



April 13, 2020

**MEMORANDUM**

**TO:** VRS Board of Trustees

**FROM:** Patricia S. Bishop  
Director

**RE:** Agenda Materials for April 16<sup>th</sup> Board Meeting

Enclosed are the agenda materials for the April 16<sup>th</sup> Board meeting that begins at 1:00 p.m.

Pursuant to § 2.2-3708.2(A)(3) of the *Code of Virginia* and guidance provided in Opinion 011, issued by the Virginia Attorney General’s Office in March of this year (2020 Op. Va. Att’y Gen. 011), the VRS Board of Trustees will convene electronically on April 16 at 1:00 p.m. This meeting will address an item specifically related to the state of emergency in the Commonwealth. Meeting materials will be available in Directors Desk and in the GoToWebinar meeting space at the time of the meeting.

Registration is required to observe this meeting electronically by telephone or webinar. Board members have been registered by staff. If you believe you should have received an invitation already, please contact Jillian Sherman at [jsherman@varetire.org](mailto:jsherman@varetire.org). Please save your invitation email that you receive upon registration or save the contents to your calendar so that you have easy access to the meeting link. In the email you can click on “add to calendar.” The email is sent from “VRS Board Meeting”. Members of the public and staff who have not been pre-registered should please follow the directions in the link below to register for the electronic meeting. <https://register.gotowebinar.com/register/8592057055398968588>

Listed below is a recap of the meetings scheduled for this week:

Meeting	Date	Location
Investment Advisory Committee	Wednesday, April 15 <sup>th</sup> , 10:00 a.m.	To be held via GoToWebinar
Board of Trustees	Thursday, April 16 <sup>th</sup> , 1:00 p.m.	To be held via GoToWebinar

Thanks, and I look forward to speaking with you soon.

**Attachments**

cc: The Honorable Aubrey Layne, Secretary of Finance  
Joe Flores, Office of the Secretary of Finance  
June Jennings, Office of the Secretary of Finance  
Craig Burns, Department of Taxation  
Michael Jay, House Appropriations Committee

Sarah Herzog, Senate Finance Committee  
Adam Rosatelli, Senate Finance Committee  
Zack Borgerding, Auditor of Public of Accounts  
Jon Howe, Department of Planning and Budget  
Dean Lynch, VA Association of Counties  
Katie Boyle, VA Association of Counties  
Kathy Burcher, VA Education Association  
Bea Snidow, VA Education Association  
Jamie Bitz, Joint Legislative Audit & Review Commission  
Kimberly Sarte, Joint Legislative Audit & Review Commission  
Hal Greer, Joint Legislative Audit & Review Commission  
Elizabeth Bushnell Myers, Office of the Attorney General  
Jessica Ackerman, VA Municipal League  
Lawrence Kochard, VRS Investment Advisory Committee  
Bonnie Atwood, VA Retired Teachers Association



**Board of Trustees Meeting**  
**Meeting to be Held Via GoToWebinar**  
**Thursday, 4/16/2020**  
**1:00 - 2:00 PM ET**

**I. RBA – Approve Defined Benefit Plan Asset Allocation**

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*RBA - Approve Defined Benefit Plan Asset Allocation - Page 8*

# Asset Allocation Phase-In IAC Meeting - April 15, 2020



# Asset Liability Study Implementation: Asset Class Phase-in Dates (Per 11/19 BoT)



	Allocation			
	Current Policy	7/1/20	7/1/21	New LT Policy
Public Equity	40%	39%	36%	34%
Fixed Income	16%	15%	15%	15%
Credit Strategies	14%	14%	14%	14%
Real Assets	14%	14%	14%	14%
Private Equity	11%	12%	13%	14%
PIP	2%	2%	3%	3%
MAPS	3%	4%	5%	6%

## Policy Ranges

- Equity, Credit, Real Assets & Private Equity have a +/- 5% range (unchanged).
- Fixed Income has a 15% floor and +5% upper range (unchanged).
- PIP & MAPS have a **+/- 3% range (suggested increase from +/- 1%)** as we get closer to the target allocation.

# Proposed April 2020 Phase-in

Total Fund	Policy Weight	Current Weight	Proposed 4/1/20	Change From Current Policy
Public Equity	40.0%	36.2%	37.0%	-3%
Fixed Income	16.0%	15.7%	16.0%	
Credit Strategies	14.0%	14.4%	14.0%	
Real Assets	14.0%	14.3%	14.0%	
Private Equity	11.0%	13.7%	13.0%	+2%
MAPS	3.0%	3.0%	3.0%	
PIP	2.0%	1.6%	2.0%	
Cash	0.0%	1.0%	1.0%	+1%
	<b>100.0%</b>	<b>99.9%*</b>	<b>100.0%</b>	<b>0.0%</b>

\*Does not sum to 100% due to rounding

## Note:

The market has more or less brought us to the July 2021 phase-in step.

