



Investment Policy Committee (IPC) Meeting

Thursday, 6/20/2024
11:45 AM - 12:45 PM ET

- 1. Welcome and Introductions**
- 2. Approval of Minutes (April 20, 2023)**
IPC BBL Minutes 042023 - Final - Page 2
- 3. Investment Policy Committee Charter Review**
Investment Policy Committee Charter Review 2024 - Page 4
Investment Policy Committee Charter Final 2024 - Page 8
- 4. Discussion on Benchmarks and Performance Hurdles**
Investment Benchmarks and Performance Hurdles - Page 12
 - a. RBA – Affirm Benchmarks and Performance Hurdles**
- 5. Update on Asset Allocation**
Asset Allocation and Leverage Update - Page 20
 - a. RBA – FY 2025 DB Plan Asset Allocation**

Minutes

A meeting of the Investment Policy Committee (IPC) of the Virginia Retirement System was held on April 20, 2023 at the Bank of America Building, 1111 East Main Street, Richmond, Virginia with the following members present:

A. Scott Andrews (remote under § 2.2-3708.3)
Joe Montgomery
John Bennett
Michael Disharoon
Dr. Susan Gooden (arrived at 11:58am)
Jessica Hood
Lindsey Pantele

Also present were Trish Bishop, Andrew Junkin, Jennifer Schreck, Stephen Adelaar, John Alouf, Rory Badura, Parham Behrooz, Matt Bennett, Erica Billingslea, Jeanne Chenault, Michael Cooper, Perry Corsello, Laura Fields, Laurie Fennell, Josh Fox, Holly Glass, Katie Grawe, JT Grier, Mehtab Haleem, K.C. Howell, Ross Kasarda, Kristina Koutrakos, Matt Lacy, Chung Ma, Walker Noland, Greg Oliff, Steven Peterson, Mark Rein, Dan Schlusser, Kristy Scott, Michael Scott, Larry Tentor, Korey Turner, Leslie Weldon, Dan Whitlock, Cindy Wilkinson and Steve Woodall of the VRS staff.

Also in attendance was Tom Astin, a member retiree; Tom Cassara of Agilis; Joe Ebisa of Withintelligence.com; Gary Gammon of the Virginia Auditor of Public Accounts; and Kimberly Sarte of the Joint Legislative Audit and Review Commission.

The informal meeting convened at 11:45 p.m.

Mr. Andrews announced that he will be joining remotely today, participating in accordance with § 2.2-3708.3 of the Code of Virginia and the VRS Remote Meeting Attendance Policy.

Attendance

Mr. Andrews took a roll call of each IPC member for attendance purposes:

Mr. Bell – not present
Mr. Bennett – present
Mr. Disharoon – present
Dr. Gooden – not present
Mr. Hayes – not present

Ms. Hood – present
Mr. Montgomery – present
Ms. Pantele – present
Mr. Andrews – present

Minutes

A motion was made by Mr. Montgomery and seconded by Ms. Pantele to approve the minutes for the February 9, 2023 Committee meeting. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Disharoon – aye
Ms. Hood – aye
Mr. Montgomery – aye
Ms. Pantele – aye
Mr. Andrews – aye

Meeting Contents

An informal education session, led primarily by Chung Ma and Andrew Junkin, was conducted for the purpose of providing general education information regarding Portfolio Diversification. A general discussion was held throughout the presentation.

Adjournment

A motion was made by Mr. Montgomery and seconded by Ms. Pantele to adjourn the meeting. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Disharoon – aye
Dr. Gooden – aye
Ms. Hood – aye
Mr. Montgomery – aye
Ms. Pantele – aye
Mr. Andrews – aye

The meeting was adjourned at 12:43 p.m.

A. Scott Andrews, Chairperson

COMMITTEE CHARTER FOR THE INVESTMENT POLICY COMMITTEE

PURPOSE

The purpose of the Investment Policy Committee (IPC) is to facilitate the determination of appropriate investment policies, to set 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 IPC for vetting and reporting back to the full Board for action, if any.

AUTHORITY

The IPC 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 IPC is not empowered to take any further or independent action unless such action is specifically authorized or directed by the Board.

