

*A regular meeting of the Virginia Retirement System Board of Trustees was held on April 12, 2018 in Richmond, Virginia with the following members present:*

*Board members present:*

*Mitchell L. Nason, Chair*

*Diana F. Cantor, Vice Chair*

*Wallace G. Harris*

*William H. Leighty*

*0 Kelly E. McWilliams, III*

*Joseph W. Montgomery*

*Troilen G. Seward*

*W. Brett Hayes (by phone Charleston, SC under § 2.2-3708.1 (A)(1))*

*Hon. J. Brandon Bell, II (by phone from Roanoke, VA under § 2.2-3708)*

*Also present were: Patricia Bishop, John Alouf, Rory Badura, Parham Behrooz, Katie Boyle, Jeanne Chenault, Michael Cooper, Perry Corsello, Barry Faison, Brian Goodman, JT Grier, KC Howell, Robert Irving, Kristina Koutrakos, Matthew Lacy, Curt Mattson, Laurie Nelson, Walker Noland, Angela Payne, Andrea Peeks, Jennifer Schreck, Jillian Sherman, Justin Smith, Capri Stanley-Smith, and Daniel Whitlock*

*Guests present were: Liz Myers, Attorney General's Office; Sarah Herzog, Senate Finance Committee; Joe McMahon, JLARC; Bernadette LeMasters, Virginia Management Fellow; and Jason Saunders, Department of Planning and Budget.*

*The meeting convened at 1:13 p.m.*

#### **APPROVAL OF MINUTES**

*Mr. Montgomery moved to approve the minutes of the February 7, 2018 meeting and the retreat minutes of March 14, 2018, with a second by Ms. Cantor. The Board approved the minutes of the Board of Trustees meeting of February 7, 2018 and the retreat minutes of March 14, 2018 upon the following roll call vote:*

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

***REPORT OF THE INVESTMENT  
ADVISORY COMMITTEE***

*Mr. Nason noted that Mr. Schmitz and Mr. Kochard were unable to attend the Board meeting. Mr. Howell presented the Report of the Investment Advisory Committee and reported that the March meeting focused on reviews of the investment programs.*

*Mr. Nason thanked Mr. Howell for his report.*

***REPORT OF THE CHIEF  
INVESTMENT OFFICER***

*In Mr. Schmitz's absence, Mr. Grier and Mr. Howell presented the CIO report. Mr. Grier began with a market update and then 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. Howell then reviewed the New Investments and Terminations Report. In conclusion, Mr. Howell reviewed the WaM Quarterly Summary and the Manager Referral Quarterly Summary with the Board.*

*Mr. Nason thanked Mr. Grier and Mr. Howell for their report.*

***REPORT OF THE AUDIT AND  
COMPLIANCE COMMITTEE***

*Mr. Leighty presented the report from the Audit and Compliance Committee meeting on March 13, 2018.*

***Audit Reports***

*The Committee received two audit reports:*

- The review of Cash Receipts noted that the overall control environment for cash receipts processing is adequate.*

- *The review of VRS Conformance with VITA's Security Program determined that VRS's Security Policies and Standards are compliant with VITA's mandatory IT security program.*

*Neither review resulted in written recommendations.*

***Quarterly Review on Modernization Program - Phase 4***

*Mr. Leighty reported that management presented its status report on the Modernization Program - Phase 4 through February 19, 2018. While significant progress has occurred since the previous Audit Committee update, management acknowledged the overall program status continues to be "yellow." Management continues to monitor the program closely and has put risk mitigation initiatives in place.*

*Mr. Leighty discussed Internal Audit's presentation of its Quarterly Review as of February 1, 2018 and indicated agreement with management's representations regarding the status of the Modernization Program - Phase 4 overall re-baselined schedule, budget, and scope. Internal Audit emphasized key **risk** mitigation actions undertaken by management to keep the Retirements and Disbursements workstream activities proceeding to completion. Additionally, Internal Audit noted management's early initiation of Mock Production testing activities should help to alleviate pressure on the Mock Production activities planned for the summer and allow VRS to provide further assurance of the quality of outputs produced from VNA V.*

