



June 9, 2020

MEMORANDUM

TO: VRS Board of Trustees

FROM: Patricia S. Bishop
Director

RE: Agenda Materials for June 11th Board Meeting

Enclosed are the agenda materials for the June 11th Board meeting that begins at 1:00 p.m.

Pursuant to [Item 4-0.01](#) of Chapter 1283 and Item 4-0.01 of Chapter 1289 of the 2020 Acts of Assembly, the Virginia Retirement System Board of Trustees will convene electronically on June 11th at 1 p.m. Registration is required to observe this meeting electronically by telephone or webinar. Meeting materials will be available in Directors Desk and the GoToWebinar meeting space at the time of the meeting.

Board members will be registered by staff the day before the meeting. 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”. If you need the invitation resent, please contact Jillian Sherman at jsherman@varetire.org at least one hour prior to the 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://attendee.gotowebinar.com/register/4818707972148275727>. Instructions for signing up to provide public comment, as required under Item 4-0.01 of Chapter 1283, are included in the meeting registration.

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

Meeting	Date	Location
Administration and Personnel Committee	Wednesday, June 10 th , 10:00 a.m.	To be held via GoToWebinar
Benefits and Actuarial Committee	Wednesday, June 10 th , 1:00 p.m.	To be held via GoToWebinar
Board of Trustees	Thursday, June 11 th , 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

Via GoToWebinar

Thursday, 6/11/2020

1:00 - 4:00 PM ET

I. Public Comment

II. Approve Minutes

A. April 16, 2020

Board Minutes 4.16.20 - Page 5

III. Election of Board Vice Chair

IV. Committee Assignments

Committee Assignments - Page 8

V. Report of the Investment Advisory Committee

VI. Report of the Chief Investment Officer

Asset Allocation Report 3.31.20 - Page 10

Daily Asset Allocation Report 6.2.20 - Page 11

Performance Summary 3.31.20 - Page 12

Plan Tracking Error 3.31.20 - Page 13

New Investments and Terminations - Page 14

WaM Quarterly Summary QE 3.31.20 - Page 15

Manager Referral Quarterly Summary QE 3.31.20 - Page 18

A. RBA – Approve Defined Benefit Plan Asset Allocation and Allowable Ranges

RBA - Approve DB Plan Asset Allocation - Page 19

B. RBA – Approve Fixed Income Benchmark

RBA - Approve Fixed Income Benchmark - Page 21

VII. Board Fiduciary Training

Bio for Von Hughes - Page 22

Fiduciary Presentation - Page 23

VIII. Report of the Defined Contribution Plans Advisory Committee

Report of the DCPAC - Page 60

IX. Report of the Audit and Compliance Committee

Report of the A&C Committee - Page 63

X. Report of the Benefits and Actuarial Committee

BA Committee Report 06.10.2020 FINAL - Page 65

A. RBA – Approve Revised Contribution Rates for the Health Insurance Credit for Political Subdivisions, Effective FY 2021 and FY 2022, To Implement HB 1513

RBA - Approve Rates for PoliSubs - Page 68

B. RBA – Accept Revised Contribution Rates for SPORS and VaLORS, and Revised LODA Premiums

RBA - Approve Increased Rates - Page 70

XI. Report of the Administration and Personnel Committee

AP Committee Report 06.10.2020 - Page 72

A. RBA – Approve Benchmarks and Excess Return Objectives

RBA - Approve Benchmarks and Excess Return Objectives - Page 75

B. RBA – Review and Approve New FY 2021 Agency Performance Outcomes and Operational Measures

RBA - Approve FY2021 APOs_Operating Measures - Page 78

Proposed FY21 APOs - Page 80

Proposed FY21 Operational Measures - Page 85

C. RBA – Reappointment of Investment Advisory Committee Members

RBA - Reappoint IAC Members - Page 103

Bio for Theodore Economou - Page 104

Bio for Deborah Allen-Hewitt - Page 107

D. RBA – Reappointment of Defined Contribution Plans Advisory Committee Member

RBA - Reappoint DCPAC Member - Page 108

Bio for Ravindra Deo - Page 109

XII. Commending Resolution of Service for Mitchell L. Nason

Resolution for Mitch Nason - Page 110

XIII. Report of the Director

New Coverage for June 2020 - Page 111

FY 2020 Agency Roadmap Update - April - Page 112

A. DPB Deficit Provision Acknowledgement Form

Deficit Provision Acknowledgment Form - Page 116

Section 4.3-01 - Chapter 1283 - 2020 Acts of Assembly - Page 117

B. Custodial and Signature Authorization Resolutions

Custodial Authorization Resolution - Page 118

Signature Authorization Resolution - Page 121

C. ERM Implementation Update

D. Update on Return to the Office Planning

Minutes

An electronic meeting of the Virginia Retirement System Board of Trustees was held on April 16, 2020 in accordance with § 2.2-3708.2(A)(3) of the *Code of Virginia* and guidance provided in 2020 Op. Va. Attorney General 011, with the following members participating:

Board members participating:

O'Kelly E. McWilliams, III, Chair
Diana F. Cantor, Vice Chair
Hon. J. Brandon Bell, II
Wallace G. Harris, Ph.D.
W. Brett Hayes
William H. Leighty
Joseph W. Montgomery
Troilen G. Seward
William A. Garrett

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Advait Apte, Rory Badura, Farley Beaton, Parham Behrooz, Delaney Brown, Jeanne Chenault, Michael Cooper, Harriet Covey, Sara Denson, Valerie Disanto, Barry Faison, Laurie Fennell, Josh Fox, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Irina Moore, Walker Noland, Angela Payne, Cat Pelletier, Matt Priestas, Laura Pugliese, Paula Reid, Kristy Scott, Michael Scott, Jillian Sherman, Virginia Sowers, and Cindy Wilkinson.

Guests participating were:

Adam Rosatelli, Senate Finance and Appropriations Committee; Elizabeth Myers, Office of the Attorney General; Brian Deveney, Auditor of Public Accounts; Kimberly Sarte, Joint Legislative Audit and Review Commission; Martha Diaz, Pageant Media; Michael Jay, House Appropriations Committee; and Robert Matule, Acadian Asset Management.

The meeting convened at 1:06 p.m.

Opening Remarks

Mr. McWilliams called the meeting to order and welcomed everyone to the April 16, 2020 meeting of the Virginia Retirement System Board of Trustees.

Next, Mr. McWilliams introduced the Board's newly appointed member, Mr. William Garrett, who serves as Fire Chief for Winchester Fire and Rescue. Mr. Garrett has served in many capacities during his 30 years of service, including Fire Operations, EMS Operations, HAZMAT Operations, Fire Prevention, Support Services, and Community Education.

Mr. McWilliams noted that given the current circumstances related to COVID-19, the Board is unable to meet in person and, therefore, is using electronic means to hold the meeting. The meeting is being held in accordance with § 2.2-3708(A)(3) of the *Code of Virginia* and guidance provided by the Attorney General as it relates to conducting business during the pandemic.

Next, Mr. McWilliams took attendance with the following roll call of each of the trustees:

Ms. Cantor: Here
Mr. Bell: Here
Mr. Garrett: Here
Mr. Harris: Here
Mr. Hayes: Here
Mr. Leighty: Here
Mr. Montgomery: Here
Ms. Seward: Here
Mr. McWilliams: Here

Report of the Chief Investment Officer

Mr. Schmitz presented the recommended changes to update the Defined Benefit Plan Strategic Asset Allocation and Allowable Ranges to reflect the new Board target asset mix. He began by noting that the Board 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. The Board also approved a new long-term target asset mix on October 10, 2019, with an effective date of January 1, 2020.

Mr. Schmitz advised that recent market action caused by the COVID-19 pandemic and related economic impacts affected the Fund, which has moved close to the expected recommended target exposures for July 2021. He noted that the new targets for the primary asset classes are close to the projected July 1, 2021 phase-in changes that were discussed in the fall Investment Advisory Committee (IAC) and Board meetings.

Mr. Schmitz reviewed the recommended changes to the Strategic Asset Allocation Implementation Schedule and Allowable Ranges that reflect the current market conditions and would allow the Fund to avoid overexposure to market declines. The recommended changes also avoid additional trades and associated transaction costs at a period of market volatility. The Investment Advisory Committee discussed the recommendation and was supportive of the change with an effective date of April 1, 2020.

Mr. Leighty and Ms. Cantor mentioned the retroactive effective date. Mr. McWilliams requested counsel from the Office of the Attorney General to follow up with additional information.

Mr. McWilliams thanked Mr. Schmitz for his report. He also noted that while there may be short-term impacts to the Fund related to the COVID-19 crisis, VRS is a long-term investor and benefit payments will continue and not be impacted by market conditions.

Request for Board Action 2020-04-28: The VRS Board of Trustees approves the recommended changes to update the Defined Benefit Strategic Asset Allocation and Allowable Ranges to reflect the new Board target asset mix.

Upon a motion by Mr. McWilliams, with a second by Ms. Cantor, the VRS Board of Trustees approved the RBA, effective as of April 1, 2020, upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Abstain
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Mr. McWilliams thanked everyone for participating in the electronic meeting and expressed appreciation to VRS members who are continuing to serve in critical roles across the Commonwealth, especially during the pandemic.

Upon a motion by Mr. Leighty, with a second by Ms. Cantor, the Board agreed to adjourn the meeting upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

There being no further business, the meeting concluded at 1:40 p.m.

Chair

Secretary

**Proposed VRS Board of Trustees and Committee Assignments
(Effective June 11, 2020)**

VRS Board of Trustees
O'Kelly E. McWilliams, III, Chair Diana F. Cantor, Vice Chair J. Brandon Bell, II William A. Garrett Wallace G. Harris, Ph. D. W. Brett Hayes William H. Leighty Joseph W. Montgomery Troilen G. Seward, Ed.S.
Administration and Personnel Committee
O'Kelly E. McWilliams, III, Chair Diana F. Cantor, Vice Chair Wallace G. Harris, Ph. D. Joseph W. Montgomery
Audit and Compliance Committee
William H. Leighty, Chair Diana F. Cantor, Vice Chair O'Kelly E. McWilliams, III
Benefits and Actuarial Committee
Wallace G. Harris, Ph. D., Chair Troilen G. Seward, Ed.S., Vice Chair William A. Garrett
Defined Contribution Plans Advisory Committee
W. Brett Hayes, Chair J. Brandon Bell, II, Vice Chair Ravindra A. Deo Shannon T. Irvin Rick Larson Brenda O. Madden Kathleen T. Seay David A. Winter

**Proposed VRS Board of Trustees and Committee Assignments
(Effective June 11, 2020)**

Investment Policy Committee
O'Kelly E. McWilliams, III, Chair* Diana F. Cantor, Vice Chair* J. Brandon Bell, II William A. Garrett Wallace G. Harris, Ph. D. W. Brett Hayes William H. Leighty Joseph W. Montgomery Troilen G. Seward, Ed. S. Lawrence E. Kochard, Ph. D.
Investment Advisory Committee
Lawrence E. Kochard, Ph. D., Chair Willam "Hance" West, Vice Chair Deborah Allen-Hewitt, Ph.D. Michael Beasley Theodore Economou Thomas Gaynor Nan Leake W. Bryan Lewis Rod Smyth

