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## Minutes

A regular meeting of the Administration and Personnel Committee of the VRS Board of Trustees was held on May 31, 2018 in Richmond, Virginia with the following members present:

Mitchell L. Nason, Chair  
Diana F. Cantor, Vice-Chair  
Wallace G. Harris  
Joseph W. Montgomery

Board members present:  
O’Kelly McWilliams  
Troilen Gainey Seward  
William Leighty (*arrived at 11:32 a.m.*)

Also present: Trish Bishop, Ron Schmitz, Farley Beaton, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Barry Faison, Brian Goodman, Robert Irving, Curt Mattson, Andrea Peeks, Matt Priestas, Jennifer Schreck, Jillian Sherman, Capri Stanley-Smith, and Cindy Wilkinson of the VRS staff; Kimberly Sarte of the Joint Legislative Audit and Review Commission; and Michael Oak of McLagan (*by phone*).

Mr. Nason welcomed everyone and called the meeting to order at 10:32 a.m.

### *Approval of Minutes*

Upon a motion of Mr. Montgomery, with a second by Mr. Harris, the minutes of the April 9, 2018 Administration and Personnel Committee meeting were approved.

### *McLagan 2018 Competitive Pay Plan Review*

Ms. Bishop began by discussing the decision of the Board of Trustees to request a comprehensive market review of compensation and incentive pay practices for the Investment Professionals’ Pay Plan. VRS has reached out to McLagan to review the current plan, complete a pay level analysis, and prepare a diagnostic of VRS’ compensation program.

Michael Oak presented McLagan’s project objectives to the Committee with the goal of ensuring that:

- Individual pay levels (i.e., salary, incentive opportunities) are aligned with the competitive market and the Fund’s pay

philosophy.

- The pay program is considered fair, reasonable and appropriate by key Board and employee stakeholders.
- The pay program reflects market practices relative to incentive plan design.
- The pay program continues to help VRS attract, retain and motivate qualified investment talent.

McLagan plans to present a final report of findings and recommendations, if any, to the VRS Board in the fall.

Mr. Nason thanked Mr. Oak for his presentation.

Mr. Schmitz added an overview of practices developed over the years with respect to salary administration and promotion philosophy. Generally, investment staff are hired at the lower end of the pay range; however, staff with more experience are hired at a higher starting pay within the range. He noted the plan was developed to move staff within the pay range as experience is gained and value to the agency grows. Mr. Schmitz reported that promotion criteria has been established for each job title to ensure that staff grows in place and does not simply get promoted based on the passage of time.

*Review and Approve FY 2019 Agency Performance Outcomes (APOs) and Operational Measures*

Next, Ms. Bishop briefed the Committee on the revised FY 2019 Agency Performance Outcomes (APOs) and Operational Measures. The proposed APOs presented to the Committee in April included six projects, one of which, the Cardinal Payroll System Implementation, has been postponed indefinitely by the Department of Accounts due to project scope changes. Ms. Bishop noted that DOA's indefinite postponement likely precludes VRS from achieving APO #5 and, as a result, staff recommends removing APO #5 from the proposed FY 2019 APOs.

VRS identified sixteen (16) key Operational Measures in addition to the remaining five (5) APOs for FY 2019. Successful attainment of the APOs and Operational Measures is the gainsharing portion of the performance management program of the Administrative Pay Plan.

On a motion from Mr. Montgomery, with a second from Ms. Cantor, the Committee voted to recommend the following action to the Board:

*RBA: Approve FY 2019 Agency Performance Outcomes (APOs) and Operational Measures*

**Request for Board Action:** The Board approves the revised FY 2019 Agency Performance Outcomes (APOs) and Operational Measures.

*Review and Approve Executive Pay Plan and Revised Administrative Pay Plan*

Next, Ms. Stanley-Smith reviewed the draft of the Executive Pay Plan created to provide guidelines regarding the annual salary and bonus amounts for the three positions that report directly to the VRS Board of Trustees (Director, Chief Investment Officer and Audit Director).