***Audit Plan Progress as of December 31, 2017***

*Mr. Leighty then discussed the progress report, given by the Internal Audit Director, on the annual Audit Plan as of December 31, 2017, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations due to the recent resignation of one team member from Internal Audit. Mr. Leighty noted the remaining projects in the original audit plan are on track to be completed, with the exception of the "Investment Research" project that will be deferred to a later workplan year.*

*Mr. Leighty noted that Ms. Schreck is working with Human Resources to initiate the recruitment process and barring any unforeseen circumstances plans to fill the open position of Principal Auditor - Data Analysis and Operations before the close of the fiscal year.*

***Quarterly Report on Fraud, Waste and Abuse Hotline Cases***

Next, Mr. Leighty noted a Fraud, Waste and Abuse Hotline complaints was reported to Internal Audit via the Office of the State Inspector General during the period of November 1, 2017 to January 31, 2018. The complaint alleged abuse of the short-term disability program. The case was unsubstantiated and therefore closed

***Management's Quarterly Travel Expense and Per Diem Report***

Mr. Leighty noted that the Committee reviewed the quarterly travel and expense and per diem report.

***Miscellaneous Updates***

Lastly, Mr. Leighty reported that the Committee received the following updates:

- Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' plan actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2018.
- The next meeting of the Audit and Compliance Committee is scheduled for May 31, 2018 at 2p.m.

Mr. Nason thanked Mr. Leighty for his report.

***REPORT OF THE DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE (DCPAC)***

The Board received the Defined Contribution Plans Advisory Committee report of March 29, 2018 and placed it on file. As Mr. Hayes and Senator Bell were participating telephonically, Ms. Bishop delivered the report of the DCPAC on their behalf.

***Administration  
Administrative Reports and  
Communication Update***

Ms. Bishop reported that staff provided an overview of monthly reports, specifically highlighting the following for the fourth quarter of 2017:

1. The total assets and number of accounts under management;
2. An update on the number of unique participants in the unbundled plans;
3. New plan adoptions and transitions of assets;
4. An overview of total assets in the COV 457 and Virginia Cash Match plans, as well as new enrollments in the COV 457 and Automatic Enrollment snapshot;
5. An overview of total assets in the Hybrid 401(a) Cash Match Plan and Hybrid 457 Deferred Compensation

Plan, including a summary of Hybrid Retirement Plan cash flow;

6. An update on the Hybrid 457 voluntary participation rate, including the auto-escalation population and number of participants with maximum voluntary contributions; and
7. An update on the SmartStep and enhanced active choice features launched for Hybrid members making voluntary contributions to the Hybrid 457 plan.

Ms. Bishop reported that staff also provided an update on the ICMA-RC 2017 annual service review, including an overview of 2017 accomplishments and 2018 planned initiatives.

#### ***ORPHE Update***

Ms. Bishop reported that staff provided an overview of ORPHE, specifically highlighting the following for the fourth quarter of 2017:

1. Total ORPHE assets, and assets by plan provider (DCP, TIAA, and Fidelity);
2. An update on enrollment statistics based on newly-eligible employees among the three providers;
3. An update on annual service reviews scheduled with bundled provider third-party administrators, and pending contract amendment with Fidelity to update revenue credit processing; and
4. An update on the College of William and Mary's opt-out, including total assets transferred out and outstanding issues.

#### ***NAGDCA 2017 Perspectives in Practice***

Ms. Bishop advised that the Committee received an overview of the NAGDCA 2017 Perspectives in Practice survey results of public sector plans, including total plan assets, number of plan participants, investment options, fees, participation rates and offered services.

#### ***2018 Administrative Reporting***

Ms. Bishop noted that staff outlined a proposed schedule that would highlight and target specific plan goals that align with delivery of the ICMA-RC quarterly service review and administrative reporting to the Committee.