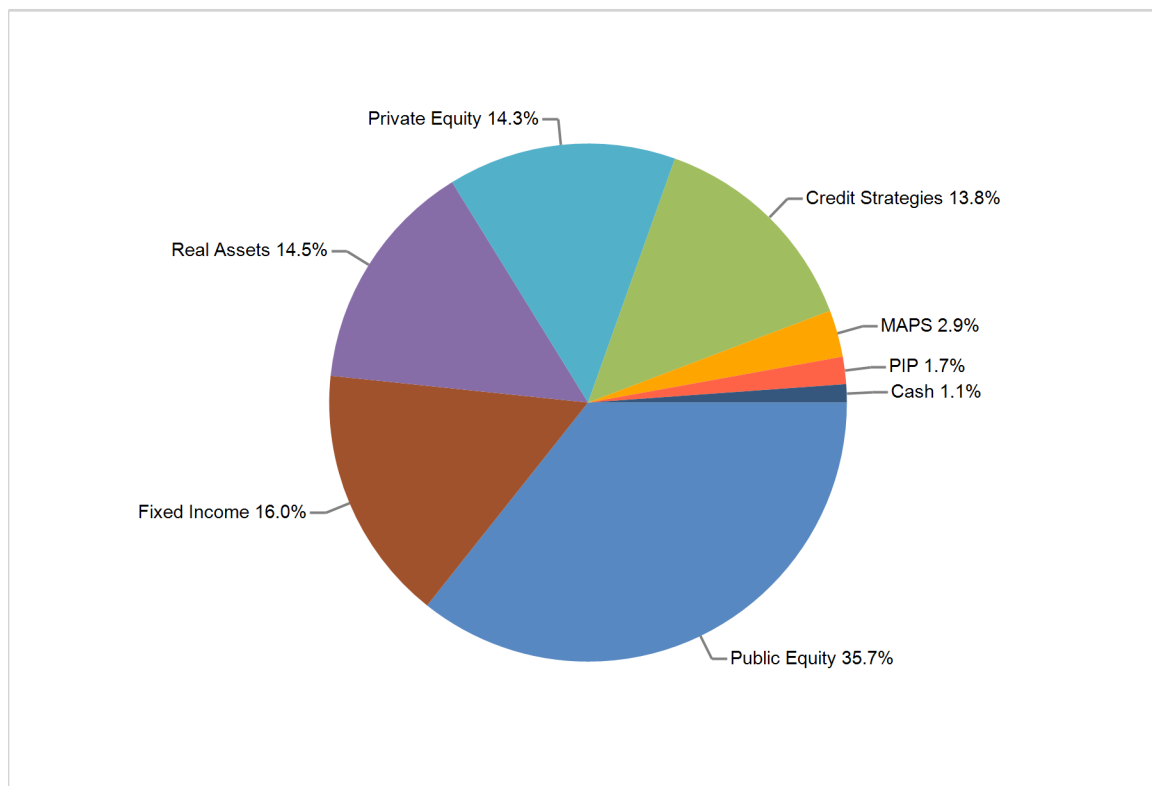
Notes:

1. *By charter, the Board chairperson appoints Board members to each committee.*
2. *By charter, the Board chairperson and vice-chairperson shall serve in the respective position for the Administration and Personnel Committee and Investment Policy Committee.*
3. *For all committees other than the Administration and Personnel Committee and Investment Policy Committee, the committee chair is appointed by the Board chair, subject to approval by the Board.*
4. *For all committees other than the Administration and Personnel Committee and Investment Policy Committee, the vice chair is elected by the committee members.*

Asset Allocation Report

March 31, 2020

For Internal Investment Purposes Only



	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
TOTAL FUND	76.9						31.2%
Public Equity	27.5	35.7%	37.0%	-1.3%	-5%	+5%	43.2%
Fixed Income	12.3	16.0%	16.0%	0.0%	-3%	+5%	93.8%
Credit Strategies	10.6	13.8%	14.0%	-0.2%	-5%	+5%	
RS Credit	4.5	5.8%	5.6%	0.2%			
NRS Credit	6.1	7.9%	8.4%	-0.5%			
Real Assets	11.2	14.5%	14.0%	0.5%	-5%	+5%	4.9%
Public RE	1.0	1.3%					56.4%
Private RE	6.7	8.7%					
Other RA	3.5	4.6%					
Private Equity	11.0	14.3%	13.0%	1.3%	-5%	+5%	
MAPS	2.3	2.9%	2.0%	0.9%	-1%	+1%	
DSTRAT	1.0	1.3%					
RBI	1.3	1.6%					4.5%
PIP	1.3	1.7%	3.0%	-1.3%	-1%	+2%	
Cash	0.9	1.1%	1.0%	0.1%	-1%	+4%	

	Current \$Bil	Current Weight	Policy Limit
Hedge Funds	7.4	9.6%	15.0%

3 Year Tracking Error
 Total Fund: **1.47%**
 Total Public: **0.51%**

*Total Fund includes the following amt held by the Treasurer of VA: \$ 363 million

• The values shown for each asset class on this report may differ from the VRS Monthly Performance Report due to adjustments related to derivative positions in the Rebalance Account, pending transactions, and certain accruals. The values on this report are a more descriptive representation of the Virginia Retirement System's true economic exposure to each asset class.(6 adjustments applied)

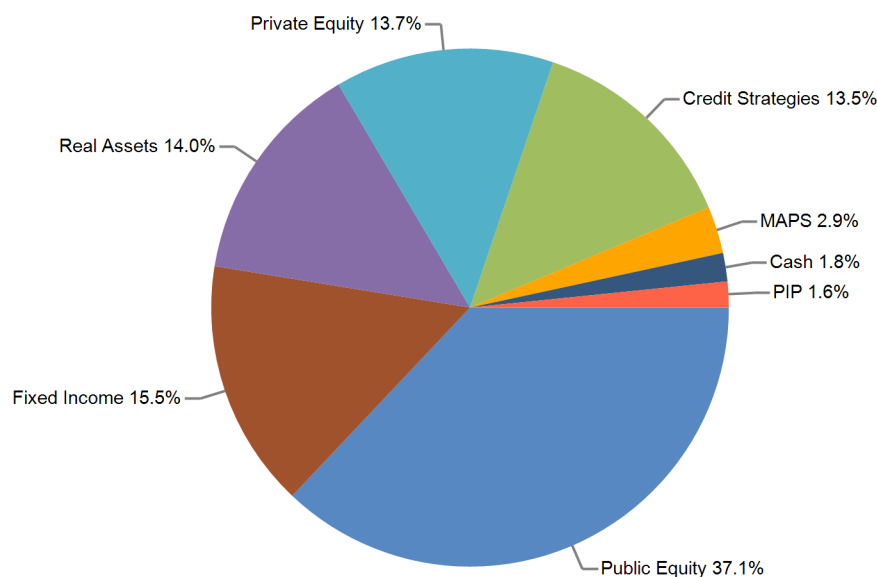
*Total Fund and Total Public tracking error are calculated using monthly returns, then annualized

* Differences in totals are due to rounding.

Daily Asset Allocation Report

June 02, 2020

For Internal Investment Purposes Only



	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
TOTAL FUND	82.2						30.5%
Public Equity	30.5	37.1%	37.0%	0.1%	-5%	+5%	40.3%
Fixed Income	12.8	15.5%	16.0%	-0.5%	-3%	+5%	93.3%
Credit Strategies	11.1	13.5%	14.0%	-0.5%	-5%	+5%	
RS Credit	4.8	5.9%	5.6%	0.3%			
NRS Credit	6.3	7.6%	8.4%	-0.8%			
Real Assets	11.5	14.0%	14.0%	0.0%	-5%	+5%	5.7%
Public RE	1.2	1.4%					55.8%
Private RE	6.7	8.1%					
Other RA	3.6	4.4%					
Private Equity	11.3	13.7%	13.0%	0.7%	-5%	+5%	
MAPS	2.4	2.9%	2.0%	0.9%	-1%	+1%	
DSTRAT	1.1	1.4%					
RBI	1.3	1.6%					18.3%
PIP	1.3	1.6%	3.0%	-1.4%	-1%	+2%	
Cash	1.5	1.8%	1.0%	0.8%	-1%	+4%	

	Current \$Bil	Current Weight	Policy Limit
Hedge Funds	8.1	9.8%	15.0%

3 Year Tracking Error

Total Fund: **1.48%**

Total Public: **0.54%**

*Total Fund includes the following amt held by the Treasurer of VA: \$ 349 million

• The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class (4 adjustments applied)

*Total Fund and Total Public tracking error are calculated using monthly returns, then annualized

* Differences in totals are due to rounding.

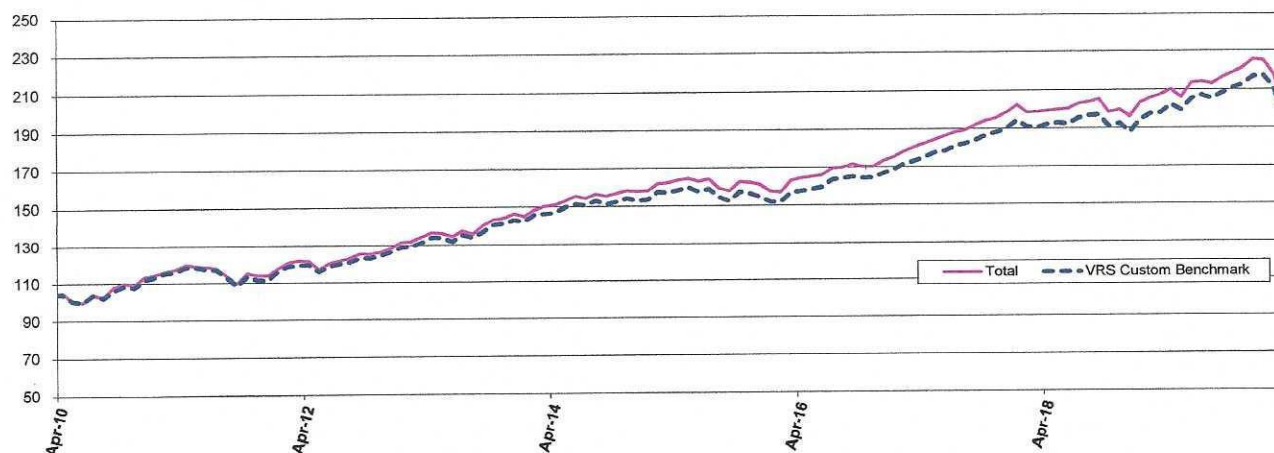
PERFORMANCE SUMMARY
Rolling Periods Ending
March 31, 2020



TOTAL FUND PERFORMANCE

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
Total Public Equity Strategies	6.1	1.9	-0.2	-13.9	-22.3	-14.6	-16.0	-22.3	26,291
<i>Benchmark</i>	5.9	2.2	0.6	-13.0	-22.2	-14.3	-15.6	-22.2	
Total Fixed Income	4.3	3.5	4.5	7.2	1.1	-2.2	3.9	1.1	11,942
<i>Benchmark</i>	3.8	3.0	4.3	7.2	1.5	-1.8	4.0	1.5	
Total Credit Strategies	5.5	3.6	2.7	-2.3	-8.3	-8.4	-5.4	-8.3	10,601
<i>Benchmark</i>	4.7	2.9	1.7	-4.7	-11.3	-10.9	-7.6	-11.3	
Total Real Assets	11.3	8.6	7.3	3.7	-1.7	-0.6	1.9	-1.7	11,186
<i>Benchmark</i>	9.5	7.0	5.6	2.2	-2.0	-2.0	0.6	-2.0	
Total Private Equity	14.2	14.2	16.4	16.4	3.3	3.5	11.2	3.3	10,970
<i>Benchmark</i>	14.2	12.5	15.8	29.0	8.9	3.5	15.0	8.9	
Total Private Investment Partnerships	n/a	7.9	8.5	8.0	2.2	2.2	5.9	2.2	1,309
<i>Benchmark</i>	n/a	7.7	8.3	12.5	1.6	-0.9	5.2	1.6	
Total Multi-Asset Public Strategies	n/a	n/a	n/a	-8.0	-12.8	-8.8	-9.5	-12.8	2,253
<i>Benchmark</i>	n/a	n/a	n/a	-0.7	-8.2	-5.9	-4.2	-8.2	
Total Fund	6.9	4.6	4.0	-2.2	-10.0	-6.9	-4.9	-10.0	76,912
<i>VRS Custom Benchmark</i>	6.5	4.4	4.0	-1.4	-10.1	-7.6	-5.1	-10.1	

**10-Year Performance
Indexed to 100**



Effective July 2013, the VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

The VRS Cash Account, the Treasurer Short-Term Investment Account, the VRS Rebalancing Account, transition activity and accounts with market values of less than \$1 million are included in the Total Fund's market value. Differences in market value totals are due to rounding.