DUTIES AND RESPONSIBILITIES

The IPC's duties and responsibilities include the following on an as needed basis unless otherwise specified:

1. Determine the overall risk tolerance to recommend to the full Board as acceptable for the fund.
2. Develop and recommend to the full Board a single long-term policy benchmark against which to compare the fund's performance.
3. Propose to the full Board revisions to the investment policy statements for the fund that in turn provide clear objectives for VRS investment staff. This includes recommendations for the establishment of a risk budget framework that defines acceptable portfolio exposures and acceptable ranges of performance relative to the benchmark.
4. Perform such other duties when directed to do so by the Board.

Commented [SJ1]: Conformed the introductory language across all committee charters to clarify that all duties and responsibilities are performed as needed unless a frequency is otherwise specified.

COMPOSITION

The IPC is composed of at least three (3) and no more than nine (9) 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. In addition, the chairperson of the Investment Advisory Committee may participate in the deliberations of the IPC but may not vote on any matters before the IPC.

The chairperson and vice-chairperson of the Board shall serve as the chairperson and vice-chairperson, respectively, of the IPC and their terms on the IPC shall run concurrently with their terms as chairperson and vice-chairperson of the Board. The terms of the other IPC members run concurrently with their terms as Board members.

Commented [SJ2]: Not new language, moved to Composition from later sections.

OFFICERS

Chairperson

The chairperson has the following duties:

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

Vice-Chairperson

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

Secretary

The VRS Chief Investment Officer (CIO), or the CIO's designee, shall act as secretary to the IPC. The CIO 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 IPC appoints another secretary.

Commented [SJ3]: Removed language that the Committee may appoint a secretary other than the Director or the Director's designee. Do not anticipate this authority being needed. Change consistently made across all committee charters.

The secretary has the following duties:

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

CONDUCT OF BUSINESS

1. The rules contained in the current edition of *Robert's Rules of Order Newly Revised* shall govern all IPC 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. **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 this charter.**
2. Unless otherwise specified by the Board, voting by proxy is not allowed.
3. A majority of the appointed members of the IPC shall constitute a quorum at meetings of the IPC. **The chairperson of the Investment Advisory Committee shall not be considered in determining the presence of a quorum.** **Any Board member who is not a member of the IPC but is present at an IPC meeting shall have all the rights and privileges afforded to an IPC 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 participation by any Board member who is not a member of the IPC shall be recorded in the minutes of the IPC meeting.**
4. Except as otherwise specified herein, approval of an action or decision shall be by a majority of those IPC members present and voting at an IPC meeting.
5. The IPC chairperson will seek at all times to develop a consensus of opinion among IPC 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 IPC chairperson will present the range of opinions and their rationale to the Board.
6. The IPC chairperson, vice-chairperson, any committee member or, in their absence, a staff designee, will report to the Board on the content and results of each IPC meeting. The chairperson or vice-chairperson will sign all meeting minutes, as applicable.

Commented [SJ4]: Added procedural language relating to small boards. Language was previously in the Board Governance Policy and is being added to all committee charters.

Commented [SJ5]: Removed language indicating that an abstention vote be considered an absence for purposes of establishing a quorum. This is atypical for board procedures. Usually an abstention does not impact a quorum. Consistent change across all committees.

Commented [SJ6]: Removed unnecessary language in the Conduct of Business section relating to alternate members. The provision is not needed because any member of the Board may attend any committee meeting and be granted the rights of a member of the committee.

Commented [SJ7]: Added language in Conduct of Business to clarify that additional people may give the committee report to the Board if the chairperson is unavailable.

7. The Committee will meet as often as necessary to meet the objectives listed in this charter.

CHANGES IN THE CHARTER

The IPC 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 IPC, 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.

