Minutes

The Virginia Retirement System Board of Trustees held its regular meeting on June 8, 2017 at the Bank of America Building, 1111 East Main Street, Richmond, Virginia with the following members present:

Mitchell L. Nason, Chair
Diana F. Cantor, Vice Chair
Hon. J. Brandon Bell, II
Wallace G. Harris
W. Brett Hayes
O’Kelly E. McWilliams, III
Joseph W. Montgomery
Troilen G. Seward

Also present were: Trish Bishop, Ron Schmitz, Rory Badura, Farley Beaton, JT Beck, Jeanne Chenault, Michael Cooper, Harriet Covey, Barry Faison, Bryan Gardiner, Jay Gentry, Brian Goodman, Dane Honrado, K.C. Howell, Robert Irving, Ross Kasarda, LaShaunda King, Matt Lacy, Curt Mattson, Steve McClelland, Scott Mootz, Laurie Nelson, Walker Noland, Andrea Peeks, Denise Rasmussen, Jennifer Schreck, Capri Stanley-Smith, Dan Whitlock and Cindy Wilkinson.

Guests present were: Liz Myers with the Office of the Attorney General; Kimberly Sarte and Joe McMahon with the Joint Legislative Audit and Review Commission; and Sandy Harrington with the Virginia Municipal League.

Mr. Nason called the meeting to order at 2:30 p.m.

Mr. Nason thanked everyone for their well wishes on his appointment as Chair and he noted several additions to the agenda.

First, on behalf of the Board, Mr. Nason welcomed Mr. O’Kelly E. McWilliams, III, newly appointed Trustee, to the Board. Second, he noted that the Board will take up a memorial resolution for Glen D. Pond, former Director of VRS.
APPROVAL OF MINUTES

Upon a motion of Mr. Harris, with a second by Ms. Cantor, the Board approved the minutes of the Board of Trustees meeting of April 26, 2017.

VRS BOARD VICE-CHAIR ELECTION

Mr. Nason nominated Ms. Cantor as Vice-Chair of the Board. As there were no other nominations, upon motion of Mr. Nason, with second of Mr. Harris, the Board approved the reappointment of Ms. Cantor as Vice-Chair of the Board.

Ms. Cantor abstained from voting.

Request for Board Action: 2017-06-10 Election of Chair for the Investment Advisory Committee

Mr. Nason nominated Mr. Lawrence Kochard as Chair of the Investment Advisory Committee (IAC) replacing Mr. Rod Smyth. As there were no other nominations, upon motion of Mr. Montgomery, with a second of Ms. Cantor, the Board approved the following action:

The VRS Board of Trustees approves the appointment of Mr. Kochard as Chair of the Investment Advisory Committee.

Mr. Nason noted that Rod Smyth has been a tremendous asset to the Board and under his leadership, the IAC became an important and functional arm of VRS’ structure. Next, Mr. Nason thanked Mr. Smyth for serving as Chair and noted that the Board looks forward to working with Mr. Kochard.

CIO REPORT

Mr. Schmitz began his report with a market update. He noted that global economies continue to show relative strength. In addition, he noted expectations point to the Federal Reserve raising interest rates soon with another anticipated rate hike later in 2017.

Next, Mr. Schmitz discussed fund volatility, tracking error, and information ratio. He noted these metrics were below long-term expectations and were within the Board approved levels.

Mr. Schmitz then discussed asset allocation. He noted all asset classes were well within the approved Board levels. Mr. Schmitz also reviewed the plan performance for March and April. He estimated the total fund may achieve a low double digit return at the fiscal year end. Mr. Schmitz informed the Board VRS was considering an asset class neutral trade, and he would provide an update to the Board after the trade is executed. He then reviewed the New Investments and Terminations Report.
Asset Mix Policies

In conclusion, Mr. Schmitz discussed the asset class targets. He noted the Board developed a new five-year implementation schedule as a result of the 2016 Board study regarding the target asset mix. The first year of the implementation schedule began with fiscal year 2017. Mr. Schmitz recommended to the Board that the asset class targets for fiscal year 2018 remain the same as the asset class targets in effect for fiscal year 2017.

Upon a motion of Mr. Nason, with a second by Mr. Montgomery, the Board approved keeping the current asset class targets from fiscal year 2017 for fiscal year 2018.

Mr. Nason thanked Mr. Schmitz for his report.

BOARD COMMITTEE ASSIGNMENTS

Mr. Nason noted due to the departure of Mr. Greene and Mr. McWilliams joining the Board, the Committee assignments need to be reconstituted. Mr. Nason asked the Board to provide him their preference of Committee assignments within the next month.

REPORT OF THE DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE (DCPAC)

The Board received the Defined Contribution Plans Advisory Committee report of May 17, 2017 and placed it on file.

Mr. Hayes advised that the Committee received an overview of monthly reports, specifically highlighting the following:

- The total assets and number of accounts under management in the first quarter of 2017;
- New information on unique participants who may have a balance in one or multiple plans;
- New plan adoptions for first quarter 2017, and upcoming plan adoptions for the second quarter of 2017;
- Transition of assets in the second quarter of 2017 to the Commonwealth of Virginia 457 plan, including ICMA-RC additional services available to assist employers in transitioning assets to the VRS DC platform;
- An update on the annual meeting with ICMA-RC, including a review of performance standards and initiatives for 2016;
- An update on the first quarter 2017 communication initiatives, including the COV 457 postcard campaign;
- The success of ICMA-RC’s Realize Retirement Tour that came to the Commonwealth in early May 2017 to coincide with National Public Service Week, and the interest
employers expressed in bringing the tour truck to their local areas; and

- The DCP rebranding initiative planned for the summer of 2017, and an overview of the new DCP Mobile app.

Auto Escalation

Mr. Hayes reported that the Committee received an update on auto-escalation and the impact on the Hybrid Retirement Plan as of March 31, 2017, including those participants who took active control and made a specific election, as well as those who opted out of auto-escalation. In addition, the Committee was also advised that DC Plans is exploring ways to encourage members to set up automatic increases in contributions over a predetermined period of time, including account access messaging upon login, and options to prompt an active election.