Total Fund Tracking Error

Figure 1: Policy Tracking Error Rolling Three Year - Plan (as of 3/31/2020)

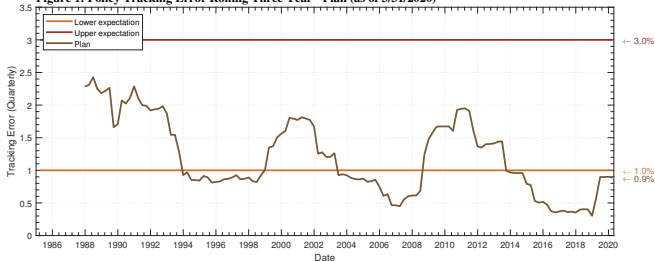
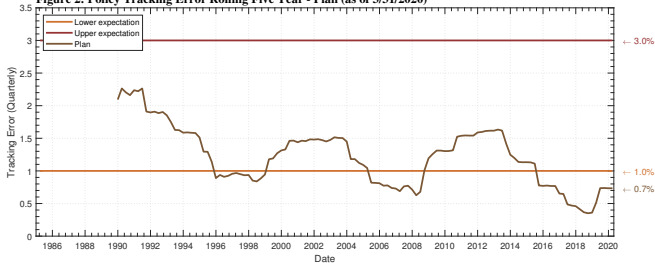


Figure 2: Policy Tracking Error Rolling Five Year - Plan (as of 3/31/2020)



The VRS Defined Benefit Plan Investment Policy Statement established the total fund tracking error range as the allowable observed tracking error calculated quarterly using 5 years of history.

Program	Action	Effective Date	Commitment/ Current Value	Funding/ Defunding Period	Description
Credit Strategies	Hired	02/25/2020	\$300 Million	3 Years	H.I.G. WhiteHorse Direct Lending SMA – An open-end separate account focused on loan origination to lower-middle market companies.
Credit Strategies	Hired	03/13/2020	\$250 Million	3-4 Years	Ares Pathfinder – An alternative credit fund investing in performing assets that have predictable cash flows and are directly originated by the manager.
Credit Strategies	Hired	04/27/2020	\$300 Million	3 Years	Farallon Special Situations – A closed-end fund focused on opportunistic financings to firms located globally.
Credit Strategies	Hired	04/29/2020	\$300 Million	3-4 Years	SSG Secured Lending Opportunities III – A closed-end fund focused on lending to firms in the Asia-Pacific region.
Real Assets	Hired	03/26/2020	\$120 Million	6 Years	iCon Infrastructure Partners V – A closed-end fund investing in middle market infrastructure investments in Europe and North America.
Real Assets	Hired	03/27/2020	\$75 Million	6 Months	Harrison Street Core Property Fund – An open-end fund focused on core investments in alternative real estate property types in the U.S.
Real Assets	Hired	04/09/2020	\$150 Million	5 Years	Taurus Mining Finance Fund No. 2 – A partnership that provides financing for the mining industry.
Real Assets	Hired	05/22/2020	\$150 Million	5 Years	Stonepeak Infrastructure Partners Fund IV – A U.S. focused closed-end infrastructure fund.
Private Equity	Hired	05/04/2020	\$85 Million	6 Years	Spectrum Equity IX – A growth private equity fund focused on Internet-enabled software and information services businesses.
Risk-Based Investments	Terminated	04/30/2020	\$178 Million	Immediate	Bridgewater Pure Alpha II – A global hedge fund.

VRS Investment Department
WaM Quarterly Report
Activity for Quarter Ending March 31, 2020

Investment Program	Activity	Manager Name	Description	VRS Action
Public Equity	On-Going Monitoring of Current VRS Manager	Kylin Management (minority-owned firm)	Current VRS public equity hedge fund manager.	Staff performed on-going due diligence and monitoring of this current VRS minority manager during the quarter.
Public Equity	On-Going Monitoring of Current VRS Manager	Ariel Global (minority and women-owned firm)	Current VRS global equity manager.	Staff performed on-going due diligence and monitoring of this current VRS minority and women-owned manager during the quarter.
Public Equity	On-Going Monitoring of Current VRS Manager	Advent Capital Management (minority-owned firm)	Current VRS convertible bond manager.	Staff performed on-going due diligence and monitoring of this current VRS minority manager during the quarter.
Public Equity	Telephone Call with Manager	Bayberry Capital (woman-owned firm)	Manager runs a long/short equity strategy.	Staff had an update call with this manager to discuss the firm and their strategies.
Public Equity and Credit Strategies	Periodic Update Communication with Consultant	N/A	Aon Hewitt Investment Consulting is the consultant used by these two investment programs.	Periodic communication to review the WaM monitoring activity done on behalf of VRS as well as industry trends.
Credit Strategies and Fixed Income	On-Going Monitoring of Current VRS Manager	Payden & Rygel (women-owned firm)	Current VRS emerging market debt manager.	Staff had various interactions with this current VRS women-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Artemis Real Estate Partners (women-owned firm)	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS women-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Tristan Capital Partners (minority-owned firm)	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Pritzker Realty Group (women-owned firm)	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS women-owned manager during the quarter.

VRS Investment Department
WaM Quarterly Report
Activity for Quarter Ending March 31, 2020

Investment Program	Activity	Manager Name	Description	VRS Action
Real Assets	On-Going Monitoring of Current VRS Manager	Capri EGM (minority-owned firm)	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Grain Management (minority-owned firm)	Current VRS infrastructure manager.	Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Pantheon Ventures	Current VRS infrastructure and natural resource fund-of-funds manager.	Staff had periodic communication with this manager to discuss potential WaM firms in their market.
Real Assets	Telephone Call with Manager	Mosser Capital (minority-owned firm)	West Coast, primarily California, focused workforce housing operator.	Staff had an introductory call with this manager to discuss the firm and their strategies.
Real Assets	Telephone Call with Manager	Chestnut Catalyst Group (women-owned firm)	Diversified real estate fund manager including opportunity zones.	Staff had an introductory call with this manager to discuss the firm and their strategies.
Real Assets	Periodic Update Communication with Consultant	N/A	The Townsend Group is the consultant used by Real Assets.	Periodic communication to review the WaM monitoring activity done on behalf of VRS as well as real estate and infrastructure industry trends.
Private Equity	On-Going Monitoring of Current VRS Manager	Asia Alternatives (minority and women-owned firm)	A fund-of-funds manager focusing on alternative investments in Asia.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Clearlake Capital Group (minority-owned firm)	A private equity fund investing in special situations and distressed opportunities in small and medium-sized companies.	Staff had a call with this manager during the quarter.

VRS Investment Department
WaM Quarterly Report
Activity for Quarter Ending March 31, 2020

Investment Program	Activity	Manager Name	Description	VRS Action
Private Equity	On-Going Monitoring of Current VRS Manager	SIRIS Capital (minority-owned firm)	A middle market buyout firm making control investments in data/telecommunications, technology and technology-enabled business service companies in North America.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Sycamore Partners (minority-owned firm)	Middle market buyout fund targeting consumer and retail companies.	Staff had a call with this manager during the quarter.
Private Equity	Periodic Update Communication with Consultant	N/A	Grosvenor Capital Management Customized Fund Investment Group is the consultant used by Private Equity.	Periodic communication to review the WaM monitoring activity done on behalf of VRS as well as industry trends.
Risk-Based Investments	Electronic Meeting with Manager	Gladius Capital Management (minority-owned firm)	A provider of derivative based solutions to manage risks.	Staff had an electronic meeting with this manager to further discuss their firm and strategies.

VRS Investment Department
Quarterly External Investment Manager Referral Report
Activity for Quarter Ending March 31, 2020

Investment Program	Type of Contact	Investment Manager Name	Official Making Referral	VRS Action
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No activity to report this quarter.



**Approve changes to Defined Benefit Plan
Strategic Asset Allocation and Allowable Ranges,
effective July 1, 2020.**

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, effective July 1, 2020.

Description/Background

Board Strategic Asset Allocation and Allowable Ranges. Every year at fiscal year-end, the Chief Investment Officer (CIO) considers market conditions and progress in moving to the new policy portfolio and suggests 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 had moved to the expected CIO recommended target exposures for FY 2021. Therefore, the CIO, at the April 16, 2020 Board meeting, recommended new target exposures and allowable ranges to become effective April 1, 2020, and remain in effect for FY 2021. The VRS Board of Trustees approved the CIO's recommendation.

Unfortunately, while all of the meeting materials presented by the CIO to the Board at the April 16, 2020 meeting correctly reflected the CIO's recommendation, the table within the Request for Board Action (RBA) contained a transposition between the Proposed FY 2021 Targets for PIP and MAPS.

In order to correct the transposition, the CIO recommends the following target exposures and allowable ranges to become effective July 1, 2020.

Asset Class	FY 2020 Target	Proposed FY 2021 Target	Current Long Term Target	Allowable Ranges	
				Min	Max
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%	2%	3%	-1%	+2%
MAPS	3%	3%	6%	-1%	+1%
Cash	0%	1%	0%	-1%	+4%
Total Fund	100%	100%	100%		

*This schedule reflects no other changes other than correcting the transposition of the
Proposed FY 2021 Targets between PIP and MAPS.*

Note:

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 correct recommendation previously made by the CIO at the April 16, 2020 Board meeting.

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 above action is approved on June 11, 2020 with an effective date of July 1, 2020.

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

Date

**Approve change to Fixed Income Benchmark,
effective July 1, 2020.**

Requested Action

The VRS Board of Trustees approves the recommended change to the Fixed Income benchmark, effective July 1, 2020.

Description/Background

Fixed Income Benchmark. The Board approved a long-term asset mix on October 10, 2019, with an effective date of January 1, 2020. As part of the long-term asset mix implementation plan, the Board also approved a new Fixed Income benchmark that moved VRS from 100% Bloomberg Barclays U.S. Aggregate Index to a fixed policy-weighted blend of Bloomberg Barclays U.S. Aggregate Index (80%), Bloomberg Barclays U.S. High Yield Ba-B 2% Issuer Cap Index (10%), and JP Morgan EMBI Global Core Index (10%). Further, on November 20, 2019, the Board approved granting the Chief Investment Officer (CIO) flexibility in implementing the revised Fixed Income benchmark by the end of June 2020. The interim Fixed Income benchmark was a 90/5/5 fixed policy-weighted benchmark composed of the three indices approved by the Board.

After experiencing the COVID-19-related liquidity crunch in March 2020, the CIO recommends stopping the phase in of the Fixed Income benchmark, and making the following current fixed policy-weights permanent:

Adopt a Fixed Income blended benchmark of 90% Bloomberg Barclays U.S. Aggregate Index, 5% Bloomberg Barclays U.S. High Yield Ba-B Issuer Cap Index, and 5% JP Morgan EMBI Global Core Index, with an effective date of July 1, 2020.

