

---

## Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on December 12, 2019 in Richmond, Virginia with the following members present:

Board members:

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, Jennifer Schreck, Rory Badura, Farley Beaton, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Sara Denson, Pam Elam, Barry Faison, Laurie Fennell, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Ross Kasarda, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Peter Murphy, Walker Noland, Angela Payne, Andrea Peeks, Cat Pelletier, Steven Peterson, Cindy Wilkinson and Dan Whitlock.

Guests present were:

Kam Mangat, CEM Benchmarking, Inc.; Lauren Axselle, Joint Legislative Audit and Review Commission; Elizabeth Myers and Rachel Snead, Office of the Attorney General; Adam Rosatelli, Senate Finance Committee; Jessica Ackerman, Virginia Municipal League; Rick Fowler, Virginia Governmental Employees Association; Jeremy Bennett, Virginia Association of Counties; and Bea Snidow, Virginia Education Association.

The meeting convened at 1:04 p.m.

### Approval of Minutes

Upon a motion by Ms. Cantor, with a second by Mr. Montgomery, the minutes of the November 20, 2019 Board meeting and the minutes of the November 21, 2019 Investment Symposium were approved.

### CEM Cost Effective Analysis of VRS Investment Program

Mr. Schmitz introduced Kam Mangat with CEM Benchmarking, Inc., who presented the Investment Benchmarking results for the 5-year period ending December 2018. The U.S. Public 5-year policy return median was 5.3%. VRS surpassed the U.S. median with a 5-year policy return of 5.6%, which was primarily due to policy mix differences. VRS’ 5-year net value added was 0.3%, compared to the peer group median of 0.0%, which translates into approximately \$1.2 billion of cumulative value added over the last 5-year period.

Ms. Mangat advised that the benchmark cost analysis suggests that the VRS fund was lower cost than its peers by 5 basis points in 2018. She explained that VRS' investment cost was 62.8 basis points and below the benchmark cost of 67.8 basis points, indicating lower costs associated with services and implementation style when compared to the peer group.

Mr. Nason thanked Ms. Mangat for her presentation.

#### **Report of the Chief Investment Officer**

Next, Mr. Schmitz provided the Board with a market overview. He discussed asset allocation and reviewed plan performance, which generally continues to be strong relative to benchmarks with the exception of Public Equity. 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 December 12, 2019 and placed it on file.

##### Quality Assurance Review of the Internal Audit Department

Mr. Leighty began his report by discussing the results of the Department's Annual Quality Assurance Improvement Program Review as of June 30, 2019 and noted that the review concluded there is reasonable assurance that the VRS Internal Audit Department is operating in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The external reviewer presented the results of the quinquennial external quality assurance review and concluded that the internal audit activity at VRS generally conforms with the *International Standards for the Professional Practice of Internal Auditing*. The reviewer noted certain opportunities for continuous improvement for the Department to consider.

##### Exit Conference on the 2019 Comprehensive Annual Financial Audit

Mr. Leighty advised that the APA informed the Committee the audit work over the 2019 Comprehensive Annual Financial Report (CAFR) was in its final stage. Upon completion, the APA anticipates issuing an unmodified opinion on VRS' financial statements. They noted their companion "Report on Internal Controls and Compliance" would be issued later this month (December) and at this time they do not anticipate including any formal recommendations.

##### Entrance with the APA Regarding Employer Assurances (GASB 68 and 75)

The APA provided the A&C Committee with an overview of its upcoming examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own

---

annual financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements:

- No. 68, which focuses on employer reporting over pension plans.
- No. 75, which deals with employer reporting over other post-employment benefit plans.

The APA anticipates issuing its opinions on these matters on or about June 30, 2020.

#### Audit Reports

The Committee received one audit report.

- The review of the *Credit Strategies Program* determined VRS' due diligence and monitoring activities are adequate and align with the applicable Investment Policy Statement.

#### Quarterly Review on Modernization Program – Phase 4

Management presented its status report on the Modernization Program – Phase 4. Management highlighted progress since the April go-live activities, noting:

- All RIMS environments, except for one, will be decommissioned by the end of December 2019.
- The remaining RIMS environment will be kept available until March 2020 to facilitate specific research.
- The online retirements project is underway and will be finalized by the end of the fiscal year.
- Quality monitoring and operational support activities continue.

Internal Audit presented its Quarterly Review 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 on this initiative.

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

One alleged Fraud, Waste and Abuse Hotline complaint that was reported to Internal Audit via the Office of the State Inspector General during the period of August 1, 2019 through October 31, 2019 was presented to the Committee. The complaint alleged abuse of the long-term disability program. The allegation could not be substantiated and therefore the case was closed.

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

The Committee received management's quarterly travel expense and per diem report.

#### Miscellaneous Updates

The Committee's next meeting is scheduled for March 19, 2020 at 2 p.m.

Mr. Nason thanked Mr. Leighty for his report.