ORPHE Update

Mr. Hayes reported that the Committee was advised that ORPHE has over $1 billion in assets under management as of March 31, 2017. In addition, the Committee was advised that annual fee disclosure statements were scheduled for mailing in the second quarter of 2017.

College of William and Mary to Opt-Out of ORPHE

Mr. Hayes reported that the Committee discussed the application submitted by The College of William and Mary to opt-out of the VRS-administered ORPHE, effective January 1, 2018. Next, Mr. Hayes advised that a Memorandum of Understanding between The College of William and Mary and VRS related to payment of administrative costs incurred would be entered into as part of the approval process.

Investments

Mr. Hayes reported that the Committee was provided a status update on the Department of Labor’s Fiduciary Rule with a scheduled effective date of June 9, 2017. In addition, the Committee was apprised that as a public plan sponsor VRS is not subject to DOL rules but considers the rules as a best practice. Next, the Committee was advised of the impact the new rule will have on VRS’ business relationship with the service providers as well as services delivered to plan participants.

Mr. Hayes reported that staff shared the findings of the PIMCO 2017 DC Consulting Support and Trends Survey and reported that the unbundled DC plans structure already employs many of the survey recommendations. Staff explained that once the pause mode is lifted from the TIAA and Fidelity ORPHE programs staff
will have the opportunity to make changes to their respective investment menus and address situations in which a fund contains a revenue sharing component. Any proposed changes, will include the advance development and deployment of a communications plan and effort.

Mr. Hayes reported that staff shared the investment performance reports for first quarter 2017. In addition, staff provided an update related to the problem they were having with Fidelity not linking returns of different share classes for the same fund which was previously communicated to the DCPAC at its March 23, 2017 meeting. The problem has been resolved and Fidelity is now linking returns.

Mr. Hayes advised that staff communicated work continues on its target date portfolio customization project, which will be shared as part of the annual investment review discussion at the next DCPAC meeting.

Last, Mr. Hayes stated the next meetings of the DCPAC will take place on September 8th and December 7th. In addition, the ORPHE Annual Employer Update is scheduled for September 21, 2017, but is not a meeting of the DCPAC.

Mr. Nason thanked Mr. Hayes for the report.

The VRS Board of Trustees approves the application of the College of William and Mary (CWM) to opt out of the VRS-administered ORPHE, effective January 1, 2018, pursuant to subsection B of Code of Virginia § 51.1-126, conditioned upon VRS and CWM reaching a mutually agreeable method by which CWM pays its proportionate share of ORPHE administrative expenses incurred prior to the effective date of CWM’s departure from ORPHE.

Mr. Nason thanked Mr. Hayes for the report.

The Board received the report of the Audit and Compliance Committee of June 1, 2017 and placed it on file.

Ms. Cantor reported that the Committee held its annual entrance conference with the APA to review the approach and scope of the

Employer Assurances Review Ms. Cantor noted that the APA reported that the employer assurances review was progressing as planned and that they should conclude their work and issue their opinions by the end of July.

GASB 74 and 75 Implementation Ms. Cantor reported the Committee received an update from the Chief Financial Officer on VRS’s Implementation of GASB Statements No. 74 and 75, which affect the financial reporting for postemployment benefits other than pensions (OPEB).

Ms. Cantor advised that GASB 74 covers the plan’s financial reporting and is effective for fiscal year 2017. The Board will notice additional disclosures in VRS’s 2017 CAFR because of these changes, similar to the pension disclosures recently implemented under GASB 67.

Ms. Cantor advised that GASB Statement No. 75 addresses financial reporting for employers that sponsor OPEB plans and is effective for fiscal year 2018.

Audit Reports Next, Ms. Cantor reported that the Committee received the following two audit reports:

- The review of the VSDP and VLDP Managed Disabilities Programs (Long-Term Disability) noted that management has established appropriate monitoring and oversight of administrative fees and benefit payments. The report contained one written recommendation where controls could be enhanced with regard to the collection of overpayments of long-term disability benefits.

- The review of VRS’s Conformance with VITA’s Security Program determined that VRS’s Security Policies and Standards are compliant with VITA’s mandatory IT security program. There were no written recommendations resulting from the review.

Quarterly Review on Modernization Program – Phase 4 Ms. Cantor reported that the Committee received a report on the Modernization Program - Phase 4 as of April 28, 2017, along with a financial activity update as of March 31, 2017. In addition, Ms. Cantor noted management is finalizing the necessary planning
activities that will result in a revised and extended schedule and resulting increase to the budget to complete Phase 4. Management anticipates communicating the re-baselined schedule and budget to the Board for its review and approval in August.

Ms. Cantor reported that Internal Audit presented their Quarterly Review of the Modernization Program – Phase 4 as of May 1, 2017, noting agreement with management’s representations regarding the current status of Phase 4 and indicating that management’s risk mitigation efforts to date have been appropriate and in line with best practices.

Ms. Cantor reported that a list of Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General during the period of February 1, 2017 to April 30, 2017 was presented to the Committee. The two alleged complaints were not substantiated and the investigations were closed.

Last, Ms. Cantor advised that the Committee reviewed the quarterly travel expense and per diem report.

Mr. Nason thanked Ms. Cantor for her report.

The Board received the report of the Administration and Personnel Committee of June 7, 2017 and placed it on file.

Mr. Nason reported that the Committee discussed the proposed revisions to the Investment Professionals’ Pay Plan which are based on comments in the Virginia Joint Legislative Audit and Review Commission (JLARC) December 2016 VRS Oversight Report, including:

- The use of an absolute return adjustment should be reconsidered and, if kept, its purpose should be clearly articulated in the pay plan. If the purpose is solely to recognize losses, the adjustment should only be applied when the fund has negative returns.