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Investment Benchmarks and Performance Hurdles

Andrew Junkin
Chief Investment Officer

June 20, 2024



- In order to perpetuate VRS' good governance practices, the Board regularly reviews investment benchmarks and hurdles for investment staff incentive compensation
- RVK, an independent consulting firm, conducted a study of the benchmarks and hurdles and found that current benchmarks and hurdles are appropriate and not in need of change
- RVK presented their findings to the Investment Advisory Committee and to the Board in April 2024
- A synopsis of the RVK study is provided in the Appendix

- The Investment Policy Subcommittee reviews the benchmarks and hurdles (June 2024)
- The Board will vote on benchmarks and hurdles (June 2024)
- Staff will monitor benchmarks and make recommendations for changes as appropriate (ongoing)
- Recurring consultant review of benchmarks and hurdles expected to occur again in 3 years (2027)

Appendix

March 2024

Benchmark & Performance Hurdle Analysis

Virginia Employees Retirement System



Virginia's Benchmark Definitions

Program	Benchmark Definition(s)
Public Equity	85% MSCI ACWI IMI (net VRS Tax Rate) and 15% MSCI World Min. Volatility (net VRS Tax Rate)
Fixed Income	90% Bloomberg US Aggregate Bond Index, 5% BB US High Yield Ba/B 2% Issuer Cap, and 5% JP Morgan EMBI Global Core Index
Credit Strategies	50% Morningstar LSTA Performing Loan Index and 50% BB US High Yield Ba/B 2% Issuer Cap
Real Assets	Market value weighted blend of NCREIF Private Real Estate Benchmark (ODCE Index) lagged by three months and other real assets custom benchmark (CPI-U + 400 bps lagged by three months)
Private Equity	Regional benchmarks of the MSCI ACWI IMI index (net VRS taxes) lagged by three months weighted to reflect the Private Equity opportunity set (75% North America, 20% Europe, and 5% Asia and Emerging Markets).
Multi-Asset Public Strategies, Dynamic Strategies, and RBI	ICE BofA US 3-Month Treasury Bill Index + 250 bps
Private Investment Partnerships (PIP)	33% Private Equity Custom Benchmark, 25% NCREIF Private Real Estate Benchmark, 8% Other Real Assets Custom Benchmark, 17% BB US High Yield Ba/B 2% Issuer Cap, 17% Morningstar LSTA Performing Loan Index
Leverage	Secured Overnight Financing Rate (SOFR) + 50 bps
Total Fund	33% Public Equities, 16% Fixed Income, 14% Credit Strategies, 14% Real Assets, 16% Private Equity, 4% Multi-Asset Public Strategies, 2% PIP, 2% Cash, and -1% Leverage

Benchmark Summary

RVK reviewed Virginia Employees Retirement System's ("VRS") investment policy statement, historical performance, current and historical benchmark and policy definitions, and current and historical incentive compensation hurdles.

We compared the benchmarks and policies to RVK's public defined benefit plans with assets over \$7.5 billion and a custom public universe that RVK produces annually. Each plan is unique and the composite and total fund benchmarking used by these plans are unique to them but the sentiment between them was similar.

The analysis indicated that VRS uses similar investment factors to its peers.

Besides peer comparison's we analyzed the benchmarks performance to their respective composite performance to approve of the fit. The analysis starts on page 15 and includes a rolling three and five-year beta and R-Squared calculation.

- An R-Squared calculation measures the strength or fit of the benchmark to the performance calculations.

The analysis also indicated the benchmarks are appropriate.

RVK also reviewed the leverage benchmark of SOFR + 50 bps. VRS' borrowing costs are in line with RVK's clients that use leverage. All RVK clients are using or changing to a SOFR reference benchmark and using a hurdle in the 40 to 60 bps range.

RVK found all the benchmarks used by VRS to be appropriate and reflective of the current investment environment and do not recommend any changes.

Performance Hurdles Summary

VRS Program	Current Hurdle (bps)	Recommended Hurdle (bps)
Fixed Income	25	25
Credit Strategies	75	75
Public Equity	30	30
Internal Equity	25	25
Private Equity	200	200
Real Assets	75	75
Total Fund	45	45

