
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on November 14, 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 (by phone under § 2.2-3708.2(D))

Wallace G. Harris

W. Brett Hayes

William H. Leighty

O'Kelly E. McWilliams, III

Joseph W. Montgomery

Troilen G. Seward

Also present were: Patricia Bishop, Ron Schmitz, John Alouf, Suja Amir, Rory Badura, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Sara Denson, Barry Faison, Bryan Gardiner, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Laurie Nelson, Angela Payne, Andrea Peeks, Steven Peterson, Jennifer Schreck, Jillian Sherman, Daniel Whitlock, and Cindy Wilkinson of the VRS staff.

Guests present were: Lauren Axselle and Kimberly Sarte, Joint Legislative Audit and Review Commission; Bea Snidow, Virginia Education Association; Justin Ferrell, Auditor of Public Accounts; Liz Myers, Office of the Attorney General; and Brad Wild, Alisa Bennett and Larry Langer, Cavanaugh Macdonald Consulting, L.L.C.

The meeting convened at 1:10 p.m.

APPROVAL OF MINUTES

Mr. Nason moved to approve the minutes of the October 18, 2018 meeting with a second by Mr. Montgomery. The Board approved the minutes of the October 18, 2018 meeting upon the following roll call vote:

Mr. Nason: Aye

Ms. Cantor: Aye

Mr. Hayes: Aye

Mr. McWilliams: Aye

Mr. Leighty: Aye

Mr. Montgomery: Aye

*Mr. Harris: Aye
Ms. Seward: Aye
Mr. Bell: Aye*

**REPORT OF THE INVESTMENT
ADVISORY COMMITTEE**

In Mr. Kochard's absence, Mr. Schmitz presented the report of the Investment Advisory Committee (IAC). He noted Mr. Cooper provided an overview of the Code of Ethics & Conduct during the November 8, 2018 meeting. The IAC members then affirmed their commitment to and understanding of the policy by signing the certification forms, which are kept on file. Next, Mr. Schmitz briefed the Board on topics discussed at the IAC meeting that included a brief overview of the market, market risk, portfolio performance, as well as a review of the New Investments and Terminations Report. Mr. Schmitz then noted the Committee received VRS staff presentations on the following areas: credit strategies, real assets, private equity, foreign currency and private investment partnerships.

**REPORT OF THE CHIEF
INVESTMENT OFFICER**

Mr. Schmitz began his report with a market overview. Next, he 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, the WaM Quarterly Report and the Quarterly External Investment Manager Referral Report with the Board.

Last, Mr. Schmitz discussed the revised Defined Benefit Plan Investment Policy Statement. He informed the Board that staff, in preparation for the upcoming asset liability study, performed an internal review of the Defined Benefit Plan Investment Policy Statement. The proposed revisions reflect the changes staff believes would more accurately describe the Board's total fund active risk range, which describes the degree of tolerance for yearly variation in the fund's performance relative to the Total Fund Custom Benchmark.

**Request for Board Action: 2018-11-17
Review and Approve Revised Defined
Benefit Plan Investment Policy
Statement**

Mr. Montgomery moved, with a second by Mr. Harris, to approve the revised Defined Benefit Plan Investment Policy Statement.

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

Mr. Nason: Aye

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

***Proxy Voting and Litigation Policy
FY 2018 Report***

Next, Mr. Howell provided the annual Proxy Voting and Litigation Policy Report.

Mr. Nason thanked Mr. Schmitz and Mr. Howell for their reports.

***REPORT OF THE BENEFITS AND
ACTUARIAL COMMITTEE***

The Board received the Benefits and Actuarial Committee report of November 13, 2018 and placed it on file.

Mr. Harris reported that the 2018 Actuarial Valuation Results for Political Subdivisions Retirement Plans, the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC), and Line of Duty Act Fund were reviewed during the meeting. The VRS plan actuary, Cavanaugh Macdonald Consulting, L.L.C., conducted the June 30, 2018 valuations. Mr. Harris introduced Larry Langer from Cavanaugh Macdonald Consulting who presented the results of the June 30, 2018 valuations.

Mr. Langer began by noting that in odd-numbered years the valuations are used to establish employer contribution rates. The results in even-numbered years are shared with the Board of Trustees to inform the Board and stakeholders of any emerging trends or indications of the magnitude and direction of the contribution rates. The results generally reflect improved funded status for Political Subdivisions, VLDP, and HIC. Ms. Bennett from Cavanaugh Macdonald Consulting presented the OPEB results. For LODA, healthcare premiums were unchanged; however, there was an increase in the expected contribution per FTE due to more beneficiaries receiving benefits from the fund.

