Minutes

A meeting of the Investment Advisory Committee of the Virginia Retirement System was held on August 28, 2018 with the following members present:

Larry Kochard, Chairperson
Michael Beasley
Theodore Economou (by phone from Switzerland under § 2.2-3708.1(A)(1))
Thomas Gayner
Deborah Allen Hewitt
Bryan Lewis
Rod Smyth
Hance West

The following Board members were present:

Diana Cantor (by phone)
Wallace Harris
William Leighty
O'Kelly McWilliams
Joseph Montgomery
Mitch Nason

The following staff members were in attendance:


Also in attendance were Jennifer Schoeller of APA; Joe McMahon of JLARC; Jim Baker of Private Equity Stakeholder Project; and David M. Bradley Sr., Beverlee Celestin, Johnathon Celestin, Giovanni Mackie, Meredith Roberson, Jaime Roberson, and Steve Roberson from Toys ‘R’ Us.

Mr. Kochard called the meeting to order at 10:38 a.m.
A motion was made and seconded to approve the March 13, 2018 minutes. The motion was unanimously approved.

Mr. Schmitz then gave a brief overview of current economic and market conditions. Mr. Schmitz reviewed plan performance analysis, including asset allocation, investment performance, and tracking error. Mr. Schmitz presented information about the VRS risk versus total returns of all public funds, as well as the U.S. 60/40 portfolio performance since the global financial crisis. Mr. Schmitz presented the Performance Summary and the Asset Allocation Report as of the end of the fiscal year. Mr. Schmitz then reviewed the New Investments and Terminations Report.

Dr. Peterson presented the global economy at a glance. Committee members then discussed financial conditions in advanced economies as well as emerging economies. Additional discussions were held specifically related to the U.S. economy.

Dr. Peterson discussed with the Committee members forward returns expectations, beginning the conversation with the building blocks for expected returns and the contributions across asset classes. He also discussed forward return attribution, as well as the contributions of building blocks for expected returns, as it relates to the Total Fund and to Global Equity, Real Assets, and Internal Fixed Income. In addition, Dr. Peterson discussed the 10 year and 20 year forward return expectations, as well as a summary of VRS assumed returns given various assumptions. Then Dr. Peterson introduced Mr. Ma to discuss the contribution to expected forward returns from FX and showed the cyclical nature of dollar cycles.

Mr. Kasarda and Ms. Koutrakos provided an update on scenarios that have been presented at previous IAC meetings. Mr. Kasarda presented historical analysis and current portfolio risk decomposition. Ms. Koutrakos presented forward looking return scenarios.

Ms. Koutrakos presented the benchmark for the Dynamic Strategies program. Mr. Kasarda presented the benchmark for the Risk-Based Investments program. After general discussion, the Committee members agreed that these benchmarks appear reasonable.

Mr. Grier introduced the Portfolio Intelligence Team leadership. Staff presented a review of the Dynamic Strategies program, Risk Management, Research, and Investment Decision Support. The review included a team overview, fiscal year 2019 priorities, and long term themes for each area.
Mr. Schmitz then discussed with the Committee members the proposed 2019 IAC meeting schedule. The proposed meeting dates included:

- April 23, 2019
- August 20, 2019
- November 5, 2019

The meeting was adjourned at 1:47 p.m.

Larry Kochard, Chairperson