- Given the importance of the peer group in determining pay, the Board should regularly review and discuss the types of organizations that should be considered VRS’s peers. The Board’s guidance will help ensure that the peer
The VRS Board of Trustees approves an amended Investment Professionals’ Pay Plan as follows:

The proposed revisions on Page 7 of the Plan underscore and explain more clearly the rationale for the Board’s purpose in retaining the absolute return adjustment to incentive compensation for application each year instead of only in years of down markets. This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles by providing a mechanism to reflect the impact of up and down markets on incentive compensation. The revision does not change the absolute return adjustment provision but instead serves to further explain it.

The proposed revisions on Page 2 of the Plan more clearly delineate and document the composition of the private-sector portion making up 25% of the blended peer group that is approved by the Board for determining incentive compensation targets for investment professionals. The revisions reflect the Board’s intent to define the private-sector market as broadly as practicable as opposed to restricting the definition to a subset of the market with which VRS is actually competing (based on actual experience). Restricting the definition to a smaller and higher paid subset in this manner would cause the private-sector portion of the blended peer group to have an inordinate effect on the total compensation targets, an unintended consequence for the Plan.
FY18 APOs and Operating Standards

Mr. Nason reported that the Committee discussed the proposed FY18 Agency Performance Outcomes (APOs) and Operational Standards. He noted the APOs focus on Phase 4 of Modernization, myVRS functionality for Optional Retirement Plan for Higher Education (ORPHE) participants and Optional Retirement Plan for Political Appointees (ORPPA) participants, Governmental Accounting Standards Board (GASB) accounting standards No. 74 and No. 75, which will impact the accounting and financial reporting requirements for VRS, its employers and all public pension systems, the new Cardinal Payroll system, which is the Commonwealth’s new payroll system that will replace CIPPS, and exploring Enterprise Performance Management (EPM) and Enterprise Risk Management (ERM) Programs for VRS administration.

In addition, Mr. Nason noted that staff identified twenty (20) key operating standards for FY18. Successful attainment of the APOs and standards is the gain-sharing portion of the performance management program of the Administrative Pay Plan.

Mr. Nason advised that after discussion, the Committee recommended several edits to the documents, including defining the DEC acronym (Director’s Executive Committee), clarifying that the APO for ERM/EPM relates to administrative operations and is not inclusive of ongoing investment portfolio risk management initiatives, and stating that the ERM/EPM report will be shared with the Board. In addition, the Committee in conjunction with staff agreed to revisit the structure and format of the APOs and Operating standards in the future.

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

The VRS Board of Trustees approves the FY18 APOs and Operating Standards as amended by the Committee.

DCPAC Members

Mr. Nason reported that the Committee was advised that the terms of all DCPAC members are set to expire on June 20, 2017 to allow for the staggering of the terms of non-Board DCPAC members in accordance with the DCPAC Charter.

Upon motion by Ms. Cantor, with a second by Mr. Harris, the Board approved the following action:
The VRS Board of Trustees approves the reappointment of Robert Carlson, Shannon Irvin, and David Winter for a term of two years, beginning June 21, 2017 expiring on June 20, 2019. Margaret Maslak, Patricia Phillips, and Tracey Ray are reappointed for a term of one year, beginning June 21, 2017 expiring on June 20, 2018 and Rick Larson is appointed for a term of two years, beginning June 21, 2017 expiring June 20, 2019.

**FOIA Personal Electronic Meeting Attendance Policy**

Mr. Nason reported that the Committee discussed the amendment to the Freedom of Information Act which the General Assembly took up at its 2017 session, specifically Code of Virginia § 2.2-3708.1 governing electronic participation in a meeting from a remote location by a member of a public body in the event of a personal matter, or temporary or permanent disability. Mr. Nason advised that under the amended statute participation is now limited to two meetings each year instead of the prior 25% or two meetings, whichever was less. In addition, “emergency” was deleted from the statute, since a personal matter could include an emergency. VRS’ policy was amended to reflect these statutory changes.

**Request for Board Action: 2017-06-15 Amend Board’s Policy for Participation in Meetings in Event of Personal Matter**

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

The VRS Board of Trustees approves the amended policy for Participation in Meetings in Event of Personal Matter.

**Investment Update**

Mr. Nason reported that the Investment staff is considering pursuing some new initiatives which may include increased staffing and space expansion. Mr. Nason advised that Mr. Schmitz will discuss a more detailed plan of the initiatives at the August Committee meeting.

**Annual JLARC Meeting**

Last, Mr. Nason reported that that the annual JLARC meeting will be held on July 10, 2017. In addition, he noted that JLARC will also report their recommendation for the 529 Plan at the July 10th meeting.

**Poll for August Meetings**

Last, Mr. Nason reported that staff will be polling for an August Committee meeting in addition to an Audit and Compliance Committee and Board meetings to discuss budget matters, including the schedule and resource requirements for Phase 4 of Modernization.
REPORT OF THE BENEFITS AND ACTUARIAL COMMITTEE

The Board received the report of the Benefits and Actuarial Committee of June 7, 2017 and placed it on file.

Optional Group Life Insurance Rates

Mr. Harris reported that the Committee was advised of Minnesota Life’s Optional Plan’s claim experience and its recommendation of a reduction in the Optional Life Insurance premium rates. Mr. Harris advised that the claim experience continues to improve since Minnesota Life began administering the plan. Employee and spouse premium rates were reduced effective July 1, 2001, 2003, 2004, 2005, 2007, 2011, 2013, and 2014. In addition, Mr. Harris advised that Minnesota Life recommended a further reduction and in order to allow employers adequate time to implement the change, the reduction will be effective September 1, 2017 and be guaranteed through June 30, 2019. Mr. Harris noted the overall reduction totals 4%, although the reductions occur specifically in the 40-44 age range, 60-64 age range, and the 65-69 age range.