**Investments*****CEM's "Defined Contribution Plans Have Come a Long Way"***

Next, Ms. Bishop discussed an overview of CEM's "Defined Contribution Plans Have Come a Long Way!", an update to a 2006 CEM research article comparing defined benefit and defined contribution plan performance. Ms. Bishop shared that the article asserts that performance between DB and DC plans have narrowed based on the following:

- Improved defined contribution asset mix;
- Improved defined contribution plan design, automatic enrollment and better default options; and
- Lower defined contribution plan costs

***Fiduciary Rule Update***

Ms. Bishop noted that on March 15, 2018 the United States Court of Appeals for the Fifth Circuit voted to overturn the Department of Labor's (DOL) fiduciary rule and as a result the DOL will not be enforcing the rule pending future developments.

***Market Update and Performance Reports***

Ms. Bishop then provided an update on the market and overview of the unbundled DC Plans performance report, and bundled TIAA and Fidelity ORPHE provider performance reports for the period ending February 28, 2018. Staff informed the DCPAC it continues to have difficulties with Fidelity responding to staff in an accurate, timely manner.

***Custom Target Date Project Update***

Ms. Bishop advised the Committee received an update on the Target Date Customization project. The dialogue primarily centered on a general discussion of various costs of customization as well as potential benefits and considerations regarding the addition of alternative asset classes. Ms. Bishop reported that staff had developed and distributed a questionnaire regarding custom glide path services to various firms providing that service, and will soon begin reviewing responses. Ms. Bishop noted that due to the many different aspects of and the importance of this project staff is purposefully taking its time to gather and review information so VRS can make a fully informed decision to determine the feasibility as well as the costs and benefits of transitioning to a custom approach or remaining with an off-the-shelf approach.

***Other Business******DCPAC Appointments***

Ms. Bishop reported that three Committee seats will be open as of June 20, 2018. She noted the Committee reviewed biographies of Margaret Maslak, who is recommended for reappointment, as well as Allan Carmody and Ravindra Deo, who are being recommended to the Board for initial

appointment to the Committee. Ms. Bishop advised the Committee concurs in the nominations and moved to present the nominations to the Administration and Personnel Committee.

### **2018 Meetings**

Lastly, Ms. Bishop confirmed the DCPAC meeting dates for the remainder of 2018. They will take place on June 14th and December 6th, from 10:30 a.m. to 1:30 p.m., and September 20th at 10:00 a.m., due to the annual investment review. Also, for those who are interested, the ORPHE Annual Employer Update is scheduled for September 27, 2018, but this is not a meeting of the DCPAC.

Mr. Nason thanked Ms. Bishop for her report.

### **REPORT OF THE ADMINISTRATION AND PERSONNEL COMMITTEE**

Mr. Nason presented the report from the Administration and Personnel Committee meeting held on April 9, 2018.

#### **Absolute Return Adjustment Discussion**

Mr. Nason reported that the Committee discussed a proposed amendment to the Appropriation Act that would have modified the manner in which the absolute return adjustment to incentive pay is calculated for VRS investment staff. The Committee discussed VRS' governance structure and more broadly the Board of Trustees' fiduciary duties and responsibilities. Further, the Committee discussed the proposed amendment at length, and suggested considering the use of an outside consultant to comprehensively review the Investment Professionals' Pay Plan, including the use of an absolute return adjustment.

#### **Reappointment of IAC Members**

Mr. Nason advised that the Administration and Personnel Committee recommends reappointments for Theodore Economou and Deborah Allen Hewitt, Ph.D. for additional two-year terms.

#### **Request for Board Action: 2018-04-2 Reappointment of IAC Members**

Mr. Nason then moved, with a second by Ms. Cantor, that the Board reappoint to the Investment Advisory Committee: Theodore Economou/or a two-year term ending September 13, 2020; and, Deborah Allen Hewitt, Ph.D., for a two-year term ending October 16, 2020.

