
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on May 13, 2019 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, Ph.D.
W. Brett Hayes
William H. Leighty
O'Kelly E. McWilliams, III
Joseph W. Montgomery
Troilen G. Seward

VRS Staff:

Patricia Bishop, Ron Schmitz, John Alouf, Advait Apte, Rory Badura, Farley Beaton, Michael Cooper, Harriet Covey, Kevin Cronin, Sara Denson, Barry Faison, Brian Goodman, Katie Grawe, JT Grier, Kelly Hiers, KC Howell, Robert Irving, LaShaunda King, Matt Lacy, Steve McClelland, Taylor Melton, Scott Mootz, Laurie Nelson, Walker Noland, Angela Payne, Andrea Peeks, Cat Pelletier, Steve Peterson, Denise Rasmussen, Jennifer Schreck, Michael Scott, Jillian Sherman, Virginia Sowers, Peter Thompson, and Cindy Wilkinson.

Guests present were:

Latosha Johnson, Department of Planning and Budget; Justin Ferrell, Auditor of Public Accounts; Adam Rosatelli, Senate Finance Committee; Jessica Ackerman, Virginia Municipal League; Elizabeth Myers, Office of Attorney General; Jeremy Bennett, Virginia Association of Counties; Rick Fowler, Virginia Governmental Employees Association; Lauren Axselle, Joint Legislative Audit and Review Commission; and Bea Snidow, Virginia Education Association.

The meeting convened at 1:20 p.m.

Mr. Nason called the meeting to order and began with a moment of silence in remembrance of Capri Stanley-Smith.

Approval of Minutes

Upon a motion by Mr. Montgomery, with a second by Ms. Cantor, the Board approved the minutes of the Board of Trustees meeting of February 14, 2019 and the retreat minutes of March 25 and March 26, 2019. Mr. Nason noted that he was not present at the Board Retreat, and therefore abstained from the vote.

Report of the Investment Advisory Committee

In Mr. Kochard's absence, Mr. Schmitz presented the report of the April 11, 2019 Investment Advisory Committee meeting. Mr. Schmitz stated the meeting began with a brief economic overview as well as plan performance and asset allocation information.

In addition, Mr. Schmitz stated the Committee received a report of the forward returns proposed in the upcoming asset liability study. The report included a discussion of the VRS asset classes, baseline returns, and a review of the projections against a variety of managers and consultants. Mr. Schmitz advised the Committee also received asset class reviews of public equity, internal equity, fixed income, dynamic strategies and risk-based investment portfolios. The Committee also discussed the applicable benchmarks and return hurdles.

Mr. Schmitz concluded the report by noting the next Investment Advisory Committee meeting will be held on August 13, 2019.

Mr. Nason thanked Mr. Schmitz for the report.

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 generally continues to be strong relative to benchmarks. He then discussed tracking error, information ratio and fund volatility – concluding that risk measures are all within Board-approved levels. Mr. Schmitz then reviewed the New Investments and Terminations Report, the WaM Quarterly Summary Report, and the Manager Referral Quarterly Summary Report with the Board.

Mr. Nason thanked Mr. Schmitz for his report.

Report of the Audit and Compliance Committee

The Board received the Audit and Compliance Committee report of March 20, 2019 and placed it on file.

Mr. Leighty advised the Board that the Committee received two audit reports:

- The review of *VRS' Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory IT security program.
- The review of *Purchase of Prior Service* noted the overall control environment for the purchase of prior service processing is adequate; however, the review resulted in one written recommendation.

Quarterly Review on Modernization Program – Phase 4

Mr. Leighty stated that management presented its status report on the Modernization Program – Phase 4 through March 5, 2019. Management discussed the remaining Phase 4 releases. Go-live for the retirements and disbursements functionality is scheduled for April 25, 2019 and the ability to submit online retirement applications is scheduled for fall 2019. Management continues to intensively monitor the phase's progress and has put risk mitigation initiatives in place.

Internal Audit presented its Quarterly Review for the same period and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget and scope. Internal Audit acknowledged management's efforts and continued work as the go-live date nears.

Audit Plan Progress as of December 31, 2018

Mr. Leighty advised that the Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2018, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background. Internal Audit's planned projects and resources relative to the annual and long-term plans were discussed.

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

Next, Mr. Leighty noted 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, 2018 through January 31, 2019 was presented to the Committee. One case reported alleged abuse of short-term disability; however, the case could not be substantiated and was closed.

Management's Quarterly Travel Expense and Per Diem Report

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

Miscellaneous Updates

Lastly, Mr. Leighty advised the Board of 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' 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 2019.

Next Committee Meeting

The Committee's next meeting is scheduled for June 12, 2019 at 2 p.m.

Mr. Nason thanked Mr. Leighty for his report.

Report of the Defined Contribution Plans Advisory Committee

The Board received the Defined Contribution Plans Advisory Committee report of April 25, 2019 and placed it on file.

Administrative Reports and Communication Update

Mr. Hayes began by discussing updated administrative reports for the fourth quarter of 2018. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives.