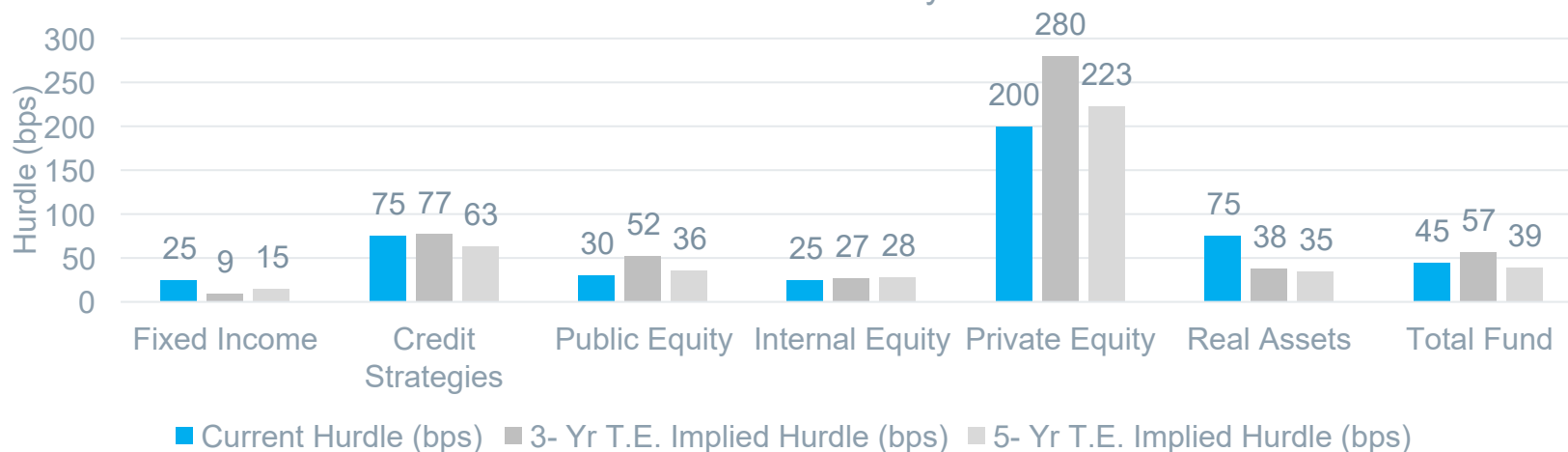
RVK is not recommending any changes to the current hurdle rates. Most were changed in 2020.

Four asset classes: fixed income, internal equity, private equity, and real assets have a win/loss greater than 50% on both the three and five year time periods.

Public equities had a win/loss ratio of less than 50% on both the three and five year time periods.

The rest: total fund and credit strategies were mixed in their win/loss ratio.