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

Mr. Harris: Aye



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

***Reappointment of DCPAC Members***

*Mr. Nason advised that the Administration and Personnel Committee recommends the appointment of Allan M Carmody and Ravindra Deo, and the reappointment of Margaret M Maslak, to the DCPAC, each for two-year terms.*

***Request/or Board Action: 2018-04-3  
Reappointment of DCPAC Members***

*Upon motion by Mr. Nason, with a second by Mr. Harris, the Board approved the appointment of Allan M Carmody and Ravindra Deo, and the reappointment of Margaret M Maslak, to the DCPAC, each for two-year terms.*

*The Board approved the action upon the following roll call vote:*

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

***Discussion and Consideration of  
FY2019 Agency Performance  
Outcomes (APOs) and Operational  
Measures***

*Next, Mr. Nason discussed the proposed FY2019 Agency Performance Outcomes (APOs) and Operational Measures. The APOs focus on implementing changes in support of Modernization, initiating RIMS decommissioning, implementing the Cardinal Payroll System, and Enterprise Risk Management Phase I. Mr. Nason outlined the complexity and magnitude of implementing Phase 4 of Modernization in FY2019, as detailed in the proposed APOs. Mr. Nason also noted that external factors beyond staff's control - such as the major initiatives related to VITA's mainframe migration and implementation of DOA's Cardinal payroll system - may impact the timing of the agency's deliverables.*

*Mr. Nason reported that VRS identified sixteen (16) key operational measures and six (6) APOs for FY2019. Successful attainment of the APOs and operational measures is the gainsharing portion of the performance management program of the Administrative Pay Plan.*

*Mr. Nason advised that after discussion, the Committee agreed with the proposal, but suggested that it review the RBA at the next Administration and Personnel Committee and make its formal recommendation to the Board at that time.*

### ***Quarterly Budget Variance Report***

*Lastly, Mr. Nason reported the Committee was provided with a review of the budget variance report for the third quarter (July 2017 - March 2018). The report indicated unfavorable variances for both the Administrative and Investment departments; however, those variances will become favorable pending anticipated adjustments to the current Appropriation Act. Mr. Nason concluded that all other accounts appear to be on track for favorable variances for the fiscal year that ends on June 30, 2018.*

### ***REPORT OF THE DIRECTOR***

*Ms. Bishop began her report by announcing that the Town of Blackstone has elected to adopt Enhanced Hazardous Duty benefits coverage and the Portsmouth Redevelopment and Housing Authority adopted the Commonwealth of Virginia 457 Deferred Compensation Plan effective March 1, 2018. Ms. Bishop also noted that the City of Virginia Beach and the Virginia Beach City School Board have adopted the Cash Match Plan effective June 1, 2018. Ms. Bishop also announced a new VRS employer, the Virginia Management Fellows Program Administration effective December 1, 2017.*

### ***Agency Road Map Update***

*Ms. Bishop provided a status report of the Agency Roadmap. She reported that VRS is still closely monitoring the Cardinal payroll system implementation date set by the Department of Accounts. VRS was notified that the Cardinal implementation scheduled for April and October 2018 would be delayed by 5 months. Ms. Bishop reported that with regard to Modernization Phase 4 (generally, retirements and disbursements), progress has lagged planned delivery dates. The team has established daily monitoring activities, and remains keenly focused on resource allocation and ensuring alignment between business/operations and development teams. Ms. Bishop also shared that VITA's planned mainframe migration will likely impact Phase 4 activities.*

***Legislative Update***

*Ms. Bishop then provided updates on VRS-related legislation presented in the 2018 General Assembly session.*

***Diversity & Inclusion: Women's History Month***

*Next, Ms. Bishop discussed the VRS Diversity and Inclusion Committee activities. First, she noted VRS' observance of Women's History Month which was celebrated by hosting Virginia State Librarian, Dr. Sandy Treadway, who discussed the Virginia Women's Monument, Voices from the Garden, the first monument of its kind in the nation, which recognizes the full range of women's achievements.*

***VRS Articles***

*Ms. Bishop then reported the mention of VRS in the Virginia Journal of Education and in Virginia Town & City.*

