the *Annual Comprehensive Financial Report (ACFR)* and the Award for Outstanding Achievement in Popular Annual Financial Reporting for the *Popular Annual Financial Report (PAFR)*.

Further, Ms. Bishop advised the Board of the VRS Counseling Center move to Reynolds Crossing on West Broad Street later in the year. The new location will offer ample and convenient free parking, proximity to public transportation and accessibility for those with disabilities.

Ms. Bishop provided updates on operational and ongoing activities including VRS outreach.

Mr. Andrews thanked Ms. Bishop for her report.

Other Business

Lastly, Mr. Andrews reviewed the following meeting schedule:

- Benefits and Actuarial Committee – October 16 at 1:00 p.m.
- Board of Trustees – October 17 at 1:00 p.m.

Adjournment

There being no further business and following a motion by Mr. Disharoon, with a second by Senator Bell, the VRS Board of Trustees agreed to adjourn the meeting at 2:25 p.m.



Chair



Secretary

Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on September 12, 2024, at 1:00 p.m. and took up the following matters:

WELCOME AND INTRODUCTION

Dr. Gooden welcomed two new members of the DCPAC, Kate Jonas and Monique Barnes. Kate Jonas is the founder and Principal of Kate Jonas Group LLC. Monique Barnes is the Director of Budget for Henrico County Schools. Ms. Jonas was not able to attend the meeting due to a long-standing commitment that could not be changed.

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

APPROVAL OF MINUTES

The Committee approved the minutes of its May 23, 2024, meeting.

INVESTMENTS

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Staff provided the Committee with its annual investments review as of June 30, 2024, which included investments for the unbundled DC plans and the TIAA ORPHE. Staff explained that VRS uses white label naming convention for the unbundled DC plans investments and formal investment names for the bundled TIAA ORPHE due to TIAA operational constraints. Staff highlighted the target date portfolios and explained the objective is to address the full life cycle of a member's career. Staff also reviewed upcoming changes to the portfolios. This included the Target Date 2025 Portfolio's assets moving into the Retirement Portfolio in October 2024 because it was reaching its target date, the addition of the Target Date 2070 Portfolio, and various BlackRock enhancements to improve inflation responsiveness as a result of their asset class research.

Defined Contribution Plans Advisory Committee Charter Review

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The Committee recommends approval of the revisions to the Defined Contribution Plans Advisory Committee Charter.

ADMINISTRATION

Administration Reports & Communications

Staff provided an overview of the DC Plans and an update on administrative reports for the second quarter of 2024. An overview of assets and accounts across the various defined contribution plans, as well as account trends, was also provided.

Staff advised the Committee that total assets across all plans have increased 3% from the previous quarter. Hybrid Retirement Plan assets and accounts continue to increase as new members are added to the hybrid plan, which is now the primary plan. Staff spoke of the EVMS/ODU Merger, which was completed July 11, 2024, and the COV 457 SDBA de-commingling, where \$4.7M in Roth assets at Charles Schwab transferred to 180 new Roth SDBA accounts with MissionSquare. Further, staff provided updates on plan assets and accounts and hybrid voluntary contribution elections. ORPHE participation rates for DCP showed an increase in DCP elections and a decrease in TIAA elections. Staff also provided TIAA updates, which included an amendment to the record-keeping agreement and a targeted beneficiary campaign, as well upcoming DC Plans events.

DC Plans Recordkeeper Transition Update

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DISCUSSION OF NEW IDEAS

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is an appropriate target or benchmark. Mr. Winter believes such information would be helpful to know if the hybrid plan is meeting its design goals. Staff mentioned that comparing voluntary contributions in other state hybrid plans is challenging, because plan designs vary considerably across different plans, notably with respect to employer matching contributions and automatic features. However, staff also noted that VRS has worked with its record keeper to develop award-winning campaigns to encourage savings. In addition, VRS has offered suggestions in formal legislative reports as well as at presentations to legislative and executive branch policy makers regarding various options that exist to improve outcomes for hybrid plan members, such as automatic enrollment, accelerating auto escalation, and increased employer defined contribution plan percentages. Staff further note that JLARC will be looking at the Hybrid Retirement Plan and voluntary contributions later this year.

2024 MEETINGS

Dr. Gooden confirmed the remaining DCPAC meeting date in 2024, at 1:00 p.m. on Thursday, December 5, 2024.

Additionally, the ORPHE Annual Employer Update is scheduled for September 25, 2024, and will appear on the DCPAC agenda as an upcoming event. This is not a DCPAC meeting; however, members may attend if interested.

There was no other business to come before the Committee.