Recommended Hurdle Rate by Asset Class





Asset Allocation and Leverage Update

Andrew Junkin
Chief Investment Officer

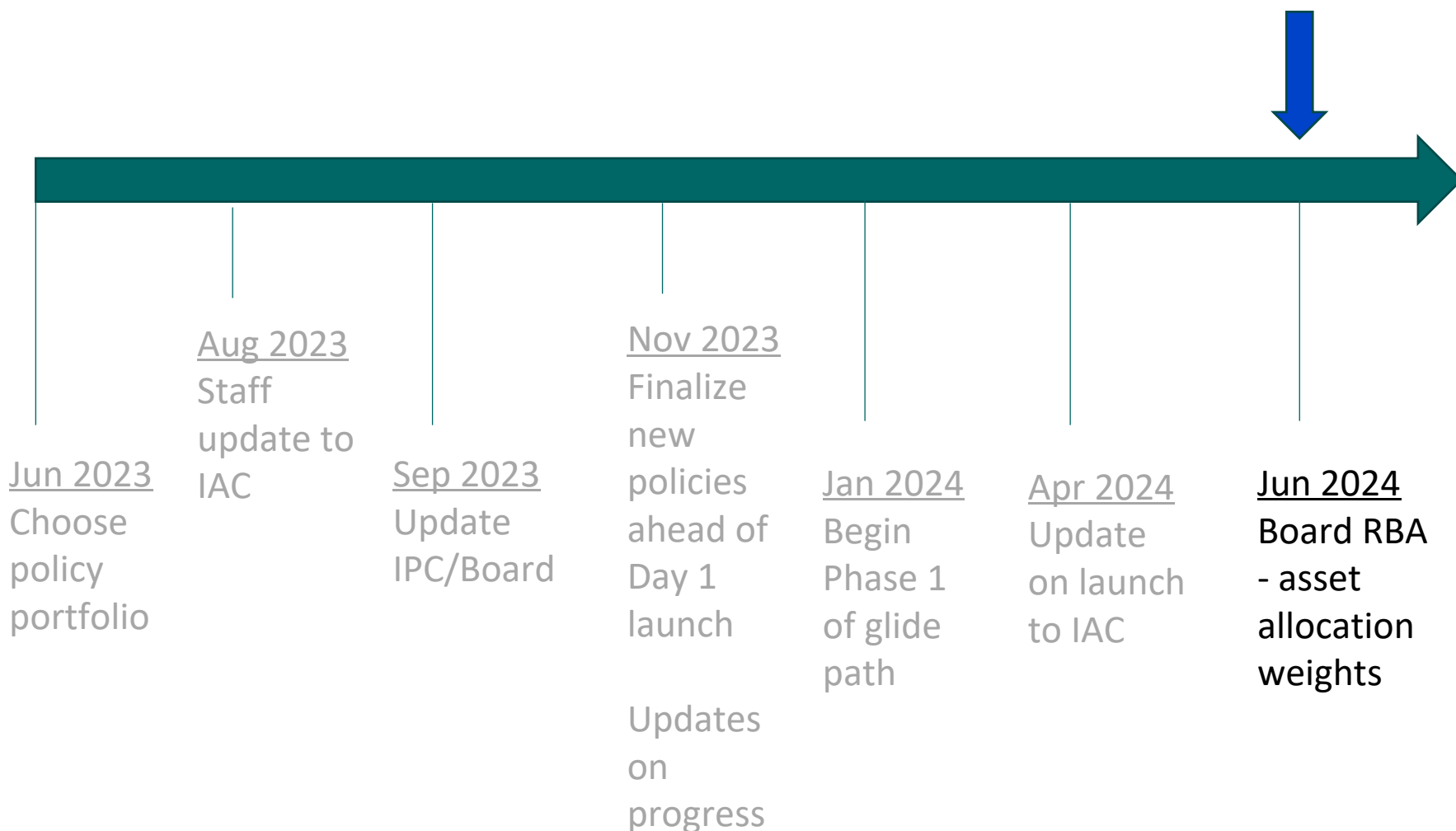
June 20, 2024



- State of the portfolio
- Roadmap
- Asset allocation proposal
- Expected glide path
- Implementation progress
- Looking forward

- Ample cash
- Cost of financing high relative to recent past
- Capitalizing on limited opportunities
- Portfolio expected return and risk not meaningfully different from last year

Roadmap



Proposed Asset Allocation – Unchanged

Policy Weights

	Proposed %
Public Equity	33
Fixed Income	16
Credit	14
Real Assets	14
Private Equity	16
Diversifying Strategies	4
PIP	2
Cash	2
Gross MV*	101
Leverage	-1
Net MV*	100

* MV-market value

Diversifying Strategies is the former MAPS line item

Expected Glide Path

Policy Weights %

	Current	Proposed for July 2024	CY 2025	CY 2026
Public Equity	33	33	32	32
Fixed Income	16	16	16	16
Credit	14	14	15	16
Real Assets	14	14	14	15
Private Equity	16	16	16	15
Div. Strategies	4	4	5	6
PIP	2	2	2	1
Cash	2	2	2	2
Gross MV*	101	101	102	103
Leverage	-1	-1	-2	-3
Net MV*	100	100	100	100

* MV-market value

- Successfully launched leverage, at ~1%, in January 2024
- Based on cash needs, the VRS portfolio is using less leverage than the policy portfolio
- Implemented enhanced operational processes
- Exploring additional sources of funding
- Director of Treasury hired and started

- Keep developing infrastructure for leverage operations. Add more flexibility for liquidity framework
- Maintain active knowledge-sharing with peer asset owners and securities financing community
- Transform leverage financing information into decision-making intelligence
- Stay abreast of potential regulatory changes

