

A regular meeting of the Virginia Retirement System Board of Trustees was held on February 8, 2018 in Richmond, Virginia with the following members present:

Board members present:
Mitchell L. Nason, Chair
Diana F. Cantor, Vice Chair
Hon. J. Brandon Bell, II
Wallace G. Harris
W. Brett Hayes
William H. Leighty
O'Kelly E. McWilliams, III
Joseph W. Montgomery
Troilen G. Seward

Also present were: Trish Bishop, Ron Schmitz, Stephen Adelaar, John Alouf, Rory Badura, Farley Beaton, Jeanne Chenault, Michael Cooper, Bryan Gardiner, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Matthew Lacy, Curt Mattson, Stephen McClelland, Laurie Nelson, Walker Noland, Andrea Peeks, Jennifer Schreck, Jillian Sherman, Justin Smith, Capri Stanley-Smith, Daniel Whitlock, and Cindy Wilkinson

Guests present were: Liz Myers, Attorney General's Office; Joe McMahon, JLARC; Bernadette LeMasters, Virginia Management Fellow; Bea Snidow, VA Education Association; and Jacob Mair and Kristy Scott, Auditor of Public Accounts

The meeting convened at 1:05 p.m.

APPROVAL OF MINUTES

Upon a motion by Mr. Leighty, with a second by Mr. Harris, the minutes of the December 14, 2017 meeting were approved.

RECOGNITION OF MR. MONTGOMERY'S RECEIPT OF THE GERALD R. FORD LEGENDS AWARD

Mr. Nason congratulated Mr. Montgomery on his receipt of the prestigious Gerald R. Ford Legends Award. The award, named after the 38th U.S. President, is presented to a former collegiate or professional center that, in addition to a standout football career, has also made significant contributions to the football and/or business communities, or through philanthropic endeavors.

**REPORT OF THE CHIEF
INVESTMENT OFFICER**

Mr. Schmitz began his report with a market update. Next, Mr. Schmitz discussed asset allocation and reviewed plan performance – which continues to be strong relative to benchmarks. He also discussed fund volatility, tracking error, and information ratio – concluding that risk measures are all within Board-approved levels. Mr. Schmitz then reviewed the New Investments and Terminations Report. In conclusion, Mr. Schmitz reviewed the WaM Quarterly Summary and the Manager Referral Quarterly Summary with the Board.

Mr. Nason thanked Mr. Schmitz for his report.

The Board received the Benefits and Actuarial Committee report of February 7, 2018 and placed it on file.

**REPORT OF THE BENEFITS AND
ACTUARIAL COMMITTEE**

Mr. Harris gave the report from the Benefits and Actuarial Committee.

**VSDP/VLDP Cost-of-Living
Adjustments (COLAs)**

Trish Bishop and Rory Badura presented the recommendations of Cavanaugh Macdonald Consulting, LLC, the Plan Actuary, regarding cost-of-living adjustments (COLAs).

With respect to the VSDP, Mr. Badura advised that the actuary recommends a COLA of 2.23%, effective July 1, 2018, to be applied to the creditable compensation used for calculating the member's average final compensation at retirement and a cost of living adjustment to the recipient's net LTD benefit payment of 2.13% for Plan 1 members vested prior to January 1, 2013, or 2.07% for all other plan members.

The process used to determine the cost-of-living adjustment for VLDP creditable compensation is similar to the process used for VSDP members. Effective July 1, 2018, the VLDP COLA for creditable compensation used at retirement is recommended to be 4.00% for fiscal year 2018. The VLDP plan does not provide for a COLA on LTD benefits being received.

The calculations were reviewed by VRS and Internal Audit staff.

**Request for Board Action: 2018-02-1
Approve the July 1, 2018 COLA
increases relating to VSDP and VLDP**

On a motion from Mr. Harris and second from Ms. Seward, the VRS Board of Trustees approved the following:

Effective July 1, 2018, for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at

least one year under the Virginia Sickness and Disability Program (VSDP), a cost of living adjustment will be applied in the amount of (i) 2.23% to the recipient's creditable compensation used for calculating the member's average final compensation at retirement, and a cost of living adjustment to the recipient's net LTD benefit payment of (ii) 2.13% for Plan 1 members vested prior to January 1, 2013, or (iii) 2.07% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

Effective July 1, 2018, each recipient of LTD benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD benefits for at least one calendar year, and who ultimately retires directly from LTD, will have a cost of living adjustment applied in the amount of 4.00% to the recipient's creditable compensation.