Next, Mr. Harris advised that the recommended premium reductions are based on the most recent experience period of claims, the derived adjusted loss ratio for each year reviewed, and consideration of the target loss ratios. Additionally, Mr. Harris noted at the request of VRS, Minnesota Life did not subject Optional Life to imputed income when determining the new premium rates.

Request for Board Action: 2017-06-16
Approve Reduced Optional Group Life Insurance Premiums Effective 9/1/17

Upon motion of Mr. Harris, with a second by Ms. Cantor, the Board approved the following action:
The VRS Board of Trustees approves a reduction in the Optional Group Life Insurance premiums for employee and spouse life and accidental death and dismemberment coverage effective September 1, 2017.

Sensitivity and Stress Test Analyses

Mr. Harris reported that during the 2017 session, the General Assembly passed HB 1768, requiring VRS to adopt a formal policy to develop and regularly report sensitivity and stress test analyses. Mr. Harris advised that VRS already conducts sensitivity and stress test analyses periodically, but will produce the proposed sensitivity and stress test reports for the Committee regularly in the fall along with the actuarial valuations. Mr. Harris noted that going forward, VRS will focus on sensitivity analysis, and will work collaboratively with investments to further focus on stress testing in order to provide more relevant scenarios.
Request for Board Action: 2017-06-17
Adopt Policy to Develop and Report Sensitivity and Stress Test Analyses

Upon motion of Mr. Harris, with a second by Mr. Hayes, the Board approved the following action:

The VRS Board of Trustees adopts a policy to develop and regularly report sensitivity and stress test analyses.

Approximate Normal Cost Rates for Purchase of Prior Service

Mr. Harris reported that due to timing issues and in order to reflect the 2017 valuation data, the approximate normal cost rates for purchase of prior service will be updated and brought before the Committee for approval following the actuarial valuations. The anticipated effective date for the approximate normal cost rates will be January 2018.

Next Committee Meeting

Mr. Harris reported that the next Committee meeting is scheduled for July 12th, but will likely be cancelled as there are no anticipated action items for July. Mr. Harris noted a follow-up communication to the Committee will be provided confirming the cancellation. The following meeting will be held on September 13th at 1:30 p.m.

Mr. Nason thanked Mr. Harris for his report.

Commending Resolution for Robert L. Greene

Mr. Nason read a resolution commending Mr. Greene for his service to the Virginia Retirement System and asked that it be included in the Board minutes.

WHEREAS, Robert L. Greene was appointed to serve on the Virginia Retirement System Board of Trustees in April 2008 and served through May 2017; and

WHEREAS, the Governor of Virginia appointed him to serve as Chairman of the Virginia Retirement System Board of Trustees from May 2015 to May 2017, serving in this capacity with distinction; and

WHEREAS, Mr. Greene further contributed to the System by serving in a leadership role in his capacity as Chairman of the Administration and Personnel Committee, Chairman of the Audit and Compliance Committee, Chairman of the Investment Policy Committee and as Vice Chairman of the Strategic Projects Committee, and as a member of the Chief Investment Officer Search Committee; and
WHEREAS, by virtue of his extensive knowledge of the Virginia Retirement System and expertise in employee benefits, financial, investment and economic matters, he contributed immeasurably to the success of the System, preserving the fund for future generations of members and retirees, and enhanced the Virginia Retirement System by reinforcing an understanding of the strength inherent in a diverse workforce;

NOW, THEREFORE, BE IT RESOLVED, that on June 8, 2017, we, the members of the Board of Trustees of the Virginia Retirement System, commend Mr. Greene for his unwavering dedication to the Board of Trustees, the Virginia Retirement System, its members, beneficiaries and retirees, and the Commonwealth of Virginia, and are grateful for his contributions and his steadfast commitment to the System.

The Board affirmed the resolution.

REPORT OF THE DIRECTOR

New Coverage

Ms. Bishop provided a report on new coverage, noting that Dinwiddie County School Board elected to participate in the Optional Retirement Plan for School Superintendents, BVU Authority elected to participate in the Virginia Cash Match Plan 401(a), Town of Kenbridge elected to participate in the Tax-deferred Purchase of Prior Service, Alleghany County School Board and Prince George County School Board elected to participate in the Health Insurance Credit, York County elected to participate in the Commonwealth of Virginia Deferred Compensation Plan (457) and the 1.85% Multiplier for the Enhanced Hazardous Duty Benefit, Town of Abingdon elected to participate in the Enhanced Hazardous Duty Benefits for law enforcement officers, firefighters, emergency medical technicians, and the Town of South Hill elected to participate in the Enhanced Hazardous Duty Benefits for law enforcement officers with the 1.85% multiplier.

Agency Roadmap Update

Ms. Bishop provided a status report on the Agency Roadmap. She noted that there are two versions of the report in Directors Desk. The first version of the update is the standard format which lists projects in chronological order. The second version of the update is the revised format which incorporates color codes in the item list to distinguish the types of initiatives. This update was recommended at the April Board meeting.
Ms. Bishop advised that the Modernization schedule included in the Roadmap update is off plan. She noted that staff will come back with a revised budget and schedule at the August meeting.

2017 Governor’s Public Service Innovation Award

Ms. Bishop reported that the 2017 Governor’s Innovation Award for Public Service was presented to Denise Rasmussen, VRS’ Deputy Chief Technology Officer for being an innovation leader in a multi-year business transformation program – Modernization.

International Academy of Interactive & Visual Arts Award

Ms. Bishop reported that VRS was awarded the Communicator Award of Distinction from the International Academy of Interactive & Visual Arts. This award recognizes creative excellence in communications for the Hybrid 457 Deferred Compensation Plan’s auto-escalation campaign.

GFOA Certificate of Achievement for Excellence in Financial Reporting

Ms. Bishop reported that VRS was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting. Ms. Bishop noted that this is the 35th year VRS has been presented with this award and represents the professional and outstanding efforts of our Finance Department as well as our Public relations team.