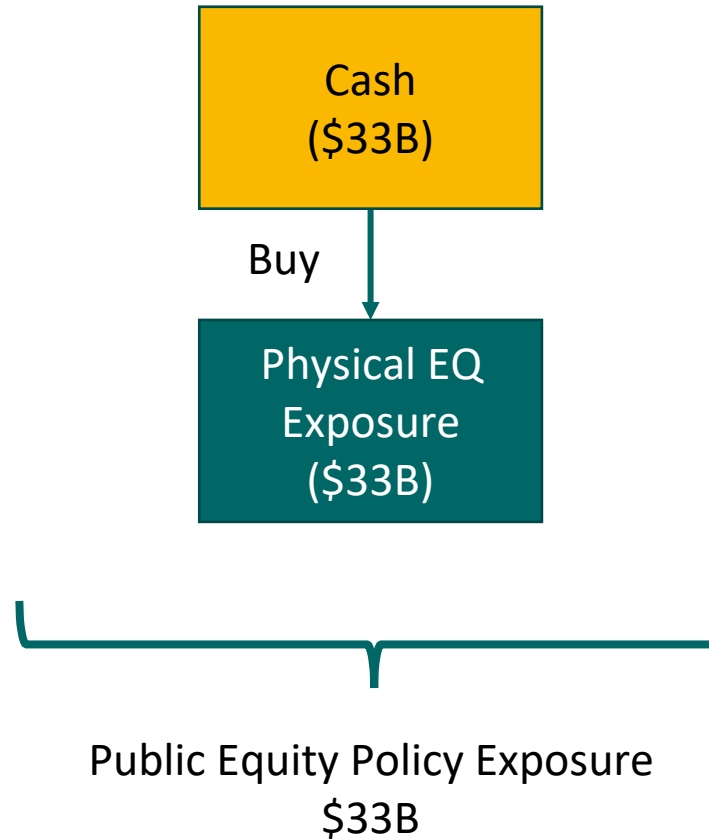
Appendix

Use of Synthetics – Pre-Leverage

Illustrative

33% Policy Allocation to Public Equity (EQ)