Rationale for Requested Action

By maintaining the Fixed Income benchmark at the current weighting, VRS will be able to maintain a higher exposure to Treasuries, which is the desired asset in flight-to-quality situations. Further, with the allowable ranges around the fixed income assets, VRS will retain the ability to obtain exposure to the high yield and emerging market debt sectors when they are attractive.

Authority for Requested Action

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

The above action is approved on June 11, 2020 with an effective date of July 1, 2020.

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

Date

Von Hughes ● Managing Director & Partner

PAAMCO Prisma



Von M. Hughes JD, CAIA (New York), Managing Director and Partner, joined PAAMCO in 2003. Von serves on the PAAMCO Prisma Executive Committee and manages the firm's global Strategic Advisory effort. Von specializes in public pension plan governance and is a frequent speaker on the topics of pension policy and investment program implementation. He is the author of [U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff](#) (McGraw-Hill 2019), a practical guide for the public pension trustee specifically and pension professionals in general. He began his career at Goldman, Sachs & Co. in New York as an Associate in the Mergers & Acquisitions Group and then as a Vice President in the Equity Capital Markets Group. Von is a trustee of the Greenwich Roundtable, a non-profit research and educational organization for investors allocating to alternative investments. Von is a trustee of the National Association of Investment Companies, a Washington, DC-based trade association that serves as the largest network of diverse-owned and emerging private equity firms and hedge funds. He is also a Trustee of Northside Center for Child Development, a Harlem-based non-profit organization that provides early childhood development services in the NYC area. He received his JD from Harvard Law School, where he was selected as an editor of the *Harvard Law Review*, his MPP from the John F. Kennedy School of Government at Harvard University, and his BA in Philosophy (cum laude) from Yale University.

VIRGINIA RETIREMENT SYSTEMS FIDUCIARY TRAINING SESSION

JUNE 2020

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VON M. HUGHES



Von M. Hughes, JD, MPP, CAIA
Head of Strategic Advisory
PAAMCO Prisma

Von M. Hughes JD, MPP, CAIA (New York), Managing Director and Partner, joined PAAMCO in 2003. Von serves on the PAAMCO Prisma Executive Committee and manages the firm's global Strategic Advisory effort. Von specializes in public pension plan governance and is a frequent speaker on the topics of pension policy and investment program implementation. He is the Author of the award winning U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff (McGraw-Hill 2019), a practical guide for the public pension trustee specifically and pension professionals in general.

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GOVERNANCE

GOVERNANCE: LEGISLATIVE AUTHORIZATION

- Public pensions in the U.S. are created by legislative action
 - State public pensions are created through state legislation
- Article X, Section 11, Constitution of Virginia requires that the General Assembly maintain a retirement system:
 - State employees and employees of participating political subdivisions and school districts
 - Separate and independent trust funds
 - Invested and administered solely in the interests of members and beneficiaries
 - For benefits, refunds, and administrative expenses
 - Funded using methods consistent with generally accepted actuarial principles
- VRS is established in Title 51.1 of the Code of Virginia as an independent agency that is not under a Cabinet Secretariat

GOVERNANCE: LEGISLATIVE OVERSIGHT

- State legislatures provide oversight of state pension systems
- Legislative oversight of public pensions can take various forms:
 - Legislative Committee dedicated to pension
 - Other Legislative Committee (usually Public Finance or Ways and Means)
 - Independent Pension Committee
 - Temporary Pension Committee
 - Legislative Auditing Authority
- Virginia Retirement System Oversight Act places VRS oversight and evaluation in the hands of the Joint Legislative Audit and Review Commission (JLARC) which reviews:
 - Structure and governance
 - Structure of investment portfolio
 - Investment practices, policies, and performance
 - Actuarial policy and soundness
 - Administration and management
- The Virginia Auditor of Public Accounts is responsible for auditing the system's financial statements

GOVERNANCE: VRS BOARD OF TRUSTEES

Title 51.1, Chapter 1, Article 2.1, of the Code of Virginia establishes the Board of Trustees of the Virginia Retirement System as an independent board in state government that shall consist of the following:

Nine board members:

- Governor appoints five members, including the chair



- Joint Rules Committee appoints four members



- General Assembly confirms all appointments

Areas of expertise:

- Four investment experts



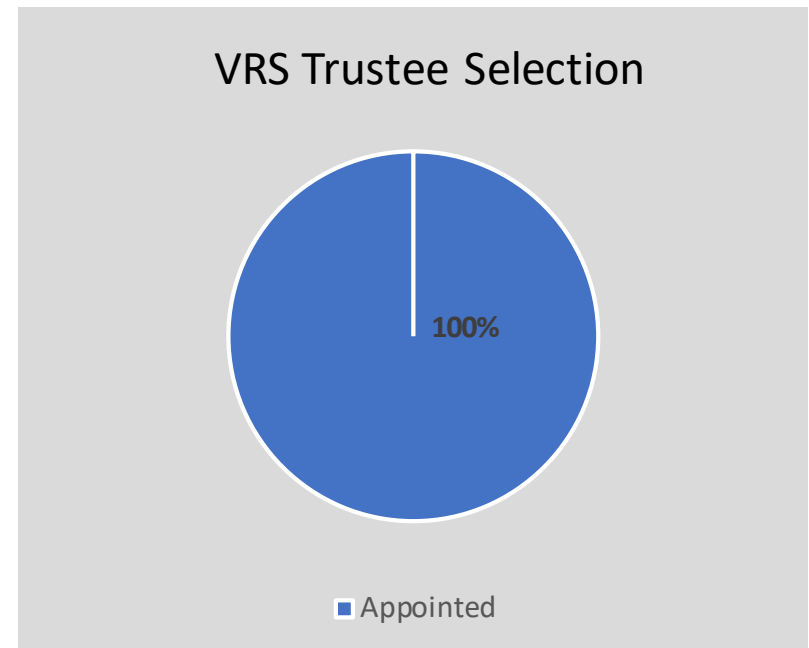
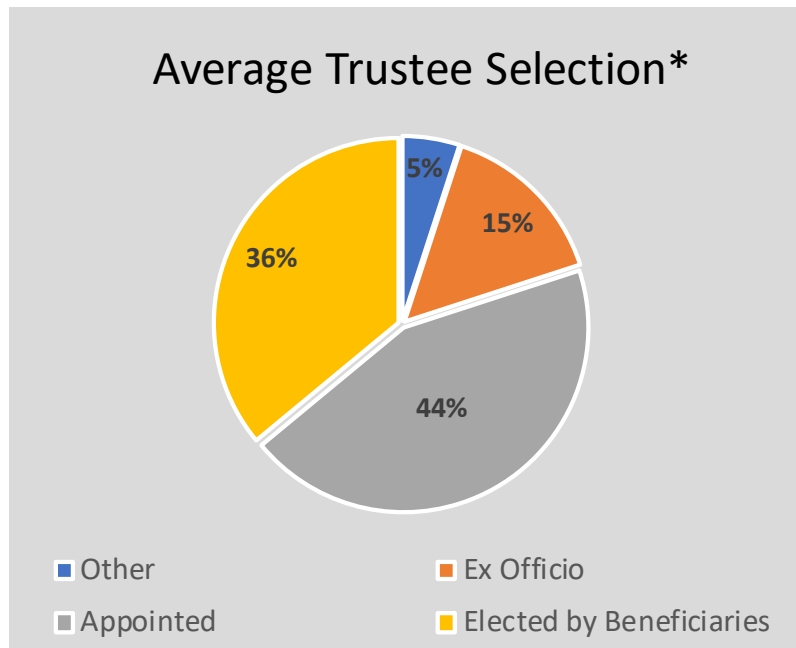
- One experienced in employee benefit plans
- One local government employee
- One higher education employee
- One state employee
- One teacher



GOVERNANCE: BOARD COMPOSITION IN CONTEXT

Average size public pension Board of Trustees: 8.5

Average size state public pension Board of Trustees: 9.2 (*VRS 9 trustees*)



RESEARCH ON IMPACT OF BOARD COMPOSITION*

Impact on Performance

- Greater number of elected members has negative impact on performance (Mitchell and Hsin (1994))
- Greater number of political appointees has positive impact on performance (Hess (2005))
- Political appointees more willing to invest in higher returning strategies (Hess (2005))
- Political appointees more qualified than elected trustees (Hess (2005))

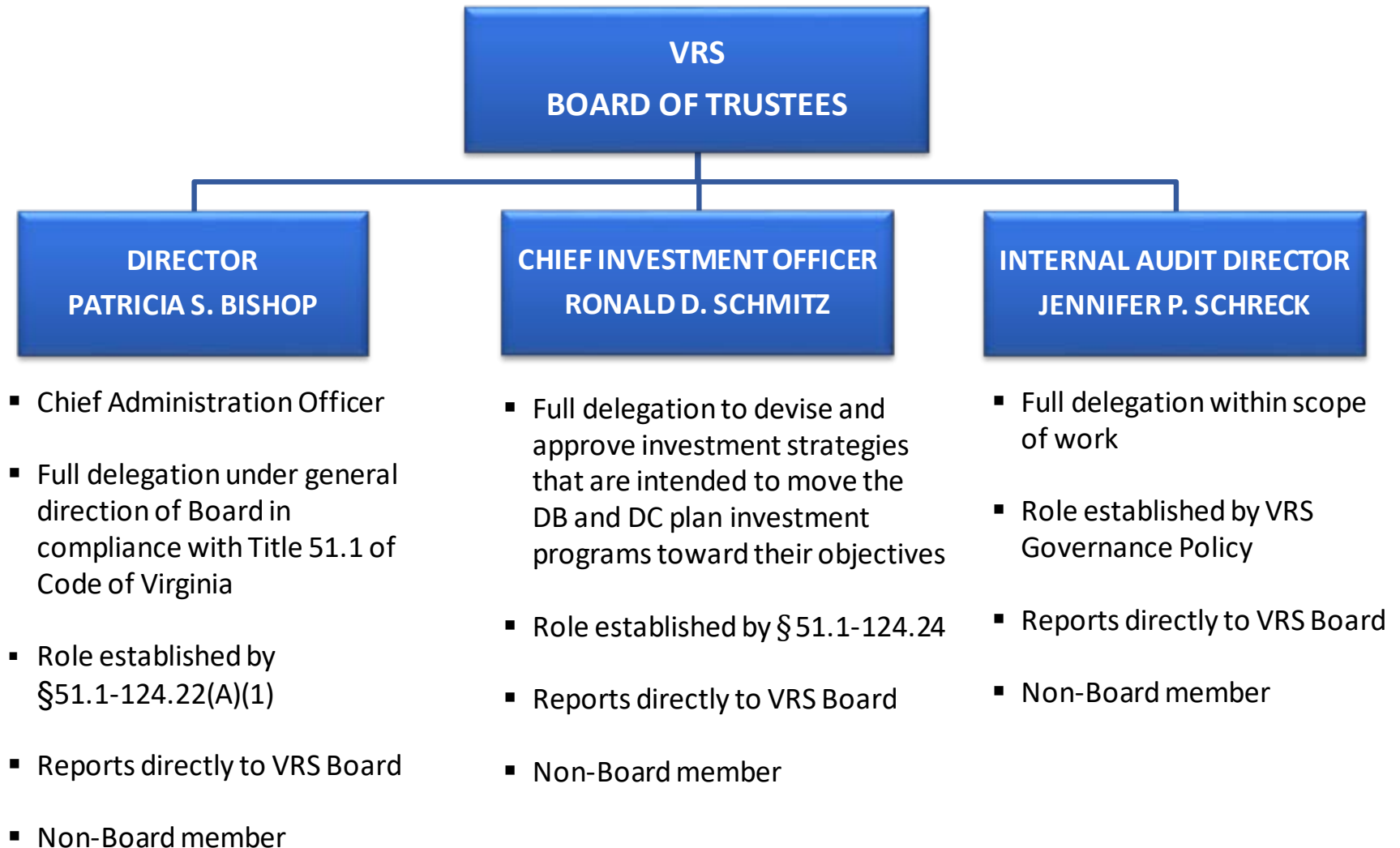
Impact on Asset Allocation

- Number of political appointees has negative impact on equity allocations (Harper (2008))