***Request for Board Action: 2018-11-18
Accept the Plan Actuary's Valuations
as of June 30, 2018 for Political
Subdivisions Retirement Plans,
Certain Health Insurance Credit
Plans, the Virginia Local Disability***

Following Ms. Bennet's presentation, Mr. Harris moved, with a second by Mr. Montgomery, that the Board accept the June 30, 2018 Valuations for Political Subdivisions Retirement Plans, the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC), and Line of Duty Act Fund.

***Program and the Line of Duty Act
Fund***

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

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

Mr. Harris concluded his report by noting the approved 2019 Benefits and Actuarial Committee meeting schedule:

- February 12, 2019 at 1:30 p.m.*
- June 11, 2019 at 1:30 p.m.*
- October 16, 2019 at 1:00 p.m.*
- November 19, 2019 at 1:00 p.m.*

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 November 14, 2018 and placed it on file.

Mr. Nason began by discussing the amended Investment Professionals' Pay Plan (Pay Plan). The proposed revisions to the Pay Plan are based on extensive discussions among the Investment Policy Committee, the Administration and Personnel Committee, McLagan, and VRS staff regarding the use of an absolute return adjustment to the calculation of the incentive compensation under the Pay Plan and other guidelines that may be applied in a down market. At a joint meeting of the Investment Policy Committee and the Administration and Personnel Committee on October 18, 2018, the committees reached a consensus to endorse McLagan's Option VI.

Option VI is defined as: negative returns adjustment remains unchanged. No adjustment for returns between 0% and the assumed rate of return, currently 7%. Positive adjustment for returns in excess of the assumed rate of return.

In addition, the Pay Plan has been revised to update the Overview and Pay Philosophy, add classification titles, streamline and update wording, and update final award examples to apply the modified absolute return formula.

***Request for Board Action: 2018-11-19
Review and Approve Revised
Investment Professionals' Pay Plan***

Mr. Nason moved, with a second by Ms. Cantor, to approve the amended Investment Professionals' Pay Plan.

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

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

Mr. Nason then discussed the Building Access and Use Policy. The Board requested that VRS staff research the issue of public access to VRS buildings and attendance at public meetings. This policy governs access to and use of VRS buildings, and provides clarity to VRS staff and to the public regarding participation in VRS public meetings and activities on VRS property. Mr. Nason noted that during the committee meeting the members agreed to revise the name of the policy to Public Access and Building Use Policy.

***Request for Board Action: 2018-11-20
Review and Approve Building Access
and Use Policy***

Mr. Nason moved, with a second by Ms. Cantor, to adopt the "Public Access and Building Use Policy."

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

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

***REPORT OF THE INVESTMENT
POLICY COMMITTEE***

Mr. Nason briefly discussed the Investment Policy Committee, which convened prior to the Board of Trustees meeting. He thanked the staff for their contributions in the

lecture series and noted that the minutes of the meeting will be provided at the December meeting.

POLICY UPDATE

Next, Ms. Wilkinson provided policy updates on the FOIA Electronic Meeting Attendance Policy. The Code of Virginia requires VRS to develop a remote participation policy prior to allowing remote electronic participation under that section. In order to make use of the remote access options, the Board adopted a policy May 4, 2015, which was amended in June 2017. Additional changes were made in July 2018 to facilitate remote access, and these amendments bring the VRS Board of Trustees' FOIA Electronic Meeting Attendance Policy into conformance with the Code changes.

Request for Board Action: 2018-11-21
Approve Amendments to FOIA
Electronic Meeting Attendance Policy

Mr. Nason recommended approval of the Amendments to FOIA Electronic Meeting Attendance Policy to the board. The Board approved the action upon the following roll call vote:

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

REPORT OF THE DIRECTOR

Ms. Bishop briefed the Board on new VRS coverage elections for November 2018.

Ms. Bishop provided an update on the VRS Roadmap for Fiscal Year 2019. Staff completed several operational activities, while the Cardinal Payroll System Implementation and Modernization – Phase 4 Retirement Processing and Disbursements projects remain in yellow status.

Ms. Bishop next updated the Board on recent communications initiatives. VRS uses videos and social media to educate employers, members and retirees. These videos have proven to be a useful approach to engage membership and bring them into various avenues for communication on the VRS website and Facebook page. Recent videos have been shared and reposted to various employer websites resulting in thousands of views. One area

of focus that is being shared via Facebook, VRS Member News and Employer Updates, has been the importance of claiming and properly registering accounts, such as the 457 and myVRS accounts.

Ms. Bishop then noted the following:

- *The VRS Annual Meeting will be held on December 5, 2018, where success stories and service awards will be presented with remarks by Mr. Harris.*
- *JLARC staff will present its semi-annual report on VRS at its December 10, 2018 meeting.*
- *Communication will be sent out about the Conflict of Interest Act (COIA) updates.*

Lastly, Ms. Bishop announced VRS received an award from the Public Pension Coordination Council for Funding and Administration for the 15th year.