2017 Community Unity Symposium

Ms. Bishop reported that Ron Schmitz and a few of his team members which included Jummai Sarki-Hurd, Chung Ma and Vera Pleasants served on the 2017 Community Unity Symposium panel which focused on how diversity and inclusion efforts can generate quantifiable value-add for an organization.

Mr. Nason noted a job well done to staff on receiving the awards.

Memorial Resolution for Glen D. Pond

Ms. Bishop advised that Glen D. Pond, former Director of the VRS passed away on June 1, 2017. Mr. Nason read a memorial resolution commending Mr. Pond for his leadership and service to VRS and asked that it be included in the Board minutes.

WHEREAS, Glen D. Pond served as a Teacher and Principal in Fairfax County, learning about public education issues and the challenges faced by public educators and the benefits provided to teachers in the Commonwealth; and

WHEREAS, Mr. Pond, by virtue of his knowledge as a public educator, his experience with the Virginia Education Association, and his innate skills as a leader was appointed to serve as Director of the Virginia Retirement System by the Board of
Trustees in July 1973 where he worked diligently and tirelessly to protect the sound funding of the System; and

WHEREAS, as of Mr. Pond’s retirement in October 1991 and while under his leadership, the System had grown to include approximately 251,500 members and 61,500 retirees with an investment portfolio of more than $11 billion; and

WHEREAS, Mr. Pond continued his commitment to public employee issues after retiring from the System by joining the Virginia Government Employees Association, where by virtue of his extensive knowledge of the System, the respect he had earned among legislators and his peers and his expertise in employee benefits, he effectively advocated for public employee benefit matters including being a tireless champion for better pay, benefits and working conditions;

NOW, THEREFORE, BE IT RESOLVED, that on June 8, 2017, we, the members of the Board of Trustees of the Virginia Retirement System, acknowledge with great sadness the loss of Mr. Pond; and be it

RESOLVED FURTHER, That a copy of this resolution be prepared for presentation to his family as an expression of respect for his memory.

The Board affirmed the memorial resolution.

Resolutions for Custodial and Signature Authorizations

At Ms. Bishop’s request, Mr. Faison presented the Resolution for Master Custodial Services and the Resolution for Payment of Retirement System Funds in the State Treasury and Signing Official Documents. The documents set out the Board’s intentions regarding authority to sign documents. Mr. Faison noted the only change to both resolutions is updating the Chair’s name.

Upon motion of Mr. Hayes, with second by Ms. Cantor, the Board approved the change to the Resolution for Master Custodial Services and the change to the Resolution for Payment of Retirement System Funds in the State Treasury and Signing Official Documents.

Annual Deficit Provision Acknowledgment Form

Mr. Faison noted that annually VRS and other state agencies are required to confirm that their obligations and expenditures do not
exceed their appropriations. He advised that VRS expenditures and obligations did not exceed appropriations. The reporting form specifically states that each member of the Board has been provided with a copy of the notice. The executed form will be sent to the Department of Planning and Budget.

Peumansend Creek Regional Jail Update

Ms. Bishop reported that Caroline County will serve as the replacement employer for Peumansend Creek Regional Jail and take on its plan liabilities and assets.

City of Petersburg Update

Ms. Bishop reported that VRS continues to communicate with the City of Petersburg on a monthly basis to ensure all is going well from a reporting perspective. Ms. Bishop advised that the schools have agreed to a payment plan and are expected to be caught up on their payments by June 30, 2017. The City is expected to be caught up on their payments by Dec. 31, 2017. Ms. Bishop noted their LODA payments are current.

Renovation Project

Ms. Bishop reported that the renovation project at 1200 E. Main Street is going well.

LODA Update

Ms. Bishop reported that effective July 1, 2017, VRS will be taking over the eligibility determination of the Line of Duty Act benefits from the Department of Accounts. She noted that this is a partnership between DHRM and VRS.

Commission on Employee Retirement Security and Pension Reform and Annual JLARC Meetings

Ms. Bishop reported that the Commission on Employee Retirement Security and Pension Reform and the annual JLARC VRS Review meetings will be held on July 10, 2017.

July Board Meeting

Ms. Bishop reported that there are no agenda items for the July Board meeting; therefore Mr. Nason cancelled the July 13, 2017 Board meeting.

ADJOURNMENT

There being no further business to discuss, the Board meeting adjourned at approximately 3:49 p.m.
RESOLUTION
FOR MASTER CUSTODIAL SERVICES

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by Code of Virginia § 51.1-149, on this 8th day of June 2017, it is HEREBY

PREVIOUS DESIGNATIONS REVOKED

RESOLVED, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign investment invoices and actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control as well as actions involving administrative matters and proxies within their custodial control are hereby revoked; and

VRS ASSET TRANSFERS AND ACCOUNT PAYMENTS

BE IT FURTHER RESOLVED, that dual signatures, one of which shall be from the Director of the Virginia Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director, or the Chief Technology Officer and the second shall be from the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer or the Investments Office Administrator, are hereby required and that those persons are designated and authorized by the Board to sign for all actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control that (i) are not initiated by an authorized investment advisor associated with the settlement of a purchase or sale transaction and (ii) are not for the payment of investment management, consulting or custodian fees. If investment personnel are unavailable, any two of the listed VRS administrative personnel could sign. However, in no event shall both signatures be those of investment department personnel; and
VRS ACCOUNT ADMINISTRATIVE MATTERS

BE IT FURTHER RESOLVED, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer, the Investments Office Administrator, the Controller and the Manager of Investment Accounting are designated by the Board as those additional persons authorized to open and close accounts and take other administrative actions for the VRS accounts not involving the signing of official documents in the name of the Board of Trustees of the VRS or the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control; and

PROXIES

BE IT FURTHER RESOLVED, that the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as the persons authorized to sign proxies for the VRS accounts; and

COMPLIANCE

BE IT FURTHER RESOLVED, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as those persons authorized to sign for all actions involving compliance issues to include, but not be limited to, class actions suits, tax exemptions, authorized signatures, stock and bond powers, required resolutions as needed, etc.