Mr. Hayes noted that staff also shared the Optional Retirement Plan Online Election initiative won a 2018 NAGDCA Leadership Award in the Plan Design and Administration Category. VRS was also one of four finalists for PlanSponsor's award for 2019 Plan Sponsor of the Year in the Public Defined Contribution Category.

ORPHE Update

Next, Mr. Hayes noted that staff provided an overview of Optional Retirement Plan for Higher Education (ORPHE) reports for the fourth quarter of 2018, including plan assets and accounts, and provider election data.

Investments

Performance Reports

Staff provided the Committee with an overview of the February 28, 2019 performance reports.

Custom Target Date Evaluation Project

Staff informed the Committee that they continue to monitor industry developments in the custom target date fund space; however, at this time staff's main focus is working on the upcoming changes to the ORPHE.

Other Business

DCPAC Appointments

Mr. Hayes advised that four committee seats will be open as of June 20, 2019. The Committee reviewed the biographies of Robert Carlson, Shannon Irvin, Rick Larson, and Dave Winter, who are recommended for reappointment. The Committee concurs in the nominations and moved to present the nominations to the Administration and Personnel Committee.

Review of Plan Documents

Staff advised that, in connection with outside benefits counsel, staff is undertaking a review of plan documents. Any proposed changes will be discussed by the Committee and shared with the Board for approval.

Pension & Investments 2019 Eddy Award

Mr. Hayes noted that VRS won the Pensions & Investments 2019 Eddy Award in March for the VRS Financial Wellness Program.

ORPHE Restructure Recommendations

Ms. Heirs and Ms. Pugliese provided the Board with a presentation of the recommended ORPHE updates discussed at the last Committee meeting. Ms. Heirs identified current key issues and highlighted the ORPHE restructure preparations, including the communication and outreach initiatives undertaken to advise affected employers and participants, and collection of feedback on possible recommendations. Staff also provided the Committee with a summary of its ORPHE investment lineup changes, including mapping of existing balances and allocation of ongoing contributions, where applicable. Staff delivered the following recommendations:

- Deselect Fidelity as a provider option for new hires effective June 1, 2019.
- Deselect Fidelity for ongoing contributions effective January 1, 2020.
- Modify the TIAA RC contract investment menu.

Next, Ms. Pugliese gave an overview of the project's investment goals:

- Offer fund options only containing costs specific to a fund's investment management and operations, where practicable.
- For core fund operations, primarily consider funds meeting VRS' DC plans cost efficient investment philosophy of passive investment management.

The updated TIAA investment menu continues to provide investment opportunities across various asset classes to meet participants' diverse goals. VRS was able to reduce fees by utilizing a passive investment management philosophy and excluding non-investment related embedded costs.

On a motion from Mr. Hayes, with a second from Mr. Harris, the VRS Board of Trustees approved the following:

RBA 2019-05-4: Approve the deselection of one ORPHE provider option and change to TIAA ORPHE default investment option.

Request for Board Action: *The Board approves the following changes to the Optional Retirement Plan for Higher Education (ORPHE): deselect Fidelity as a provider option for new hires effective June 1, 2019; deselect Fidelity for ongoing contributions effective January 1, 2020; and change the TIAA ORPHE default investment option to BlackRock LifePath Index Funds O.*

Mr. Hayes noted the 2019 DCPAC meeting schedule:

- June 6 at 1:00 p.m.
- September 5 at 1:00 p.m.
- November 7 at 10:30 a.m.

Mr. Hayes concluded his report by noting the ORPHE Annual Employer Update is scheduled for September 26, 2019 and that while this is not a DCPAC meeting, members may attend if interested.

Mr. Nason thanked Mr. Hayes for his report.

Phase 4 Modernization Update

Mr. Beaton provided the Board with an update on Modernization Phase – 4 Implementation. VRS staff prepared for “Go-Live” by completing all in-process tasks and worked diligently in order to minimize any customer disruptions and enable a controlled “Ramp Down” period. Implementation took place during the scheduled “Blackout” period that included the conversion of over 400 million data records from RIMS to VNAV. This conversion process ran for nearly 60 consecutive hours followed by the “Ramp Up” stage which allowed limited access and functionality to monitor quality before returning to normal operations. Mr. Beaton concluded that each phase was successfully executed and staff will continue quality monitoring and VNAV function releases.

Mr. Nason thanked Mr. Beaton for his report.

Report of the Director

Ms. Bishop began her report by noting the new VRS coverage elections. Next, Ms. Bishop advised that VRS had received the following awards:

- Eddy Award from Pensions and Investments. First place in the financial wellness category.
- 2019 Sponsor of the Year finalist from PLANSPONSOR in the public defined contribution plans category.
- Leadership Award from NAGDCA in the plan design and administration category.

Ms. Bishop noted the mention of VRS in the February issue of the Virginia Journal of Education that discussed the tools VRS provides to its members related to planning and financial wellness. Next, Ms. Bishop announced Taylor Melton, of the Virginia Management Fellows Program, would be ending his session with VRS and thanked him for his work on various research projects.

