

Minutes

The Virginia Retirement System Board of Trustees held its regular meeting on November 15, 2016 at the Bank of America Building, 1111 East Main Street, Richmond, Virginia with the following members present:

*Robert L. Greene, Chair
Hon. J. Brandon Bell, II
Wallace G. Harris
W. Brett Hayes
William H. Leighty
Joseph W. Montgomery
Mitchell L. Nason
Troilen Seward*

Also present were: Trish Bishop, Ron Schmitz, John Alouf, Rory Badura, Danita Barnes, Farley Beaton, Parham Behrooz, Richard Brooks, Michael Cooper, Jeanne Chenault, John Clayton, Harriet Covey, Pam Elam, Barry Faison, Charles Grant, , J. T. Grier, Dane Honrado, K.C. Howell, Robert Irving, Ross Kasarda, LaShaunda King, Chung Ma, Curt Mattson, Steve McClelland, Laurie Nelson, Walker Noland, Jennifer Schreck, Andrew Simpson, Robert Voeks, Dan Whitlock, Cindy Wilkinson, Steve Woodall, Nicholas Zizzo and Olga Zozulya..

Guests present were: Liz Myers with the Office of the Attorney General; Jody MacIntosh with CEM; Jose Fernandez, Eric Gary and John Garrett with Cavanaugh MacDonald Consulting, LLC.; and Mary Jo Fields with the Virginia Municipal League.

Mr. Greene called the meeting to order at 1:00 p.m. Mr. Greene presented the agenda. Upon motion of Mr. Nason, with a second of Mr. Harris, the Board approved the agenda.

APPROVAL OF MINUTES

Upon a motion of Mr. Harris, with a second by Mr. Nason, the Board approved the minutes of the Board of Trustees meeting of October 20, 2016.

CIO REPORT

Mr. Schmitz began his report with a market update. He stated global markets were down slightly, fixed income markets showed a steepening in the yield curve, and inflation expectations were

increased. In addition, Mr. Schmitz stated positive sentiment in the equity market increased as third quarter earnings have been strong in the U.S.; Asia is still lagging; and macro-economic data in the U.S. is showing improvement.

Mr. Schmitz then discussed the economic dashboard to put the current situation into a long-term historical context. He reported the U.S. and China's growth rates are near the bottom quartile of historical observations while the Euro-zone and Japan growth rates are below, but near normal levels. He also reported the high-yield and emerging market debt spreads are close to their long-term averages; REIT prices are at somewhat discounted levels; and private real estate yields are low. In summary, Mr. Schmitz noted the current dashboard versus historical performance indicated the economic situation as having slow but steady growth, and markets prices as ranging from normal to expensive.

Next, Mr. Schmitz discussed asset allocation. He noted VRS is maintaining a slightly defensive position. Specifically, the portfolio is underweight in public equity, real assets and private equity and overweight in fixed income, credit strategies, cash, and the strategic opportunities portfolio.

Mr. Schmitz then reviewed the plan performance. He noted while the fiscal year-to-date performance as of September 30, 2016 was 3.4%, which equaled the benchmark, the one-, three-, five- and ten-year returns outperformed the benchmarks. Mr. Schmitz also discussed fund volatility, tracking error, and information ratio. Mr. Schmitz then reviewed the New Investments and Terminations Report.

In conclusion, Mr. Schmitz briefly reviewed the findings of a staff forward-return exercise at the asset class and total fund levels.

Mr. Greene thanked Mr. Schmitz for his report.

CEM PEER GROUP COMPARISON OF VRS INVESTMENT PROGRAM

Jody MacIntosh with CEM Benchmarking, Inc. presented the CEM peer group comparison for the VRS Investment Program. The report, which was for the five year period ending December 2015, compared VRS's cost and return performance to CEM's extensive pension database as well as against a more selective

group of peer funds. A copy of the report is attached as part of these minutes. The key points of the report included:

- *The VRS investment cost of 66.5 basis points was below the benchmark cost of 67.6 bps, suggesting that the VRS fund was slightly low cost compared to its peers.*
- *VRS was low cost because it paid less than peers for external investment management and it had a lower cost implementation style.*
- *VRS's five-year performance placed VRS in the positive value added, low cost quadrant of the cost effectiveness chart.*
- *The VRS 5-year policy return was 6.8% which was below the U.S. Public median of 7.2% and the peer median of 7.3%.*
- *The VRS 5-year net value added as 0.5% which was above the U.S. Public median of 0.0% and above the peer median of 0.0%.*

Mr. Greene thanked Ms. MacIntosh for her report.

REPORT OF THE BENEFITS AND ACTUARIAL COMMITTEE

Cavanaugh Macdonald Actuarial Valuation Results

The Board received the Benefits and Actuarial Committee Report of November 14, 2016 and placed it on file.