Ms. Stanley-Smith then reviewed revisions to the Administrative Pay Plan. Those revisions included streamlining language to focus on compensation, ensuring consistent language throughout the document, clarifying various provisions, incorporating a comprehensive bonus section and adding a salary grade to the technology plan. Ms. Stanley-Smith shared that performance-related language previously included in the Administrative Pay Plan has been transitioned to a separate performance management policy.

On a motion by Mr. Montgomery, with a second by Mr. Harris, the Committee voted to recommend the following action to the Board:

*RBA: Approve the Executive Pay Plan and the amended Administrative Pay Plan*

**Request for Board Action:** The Board approves the Executive Pay Plan and the amended Administrative Pay Plan.

*Review and Approve Revised Proxy Voting and Litigation Policy*

Ms. Wilkinson briefed the Committee on proposed changes to the Board's Proxy Voting and Securities Litigation Policy, specifically, the title of the policy is changed to remove the word "Securities" in order to address other types of litigation. The policy is amended to reflect Appropriation Act language authorizing VRS, without the approval of the Office of Attorney General, to "enter into agreements to seek i) recovery of investment losses in foreign jurisdictions, and ii) legal advice related to its investments."

Ms. Wilkinson noted the policy is also amended to allow VRS staff to file the necessary paperwork to recover investment losses in foreign jurisdictions with the approval of the Board Chair, Vice Chair or designee, the CIO and Director. The amended policy provides that VRS staff would report any new filing at the next Board Meeting.

Other proposed changes include:

- Clarifying how a firm (from among the appointed firms) is selected to assist with non-U.S. securities litigation cases.
- Clarifying the process for approval of settlements.
- Adding the ability for the Chair to designate a Trustee to act when a decision must be made outside of a Board meeting and neither the Chair nor the Vice Chair are available.
- Adding an “Interpretation” section to provide added flexibility in cases that may arise that are not directly referenced in the policy.
- Adding references to reflect the delegation to the Director for Virginia Administrative Process Act cases to clarify that those are handled separately and are not governed by this policy.

No changes have been proposed to the proxy voting sections.

The Committee reviewed the amended policy, agreed to changes recommended by Mr. McWilliams, and recommended its approval to the Board after review at two Board meetings pursuant to the Board’s Governance Policy.

On a motion by Mr. Montgomery, with a second by Mr. Harris, the Committee voted to recommend the following action to the Board:

*RBA: Adopt an Amended Proxy Voting and Litigation Policy*

**Request for Board Action:** The Board adopts an amended Proxy Voting and Litigation Policy.

*Review and Discuss Enterprise Risk Management Report*

Next, Mr. Cooper presented an overview of the components and benefits of Enterprise Risk Management (ERM) for VRS to the Committee. The agency convened an ERM working group, comprised of staff representing all business units, with the purpose of exploring ERM opportunities for VRS. The group reviewed ERM models, including those in use by other public retirement systems, as well as ERM best practices, to determine how VRS can implement its own ERM program. Mr. Cooper advised an ERM report was created by the working group and presented to the Committee. The working group recommends a 3-phased implementation approach, with the first phase included as an APO for Fiscal Year 2019.

Mr. Nason thanked Mr. Cooper for his presentation.

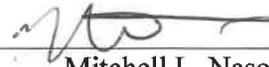
*Quarterly Budget Variance Report*

Lastly, Ms. Peeks provided a review of the budget variance report through the fourth quarter (July 2017 – May 2018). The report indicated favorable variances for the administrative and investment departments. Ms. Peeks reported that all accounts appear to be on track for favorable variances for the fiscal year that ends on June 30, 2018.

There being no further business, Mr. Nason adjourned the meeting at 12:06 p.m.

9-12-18

Date



Mitchell L. Nason, Chair