- Equity -3% from current, +1% from **7/21 target**
- Fixed Income unchanged from current, +1% from **7/21 target**
- MAPS/PIP unchanged from current, down 2% and 1%, respectively, from **7/21 target**
- Cash target new

# Proposed Allowable Ranges

Total Fund	Proposed Target Weight	Allowable Range	
Public Equity	37%	-5%	+5%
Fixed Income	16%	-3%	+5%
Credit Strategies	14%	-5%	+5%
Real Assets	14%	-5%	+5%
Private Equity	13%	-5%	+5%
MAPS	3%	-1%	+1%
PIP	2%	-1%	+2%
Cash	1%	-1%	+4%
	<b>100%</b>		

## Key Changes In Allowable Ranges Include:

- Fixed Income: -3%; including the cash target, this is effectively a 1% drop from the current 15% floor.
- PIP is reinvesting proceeds, rather than harvesting distributions. As a 'lumpy' asset class, it is prone to unanticipated increases because of the denominator effect; therefore, we propose, a +2% upper range, vs. the old +1% range.
- Frictional cash needs, especially in time of turmoil, necessitates a small constant cash exposure. The +4% range allows us to be defensive, if needed.



**Approve Defined Benefit Plan Asset Allocation and Allowable Ranges**

**Requested Action**

The VRS Board of Trustees approves the recommended changes to update the Defined Benefit Plan Strategic Asset Allocation and Allowable Ranges to reflect the new Board target asset mix.

**Description/Background**

Board Strategic Asset Allocation and Allowable Ranges. The VRS Board of Trustees last approved a target asset mix, which was a phase in move toward the Board’s Long-Term Policy, on June 13, 2019, with an effective date of July 1, 2019. In addition, the Board approved a long-term target asset mix on October 10, 2019, with an effective date of January 1, 2020. The Board also agreed that, every year at fiscal year-end, the Chief Investment Officer (CIO) will consider market conditions and progress in moving to the new policy portfolio and suggest specific target exposures to the Board for the upcoming year.

Recent market action caused by the COVID-19 pandemic and related economic impacts affected the Fund wherein the Fund has moved to the expected CIO recommended target exposures for FY 2021. Therefore, the CIO recommends the following target exposures and allowable ranges become effective April 1, 2020, and remain in effect for FY 2021.

Asset Class	FY 2020	Proposed	Current	Allowable	
	Target	FY 2021 *	Long Term	Min	Max
	Target	Target	Target		
Public Equity	40%	37%	34%	-5%	+5%
Fixed Income	16%	16%	15%	-3%	+5%
Credit Strategies	14%	14%	14%	-5%	+5%
Real Assets	14%	14%	14%	-5%	+5%
Private Equity	11%	13%	14%	-5%	+5%
PIP	2%	3%	3%	-1%	+2%
MAPS	3%	2%	6%	-1%	+1%
Cash	0%	1%	0%	-1%	+4%
<b>Total Fund</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Notes:

\* To become effective April 1, 2020, and remain in effect through FY 2021.

Changing the minimum allowable range for Fixed Income to 13% and including the cash target of 1% drops Fixed Income’s minimum allowable range to 14%. The implied 14% minimum allowable range is effectively a 1% drop from the current 15% Fixed Income floor.



Private Investment Partnerships (PIP) is reinvesting proceeds rather than harvesting distributions. In addition, this asset class is prone to unanticipated increases in weight because of the denominator effect. Therefore, raising the maximum allowable range from 1% to 2% allows for needed flexibility to address market movement.

Given the increased cash flows from private market assets, and the current market volatility, the need for a small transactional cash account has increased.

Staff will not, by its tactical actions, underweight or overweight any asset class beyond the minimum and maximum allowable ranges. However, market action could drop or raise an asset class temporarily below the minimum allowable range or above the maximum allowable range. In such rare cases, staff will establish an action plan to move the applicable asset class back into compliance with policy. In addition, the CIO will communicate the variance to the Board on a timely basis.

**Rationale for Requested Action**

The change to the Strategic Asset Allocation Implementation Schedule and Allowable Ranges reflects the current market conditions and allows the Fund to avoid overexposure to market declines that would run counter to the long term policy. This change also increases efficiency by avoiding additional trades and the associated transaction costs at a period of market volatility. These changes must be made immediately to avoid possible irrevocable public harm during the current COVID-19 crisis.

**Authority for Requested Action**

The Board is authorized to approve these recommendations pursuant to the provisions of *Code of Virginia* §§ 51.1-124.22 and -124.30.

The Board is authorized to take this action during an electronic meeting pursuant to *Code of Virginia* § 2.2-3708.2(A)(3). According to Opinion No. 20-011 issued by the Attorney General of Virginia, this *Code* section permits public bodies that are unable to assemble in person because of the unique characteristics of the COVID-19 virus to meet electronically to make decisions that must be made immediately and where failure to do so could result in irrevocable public harm.

The above action is approved on April 16, 2020 with an effective date of April 1, 2020.

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O’Kelly E. McWilliams, III, Chair  
VRS Board of Trustees

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Date