***Modernization Town Hall Meetings***

*Last, Ms. Bishop discussed the use of Town Hall meetings on the VRS Modernization program which provide a forum for employees to hear directly from those closest to the project and to ask questions about the project status and next steps.*

*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 /awfully 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*

**TRIBUNE SETTLEMENT**

*Mr. Mc Williams moved, with second by Ms. Cantor that the Board ratify the settlement of the Tribune litigation as presented and discussed today and which was approved by the Governor on April 6, 2018. The Director and staff are authorized to take such steps as may be necessary to effect the terms of the settlement.*

*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*

**DEUTSCHE BANK SETTLEMENT**

*Mr. Mc Williams moved, with second by Ms. Cantor that the Board agree to participate in the settlement with the Deutsche*

*Bank AG and 45 State Attorneys General, including Virginia, in the manner outlined in the notice letter to VRS dated April 3, 2018.*

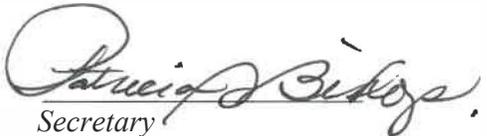
*The Board approved the resolution upon the following roll call vote:*

*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*

**MEETING ADJOURNED**

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

  
Chair

  
Secretary

## Report

The Audit and Compliance Committee met on March 13, 2018 and discussed the following:

### AUDIT REPORTS

The Committee received two audit reports.

- The review of *Cash Receipts* noted that the overall control environment for cash receipts processing is adequate.
- The review of *VRS Conformance with VITA's Security Program* determined that VRS's Security Policies and Standards are compliant with VITA's mandatory IT security program.

Neither review resulted in written recommendations.

### QUARTERLY REVIEW ON MODERNIZATION PROGRAM - PHASE 4

Management presented its status report on the Modernization Program - Phase 4 through February 19, 2018. While significant progress has occurred since the previous audit committee update, Management acknowledged the overall program status continues to be "yellow." Management continues to monitor and has put risk mitigation initiatives in place.

Internal Audit presented its Quarterly Review as of February 1, 2018 and indicated agreement with management's representations regarding the status of the Modernization Program - Phase 4 overall re-baselined schedule, budget, and scope. Internal Audit emphasized key risk mitigation actions undertaken by management to keep the Retirements and Disbursements workstream activities proceeding to completion. Additionally, Internal Audit noted Management's early initiation of Mock Production testing activities should help to alleviate pressure on the Mock Production activities planned for the summer and allow VRS to provide further assurance of the quality of outputs produced from VNAV.

### AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2017

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2017, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations due to the recent resignation of one team member from the Internal Audit team. Mrs. Schreck noted the remaining of the projects in the original audit plan are on track to be completed, with the exception of the "Investment Research" project that will be deferred to a later work plan year.

Mrs. Schreck also noted the department is working with Human Resources to initiate the recruitment process and barring any unforeseen circumstances plans to fill the open position of Principal Auditor-Data Analysis and Operations before the close of the fiscal year.

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**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 November 1, 2017 to January 31, 2018 was presented to the Committee (one in total). The complaint alleged abuse of the short-term disability program. The case was unsubstantiated and therefore closed.

**MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT**

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

**MISCELLANEOUS UPDATES**

The Committee received the following updates:

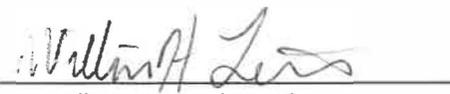
**Internal Audit's Review of Cost of Living Adjustments**

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS's actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2018.

**Next Meeting**

The next meeting of the Audit and Compliance Committee is scheduled for May 31, 2018 at 2 p.m.

Respectfully submitted to the Board of Trustees on April 12, 2018.