ATTEST:

Mitchell L. Nason, Chair
VRS Board of Trustees

Patricia S. Bishop
Secretary to the Board/VRS Director
COMMONWEALTH OF VIRGINIA
CITY OF RICHMOND, TO-WIT:

The foregoing instrument was acknowledged before me this 8th day of June 2017 by Mitchell L. Nason; Patricia S. Bishop; Ronald D. Schmitz; Barry C. Faison; L. Farley Beaton, Jr.; Michael P. Cooper; Robert L. Irving; Curtis M. Mattson; Leslie B. Weldon; Laurie L. Nelson; Abida W. Arezo and Danita R. Barnes.

My commission expires September 30, 2018.

LaShaunda B. King, Notary Public
Commonwealth of Virginia
My Commission Expires Sept 30, 2018
RESOLUTION
FOR PAYMENT OF RETIREMENT SYSTEM FUNDS
IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by Code of Virginia § 51.1-149, on this 8th day of June 2017 it is hereby

RESOLVED, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign vouchers and Voucher Transmittals issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury are hereby revoked; and

BE IT FURTHER RESOLVED, that the State Treasurer, the Director of Operations, and the Director of Cash Management and Investments, or their designees, are hereby designated by the Board as those persons authorized to sign only the vouchers issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury which are contained in Agency Business Unit 15800 Account Number 103607, which has been designated by the Comptroller as the short-term investment account, including but not limited to, funds used to purchase short-term securities to mature within two (2) years and to effect repurchase agreements involving securities of varying maturities which are held as short-term investments; and

BE IT FURTHER RESOLVED, that the Director of the Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director and the Chief Technology Officer, whose signatures appear herein, are hereby designated by the Board as those persons authorized to sign Voucher Transmittals issued by the Retirement System for the payment of any and all funds of the Retirement System in the State Treasury and any and all accounts designated by the Comptroller as Retirement System funds accounts, including Agency Business Unit 15800 Account Number 103607, provided that such Voucher Transmittals shall be initialed by appropriate supervisory and management level staff personnel; and

BE IT FURTHER RESOLVED, that the Chief Financial Officer, the Customer Services Director and the Chief Technology Officer are not authorized to sign a Voucher Transmittal prepared in their respective department; and

BE IT FURTHER RESOLVED, that the Director of the Retirement System, the Chief Operating Officer, the Chief Investment Officer or the Chief Administrative Officer - Investments are hereby designated full authority to sign any and all official documents in the name of the Board of Trustees of the Virginia Retirement System including, but not limited to, leases, deeds, contracts, equity index futures and options on such futures, signature cards, minutes and purchase orders; and

BE IT FURTHER RESOLVED, that a copy of this resolution shall be forward immediately to the Office of the Comptroller.

ATTEST:

Mitchell L. Nason
Chairman, VRS Board of Trustees

Patricia S. Bishop
Secretary to the VRS Board of Trustees
COMMONWEALTH OF VIRGINIA  
CITY OF RICHMOND, TO-WIT:

The foregoing instrument was acknowledged before me this 8th day of June 2017 by Mitchell L. Nason; Patricia S. Bishop; Barry C. Faison; L. Farley Beaton, Jr.; Ronald D. Schmitz; Michael P. Cooper; Robert L. Irving and Curtis M. Mattson.

REPORT OF THE
DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE
For the Committee Meeting on Wednesday, May 17, 2017

The Defined Contribution Plans Advisory Committee met on Wednesday, May 17th, and took up the following matters:

Administration:

Administrative Reports and Communication Update

Staff provided an overview of monthly reports, specifically highlighting the following:

(1) The total assets and number of accounts under management in the first quarter of 2017;
(2) New information on unique participants who may have a balance in one or multiple plans;
(3) New plan adoptions for first quarter 2017, and upcoming plan adoptions for the second quarter of 2017
(4) Transition of assets in the second quarter of 2017 to the Commonwealth of Virginia 457 plan, including ICMA-RC additional services available to assist employers in transitioning assets to the VRS DC platform;
(5) An update on the annual meeting with ICMA-RC, including a review of performance standards and initiatives for 2016;
(6) An update on the first quarter 2017 communication initiatives, including the COV 457 postcard campaign;
(7) The success of the ICMA-RC’s Realize Retirement Tour that came to the Commonwealth in early May 2017 to coincide with National Public Service Week, and the interest employers expressed in bringing the tour truck to their local areas; and
(8) The DCP rebranding initiative planned for Summer 2017, and an overview of the new DCP Mobile app.

Auto-Escalation

Staff provided an update on auto-escalation and the impact on the Hybrid Retirement Plan as of March 31, 2017, including those participants who took active control and made a specific election, as well as those who opted out of auto-escalation. Staff advised that DC Plans is exploring ways to encourage members to set up automatic increases in contributions over a predetermined period of time, including account access messaging upon login, and options to prompt an active election.
**ORPHE Update**

Staff advised that ORPHE has over $1 billion in assets under management as of March 31, 2017. Staff also advised annual fee disclosure statements were scheduled for mailing in the second quarter of 2017.

**RBA for College of William and Mary Application to Opt-Out of ORPHE**

Staff introduced to the DCPAC the Request for Board Action regarding the application submitted by The College of William and Mary to opt-out of the VRS-administered ORPHE, effective January 1, 2018. Staff indicated a Memorandum of Understanding related to payment of administrative costs incurred between The College of William and Mary and VRS would be entered into as part of the approval process. Recommendation of the RBA was approved by the DCPAC based on a unanimous roll call vote.

**Investments:**

**DOL Fiduciary Rule**

Staff provided a status update to the DCPAC on the Department of Labor’s Fiduciary Rule with a scheduled effective date of June 9, 2017. Staff apprised the Committee that as a public plan sponsor VRS is not subject to DOL rules but considers the rules as a best practice. Staff provided an update on the impact the new rule will have VRS’ business relationship with the service providers as well as services delivered to plan participants.