---

### **2020 General Assembly Session Update**

Next, Ms. Wilkinson provided an update on the 2020 General Assembly session. She began by noting that the General Assembly will convene on January 8, 2020. The first bill Ms. Wilkinson discussed involves the Board-approved changes to the funding structure for VRS' obligation to fund a savings trust account for higher education for a qualifying child of a VRS member who dies as a result of an accident caused by a felonious assault. She next discussed other VRS-related bills regarding adding certain cancers to the list of presumed occupational diseases for firefighters and certain other first responders covered by the Virginia Workers' Compensation Act, and noted these bills could affect disability retirement, VLDP, VSDP and LODA. Lastly, she reviewed the proposed bill that provides that children born or adopted after the death or disability of an employee covered by the Line of Duty Act (LODA) are eligible for health insurance coverage if such coverage does not result in a premium increase.

### **Report of the Director**

Ms. Bishop began her report by noting the new VRS coverage elections. She then reviewed the VRS Agency Roadmap for Fiscal Year 2020 and remarked that most projects have either moved into "green status" or "completed status", with the exception of the Cardinal Payroll System Implementation. While the host agency, Department of Accounts (DOA), continues to evaluate its revised project schedule, VRS has completed all requirements to date and will resume project activities when the new project schedule is released.

Ms. Bishop advised that the Board Chair, Chief Investment Officer and she will attend the upcoming meeting of the Joint Legislative Audit and Review Commission (JLARC) on December 16, 2019.

Ms. Bishop provided the Board with the following updates:

- Board members will be receiving the annual "Conflict of Interest" filing instructions and "Code of Ethics and Standards of Conduct" policy affirmations via email.
- The Annual Agency Meeting and Breakfast will be held December 18, 2019.
- Interviews are complete and an offer has been extended regarding the position of VRS Human Resources Director.

Lastly, the Board viewed a video presentation from the recent meeting of the Virginia Retired Teachers Association.

Mr. Nason thanked Ms. Bishop for her report.

### **Securities Litigation Update**

Brian Goodman presented information regarding a settlement reached between UBS AG and 41 State Attorneys General (including Virginia). Among other things, the bank is alleged to have manipulated the U.S. Dollar London Interbank Offered Rate (LIBOR) without disclosure to its U.S. counterparties. Under the settlement, in which VRS was a counterparty to UBS AG in connection with certain of the affected LIBOR benchmark interest rate financial instruments, VRS will receive a cash payment of \$195,832.60.

---

Upon a motion by Mr. McWilliams, with a second by Mr. Montgomery, the Board agreed to participate in the settlement with UBS AG and 41 State Attorneys General, including Virginia, in the manner outlined in the notice letter to VRS dated November 18, 2019.

There being no further business, the meeting adjourned at 2:04 p.m.

  
Chair

  
Secretary

---

## Report

The Audit and Compliance Committee met on December 12, 2019 and discussed the following:

### **QUALITY ASSURANCE REVIEWS OF THE INTERNAL AUDIT DEPARTMENT**

The Audit Director presented the results of the Department's Annual Quality Assurance Improvement Program Review as of June 30, 2019, noting the review concluded there is reasonable assurance that the VRS Internal Audit Department is operating in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The external reviewer presented the results of the quinquennial external quality assurance review. He concluded that the internal audit activity at VRS generally conforms with the *International Standards for the Professional Practice of Internal Auditing*. He noted certain opportunities for continuous improvement for the Department to consider.

### **EXIT ON THE 2019 COMPREHENSIVE ANNUAL FINANCIAL AUDIT**

The APA informed the Committee the audit work over the 2019 VRS Comprehensive Annual Financial Report (CAFR) was in its final stage. Upon completion, the APA anticipates issuing an unmodified opinion on VRS's financial statements. They noted their companion "Report on Internal Controls and Compliance" would be issued later this month (December) and at this time they do not anticipate including any formal recommendations.

### **ENTRANCE WITH THE APA REGARDING EMPLOYER ASSURANCES (GASB 68 AND 75)**

The APA then provided the Committee with an overview of its upcoming examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements:

- No. 68, which focuses employer reporting over pension plans, and
- No. 75, which deals with employer reporting over other post-employment benefit plans.

The APA anticipates issuing its opinions on these matters on or about June 30, 2020.

### **AUDIT REPORTS**

The Committee received one audit report.

- The review of *Credit Strategies Program* determined VRS's due diligence and monitoring activities are adequate and align with the applicable Investment Policy Statement.

### **QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4**

Management presented its status report on the Modernization Program - Phase 4. Management highlighted progress since the April Go-live activities, noting:

- 
- all RIMS environments, except for one, will be decommissioned by the end of December 2019
  - the remaining RIMS environment will be kept available until March 2020 to facilitate specific research
  - online retirements project is underway and will be finalized by the end of the fiscal year, and
  - quality monitoring and operational support activities continue.

Internal Audit presented its Quarterly Review 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.

**QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES**

One alleged Fraud, Waste and Abuse Hotline complaint was reported to Internal Audit via the Office of the State Inspector General during the period of August 1, 2019 through October 31, 2019 was presented to the Committee. The complaint alleged abuse of the long-term disability program. The allegation could not be substantiated; therefore the case was closed.

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

The Committee received management's quarterly travel expense and per diem report.

**MISCELLANEOUS UPDATES**

The Committee received the following updates:

The Committee's next meeting is scheduled for March 19, 2020 at 2 p.m.

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