  
Mr. William H. Leighty, Chair  
Audit and Compliance Committee

**REPORT OF THE  
DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE  
For the Committee Meeting on Thursday, March 29, 2018**

The Defined Contribution Plans Advisory Committee met on Thursday, March 29<sup>th</sup>, and took up the following matters:

**Administration:**

*Administrative Reports and Communication Update*

Staff provided an overview of monthly reports, specifically highlighting the following for the fourth quarter of 2017:

- (1) The total assets and number of accounts under management;
- (2) An update on the number of unique participants in the unbundled plans
- (3) New plan adoptions and transition of assets;
- (4) Review of total assets in the COV 457 and Virginia Cash Match plans, as well as new enrollments in the COV 457 and Automatic Enrollment snapshot;
- (5) An overview of total assets in the Hybrid 401(a) Cash Match Plan and Hybrid 457 Deferred Compensation Plan, including a summary of Hybrid Retirement Plan cash flow;
- (7) An update on the Hybrid 457 voluntary participation rate, including the auto-escalation population and number of participants with maximum voluntary contributions; and
- (8) An update on the SmartStep and enhanced active choice features launched for Hybrid members making voluntary contributions to the Hybrid 457 plan.

Staff also provided an update on the ICMA-RC 2017 annual service review, including an overview of 2017 accomplishments and 2018 planning initiatives.

*ORPHE Update*

Staff provided an overview of ORPHE, specifically highlighting the following for the fourth quarter of 2017:

- (1) Total ORPHE assets, and assets by plan provider (DCP, TIAA, and Fidelity);
- (2) An update on enrollment statistics based on newly-eligible employees between the three providers;
- (3) An update on annual service reviews scheduled with bundled provider third-party administrators, and pending contract amendment with Fidelity to update revenue credit processing; and
- (4) An update on the College of William and Mary's Opt-out, including total assets transferred out and outstanding issues.

### NAGDCA 2017 Perspectives in Practice

Staff provided an overview of the NAGDCA 2017 Perspectives in Practice survey results of public sector plans, including total plan assets, number of plan participants, investment options, fees, participation rates and offered services.

### 2018 Administrative Reporting

Staff outlined a proposed schedule that would highlight and target specific plan goals that align with delivery of the ICMA-RC quarterly service review and administrative reporting to the Committee.

### **Investments:**

#### CEM's Defined Contribution Plans Have Come a Long Way

Staff provided an overview of CEM's "Defined Contribution Plans Have Come a Long Way!", an update to a 2006 CEM research article comparing defined benefit and defined contribution plan performance. Staff shared that the article asserts that performance between DB and DC plans have narrowed based on the following:

- Improved defined contribution asset mix;
- Improved defined contribution plan design, automatic enrollment and better default options; and
- Lower defined contribution plan costs

#### Fiduciary Rule Update

Staff informed the Committee that on March 15, 2018 the United States Court of Appeals for the Fifth Circuit voted to overturn the Department of Labor's (DOL) fiduciary rule and as a result the DOL will not be enforcing the rule pending future developments.

#### Market Update and Performance Reports

Staff provided an update on the market and an overview of the unbundled DC Plans performance report, and bundled TIAA and Fidelity ORPHE provider performance reports for the period ending February 28, 2018. Staff informed the DCPAC it continues to have difficulties with Fidelity responding to staff in an accurate timely manner.

### Custom Target Date Project Update

Staff provided the DCPAC with an update on the Target Date Customization project. The dialogue primarily centered on a general discussion of various costs of customization as well as potential benefits and considerations regarding the addition of alternative asset classes. Staff informed the Committee it had developed and distributed a questionnaire regarding custom glide path services to various firms providing that service, and will soon begin reviewing responses. Staff apprised the Committee that due to the many different aspects of and the importance of this project staff is purposefully taking its time to gather and review information so VRS can make a fully informed decision to determine the feasibility as well as the costs and benefits of transitioning to a custom approach or remaining with an off-the-shelf approach.

### **Other Business:**

#### DCPAC Appointments

Three Committee seats will be open as of June 20, 2018. The Committee reviewed biographies of Margaret Maslak, who is recommended for reappointment, as well as Allan Carmody and Ravindra Deo, who are being recommended to the Board for initial appointment to the Committee. The Committee concurs in the nominations and moved to present the nominations to the Administration and Personnel Committee.