**PIMCO 2017 DC Consulting Support and Trends Survey**

Staff shared the findings of the PIMCO 2017 DC Consulting Support and Trends Survey and reported that the unbundled DC plans structure already employs many of the survey recommendations. Staff stated once the pause mode is lifted from the TIAA and Fidelity ORPHE programs staff will have the opportunity to make changes to their respective investment menus and address situations in which a fund contains a revenue sharing component.

**Performance Reports and Projects**

Staff shared the investment performance reports for first quarter 2017. Staff reported the problem staff was having with Fidelity not linking returns of different share classes for the same fund that was previously communicated to the DCPAC at its March 23, 2017 meeting has been resolved and Fidelity is now linking returns.

Staff communicated work continues on its target date portfolio customization project, which will be shared as part of the annual investment review discussion at the next DCPAC meeting.
Other:

There was no other business to come before the Committee.

Proposed 2017 Meetings:

The next meeting of the DCPAC will take place on September 8th, with a future meeting on December 7th from 10:30 a.m. to 1:30 p.m. Also, for those who are interested, the ORPHE Annual Employer Update is scheduled for September 21, 2017, but is not a meeting of the DCPAC.

That concludes my report to the Board.

Submitted to the Board of Trustees on June 8, 2017.

Brett Hayes, Chair
Defined Contribution Plans Advisory Committee
The Audit and Compliance Committee met on June 1, 2017 and discussed the following:

ENTRANCE WITH THE AUDITOR OF PUBLIC ACCOUNTS (APA) FOR THE VRS 2017 CAFR AUDIT

The Committee held its annual entrance conference with the APA to review the approach and scope of the examination of VRS’s Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2017.

UPDATE ON THE 2016 EMPLOYER ASSURANCES REVIEW

The APA reported that the employer assurances review was progressing as planned and that they should conclude their work and issue their opinions by the end of July.

GASB 74 and 75 IMPLEMENTATION UPDATE

The Committee received an update from the Chief Financial Officer on VRS’s Implementation of GASB Statements No. 74 and 75, which affect the financial reporting for postemployment benefits other than pensions (OPEB).

GASB 74 covers the plan’s financial reporting and is effective for fiscal year 2017. The Board will notice additional disclosures in VRS’s 2017 CAFR because of these changes, similar to the pension disclosures recently implemented under GASB 67.

GASB Statement No. 75 addresses financial reporting for employers that sponsor OPEB plans and is effective for fiscal year 2018.

AUDIT REPORTS

The Committee received two audit reports.

The review of the VSDP and VLDP Managed Disabilities Programs (Long-Term Disability) noted that that management has established appropriate monitoring and oversight of administrative fees and benefit payments. The report contained one written recommendation where controls could be enhanced with regard to the collection of overpayments of long-term disability benefits.

The review of VRS’s Conformance with VITA’s Security Program determined that VRS’s Security Policies and Standards are compliant with VITA’s mandatory IT security program. There were no written recommendations resulting from the review.
QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its status report on the Modernization Program - Phase 4 as of April 28, 2017, along with a financial activity update as of March 31, 2017. Management noted it is finalizing the necessary planning activities that will result in a revised and extended schedule and resulting increase to the budget to complete the Phase. Management anticipates communicating the re-baselined schedule and budget to the Board for its review and approval in August.

Internal Audit then presented their Quarterly Review of the Modernization Program – Phase 4 as of May 1, 2017, noting agreement with Management's representations regarding the current status the Phase and indicating that management's risk mitigation efforts to date have been appropriate and in line with best practice.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

A list of Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General during the period of February 1, 2017 to April 31, 2017 was presented to the Committee (2 in total). These complaints were not substantiated, and the investigations were closed.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

The Committee reviewed the quarterly travel expense and per diem report.

Respectfully submitted to the Board of Trustees on June 8, 2017.

Ms. Diana F. Cantor, Vice-Chair
Audit and Compliance Committee
The Administration and Personnel Committee met on June 7, 2017 and discussed the following:

**Investment Professionals’ Pay Plan**

Ms. Bishop discussed the proposed revisions to the Investment Professionals’ Pay Plan which are based on comments in the Virginia Joint Legislative Audit and Review Commission (JLARC) December 2016 VRS Oversight Report, including:

- The use of an absolute return adjustment should be reconsidered and, if kept, its purpose should be clearly articulated in the pay plan. If the purpose is solely to recognize losses, the adjustment should only be applied when the fund has negative returns.

- Given the importance of the peer group in determining pay, the Board should regularly review and discuss the types of organizations that should be considered VRS’s peers. The Board’s guidance will help ensure that the peer group adequately represents the types of public and private organizations that the board believes VRS should be competing with. The composition of the peer group should be clearly documented in the pay plan that is approved by the board.

After discussion, the Committee recommended a change to the wording relating to the absolute return adjustment provision on page 7 and the wording relating to the private market peer group on page 2 of the Investment Professionals’ Pay Plan.

**Request for Board Action:** The VRS Board of Trustees approves an amended Investment Professionals’ Pay Plan.

**FY2018 APOs and Operating Standards**

Ms. Bishop briefed the Committee on the proposed FY18 Agency Performance Outcomes (APOs) and Operational Standards. The APOs focus on Phase 4 of Modernization, myVRS functionality for Optional Retirement Plan for Higher Education (ORPHE) participants and Optional Retirement Plan for Political Appointees (ORPPA) participants, Governmental Accounting Standards Board (GASB) accounting standards No.74 and No. 75, which will impact the accounting and financial reporting requirements for VRS, its employers and all public pension systems, the new Cardinal Payroll system, which is the Commonwealth’s new payroll system that will replace CIPPS, and explore Enterprise Performance Management (EPM) and Enterprise Risk Management (ERM) Programs.

VRS identified twenty (20) key operating standards for FY18. Successful attainment of the APOs and standards is the gain-sharing portion of the performance management program of the Administrative Pay Plan.