Economic Exposure



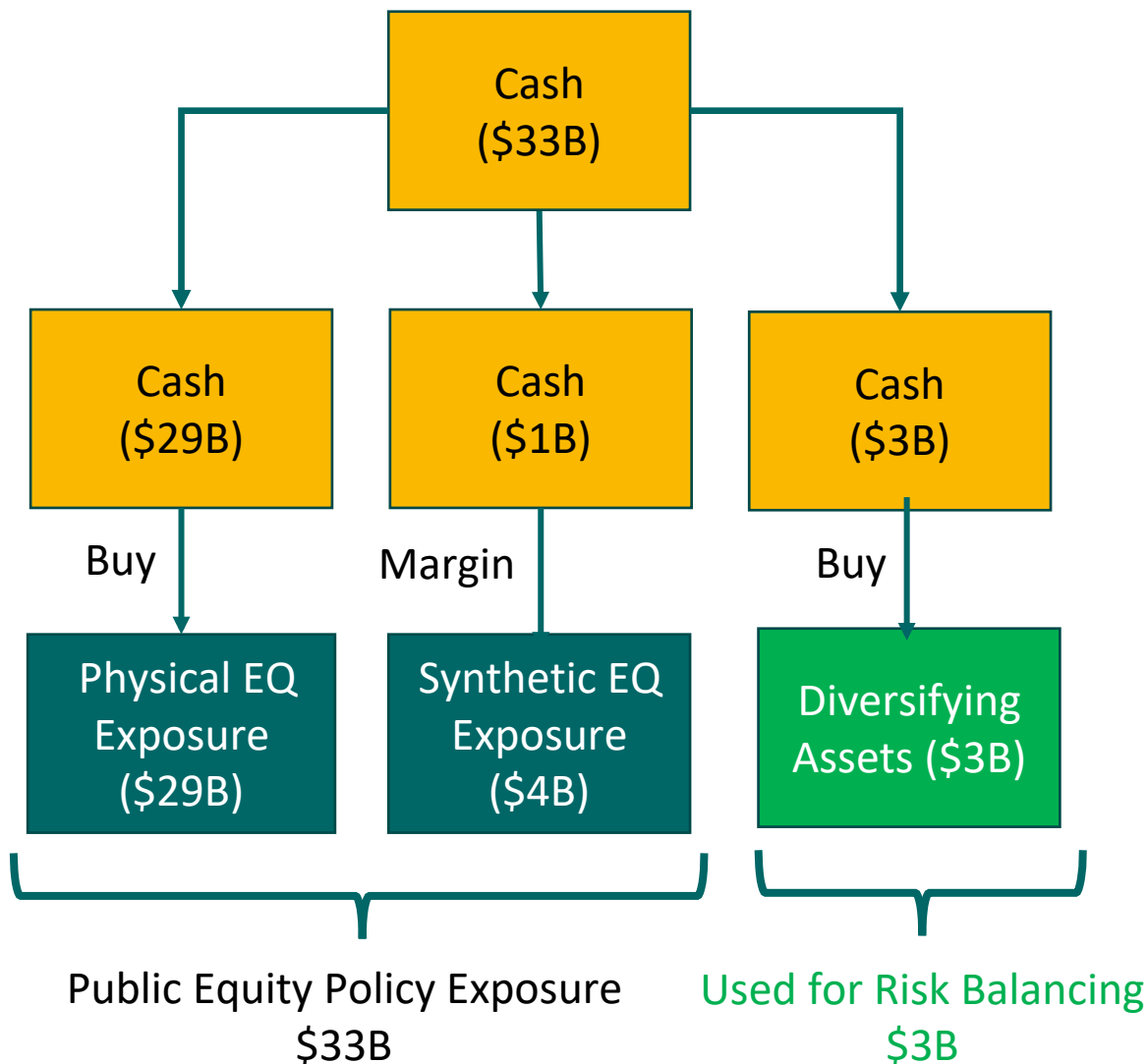
Use of Synthetics – As Funding Source

Illustrative

33% Policy Allocation to Public Equity (EQ)

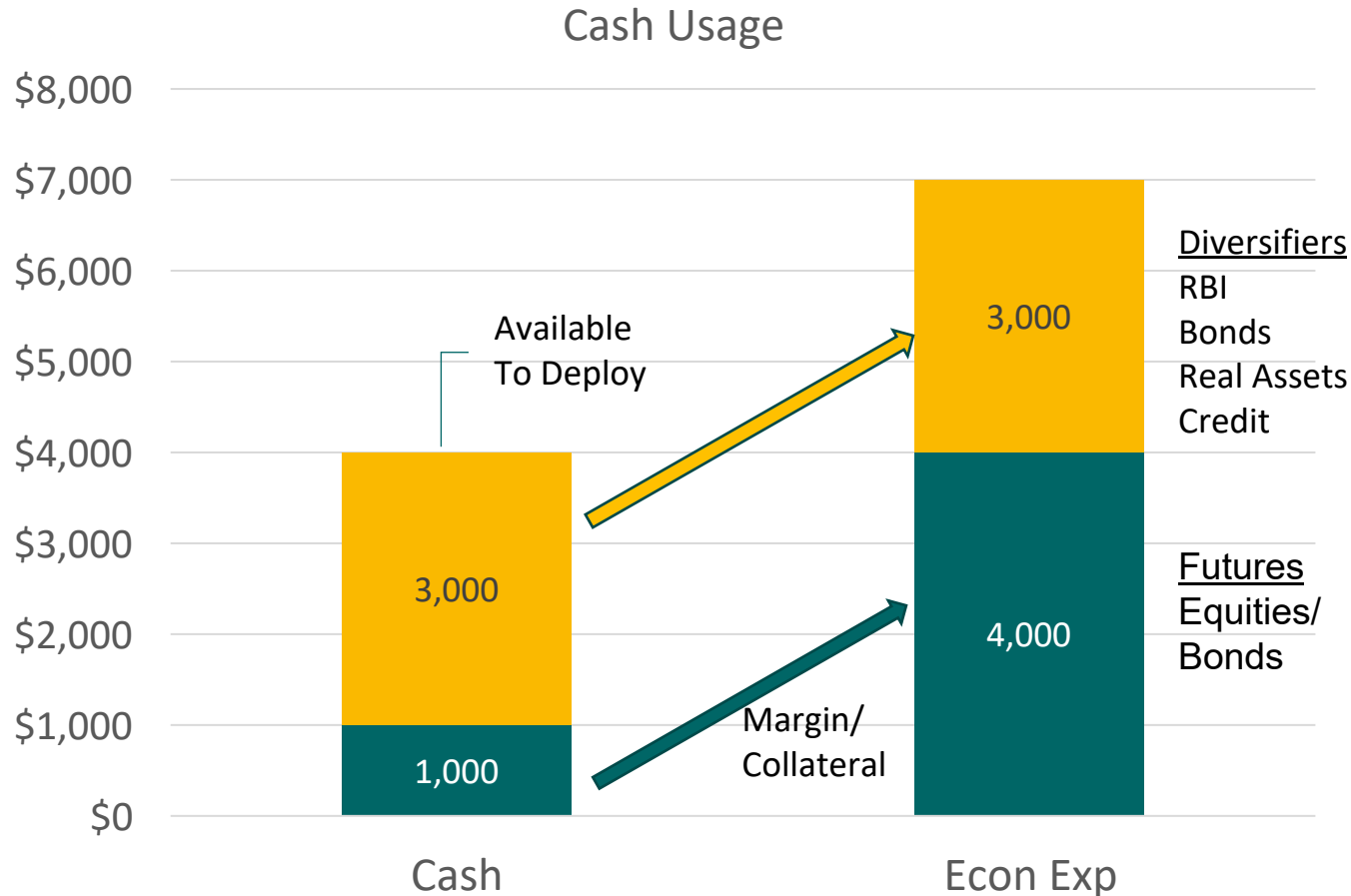
Allocate Cash to Exposures (\$33B)