***Informational Items:
Post-Retirement Supplement COLAs***

The Plan 1 COLA, effective July 1, 2018, is 2.13%. The COLA for Plan 2 and Hybrid members, also effective July 1, 2018, is 2.07%. These figures were calculated by the VRS Plan Actuary, Cavanaugh MacDonald Consulting, LLC, and verified by VRS and Internal Audit staff.

***COLA for Group Life Insurance
Minimum Benefit***

The Group Life Insurance Program minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 and Hybrid members, or 2.07%, effective July 1, 2018. The new minimum life insurance payout effective July 1, 2018 will be \$8,279. The COLA did not require action by the Committee. The calculations were reviewed by VRS staff and Internal Audit.

2017 Legislative Update

Ms. Bishop reviewed VRS-related legislation presented in the 2018 General Assembly session.

Upcoming B&A Committee Meetings

- April 11, 2018 at 1:30 p.m. (if needed- review optional group life insurance rates)*
- October 17, 2018 at 1:30 p.m. (actuarial valuations for state plans and OPEBs)*
- November 13, 2018 at 1:00 p.m. (actuarial valuations for political subdivisions, local HIC, VLDP, and LODA)*

Mr. Nason thanked Mr. Harris for his report

**REPORT OF THE
ADMINISTRATION AND
PERSONNEL COMMITTEE**

The Board received the Administration and Personnel Committee report of February 8, 2018 and placed it on file.

Mr. Nason gave the report from the Administration and Personnel Committee.

**Review of Procedures for
Participating in Foreign Securities
Litigation**

Ms. Wilkinson and Mr. Goodman gave a presentation on foreign securities litigation.

Key points from the presentation included:

- In foreign securities actions, if VRS does not opt in, there is no other avenue for recovery*
- Appointed asset recovery counsel typically notifies VRS of a case*
- Opting into a foreign case is similar to VRS' custodian filing a proof of claim for a case in the United States or Canada*
- VRS does not participate in jurisdictions where there is the risk of a "loser pays" rule*
- VRS is not a lead plaintiff, and VRS' participation is passive*
- Discovery is very limited and staff involvement is minimal*
- Board policy allows for the Chair, Director, and CIO to approve participation if an immediate decision to participate between Board meetings is necessary*

Quarterly Budget Variance Report

Mr. Faison and Ms. Peeks presented the July 2017 to December 2017 Budget Variance Report. The report reflected VRS year-to-date numbers.

**Compensation and Benefits (Closed
Session)**

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

**REPORT OF THE DIRECTOR
FY 2018 Roadmap January**

Ms. Bishop began her report by updating the Board on the VRS FY 2018 roadmap. Ms. Bishop reported that VRS is still keeping track of the Cardinal payroll system implementation date set by the Department of Accounts. VRS has deployed comprehensive strategies to help mitigate schedule delays on some of the activities related to the retirement/disbursements portion of the modernization program. While mitigation efforts are ongoing, VRS was able to move some portions of modernization ahead and as a result has been able to deliver the financial wellness portion of the program two months earlier.

Update on Federal Tax Bill

Ms. Bishop reported that the final version of the Tax Cuts and Jobs Act did not implicate UBIT and how VRS is treated as a public pension plan. She also reported that there will be no penalties on 457 plan distributions. There was not a consolidation of 403(b) and 457 plans and the age limit for in-service distributions was not changed.

Diversity and Inclusion Committee

Ms. Bishop reported that local musician and entertainer Desiree Roots shared a history of African-American women in music. During her presentation highlighting the contributions of African-American women in music, she incorporated vocal performance into the delivery of her remarks.

Code of Ethics Language

Ms. Bishop reported that we have revised our code of ethics policy to include express language to reflect that the agency “will promote a positive and welcoming work environment free from hostility, violence, and harassment of any kind.” VRS will also have a mandatory instructor-led training later this month related to appropriate workplace behavior and conduct. These statements have also been reflected in VRS’ Standard of Conduct policy, Workplace Violence Protection policy, as well as its Preventing Workplace Harassment policy.