Mr. Nason thanked Ms. Bishop for her report.

ADJOURNMENT

There being no further business, Mr. Nason concluded the meeting at 2:35 p.m.



Chair



Secretary

Report

The Benefits and Actuarial Committee met on November 13, 2018 and took up the following matters:

2018 Actuarial Valuation Results for Political Subdivisions Retirement Plans, the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC), and Line of Duty Act Fund.

Ms. Bishop introduced representatives from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC to present the June 30, 2018 actuarial valuations for Political Subdivisions Retirement Plans, the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC), and the Line of Duty Act Fund. The VRS actuary conducts annual actuarial valuations as of the close of the fiscal year (June 30). In odd-numbered years the valuations are used to establish employer contribution rates. The results in even-numbered years are shared with the Board of Trustees to inform the Board of any emerging trends or indications of the magnitude and direction of contribution rates. The June 30, 2018 valuation results generally reflect the following compared to the prior valuation:

- For the Political Subdivisions Retirement Plans, improved funded status and contribution rates trending slightly downward.
- For VLDP, improved funded status for the Teacher plan, but decreased for Political Subdivision Plan. Contribution rates increased for both plans.
- For HIC, improved funded status and consistent contribution rates.
- For LODA, healthcare premiums are unchanged, however there is an increase in the expected contribution per FTE employee due to more beneficiaries receiving benefits from the fund.

Larry Langer and Alisa Bennett from Cavanaugh Macdonald Consulting will provide the Board with a presentation of the results. After receiving the reports and some discussion, the Committee recommends that the Board accept the valuations by approving the following action:

Request for Board Action: The Board accepts the June 30, 2018 Actuarial Valuations conducted by the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, for the Political Subdivisions Retirement Plans; the Health Insurance Credit (HIC) for Political Subdivisions; the State-Funded HIC for Constitutional Officers, Social Services Employees and Registrars; the Virginia Local Disability Program, including the Self-Funded Long-Term Care; and Line of Duty Act Fund.

2019 Meeting Schedule

- February 12, 2019 at 1:30 p.m.
- June 11, 2019 at 1:30 p.m.
- October 16, 2019 at 1:00 p.m.
- November 19, 2019 at 1:00 p.m.



**Benefits and Actuarial Committee
Committee Report to the Board of Trustees
November 13, 2018**

Submitted to the Board of Trustees on November 14, 2018.

A handwritten signature in blue ink that reads 'Wallace G. Harris'.

Wallace G. Harris, Chair
Benefits and Actuarial Committee

Report

The Administration and Personnel Committee met on November 14, 2018 and took up the following matters:

Approval of Minutes

The Administration and Personnel Committee approved the minutes of its October 18, 2018 joint meeting with the Investment Policy Committee.

Review and Approve Revised Investment Professionals' Pay Plan

Staff presented an amended Investment Professionals' Pay Plan for the Committee's review. The proposed revisions to the Pay Plan were based on extensive discussions among the Investment Policy Committee, the Administration and Personnel Committee, McLagan and VRS staff regarding the use of an absolute return adjustment to the calculation of incentive compensation under the Pay Plan and other guidelines that may be applied in a down market. At a joint meeting of the Investment Policy Committee and the Administration and Personnel Committee on October 18, 2018, the committees reached a consensus to endorse McLagan's Option VI, which is defined as:

Negative returns adjustment remains unchanged. No adjustment for returns between 0% and the assumed rate of return, currently 7%. Positive adjustment for returns in excess of the assumed rate of return.

Other revisions to the Pay Plan included administrative changes such as updating the Overview & Pay Philosophy section, adding classification titles, streamlining and updating wording, and updating the final award examples to apply the modified absolute return formula.

Request for Board Action: The Board approves an amended Investment Professionals' Pay Plan.

Review and Approve Public Access and Building Use Policy

Staff presented a Public Access and Building Use policy for the Committee's review. The policy sets forth rules governing building access for members of the public, including access to open meetings of the VRS Board of Trustees and committees. Other topics include public comment, materials distribution, use of amplification and other noise devices, filming and recording, and the use of display materials. The policy closely follows the Virginia Capitol Police policy regarding General Assembly building access and use.

At the request of the committee staff will develop a procedure directive or similar policy regarding public meeting security protocol and bring to the committee for consideration at a future meeting.

Request for Board Action: The Board adopts a "Virginia Retirement System Public Access and Building Use Policy."

Budget Update

The Committee reviewed the latest budget update which includes expenditure of approximately \$2.6 million in additional appropriation. This amount reflects budget requests that are currently under consideration by the Department of Planning and Budget for inclusion in the Governor's amended budget, which will be made public on December 18, 2018.

Submitted to the Board of Trustees on November 14, 2018.



Mitchell L. Nason, Chair
Administration and Personnel Committee