### **2018 Meetings:**

Staff confirmed the DCPAC meeting dates for the remainder of 2018. They will take place on June 14<sup>th</sup> and December 6<sup>th</sup> from 10:30 a.m. to 1:30 p.m., and September 20<sup>th</sup> at 10:00 a.m., due to the annual investment review. Also, for those who are interested, the ORPHE Annual Employer Update is scheduled for September 27, 2018, but this is not a meeting of the DCPAC.

That concludes my report to the Board.

Submitted to the Board of Trustees on April 12, 2018.



Patricia S. Bishop, Secretary  
Defined Contribution Plans Advisory Committee

**REPORT OF THE  
ADMINISTRATION AND PERSONNEL COMMITTEE  
For the Committee Meeting on Monday April 9, 2018**

The Administration and Personnel Committee met on Monday, April 9<sup>th</sup>, and took up the following matters:

**Absolute Return Adjustment Discussion**

Ms. Bishop discussed a proposed amendment to the Appropriation Act that would modify the manner in which the absolute return adjustment to incentive pay is calculated for VRS investment staff. The Committee discussed VRS' governance structure and more broadly the Board of Trustees' fiduciary duties and responsibilities. Further, the Committee discussed the proposed amendment at length, , and suggested considering the use of an outside consultant to comprehensively review the Investment Professionals' Pay Plan, including the use of an absolute return adjustment.

**Reappointment of IAC Members**

The Administration and Personnel Committee recommends reappointments for Theodore Economou and Deborah Allen Hewitt, Ph.D. for additional two-year terms.

***Request for Board Action:** The Board reappoints to the Investment Advisory Committee: Theodore Economou for a two-year term ending September 13, 2020; and, Deborah Allen Hewitt, Ph.D. for a two-year term ending October 16, 2020.*

**Reappointment of DCPAC Members**

The DCPAC Committee recommends the appointment of Allan M. Carmody and Ravindra Deo, and the reappointment of Margaret M. Maslak, each for two-year terms.

***Request for Board Action:** The Board appoints Allan M Carmody and Ravindra Deo, and reappoints Margaret M Maslak, to the Defined Contribution Plans Advisory Committee, each for a two-year term ending June 20, 2020.*

**Discussion and Consideration of FY 2019 Agency Performance Outcomes (APOs) and Operational Measures**

Ms. Bishop briefed the Committee on the proposed FY 2019 Agency Performance Outcomes (APOs) and Operational Measures. The APOs focus on implementing changes in support of Modernization, initiating RIMS decommissioning, implementing the Cardinal Payroll System, and Enterprise Risk Management Phase 1. Ms. Bishop outlined the complexity and magnitude of implementing Phase 4 of Modernization in FY 2019, as detailed in the proposed APOs. Ms. Bishop also noted that external factors beyond staffs control- such as the major initiatives related to VITA's mainframe migration and implementation of DOA's Cardinal payroll system - may impact the timing of the agency's deliverables.

VRS identified sixteen (16) key operational measures and six (6) APOs for FY 2019. Successful attainment of the APOs and operational measure is the gainsharing portion of the performance management program of the Administrative Pay Plan.

After discussion, the Committee agreed with the proposal, but suggested that it review the RBA at the next Administration and Personnel Committee and make its formal recommendation to the board at that time.

**Quarterly Budget Variance Report**

**REPORT OF THE  
ADMINISTRATION AND PERSONNEL COMMITTEE  
For the Committee Meeting on Monday April 9, 2018**

A review of the budget variance report for the third quarter (July 2017 - March 2018) was provided. The report indicated unfavorable variances for both the Administrative and Investment departments. However, those variances will become favorable pending anticipated adjustments to the current Appropriation Act. All other accounts appear to be on track for favorable variances for the fiscal year that ends on June 30, 2018.

Submitted to the Board of Trustees on April 12, 2018.

  
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Mitchell L. Nelson, Chair  
Administration and Personnel Committee