Submitted to the Board of Trustees on September 19, 2024.



Susan T. Gooden, Chair
Defined Contribution Plans Advisory Committee

Report

The Audit and Compliance Committee (committee) met on September 18, 2024. Senator Bell welcomed committee members, board members, agency officials, representatives from stakeholder groups and other members of the public joining in person and through electronic means. The committee discussed the following:

APPROVAL OF MINUTES

The committee approved the minutes of its June 11, 2024, meeting.

EXIT ON THE 2023 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2024 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The Auditor of Public Accounts (APA) reported the 2023 Employer Assurances Review, covering GASB Statements No. 68 and 75, has concluded. The APA has issued their related opinions for the pension and other post-employment benefit plans.

The APA also reported the 2024 VRS ACFR Audit is progressing as planned and is on schedule to be finished in advance of December 15, 2024.

AUDIT REPORTS

The committee received one audit report.

- The review of *Investment Balances, Performance Reporting and Investment Manager Compensation* determined investment balances, performance reporting and investment manager compensation are accurately reported and complete. There were no formal recommendations resulting from this review.

INTERNAL AUDIT ASSURANCE REVIEWS

The committee received the results for the following reviews completed by the Internal Audit Department:

Agency Performance Outcomes and Operational Measures

The Internal Audit Director discussed Internal Audit's review of management's representations regarding the agency performance outcomes and operational measures for the fiscal year ended June 30, 2024, noting nothing came to Internal Audit's attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

VRS' Investment Incentive Compensation

The Internal Audit Director noted Internal Audit completed its review of the Investment department's proposed incentive compensation amounts and determined they were accurately calculated in accordance with the authorized pay plan and related eligibility requirements were met.

AUDIT AND COMPLIANCE COMMITTEE CHARTER REVIEW

The Internal Audit Director reviewed proposed revisions to the Audit and Compliance Committee charter to align the charter language with changes to the *Global Internal Audit Standards*, provide clarity to some sections and reflect associated changes made across all board governance documents since the last review.

The committee recommends approval of the changes to the Audit and Compliance Committee charter.

INTERNAL AUDIT DEPARTMENT CHARTER REVIEW

The Internal Audit Director reviewed proposed changes to the Internal Audit Department charter. As with the Audit and Compliance Committee charter, the revisions were suggested to align the charter with the *Global Internal Audit Standards*, provide clarity to some sections and address other changes resulting from the review of related VRS governance documents.

In accordance with its charter, the committee approved the changes to the Internal Audit Department charter.

INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2024

The committee received the following updates:

Internal Audit Department's Annual Report

The Internal Audit Director provided the committee with a summary of Internal Audit's accomplishments over the past year. She recognized the contributions of the internal audit team, highlighting their internal and external service during the year. The Internal Audit Director explicitly confirmed the department and its staff are organizationally independent of the activities they examine.

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

The annual ARFUS report as of June 30, 2024, was presented. The Internal Audit Director noted ARFUS contained 14 recommendations, seven were represented as implemented, two of which were issued by the APA. Six recommendations were released, two with comment, leaving eight outstanding as of June 30, 2024.

Annual Plan and Long-Range Plan Progress

The Internal Audit Director discussed the fiscal year 2024 annual plan results as of June 30, 2024, along with the status of the long-range plan for the four years ending June 30, 2024.

PROPOSED FY 2025 – FY 2027 LONG RANGE PLAN

The Committee received the proposed long-range plan for fiscal years 2025-2027. The Internal Audit Director discussed the risk assessment and long-range development processes.

The Committee recommended approval of the following action to the full board:

Request for Board Action: The VRS Board of Trustees approves the proposed FY 2025 – FY 2027 Long-Range Plan.

PROPOSED FY 2025 ANNUAL PLAN

The Internal Audit Director presented the proposed annual plan for fiscal year 2025, noting it was derived directly from the approved long-range plan. The Committee recommended approval of the following action to the full board:

Request for Board Action: *The VRS Board of Trustees approves the proposed FY2025 Annual Plan.*

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

The Internal Audit Director shared the results of the investigation into two Fraud, Waste and Abuse Hotline complaints reported to Internal Audit during the period of May 1, 2024, through July 31, 2024, noting both cases were closed.

MISCELLANEOUS UPDATES

The committee received the following miscellaneous updates:

Management's Quarterly Travel Expense and Per Diem Report

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

Committee Meeting Schedule for Calendar Year 2025

The committee received a schedule of Audit and Compliance Committee meeting dates for 2025.

Next Committee Meeting Date

The final 2024 committee meeting is scheduled for Thursday, December 12, 2024, at 10 a.m.

