
Minutes

An electronic meeting, held in accordance with § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, of the Investment Advisory Committee of the Virginia Retirement System was held on June 2, 2020 with the following members present:

Larry Kochard, Chairperson
Deborah Allen Hewitt
Michael Beasley
Theodore Economou
Tom Gayner
Nan Leake
Bryan Lewis
Rod Smyth

The following Board members were present:

O'Kelly McWilliams
Diana Cantor
Brandon Bell
William Garrett
Wallace Harris
Brett Hayes
William Leighty
Joseph Montgomery
Troilen Seward

The following staff members were in attendance:

Trish Bishop, Ron Schmitz, John Alouf, Rory Badura, Parham Behrooz, Jeanne Chenault, Michael Cooper, Kevin Cronin, Sara Denson, Valerie Disanto, Laurie Fennell, Josh Fox, Brian Goodman, JT Grier, Dane Honrado, K.C. Howell, Ross Kasarda, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Jennifer MacKnight, Steve McClelland, Walker Noland, Greg Oliff, Cat Pelletier, Steven Peterson, Dan Schlusser, Jennifer Schreck, Kristy Scott, Jillian Sherman, Lisa Turner, Dan Whitlock, and Cindy Wilkinson.

Also in attendance was James Rosatelli of the Virginia Senate Finance & Appropriations Committee; Kimberly Sarte of JLARC; Michael Jay of the Virginia House Appropriations Committee; John Meier and Eileen Neill of Verus; Ronan Burke of Capital Group; and Zack Cziryak of Financial Investment News.

Ms. Sherman served as host and walked participants through the logistics of an electronic meeting. Ms. Sherman turned the meeting over to Mr. Kochard to call the meeting to order.

Mr. Kochard called the meeting to order at 11:14 a.m. Mr. Kochard noted that given the current circumstances related to COVID-19, the IAC was unable to meet in person. However, utilizing electronic means, the IAC could hold this meeting in accordance with § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly as it relates to conducting business during the pandemic.

Mr. Kochard took a roll call of each IAC member for attendance purposes:

Mr. Beasley – present
Mr. Economou – present
Dr. Hewitt – present
Ms. Leake – present
Mr. Lewis – present
Mr. Smyth – present
Mr. Kochard – present

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A motion was made by Mr. Smyth and seconded by Mr. Economou to approve the minutes for the November 13, 2019 and April 15, 2020 Committee meetings. The motion was unanimously approved via roll call:

Mr. Beasley – approve
Mr. Economou – approve
Dr. Hewitt – approve
Ms. Leake – approve
Mr. Lewis – approve
Mr. Smyth – approve
Mr. Kochard - approve

Mr. Gayner entered the meeting at 11:20 A.M.

CIO Report

Mr. Schmitz gave a brief overview of economic and market conditions. Mr. Schmitz presented the Performance Summary, Asset Allocation Report, and Total Fund Tracking Error as of March 31, 2020. Mr. Schmitz then gave an update on current market conditions considering market movement during the pandemic. Mr. Schmitz noted he will request the Board to approve a revised asset allocation at the June 11, 2020 meeting in order to correct a transposition of the Proposed FY 2021 Targets

between PIP and MAPS. He also noted that he had received the TUCS Public Fund data, and compared VRS to the TUCS data. Last, Mr. Schmitz reviewed the New Investments and Terminations Report.

Macro Update

Dr. Peterson provided a macro update illustrating several investment scenarios, largely COVID-19 driven. Dr. Peterson noted that the onset of this pandemic has disrupted the global economy on a virtually unprecedented scale. Dr. Peterson presented three prospective recovery path scenarios and their implication for funded status, contribution rates and liquidity.

Fixed Income Benchmark Phase-In

Mr. Schmitz led a discussion regarding the Fixed Income Benchmark phase-in approach and a proposed change to the approach. The previous asset allocation implementation plan had VRS moving from 100% Aggregate Index to an 80/10/10 with the 10% pieces being High Yield and Emerging Markets Debt. The plan included an interim phase at a 90/5/5 weighting of the benchmark components. Due to recent market action caused by the COVID-19 pandemic and related economic impacts affecting the Fund, Mr. Schmitz recommended Fixed Income stay at the interim phase benchmark of 90/5/5, and consider it to be the permanent benchmark. The Committee agreed this approach sounds reasonable, and supported Mr. Schmitz's recommendation.

Benchmark/Hurdle Study Review and Discussion

John Meier with Verus presented the results of the Benchmark and Performance Hurdle Analysis. Mr. Meier began his presentation by reviewing the characteristics of a good benchmark per the CFA Institute: unambiguous, investable, measurable, appropriate, specified in advance, and reflective of current investment options. He then noted excess return objectives should reflect the strategies and current capabilities of staff within each program as well as for the total fund. Mr. Meier reviewed his findings, to include the various recommended changes, and stated his findings were based on careful analysis of the risks and opportunities of the underlying markets and an analysis of the practices of peer funds, within the universe of public funds. The Committee agreed the recommended changes to benchmarks and performance hurdles were reasonable, and supported the changes.

The Committee members engaged in general discussion throughout all of the reviews provided.

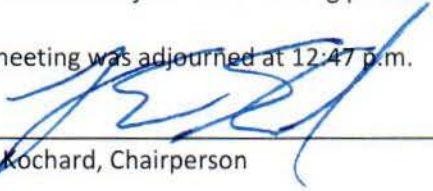
Adjournment

Mr. Gayner made a motion to adjourn the meeting. Mr. Beasley seconded the motion. Mr. Kochard asked for each Committee member to vote on the motion:

Mr. Beasley – aye
Mr. Economou – aye
Mr. Gayner – aye
Dr. Hewitt – aye
Ms. Leake – aye
Mr. Lewis – aye
Mr. Smyth - aye
Mr. Kochard – aye

The motion to adjourn the meeting passed.

The meeting was adjourned at 12:47 p.m.



Larry Kochard, Chairperson