Impact on Funding

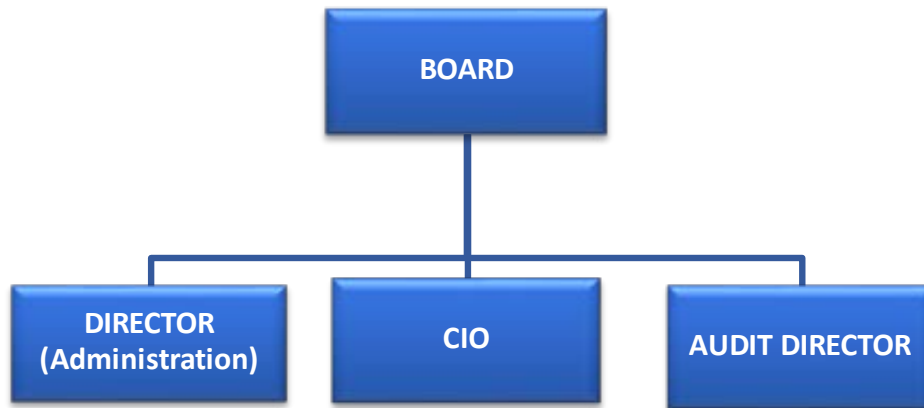
- Larger pension boards associated with lower plan funding levels (Harper (2008))
- Mere existence of an Investment Committee has positive impact on funding (Groves (2014))

GOVERNANCE: VRS STRUCTURE



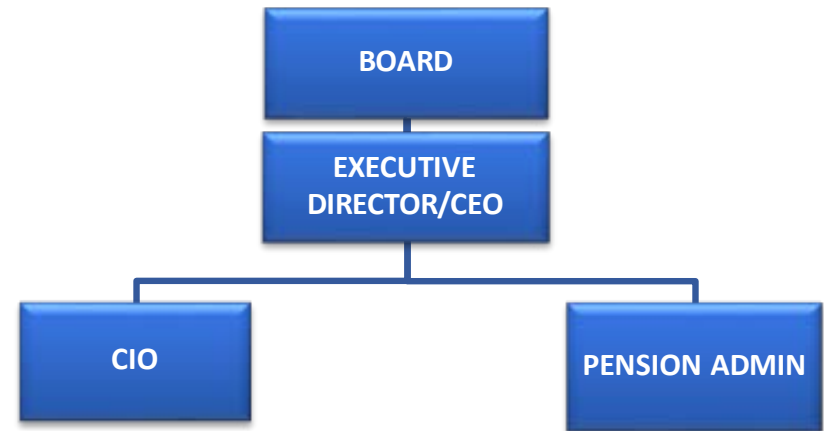
GOVERNANCE: VRS STRUCTURE IN CONTEXT*

VRS Structure



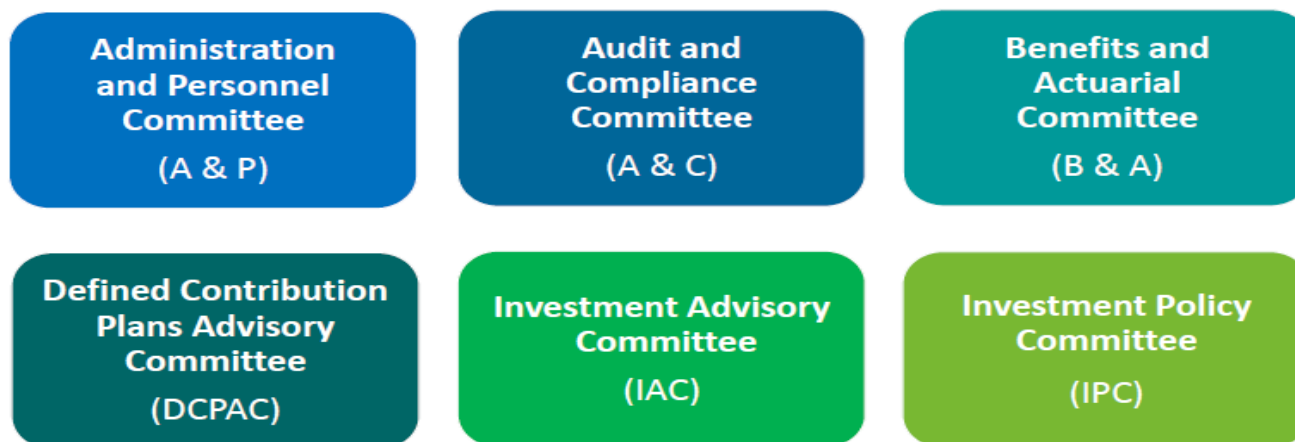
- Separate investment and pension administration organizations reporting to the same fiduciary board
- Model used by only 13% public plans in U.S.
- Distinct audit reporting line less common as well
- VRS structure is a result of a Joint Legislative Audit and Review Commission Study

Most Common Structure



- Integrated investment and pension administration organization with a single fiduciary board
- Most common model implemented by 60% of public plans in the U.S.

GOVERNANCE: VRS COMMITTEE STRUCTURE



VRS Committee Structure In Context*

- Effective committee structures have:
 - Well-defined lines of committee Authority
 - Clear definition of the scope of responsibility
 - Clear understanding of decisions members have final Authority vs. providing Board recommendations
- Committee structures vary dramatically across public pensions
- Most common committees: governance, investment, audit, administration, and legal/legislative.

FIDUCIARY RESPONSIBILITY

FIDUCIARY RESPONSIBILITY: WHAT IS A FIDUCIARY*?

- An entity or individual may be a fiduciary either by designation or by function:
 - A fiduciary is any person or entity who makes, or has the Authority to make, discretionary administrative or investment decisions related to the retirement plan
 - A fiduciary is any person or entity who is named in a retirement plan or trust document as a fiduciary
- Usually a functional test to determine whether a person has discretion or control over the administration of the plan or management of the assets

*Internal Revenue Code § 4975 (e)(3); ERSIA § 3(21).

FIDUCIARY RESPONSIBILITY: VRS FIDUCIARIES

- All Board members are fiduciaries, without exception, to each of the retirement plans they are responsible for administering
- Key internal executive staff are fiduciaries through Board delegation of responsibility:
 - CIO
 - Directors (Administration and Audit)
- Other internal staff can have delegated Authority
- External service providers who are usually fiduciaries:
 - Investment managers
 - Investment consultants, under ERISA rendering investment advice for a fee
- Custodian banks (for certain functions)
- Some external service providers (actuaries, attorneys, auditors, brokers, etc.) are not ordinarily considered fiduciaries
- Usually those performing ministerial tasks are not fiduciaries
- A person's fiduciary duty is limited to the scope of the delegated responsibility and can only be abdicated by prescription

FIDUCIARY RESPONSIBILITY: SOURCES OF FIDUCIARY STANDARDS

- Primary Sources for VRS:
 - Article X, Section 11 of the Constitution of Virginia
 - Code of Virginia § 51.1-124.30

Additional Sources

- General trust law
- Restatement of the Law Third (Trusts), American Law Institute (hereinafter “Restatement (Third)”))
- Employee Retirement Income Security Act (ERISA)
 - Does not apply to governmental plans
 - Public fund fiduciary standards are typically modeled after ERISA
 - It is very influential in providing guidance about how fiduciaries should act
- Internal Revenue Code
- VRS Governance Policy
- VRS Code of Ethics and Conduct
- Uniform Management of Public Employee Retirement Systems Act (UMPERSA)

FIDUCIARY RESPONSIBILITY: CODE OF VIRGINIA

General standard of care established by Code of Virginia § 51.1-124.30:

“The Board shall discharge its duties with respect to the Retirement System **solely in the interest of the beneficiaries** thereof and shall invest the assets of the Retirement System **with the care, skill, prudence, and diligence** under the circumstances then prevailing that **a prudent person acting in a like capacity and familiar with such matters** would use in the conduct of an enterprise of a like character and with like aims. The Board shall also **diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.**”

FIDUCIARY RESPONSIBILITY: PRIMARY DUTIES*

DUTY OF PRUDENCE

**DUTY WITH RESPECT TO
CO-TRUSTEES**

DUTY OF LOYALTY

**DUTY TO FURNISH
INFORMATION TO
BENEFICIARIES**

DUTY OF IMPARTIALITY

**DUTY TO SEGREGATE AND
IDENTIFY TRUST PROPERTY**

**DUTY WITH RESPECT TO
DELEGATION**

**DUTY TO FOLLOW LAW AND
PLAN DOCUMENTS**

FIDUCIARY RESPONSIBILITY: PRUDENCE*

DUTY OF CARE

- Make reasonable effort and diligence in administering and monitoring the trust
- Review relevant information
- Conduct appropriate investigation concerning a particular action
- “Do your homework” rule

DUTY OF SKILL

- Exercise the skill of an individual of ordinary intelligence
- Understand the basic duties of prudent trusteeship
- Possess the necessary skill or rely on competent guidance to satisfy the standard of care
- Required to use the specialized skill (financial or legal)
- “If you have it use it; if not, hire it” rule

DUTY OF CAUTION

- Exercise the caution of a prudent person managing similar assets for similar purposes
- Level of caution considered reasonably appropriate, given the circumstances
- “Proceed with caution in decision-making” rule

FIDUCIARY RESPONSIBILITY: BEING PRUDENT

- Duty of prudence is a test of a trustee's conduct, **not the result of that conduct**
 - Evaluated under the circumstances at the time of behavior
 - Not with hindsight or by taking account of developments that occurred **after** the trustee action
- Depends on whether trustee can demonstrate that he/she engaged in appropriate due diligence before acting

EXAMPLES

- Trustees found to have acted imprudently in a real estate purchase because trustees neither obtained a property valuation/appraisal nor participated in any of the negotiations (U.S. v. Mason Tenders District Council of Greater, N.Y., 909 F. Supp. 882 (S.D.N.Y. 1995))
- Trustees acted imprudently in their attempts to commit 23% of the plan's total assets in a single loan (Marshall v. Glass/Metal Assoc. & Glaziers & Glassworkers Pension Plan, 507 F. Supp. 378 (D. Haw. 1980))
- Imprudence cannot be established by evidence only of a loss in investment value of an asset (White v. Martin, 286 F. Supp. 2d 1029 (D. Minn. 2003))

FIDUCIARY RESPONSIBILITY: PRUDENCE EXAMINED

- Most public pensions have adopted ERISA or ERISA-like standards of fiduciary responsibility, but standards vary
- The most common fiduciary principles explicitly stated by public pensions (typically in their Investment Policy Statements):*
 - Prudent Person 63%
 - Exclusive Benefit Principle 56%
 - Prudent Expert 17%
 - Prudent Investor 10%
- Subtle trend toward standards of care higher than simple prudent person
- Current VRS Code prudence standard is potentially higher than a simple prudent person standard? Compare:
 - VRS Code: “...prudent person acting in a like capacity **and familiar with such matters...**”
 - Restatement Third (Trusts) : “...as a prudent person would, in light of the purposes, terms, and other circumstances of the trust”

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.129.