After discussion, the Committee recommended several edits to the documents, including defining the DEC acronym (Director’s Executive Committee), clarifying that the APO for ERM/EPM relates to administrative operations and is not inclusive of ongoing investment portfolio risk management.
initiatives, and stating that the ERM/EPM report will be shared with the Board. In addition, the Committee in conjunction with staff agreed to revisit the structure and format of the APOs and Operating standards in the future.

**Request for Board Action:** The VRS Board of Trustees approves FY18 APOs and Operating Standards as amended by the Committee.

**Appointment of Defined Contribution Plans Advisory Committee (DCPAC) Members**

Ms. Bishop explained that the terms of all DCPAC members are set to expire on June 20, 2017 to allow for the staggering of the terms of non-Board DCPAC members in accordance with the DCPAC Charter.

**Request for Board Action:** The VRS Board of Trustees approves the reappointment of Robert C. Carlson, Shannon Irvin, and David Winter for a term of two years, beginning June 21, 2017 expiring on June 20, 2019. Margaret M. Maslak, Patricia Phillips, and Tracey Ray are reappointed for a term of one year, beginning June 21, 2017 expiring on June 20, 2018 and Rick Larson is appointed for a term of two years, beginning June 21, 2017 expiring June 20, 2019.

**Amendments to Freedom of Information Act (FOIA) Personal Electronic Meeting Attendance Policy**

Ms. Wilkinson discussed the amendment to the Freedom of Information Act which the General Assembly took up at its 2017 session, specifically Code of Virginia § 2.2-3708.1 governing electronic participation in a meeting from a remote location by a member of a public body in the event of a personal matter, or temporary or permanent disability. Ms. Wilkinson noted that under the amended statute participation is now limited to two meetings each year instead of the prior 25% or two meetings, whichever was less. In addition, “emergency” was deleted from the statute, since a personal matter could include an emergency. VRS’ policy was amended to reflect these statutory changes.

**Request for Board Action:** The VRS Board of Trustees approves the amended policy for Participation in Meetings in Event of Personal Matter.

**Investment Update**

Mr. Schmitz noted that Investment staff is considering pursuing some new initiatives which may include increased staffing and space expansion. Mr. Schmitz will discuss a more detailed plan of the initiatives at the August Committee meeting.

**Other Business**

Ms. Bishop noted that the annual JLARC meeting will be held on July 10, 2017. In addition, she noted that JLARC will also report their recommendation for the 529 Plan at the July 10th meeting.

Last, Ms. Bishop noted that staff will be polling for an August Committee meeting in addition to an Audit and Compliance Committee and Board meetings to discuss budget matters, including the schedule and resource requirements for Phase 4 of Modernization.
Respectfully submitted to the Board of Trustees on June 8, 2017.

Mitchell L. Nason, Chair
Administration and Personnel Committee
The Benefits and Actuarial Committee met on Wednesday, June 7th, and took up the following matters:

**Optional Group Life Insurance Rates**

Trish Bishop introduced Mr. Joe Chang from Minnesota Life, which administers the Group Life Insurance Program, including Optional Group Life Insurance. Mr. Chang discussed the Optional Plan’s claim experience and recommended a reduction in the Optional Life Insurance premium rates.

Claim experience continues to improve since Minnesota Life began administering the plan. Employee and spouse premium rates were reduced effective July 1, 2001, 2003, 2004, 2005, 2007, 2011, 2013, and 2014. Minnesota Life recommended a further reduction and in order to allow employers adequate time to implement the change, the reduction will be effective September 1, 2017 and be guaranteed through June 30, 2019. The premium reductions are found in the letter from Minnesota Life, included with the RBA. The overall reduction totals 4%, although the reductions occur specifically in the 40-44 age range, 60-64 age range, and the 65-69 age range.

Mr. Chang advised that the recommended premium reductions are based on the most recent experience period of claims, the derived adjusted loss ratio for each year reviewed, and consideration of the target loss ratios. Additionally, at the request of VRS, Minnesota Life did not subject Optional Life to imputed income when determining the new premium rates.

The Committee recommends that the Board approve the following action, and I so move that:

**Request for Board Action:** The VRS Board of Trustees approves a reduction in the Optional Group Life Insurance premiums for employee and spouse life and accidental death and dismemberment coverage effective September 1, 2017.

**Formal Policy to Develop and Regularly Report Sensitivity and Stress Test Analyses**

During the 2017 session, the General Assembly passed HB 1768, requiring VRS to adopt a formal policy to develop and regularly report sensitivity and stress test analyses. VRS already conducts sensitivity and stress test analyses periodically, but will produce the proposed sensitivity and stress test reports for the Committee regularly in the fall along with the actuarial valuations. Staff advised that going forward, the Committee will focus on sensitivity analysis, and will work collaboratively with investments to further focus on stress testing in order to provide more realistic scenarios. The presentation and report are provided with the RBA.

The Committee recommends that the Board approve the following action, and I so move that:

**Request for Board Action:** The VRS Board of Trustees adopts a policy to develop and regularly report sensitivity and stress test analyses.
Informatioal Items

Approximate Normal Cost Rates for Purchase of Prior Service

Due to timing issues and in order to reflect the 2017 valuation data, the approximate normal cost rates for purchase of prior service will be updated and brought before the Committee for approval following the actuarial valuations. The anticipated effective date for the approximate normal cost rates will be January 2018.

Next Committee Meeting

The Committee's next scheduled meeting is July 12th, but will likely be cancelled as there are no anticipated action items for the Committee in July. A follow-up communication to the Committee will be provided to the Committee confirming the cancellation. The following meeting will be on September 13. The meeting will begin at 1:30 p.m. and will be held in the VRS Conference Room, Third Floor, 1111 E. Main Street.

Submitted to the Board of Trustees on June 8, 2017.

Wallace G. Harris, Chair
Benefits and Actuarial Committee