Ms. Bishop noted special achievements by VRS members and then provided the Board with various updates including two videos focusing on VRS’ RealizeRetirement Tour and the agency’s participation in Public Service Week that highlighted appreciation for state employees and a service project for McGuire VA Medical Center.

Lastly, Ms. Bishop noted there were no changes to the FY 2019 Roadmap since the last Board meeting.

Mr. Nason thanked Ms. Bishop for her report.

Before going into closed session, Mr. Nason noted that the next Board meeting is scheduled for June 13, 2019.

Litigation Update (Closed Session)

Mr. McWilliams moved, with a second by Mr. Montgomery, 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 litigation pursuant to the exemption contained in Code of Virginia § 2.2-3711(A)(7).

Upon return to open meeting, Mr. McWilliams moved, with a 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, § 2.2-3712 of the Code of Virginia 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:

Mitchell L. Nason: Aye
Diana F. Cantor: Aye
J. Brandon Bell: Aye
Wallace G. Harris: Aye
W. Brett Hayes: Aye
O'Kelly E. McWilliams, III: Aye
Joseph W. Montgomery: Aye
Troilen G. Seward: Aye

There was a brief discussion regarding the logistics of hiring a Human Resources Director.

Lastly, Mr. Nason noted the following upcoming meetings:

- June 6 – Defined Contribution Plans Advisory Committee
- June 12 – Audit & Compliance Committee and Administration & Personnel Committee
- June 13 – Board of Trustees
- July 13 – Board of Trustees

There being no further business, the meeting adjourned at 3:30 p.m.



Chair

Secretary

Report

The Audit and Compliance Committee met on March 20, 2019 and discussed the following:

AUDIT REPORTS

The Committee received two audit reports.

- The review of VRS' *Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory IT security program.
- The review of *Purchase of Prior Service* noted the overall control environment for the purchase of prior service processing is adequate; however, the review resulted in one written recommendation.

QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its status report on the Modernization Program - Phase 4 through March 5, 2019. Management discussed the remaining Phase 4 releases. Go-live for the retirements and disbursements functionality is scheduled for April 25, 2019 and the ability to submit online retirement applications is scheduled for Fall 2019. Management continues to intensively monitor the phase's progress and has put risk mitigation initiatives in place.

Internal Audit presented its Quarterly Review for the same period and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget and scope. Internal Audit acknowledged management's efforts and continued work as the go-live date nears.

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2018

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2018, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background. Internal Audit's planned projects and resources relative to the annual and long-term plans were discussed.

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, 2018 through January 31, 2019 was presented to the Committee.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

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

MISCELLANEOUS UPDATES

The Committee received the following updates:

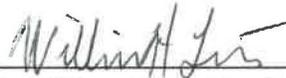
Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' 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 2019.

Next Committee Meeting Date

The Committee's next meeting is scheduled for June 12, 2019 at 2 p.m.

Respectfully submitted to the Board of Trustees on May 13, 2019.



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

Report

The Defined Contribution Plans Advisory Committee met on April 25th and took up the following matters:

Administration:

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the fourth quarter of 2018. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives.

Staff also shared that the Optional Retirement Plan Online Election initiative won a 2018 NAGDCA Leadership Award in the Plan Design and Administration Category. VRS was also one of four finalists for the PlanSponsor's award for 2019 Plan Sponsor of the Year in the Public Defined Contribution Category.

ORPHE Update

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Investments:

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Pensions & Investments 2019 Eddy Award

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ORPHE Restructure Recommendations

Staff provided an update on the ORPHE restructure preparations, including the communication and outreach initiatives undertaken to advise affected employers as well as participants and collect feedback on the possible recommendations. Staff also provided the Committee with a summary of its ORPHE investment lineup changes, including mapping of existing balances and allocation of ongoing contributions, where applicable. Staff delivered final recommendations, as provided in the ORPHE 2020 Recommendations slide deck. After receiving the update and some discussion, the Committee recommends that the Board approve the following action:

Request for Board Action: *The Board approves the following changes to the Optional Retirement Plan for Higher Education (ORPHE): deselect Fidelity as a provider option for new hires effective June 1, 2019; deselect Fidelity for ongoing contributions effective January 1, 2020; and change the TIAA ORPHE default investment option to BlackRock LifePath Index Funds O.*

Following this report, staff will deliver a summary of the proposed ORPHE changes, including outreach, communication, and other implementation highlights directly to the full Board of Trustees.

Proposed 2019 Meetings:

Staff confirmed the remaining DCPAC meeting dates for 2019:

- June 6 at 1:00 p.m.
- September 5 at 1:00 p.m.
- November 7 at 10:30 a.m.

The ORPHE Annual Employer Update is scheduled for September 26, 2019. This is not a DCPAC Committee meeting, however, members may attend if interested.

That concludes my report to the Board.

Submitted to the Board of Trustees on May 13, 2019.



Brett Hayes, Chair
Defined Contribution Plans Advisory Committee