FIDUCIARY RESPONSIBILITY: THE PRUDENT INVESTOR RULE*

- The Prudent Investor Rule is the practical application of the duty of prudence to the investing activity
- The Prudent Investor Rule was established and codified by three key (new) provisions in Restatement (Third):
 - First, Restatement (Third) replaced the ordinary prudence standard of the Restatement (Second) with a “prudent investor” standard
 - Second, Restatement (Third) created a positive duty to diversify the investments of the trust (specifically referenced in the Code of Virginia)
 - Third, Restatement (Third) imposed additional affirmative duties on trustees, requiring “ongoing duty to monitor investments and to make portfolio adjustments if and as appropriate”
- One of the most significant developments of trust law and public pension portfolio management

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.366-367 discussing Restatement (Third) of Trusts (2003), §90.

FIDUCIARY RESPONSIBILITY: DUTY OF LOYALTY*

UNDIVIDED LOYALTY

- Heart of the fundamental relationship between trustee and beneficiary
- A trustee must act “solely in the interest of the members and beneficiaries”
- A trustee is required to put beneficiary interest before self
- “It’s all about the beneficiaries” rule

FAIR DEALING

- Trustees required to deal with beneficiaries fairly
- Communicate to beneficiaries all material facts on matters
- Applies to all trustee/beneficiary interaction, including personal or outside of scope of trust relationship
- At issue is the trustee’s position of influence/ability to exert influence over beneficiary
- “Don’t hustle the beneficiaries” rule

NO SELF DEALING

- No transactions involving trust property, or affecting trust property, if the transaction is for the trustee’s personal benefit
- Avoid conflicts of fiduciary duty and personal interest
- Must avoid transactions that may cause future conflict between fiduciary duty and personal gain
- “Trusteeship is not for personal gain” rule

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.318-320 discussing Restatement (Third) of Trusts (2003), §78. See also VRS Board of Trustee Code of Ethics and Conduct, Section II.A. (sole interest), Section II.B. (loyalty), Section VI.B. (no conflicts), and Section II.C. (fair treatment).

FIDUCIARY RESPONSIBILITY: DUTY OF IMPARTIALITY*

IMPARTIALITY

- Administer trust in a manner impartial to the various beneficiaries in a trust
- Guide to manage the unavoidable conflicting duties to beneficiaries with potentially competing economic interests
- Requires a balancing that shows due regard for, and is consistent with, terms and purposes of trust
- Applies to consulting and communicating with beneficiaries
- Prevents personal favoritism (or animosity) toward individual beneficiaries in decision-making
- “No beneficiary favoritism” rule

INCOME PRODUCTIVITY

- Must invest and administer trust to produce income reasonably appropriate to the present and future interest of beneficiaries
- Duty not to retain or purchase unproductive or underproductive property causing inadequate income yield
- Duty applies to whole trust portfolio, not individual assets
- “Invest for today’s and tomorrow’s beneficiaries” rule

EXAMPLES

- Duty of impartiality breached by adopting a pension plan amendment that was drafted by a union representative with no independent review that conferred benefit primarily to that union (Deak v. Masters, Mates & Pilot Pension Plan, 821 F.2d 572 (11th Cir. 1987))
- Duty of impartiality not breached when trustees approved benefit increases greater for employees still working than those already retired and receiving a pension. Court reasoned there could be a good business and actuarially sound reason for the proposed increase (Mahoney v. Bd. of Trs., 973 F.2d 968 (1st Cir. 1992))

FIDUCIARY DUTY: DELEGATION*

PRUDENT DELEGATION

- Trustee must perform his/her responsibilities personally, except as a prudent person of comparable skill might delegate those responsibilities to others
- Prudent delegation is a matter of fiduciary judgment and discretion
- Prudence may actually require trustee delegation
- Trustee action based on consultation with and/or advice from others is not delegation
- Limitations on delegation do not apply to delegation among and between trustees
- “Delegation requires prudence” rule

MONITOR AND SUPERVISE

- A post-delegation responsibility
- Requires same fiduciary discretion in monitoring and supervising of a trustee’s delegate (agent) as was used in the decision to delegate
- “Watch your agents” rule

EXAMPLES

- Trustee violated duty to properly delegate by delegating Authority for the management of a real estate fund to a trust officer with neither the experience nor expertise in managing real estate (Krug v. Krug, 838 S.W. 2d 197 (Tenn. App. 1992))
- Trustees abused discretion in delegating the responsibility to monitor an investment fund to internal staff when that staff was without sufficient size or expertise to effectively monitor. Court concluded that delegation to external assistance with necessary expertise would have been necessary to satisfy duty (Harley v. Minnesota Mining & Mfg., 42 F. Supp. 2d 898 (D. Minn. 1999))

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.321-324, discussing Restatement (Third) of Trusts (2003), §78. See also VRS Board of Trustee Code of Ethics and Conduct, Section II.I. (delegate/get assistance).

FIDUCIARY RESPONSIBILITY: PRUDENT DELEGATION

- Trustees delegate the performance of specific duties, functions, or powers of trusteeship
- Common forms of trustee delegation:
 - Internal investment staff
 - Internal administrative staff
 - External investment managers
- Five parameters of prudent delegation:.*
 - FIRST, certain functions must still be personally done
 - SECOND, prudent only if would have been a prudent decision by someone of comparable skill
 - THIRD, delegation may be an affirmative duty
 - FOURTH, must exercise reasonable care, skill, and caution in selecting agents and determining the terms of delegation
 - FIFTH, must act with prudence in supervising and monitoring agent's performance and compliance
- Public pension evolution will turn on how public pensions address the duty of prudent delegation with context of increasing portfolio complexity or simplification

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), Chapter Fifteen "Delegation and Pension Evolution," p.365-378.

FIDUCIARY RESPONSIBILITY: CO-TRUSTEES*

ACTIVE PARTICIPATION

- Both a duty and a right
- Requires active trustee participation in affairs of the trust
- Prevents a trustee from being excluded from decision-making
- “Participate and not exclude” rule

REASONABLE COOPERATION

- Maintenance of effective trustee working relationship a must
- Establishes a need for basic levels of civility and decorum among trustees
- “Can we all just get along” rule

CO-TRUSTEE BREACH

- Prevents knowingly allowing a co-trustee to breach that trustee’s fiduciary responsibility
- If breach occurs, trustee must take reasonable steps to compel co-trustee to remedy breach
- “I am my brother’s keeper” rule

EXAMPLE

- Court found that co-trustees should conduct themselves so as to foster a spirit of mutual trust, confidence, and cooperation to the extent possible (Ball v. Mills, 376 So.2d 1174 (Fla. App. 1979))

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.324-325 discussing Restatement (Third) of Trusts §81. See also VRS Board of Trustee Code of Ethics and Conduct, Sections III.A., III.B., IV.A., and IV.H.; VRS Governance Policy, Section III.B.2(c), all provisions related to co-trustees.

FIDUCIARY RESPONSIBILITY: INFORMATION & PROPERTY SEGREGATION*

INFORMATION TO BENEFICIARIES

- Must promptly inform fairly representative beneficiaries of basic trust information, their status (and any changes) as beneficiaries, and any other information material to their interests
- “Fairly representative beneficiary” means cross-section of beneficiaries reflecting diverse interests and concerns
- Must promptly respond to beneficiary requests for information
- Must keep and maintain clear, complete, and accurate books regarding trust property (periodic reporting)
- Must permit beneficiaries to inspect trust document, records, and holdings
- “Keep beneficiaries in the know” rule

SEGREGATION & PROPERTY IDENTIFICATION

- Must segregate and not commingle trust property with trustee’s own property and other property not subject to the trust
- Identification requirement primarily for fraud protection
- Requiring identification focused on making trustee misconduct or abuse easier to detect
- “Keep trust property separate” rule

EXAMPLES

- Court finds that a trustee who invested plan employee benefit assets without separating the investments from his own breached duty to segregate (Rodrigues v. Herman, 121 F.3d 1352 (9th Cir. 1997))
- Trustees violated duty to segregate when trustees misused assets of one trust for the fees and operating expenses of other trustees (unauthorized and undocumented cross-usage of funds) (In Re Will of Crabtree, 865 N.E. 2d 1119 (2003))

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.325-27, discussing Restatement (Third) of Trusts §82 and §84.

DUTY TO FOLLOW THE LAW AND PLAN DOCUMENTS

- “The Trustee has a duty to administer the trust diligently and in good faith, in accordance with the terms of the trust and applicable law” (Restatements (Third) §76)
 - Commonly the duty to follow the law and plan documents
- An affirmative duty: breach of trust for improperly failing to act or improperly exercising the powers of trusteeship
- Primary Plan document Title 51.1 of the Virginia Code
- Other state and federal laws and regulations may be applicable (IRS Code, securities law related to investing, disclosure requirement, open meeting and records law, etc...)
- Plan documents may include other documents the Board has formally adopted or are issued by an entity that has jurisdiction over the Board:
 - Governance Policy
 - Code of Ethics and Conduct
 - Policies and procedure (i.e. Investment Policy Statement)
 - DC Plan documents

FIDUCIARY RESPONSIBILITY: SUMMARY*

Primary Duty	Specific Obligations	"Short-Hand" Rule
I. Duty of Prudence		"Prudence is paramount"
	i. Duty of Care	"Do your homework" rule
	ii. Duty of Skill	"If you have the skill, use it; if not, hire it" rule
	iii. Duty of Caution	"Proceed with caution in decision-making" rule
II. Duty of Loyalty		"Loyalty is a must"
	i. Duty of Undivided Loyalty	"It's all about the beneficiaries" rule
	ii. Prohibition Against Self-dealing	"Trusteeship is not for personal benefit" rule
	iii. Duty of Fair Dealing	"Don't hustle your beneficiaries" rule
III. Duty of Impartiality		"No beneficiary favoritism"
	i. Duty of Income Productivity	"Invest for today's and tomorrow's beneficiaries" rule
IV. Duty with Respect to Delegation		"Trustees need to help too"
	i. Duty of Prudent Delegation	"Delegation requires prudence" rule
	ii. Duty to Monitor and Supervise	"Watch your agents" rule
V. Duty with Respect to Co-Trustees		"Trusteeship is a team sport"
	i. Duty and Right to Active Participation	"Participate and don't exclude" rule
	ii. Duty of Reasonable Cooperation	"Can we all just get along" rule
	iii. Duty to Prevent Co-Trustee Breach	"I am my brother's keeper" rule
VI. Duty to Furnish Information to Beneficiaries		"Keep beneficiaries in the know"
	i. Duty to Keep Records and Provide Reports	"Keep, report, and then report again" rule
VII. Duty to Segregate and Identify Trust Property		"Keep trust property separate"
VIII. Duty to Follow the Law and Plan Documents		"Be by the book" rule

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.315 .

FIDUCIARY RESPONSIBILITY: TRUSTEE LIABILITY*

- “No officer, director, or member of the board or of any advisory committee...whose actions are within the standard of care...shall be held personally liable for losses suffered by the Retirement System on investments made...” (Code of Virginia § 51.1-124.30(D))
- Common breaches involve misconduct in which:
 - Trustee performed an act not empowered to perform, by law or terms of trust
 - Trustee exercised power inconsistent with standards of fiduciary conduct
- Personal liability for breach of fiduciary duty:
 - Restore to the plan any losses resulting from a breach of fiduciary duty
 - Restore to the plan any profits made by fiduciary through use of plan assets
 - Other equitable or remedial relief as the court may deem appropriate
- May be liable for a co-fiduciary’s breach of fiduciary duty if a fiduciary enables another fiduciary to commit the breach, knowingly participates in or conceals the breach, or discovers the breach but does not take steps to remedy

TRUSTEE FOCUS AND GOVERNANCE BEST PRACTICES

TRUSTEE FOCUS: EMERGING GOVERNANCE RESEARCH*

- Governance as an academic discipline bloomed in the early 1990s
 - Critical eye of public pension corporate activism turned back at pensions themselves
- Available research focusing on:
 - Impact on performance
 - Impact on asset allocation
 - Impact on funding
 - Trustee challenges
 - Trustee priorities
 - Public pension infrastructure
- Sample best practices:
 - National Conference for Public Employee Retirement Systems (NCPERS)
 - Government Finance Officers Association (GFOA)
 - Stanford Institutional Investors Forum Committee on Fund Governance (Clapman Report 2.0)

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), Chapter Twelve “Why Governance Matters,” surveying governance research and its history.