Economic Exposures* (\$36B)



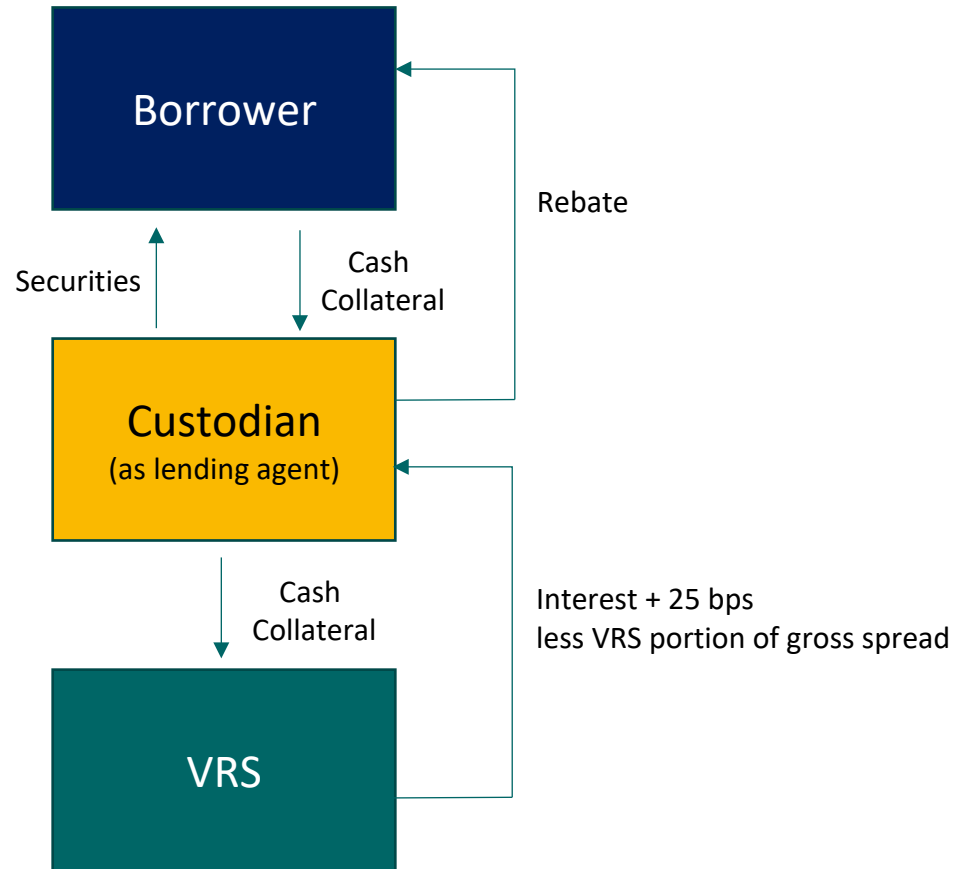
Cash Management - Synthetic Case Study

Synthetic exposure allows for re-allocation to other assets



Illustrative, numbers are in US dollars, millions

Securities Lending Cash Release – As Funding Source



Illustrative