NEW STANDARDS: CHIEF AUDIT EXECUTIVE POSITION QUALIFICATIONS AND COMPETENCIES

The Internal Audit Director provided the committee an overview of position qualifications and competencies for a chief audit executive in conformance with the requirements of the new *Global Internal Audit Standards*. In addition, the committee received a timeline of related upcoming committee activities and responsibilities.

AUDIT DIRECTOR'S PERFORMANCE EVALUATION (CLOSED SESSION)

The committee went into closed session to review the Internal Audit Director's performance for the fiscal year ended June 30, 2024.

Upon returning to open meeting, the committee voted to recommend approval of the following actions to the full board:

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

Request for Board Action: *The VRS Board of Trustees approves a 3% salary increase for the audit director.*

Respectfully submitted to the Board of Trustees on September 19, 2024.



Sen. J. Brandon Bell, II, Chair
Audit and Compliance Committee

Report

The Administration, Finance and Talent Management Committee met on September 18, 2024, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its June 11, 2024, meeting.

REVIEW REVISED BOARD GOVERNANCE POLICY AND COMMITTEE CHARTERS

Sandy Jack, Director of Policy, Planning and Compliance, reviewed the proposed changes to the Board Governance Policy and Committee charters. Ms. Jack explained the rationale for the revisions, noting that the documents were last reviewed comprehensively in 2017. Ms. Jack further advised the Committee that upon a recommendation for approval by the Committee, the full Board is required to review the governance documents two times before taking action.

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

Request for Board Action: *The VRS Board of Trustees approves amendments to the Board's Governance Policy and to the charters for each of the Board's standing committees and advisory committees.*

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS

Andrew Junkin, Chief Investment Officer, informed the committee of three IAC members due for reappointment. Mr. Junkin indicated that Theodore Economou, Palmer Garson and Larry Kochard have been active and engaged participants of the IAC, and each are willing to continue their service on the IAC.

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

Request for Board Action: *The Board reappoints (i) Theodore Economou for a two-year term ending September 13, 2026, (ii) Palmer Garson for a two-year term ending October 16, 2026, and (iii) Lawrence Kochard for a two-year term ending February 19, 2027.*

BUDGET UPDATE

Jon Farmer, Budget and Reporting Manager, presented the FY 2024 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$9.73 million, which will be returned to the Fund. Mr. Farmer next provided an update on the agency's FY 2025 budget, noting that expenses to date are in line with budgeted amounts.

PAY PLANS OVERVIEW

Paula Reid, Director of Human Resources, and Curt Mattson, Chief Administrative Officer, reviewed the agency's three pay plans: Administrative Pay Plan, Investment Professionals' Pay Plan and the

Investment Operations and Administrative Pay Plan. Ms. Reid and Mr. Mattson explained the purpose and key components for each of the three plans.

REVIEW ATTAINMENT OF FY2024 AGENCY PERFORMANCE OUTCOMES (APOS) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2024 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had five APOs for the fiscal year, with a target of completing at least four. Staff met this goal by successfully completing all five APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fourteen of the sixteen operational measures. The only measures not met for the year were the call abandonment rate and preventable employee turnover. Mr. Cooper advised the Committee that a new call management solution is being implemented that will provide new tools to help address the call abandonment rate. Regarding the preventable employee turnover measure, Mr. Cooper explained that this was isolated to a few small areas of the agency that are being addressed, and HR is leading an employee engagement survey initiative for the entire organization, all aimed at reducing preventable employee turnover. After some discussion by the Committee, staff advised that it will consider changes to the metrics and presentation of the call abandonment rate and preventable employee turnover.

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

Request for Board Action: *The VRS Board of Trustees approves the attainment of FY 2024 APOs and Operational Measures and a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

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

Ms. Reid presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2024.

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

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

INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR’S PERFORMANCE REVIEW)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director’s performance at its September 18, 2024, meeting. Each year, the A&C

Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes. A copy of the request for board action to provide a 3% salary increase to the Audit Director was also shared with the Committee for informational purposes.

COMPENSATION AND BENEFITS (CLOSED SESSION)

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

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

Request for Board Action: *The VRS Board of Trustees approves payment of an incentive amount of approximately \$10,510,344.60 for FY 2024 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2024, and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

Request for Board Action: *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 16, 2024, and supplemental payment of \$95,000 made on November 29, 2024, as authorized in the 2024 Appropriation Act.*

Request for Board Action: *The VRS Board of Trustees approves an 8% salary adjustment for the Chief Investment Officer (CIO).*

Submitted to the Board of Trustees on September 19, 2024.



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