TRUSTEE FOCUS: COMMON CHALLENGES*

2005	2015
<ul style="list-style-type: none"> ▪ Strategic planning and execution <ul style="list-style-type: none"> - Resource planning - Organization design - Compensation - Effective information management ▪ Agency context issues <ul style="list-style-type: none"> - Balancing shareholders' interest - Understanding legal/regulatory environment ▪ Board effectiveness <ul style="list-style-type: none"> - Appropriate trustee skill/knowledge - Clear delegation to management ▪ Investment/risk management <ul style="list-style-type: none"> - Investment beliefs (relevance) - Shift to risk budgeting 	<ul style="list-style-type: none"> ▪ Compensation <ul style="list-style-type: none"> - Shift to performance-based - Making more competitive ▪ Board effectiveness <ul style="list-style-type: none"> - Selecting, developing, terminating trustees - Improving effectiveness ▪ Investment management <ul style="list-style-type: none"> - Hiring/firing investment managers

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.289-292 discussing research by Keith P. Ambachtsheer and John McLaughlin.

TRUSTEE FOCUS: COMMON PRIORITIES*

Priorities (ranked by frequency of mention)	Number of Trustees Identifying as 1 of Current Top 5
1. Risk Management	15
2. Organizational leadership, culture, or talent	9
3. Asset allocation	9
4. Governance structure	7
5. Relationship with key stakeholders	7
6. Internal systems	5
7. Cost effectiveness	5
8. Innovation	5
9. Infrastructure or natural resources	4
10. Compensation structures	4

*U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw Hill 2019), p.291-292, discussing research by Jody Macintosh and Tom Scheibelhut.

TRUSTEE FOCUS: “BEST PRACTICES” IN GOVERNANCE*

<u>WHY IT MATTERS</u>	<u>GFOA</u>
<ul style="list-style-type: none"> Leads to better fund performance 	<ul style="list-style-type: none"> Governance Manual
<ul style="list-style-type: none"> NCPERS up to 2.4% annually 	<ul style="list-style-type: none"> Governing Board
<ul style="list-style-type: none"> 50-66bps “excellence shortfall”(Keith P. Ambachtsheer) 	<ul style="list-style-type: none"> Governance Policy
<u>NCPERS</u>	<u>CLAPMAN 2.0</u>
<ul style="list-style-type: none"> Governance Manual 	<ul style="list-style-type: none"> Transparency
<ul style="list-style-type: none"> Board Practices/Priorities 	<ul style="list-style-type: none"> Governing Body and Executive Staff
<ul style="list-style-type: none"> Risk Oversight 	<ul style="list-style-type: none"> Trustee Core Competencies
<ul style="list-style-type: none"> Strategic Planning 	<ul style="list-style-type: none"> Conflicts of Interest
<ul style="list-style-type: none"> Reporting 	<ul style="list-style-type: none"> Delegation
<ul style="list-style-type: none"> Stakeholder Communications 	

*Find full reports in U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), Chapter Twelve, “Why Governance Matters” (Appendix).

Report

Pursuant to § 2.2-3700 et. seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, the Defined Contribution Plans Advisory Committee (DCPAC) convened electronically on June 4, 2020 at 10:30 a.m., and took up the following matters:

WELCOME AND INTRODUCTION

Staff welcomed and introduced two new Committee members, Brenda Madden, Director of Human Resources with Davenport Companies, and Kathy Seay, Deputy County Administrator for Hanover County, to the DCPAC.

INVESTMENTS

Performance Reports

Staff provided an update of the April 30, 2020 performance reports to the DCPAC, including the unbundled DC plans investment options and the new investment menu in the TIAA Retirement Choice (RC) contract for ORPHE that took effect January 2020. Staff noted a benchmark change for the Money Market Fund on the unbundled DC plans platform, also effective January 2020. Staff shared with the Committee that Fidelity became a deselected ORPHE provider for new contributions in February 2020 and was no longer monitored by the VRS Investment Department.

Based on increased market volatility and economic stimulus related to COVID-19, staff also shared the performance of the individual fund options on the unbundled DC Plans platform, highlighting the market benchmark performance over short- and long-term time frames.

Staff provided an overview of the difference in naming convention of like funds on both the unbundled DC plans platform and bundled TIAA ORPHE platform and also noted the market value and percentage allocation of assets in the TIAA ORPHE Retirement Choice (RC) contract as of December 31, 2019.

Staff informed the Committee the *Callan 2020 DC Trends Survey* was included in the meeting materials Appendix for review.

ADMINISTRATION

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the first quarter of 2020. 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, including auto-escalation 2020, the new online withdrawal feature in Account Access, and market volatility educational resources for plan participants.

Staff informed the Committee of the ICMA-RC Annual Service Review and benchmarking efforts, noting 2019 accomplishments and future initiatives. In addition, participation in the Public Retirement Research Lab was discussed.

ORPHE Update

Staff provided an overview of ORPHE reports for the first quarter of 2020, including plan assets and accounts, and provider election data. Staff also shared with the Committee a timeline overview of changes to the ORPHE over the past six years, concluding with the recent ORPHE 2020 initiative.

Staff included in the meeting materials Appendix the *Q1 2020 ICMA-RC Quarterly Review* and *VRS ICMA-RC Annual Strategy Document* for the Committee to review.

OTHER BUSINESS

Legislative Update

Staff provided an overview of key provisions of recently enacted federal legislation such as the SECURE Act and CARES Act, their impact on VRS members, employers and retirees, and efforts underway to implement the various provisions.

Staff provided an overview of the VRS-related bills approved during the 2020 legislative session of the General Assembly. Staff shared with the Committee approved 2020 budget changes and amendments with an impact to VRS that passed during the legislative session. Staff also informed the Committee of VRS-related bills that failed, were carried over or amended but which had no impact to VRS.

DCPAC Appointment

Staff informed the Committee of the request for reappointment of Ravindra Deo to a two-year term ending June 20, 2022. His current term expires June 20, 2020.

Recommend RBA for Reappointment of DCPAC Member

The Committee recommends approval of the following action to the Administration and Personnel Committee and the full Board:

Request for Board Action: *The Board reappoints Ravindra Deo to the Defined Contribution Plans Advisory Committee (DCPAC) for a two-year term ending June 20, 2022.*

Other Business

2020 MEETINGS

Staff confirmed the following DCPAC meeting dates for 2020:

- August 27 at 1:00 p.m.
- November 19 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 24, 2020. This is not a DCPAC Committee meeting, however, members may attend if interested.

There was no other business to come before the Committee.

That concludes my report to the Board.

Submitted to the Board of Trustees on June 11, 2020.

Brett Hayes, Chair
Defined Contribution Plans Advisory Committee

Report

In accordance with Item 4-0.01 of Chapter 1283 of the 2020 Acts of Assembly of the *Code of Virginia* as it relates to conducting business during the COVID-19 pandemic, the Audit and Compliance Committee convened electronically on June 4, 2020 and discussed the following:

UPDATE ON THE 2019 EMPLOYER ASSURANCES REVIEW

The APA reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, was progressing as planned and they should conclude their work over the Pension and Other Post-Employment Benefit (OPEB) plans and issue the related opinions by the end July.

ENTRANCE WITH THE APA FOR THE VRS 2020 CAFR AUDIT

The Committee held its annual entrance conference with the APA to review the approach and scope of the examination of VRS' Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2020.

AUDIT REPORTS

The Committee received two audit reports.

- The review of *Investment Manager and Manager Compensation* determined compensation paid to external investment managers and the master custodian were reasonable and properly recorded.
- 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; however, the review resulted in one written recommendation in support of ensuring VRS' continued conformance.

ANNUAL REPORT ON CODE OF ETHICS

The Chief Operating Officer and the Chief Administrative Officer provided their annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct and for monitoring compliance, as required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for their respective programs.

QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its status report on the Modernization Program - Phase 4, including budget and cost updates as of March 31, 2020. Management highlighted progress for the decommissioning of RIMS and Phase 4, noting the project plan for Phase 4 is shifting due to impacts of new legislation. The development of the remaining member portal functionality is now planned to be completed in October 2020. Related testing and roll-out activities will continue through the winter, possibly longer.

Internal Audit presented its review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget, and scope. Internal Audit acknowledged management's continued thoughtful and deliberate efforts to bring this phase to a close while ensuring protection of member and retiree information. Internal Audit facilitated a discussion between VRS staff and the only other state retirement system who has implemented similar

functionality. Associated processes and tools uses were discussed, along with the possibility for future collaboration opportunities.

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2019

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2019, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background. Internal Audit's remaining planned projects and resource impacts as a result of COVID-19 relative to the annual and long-term plans also were discussed.

LONG-RANGE AUDIT PLAN DEVELOPMENT UPDATE FOR THE FOUR YEARS ENDED JUNE 30, 2024

The Internal Audit Director presented a status update on the development of the long-range audit plan for the four years ending on June 30, 2024. The long-range audit plan will be presented at the September Committee meeting.

QUARTERLY REPORTS ON FRAUD, WASTE AND ABUSE HOTLINE CASES

The Internal Audit Director shared no Fraud, Waste and Abuse Hotline complaints were reported to Internal Audit via the Office of the State Inspector General or any other avenues during the period of November 1, 2019 through April 30, 2020.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORTS

The Committee received management's quarterly travel expense and per diem reports for the periods ending December 31, 2019 and March 31, 2020.

MISCELLANEOUS 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 2020.

Next Committee Meeting Date

The Committee's next meeting is scheduled for September 17, 2020 at 2 p.m.

Respectfully submitted to the Board of Trustees on June 11, 2020.

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

Report

Pursuant to § 2.2-3700 et. seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, the Benefits and Actuarial Committee convened electronically on June 10, 2020 at 1:00 p.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 12, 2020 meeting.

HEALTH INSURANCE CREDIT FOR LOCAL SCHOOL DIVISIONS

Mr. Badura presented the revisions to the June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions as the result of changes made by House Bill 1513 (HB1513). Mr. Badura explained that the current HIC for local employees is \$1.50 per year of service and only retirees with at least 15 years of service in participating localities or school divisions that have elected the benefit are eligible.

Beginning July 1, 2021, HB1513 requires school divisions providing retirement benefits to non-teacher employees to also provide a health insurance credit of \$1.50 per year of service to all employees who retire with at least 15 years of service. Eligible non-teacher employees who retired prior to July 1, 2021 will begin receiving the benefit in the August 1, 2021 benefit payment. HB1513 removes the \$45 cap and a school division may elect an additional \$1 per year, for a total HIC of \$2.50 per year of service.

The Department of Education estimates an additional state general fund cost of \$976,000 in FY 2021 and \$1,024,000 in FY 2022 to provide funding support for the \$1.50 per year of service Health Insurance Credit for funded Standards of Quality (SOQ) Non-Professional positions. Mr. Badura noted that the new benefit is payable beginning July 1, 2021; however, the legislation is effective July 1, 2020, so benefit funding begins then.

The Committee recommends the approval of the following action to the full Board:

Request for Board Action: After considering the recommendations of its Plan Actuary to implement the provisions of HB 1513 (Chapter 1091, 2020 Virginia Acts of Assembly), the Board accepts the revised June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions, which set employer contribution rates for both FY 2021 and FY 2022, effective July 1, 2020.