Virginia Management Fellows Program Update

Ms. Bishop reported that Bernadette LeMasters has joined VRS as its management fellow. She has a Bachelor of Science in Biology from VCU and a Master of Science in Environmental Science and Policy from George Mason. She is working in the PR Department and also with Michael Cooper on the agency’s ERM and EPM.

Governor Visits VRS

Ms. Bishop discussed the Governor’s recent visit to VRS where he toured the offices and thanked VRS employees for all their hard work helping fellow public employees with their retirement.

Legislative Update

Ms. Bishop then reviewed VRS-related legislation presented in the 2018 General Assembly session.

Mr. Nason thanked Ms. Bishop for her report.

LITIGATION UPDATE (CLOSED SESSION)

Mr. Nason moved, with second by Mr. Hayes, that the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act for the purpose of consultation with legal counsel about actual or probable

litigation pursuant to the exemption contained in Virginia Code § 2.2-3711(A)(7).

Upon return to open meeting, Mr. Nason moved, with second by Mr. Harris, the following resolution:

WHEREAS, the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, Virginia Code § 2.2-3712 requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

The Board approved the resolution upon the following roll call vote:

*Ms. Seward: Aye
Mr. Harris: Aye
Mr. Montgomery: Aye
Mr. Leighty: Aye
Mr. McWilliams: Aye
Senator Bell: Aye
Mr. Hayes: Aye
Ms. Cantor: Aye
Mr. Nason: Aye*

Mr. Nason moved, with second by Mr. Hayes, that the Virginia Retirement System Board of Trustees approve the settlement terms as presented for the pending action discussed today, authorize the Director the execute such documents as may be necessary to formalize the settlement, and that the Board be informed when the settlement has been finalized.

MEETING ADJOURNED

There being no further business, the meeting adjourned at 2:18 p.m.



Chair



Secretary

**REPORT OF THE
BENEFITS AND ACTUARIAL COMMITTEE
For the Committee Meeting on Wednesday, February 7, 2018**

The Benefits and Actuarial Committee met on Wednesday, February 7th, and took up the following matters:

VSDP/VLDP Cost-of-Living Adjustments (COLAs)

Trish Bishop and Rory Badura presented the recommendations of Cavanaugh Macdonald Consulting, LLC, the Plan Actuary, regarding cost-of-living adjustments (COLAs).

With respect to the VSDP, Mr. Badura advised that the actuary recommends a COLA of 2.23%, effective July 1, 2018, to be applied to the creditable compensation used for calculating the member's average final compensation at retirement and a cost of living adjustment to the recipient's net LTD benefit payment of 2.13% for Plan 1 members vested prior to January 1, 2013, or 2.07% for all other plan members.

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The calculations were reviewed by VRS and Internal Audit staff.

The Committee recommends that the Board approve the following action:

Request for Board Action: *Effective July 1, 2018, for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one year under the Virginia Sickness and Disability Program (VSDP), a cost of living adjustment will be applied in the amount of (i) 2.23% to the recipient's creditable compensation used for calculating the member's average final compensation at retirement, and a cost of living adjustment to the recipient's net LTD benefit payment of (ii) 2.13% for Plan 1 members vested prior to January 1, 2013, or (iii) 2.07% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.*

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Informational Items:

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Submitted to the Board of Trustees on February 8, 2018.


Wallace G. Harris, Chair
Benefits and Actuarial Committee

**REPORT OF THE
ADMINISTRATION AND PERSONNEL COMMITTEE
For the Committee Meeting on Thursday, February 8, 2018**

The Administration and Personnel Committee met on Thursday, February 8th, and took up the following matters:

Review of Procedures for Participating in Foreign Securities Litigation

Ms. Wilkinson and Mr. Goodman gave a presentation on foreign securities litigation.

Key points from the presentation included:

- In foreign securities actions, if VRS does not opt in, there is no other avenue for recovery
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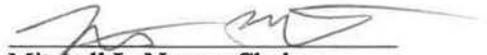
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Mitchell L. Nason, Chair
Administration and Personnel Committee