Mr. Harris advised that the Committee received the report on the June 30, 2016 actuarial valuations for the political subdivision retirement plans and health insurance credit, state-funded health insurance credit for constitutional officers, social services employees and registrars, the Virginia Local Disability Program and the Line of Duty Act Fund. The VRS actuary conducts actuarial valuations annually as of the close of the fiscal year (June 30). In odd-numbered years the valuations are used to establish employer contribution rates. The results in even-numbered years are shared with the Board of Trustees to inform the Board of any emerging trends or indications of the magnitude and direction of contribution rates.

Mr. Fernandez and Mr. Gary, representatives from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, made a similar presentation to the Board. Key points from the presentation included:

Retirement Plans

- *The 2016 valuations are not for rate setting, but for informational purposes.*
- *Pension plan average employer contribution rates have decreased over the last four years, primarily due to lower than anticipated COLA costs.*
- *The aggregate funded status for pension plans increased on an actuarial asset basis due to recognizing past gains. The funded status on a market value basis decreased due to investment losses in the fiscal year ending 2016. The market value return was 1.90%, while the smoothed actuarial return was 7.00%.*
- *There was an increase in the number of plans requiring an additional funding charge to avoid the risk of insolvency. 80 plans were affected as of June 30, 2016, with average additional funding of 0.91% of pay. Potential insolvency is determined when projected market assets (assuming 7% returns) and anticipated contributions may not be sufficient to meet projected benefit payments.*
- *The deferred recognition of market asset losses for 2015 and 2016 may cause contribution rates to increase during next rate setting.*
- *The average funded ratio for all plans was 94.0%, and a weighted average funded ratio based on the number of employees was 88.08%.*
- *Participation in the Hybrid Plan continues to increase, covering approximately 10% of the political subdivision population.*
- *The full phase-in impact of the Hybrid Plan and benefit changes for members with hazardous duty benefits will take over 20 years.*

OPEB Plans and LODA Fund

Mr. Gary discussed the OPEB plans and the LODA Fund. Key points from the presentation included:

- *Employer contribution rates for OPEB plans remained relatively unchanged from the prior valuation.*
- *The funded status for the local OPEB plans remain relatively low, but plans are showing improvement.*

- *The VLDP for non-hazardous duty employees is a multiple employer cost-sharing arrangement that covers 240 employers (teacher and political subdivision). The membership in VLDP continues to grow as new employees are hired into the VRS Hybrid plan.*
- *The Board set LODA rates for FY 2017 and 2018 based on June 30, 2015 valuation. The current employer rate for FY 2017 and FY 2018 is \$567.37 per FTE.*
- *2016 LODA valuation is not for rate setting, but for informational purposes only.*
- *LODA Fund contributions are likely to increase annually as plan premiums are tied to health care costs which generally increase faster than general inflation. Contributions are determined by the Board on a current disbursement basis.*

***Request for Board Action: 2016-10-28
Acceptance of June 30, 2016 Actuarial
Valuations for Political Subdivision and
OPEBs***

Mr. Harris advised that after some discussion, the Committee recommended that the Board accept the valuations by approving the following action:

Upon a motion by Mr. Nason, with a second by Mr. Leighty, the Board approved the following action:

The Board accepts the June 30, 2016 Actuarial Valuations conducted by the VRS actuary, Cavanaugh Macdonald Consulting, LLC for the Political Subdivision Retirement Plans; Health Insurance Credit (HIC) for Political Subdivisions; State-Funded HIC for Constitutional Officers, Social Services Employees and Registrars; the Virginia Local Disability Program, including Self-Funded Long-Term Care; and the Line of Duty Act Fund.

Next Committee Meeting

The next scheduled Committee meetings are December 13, 2016 and February 8, 2017 in the VRS Conference Room, Third Floor, 1111 E. Main Street. If there are no pressing matters for the Committee in the near future, the December meeting will be canceled. The Committee will take up the annual COLA at the February meeting.

Mr. Greene thanked Mr. Harris for his report.

REPORT OF THE DIRECTOR

New Coverage

Ms. Bishop provided a report on new coverage, noting that Lonesome Pine Soil and Water Conservation District elected to participate in the Group Life Insurance Program.

Agency Roadmap Update

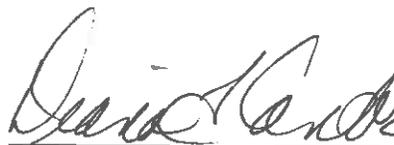
Ms. Bishop provided a status report of the Agency Roadmap. She was pleased with the overall progress, but stated that some items reflect the color code of yellow (caution) to focus additional attention and resources. She noted that the office renovations and moves have been impacted by unforeseen items due to the age of the building and other construction related challenges.

Next, Ms. Bishop reported that the Commission on Employee Retirement Security and Pension Reform met on November 14th. VRS shared information and recommendations from PEW were discussed. She noted that VRS has already begun implementing many of the recommendations. The Board will be apprised of any developments.

ADJOURNMENT

In conclusion, Ms. Bishop announced that the annual agency breakfast will be held on December 8th at the Omni Hotel. She invited the Board to attend.

There being no further business to discuss, the Board meeting adjourned at approximately 1:45 p.m.


Vice Chair


Secretary