SPORS AND VALORS RATES AND LODA PREMIUMS

Mr. Badura presented the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS) and the revised LODA Fund premium.

HB 1495 and SB 54 permit retired sworn law enforcement officers to return to work as a school security officer after a break in service of at least 12 calendar months. Individuals who return to work under this provision would not be eligible for any cash match as detailed in Chapter 6.1 (§51.1-607 et seq., cash

match plans) of Title 51.1, nor would any additional service be earned, and employers must pay contributions for these positions. As a result of this legislation, the SPORS contribution rate for employers was increased from 26.26% to 26.33%, and VaLORS employer contribution rates were increased from 21.88% to 21.90% in the 2020 Appropriation Act.

The Governor's introduced budget included increased LODA Fund premiums to cover natural or adopted children of LODA participants who were previously provided coverage, but later became ineligible under the new LODA Health Benefits Plans. The General Assembly increased the LODA premium to reflect the following:

- Chapters 1150 & 1152: Adding corrections officers and full-time sworn members of the DMV enforcement division to those entitled to a presumption of certain infectious diseases that are compensable occupational diseases.
- Chapters 498 and 499: Adding colon, brain, or testes to the list of cancers presumed to be an occupational disease covered by the Virginia Workers' Compensation Act.
- Chapters 1206 & 1262: Adding post-traumatic stress disorder incurred by law enforcement officers or firefighters as an occupational disease covered by the Virginia Workers' Compensation Act.

As a result, the General Assembly provided funding for an adjusted LODA premium of \$717.31, an increase from the original June 30, 2019 valuation premium of \$695.18.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board accepts the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS) and the increased premium for the Line of Duty Death and Health Benefits Trust Fund that are set out in the Appropriation Act for the 2020-2022 biennium.*

INFORMATION ITEMS

Stress Test and Sensitivity Analysis Report

Mr. Badura presented the findings of the draft VRS Stress Test and Analysis report. He noted that the report is based on the June 30, 2019 actuarial valuation and focused on the current and future impacts of COVID-19 and risks to long-term funding including investment volatility, contribution risk, and longevity risk.

The report contains illustrative COVID-19 economic recovery scenarios, which were used to derive estimated results for the VRS plans to show the magnitude of potential impacts on plan funding. While the full extent is unknown at this time, COVID-19 is expected to have an impact on fund returns and possibly cause challenges related to plan funding for employers over the next several years. Due to the uncertainty surrounding the COVID-19 recovery and the corresponding impacts on the economy at large, analysis of future impacts on the VRS fund will continue as new information becomes available.

Upcoming B&A Committee meetings:

- October 14, 2020 at 1:00 p.m.
- November 16, 2020 at 1:00 p.m.

Submitted to the Board of Trustees on June 11, 2020.

Wallace G. Harris, Chair
Benefits and Actuarial Committee



Approve revised contribution rates for the Health Insurance Credit for political subdivisions, effective for FY 2021 and FY 2022, to implement HB 1513 (Chapter 1091, 2020 Virginia Acts of Assembly).

Requested Action

After considering the recommendations of its Plan Actuary to implement the provisions of HB 1513 (Chapter 1091, 2020 Virginia Acts of Assembly), the Board accepts the revised June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions, which set employer contribution rates for both FY2021 and FY2022, effective July 1, 2020.

Description/Background

The Health Insurance Credit (HIC) for local employees is currently set at \$1.50 per year of service. The benefit is optional and currently must be elected by the locality or school division. In order to be eligible for the benefit, retirees must have 15 years of service. Only 37 of the 132 school divisions have elected to offer this benefit. The HIC for school division staff is currently statutorily capped at \$45 per month.

HB 1513, which goes into effect on July 1, 2020, with benefit payments beginning July 1, 2021, requires all school divisions that cover their non-teacher employees under VRS to provide a \$1.50 per year of service HIC benefit to retired members with at least 15 years of total creditable service. HB 1513 removes the \$45 cap on the HIC. Eligible employees who retired before July 1, 2020, but who do not currently receive an HIC benefit pursuant to the existing § 51.1-1402, will receive the \$1.50 per year HIC prospectively, beginning July 1, 2021. Section 51.1-1402.1 (F) requires VRS to “actuarially determine the amount necessary to fund all credits provided under this section, reflect the cost of such credits in the applicable employer contribution rate pursuant to § 51.1-145, and prescribe such terms and conditions as are necessary to carry out the provisions of this section.” School divisions may elect an additional \$1.00 HIC for their non-teacher employees.

Under the new § 51.1-1402.1, the cost of HIC for school division employees other than teachers is borne by the political subdivisions, but the Commonwealth provides financial support for this benefit. The Commonwealth’s support (paid separately to the political subdivision) will be determined through the Department of Education in connection with the number of funded Standards of Quality Non-Professional positions that are affected by HB 1513.

Rationale for Requested Action

HB 1513 requires VRS to actuarially determine the amount necessary to fund all credits provided under the new § 51.1-1402.1 and to reflect the cost of such credits in the applicable employer contribution rates.

The current certified employer contribution rates do not reflect the provisions of HB 1513.

The employer contribution rates developed by the Plan Actuary and reflected in this RBA include the costs attributable to prefunding the benefits under HB 1513, which go into effect and employers will begin paying July 1, 2020.

Authority for Requested Action

Code of Virginia §§ 51.1-124.22(5) and -145 authorize the Board to determine the required contribution rate for the various employer groups in the Retirement System. The provisions of HB 1513 (the new §51.1-1402.1) require VRS to “actuarially determine the amount necessary to fund all credits provided under this section, reflect the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribe such terms and conditions as are necessary to carry out the provisions of this section.”

The above action is approved.

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

Date



**Accept revised contribution rates for SPORS and VaLORS
and revised LODA premium as set out in the
Appropriation Act, effective July 1, 2020.**

Requested Action

The Board accepts the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS) and the increased premium for the Line of Duty Death and Health Benefits Trust Fund that are set out in the Appropriation Act for the 2020-2022 biennium.

Description/Background

At its October 17, 2019 meeting, the Board of Trustees certified the employer contribution rates for SPORS and VaLORS at 26.26% and 21.88% of covered payroll, respectively. At its November 20, 2019 meeting, the Board of Trustees certified a full-time equivalent premium rate of \$695.18 for the Line of Duty Death and Health Benefits Trust Fund. The contribution rates and the premium rate were approved for both fiscal years 2021 and 2022, effective July 1, 2020.

The General Assembly passed, and the Governor signed, the Appropriation Act for the biennium beginning July 1, 2020. The Appropriation Act funded contribution rates for SPORS and VaLORS at 26.33% and 21.90% of covered payroll, respectively, and set a full-time equivalent premium rate of \$717.31 for the LODA Death and Health Benefits Trust Fund.

The following table highlights the differences between the Board-certified contribution rates and premium and the increased amounts in the Appropriation Act:

Rate/Premium	Board-Certified	Appropriation Act	Difference
SPORS Contribution Rate	26.26%	26.33%	0.07% Increase
VaLORS Contribution Rate	21.88%	21.90%	0.02% Increase
LODA Fund Premium	\$695.18	\$717.31	\$22.13 Increase

Rationale for Requested Action

The General Assembly increased the SPORS and VaLORS contribution rates in the Appropriation Act to provide additional funding for those plans in light of HB 1495 (Chapter 968, 2020 Virginia Acts of Assembly), which will allow retired law-enforcement personnel to return to work as school security officers.

The Governor's introduced budget included increased LODA premiums to cover natural or adopted children of LODA recipients who were previously provided coverage, but became ineligible under the new LODA Health Benefits Plans in 2017 (§ 9.1-401). This provision only provides funding to cover previously ineligible dependents of LODA recipients who died or became disabled on or before July 1, 2017. In addition, the General Assembly increased the LODA premium to reflect the following legislation:

- HB 169 and SB 345 (Chapters 1150 and 1152), which added correctional officers and full-time sworn members of the DMV enforcement division to the list of public safety employees entitled to a presumption that certain infectious diseases are compensable occupational diseases;
- HB 783 and SB 9 (Chapters 498 and 499), which added cancers of the colon, brain, or testes to the list of cancers presumed to be an occupational disease covered by the Virginia Workers' Compensation Act when firefighters or certain employees develop the cancer; and
- HB 438 and SB 561 (Chapters 1206 and 1262), which adds post-traumatic stress disorder incurred by a law-enforcement officer or firefighter as an occupational disease covered by the Virginia Workers' Compensation Act.

The Board certified the SPORS and VaLORS rates and the LODA premium before the legislation was introduced. The Board therefore accepts the increased SPORS and VaLORS contribution rates and LODA premium included in the Appropriation Act to offset the increased costs of 2020 legislation.

Authority for Requested Action

Code of Virginia §§ 51.1-124.22(5) and -145 authorize the Board to determine the required contribution rate for the various employer groups in the Retirement System. *Code of Virginia* § 9.1-400.1 authorizes the Board to set the participating employer contribution rates for the Line of Duty Death and Health Benefits Trust Fund.

The above action is approved.

O'Kelly E. McWilliams, III, Chairman
VRS Board of Trustees

Date

Report

Pursuant to § 2.2-3700 et. seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, the Administration and Personnel Committee convened electronically on June 10, 2020 at 10:00 a.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 13, 2020 meeting.

VERUS- BENCHMARK AND PERFORMANCE HURDLE ANALYSIS

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 that 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 recommends the approval of the following action to the full Board:

Request for Board Action: *The VRS Board of Trustees approves the recommended changes to the benchmarks and excess return objectives, effective July 1, 2020.*

DISCUSSION AND CONSIDERATION OF FY 2021 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES (OMs)

Michael Cooper reviewed the proposed FY 2021 agency performance outcomes (APOs) and operational measures. He noted that there are 4 APOs proposed for FY 2021. The first two APOs relate to myVRS enhancements, and are a carryover from the current year. The third APO is the continuation of the agency's Enterprise Risk Management implementation. The fourth APO accounts for the Cardinal HCM Implementation project, for which VRS is responsible for three tracks. Staff would need to successfully complete 3 of the 4 APOs to qualify for the gainsharing bonus.

There are also 16 operational measures proposed for FY 2021. The 16 operational measures are the same as the current year metrics, with 13 of 16 measures required to meet their target for the year in order to qualify for the gainsharing bonus. Mr. Cooper also noted that staff continues to evaluate new measures for implementation in future years and will be piloting a few of them during the next year.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board approves the FY 2021 Agency Performance Outcomes and Operational Measures.*

REAPPOINTMENT OF IAC MEMBERS

Ron Schmitz discussed the expiring terms of two IAC members, Deborah Allen Hewitt and Theodore Economou. Mr. Schmitz indicated that Ms. Hewitt and Mr. Economou are interested in serving again, each for an additional 2-year term.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: The Board reappoints to the Investment Advisory Committee Theodore Economou for a two-year term ending September 13, 2022, and Deborah Allen Hewitt, Ph.D., for a two-year term ending October 16, 2022.

REAPPOINTMENT OF DCPAC MEMBER

Trish Bishop advised the Committee that Ravi Deo's term on the Defined Contribution Plans Advisory Committee (DCPAC) is set to expire on June 20th. Mr. Deo is interested in serving another term on the committee.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: The Board reappoints Ravindra Deo to the Defined Contribution Plans Advisory Committee (DCPAC) for a two-year term ending June 20, 2022.

BUDGET UPDATE

Barry Faison reviewed the year-to-date budget report with the Committee. Mr. Faison noted that due to the fiscal impacts of the COVID-19 pandemic the Governor's office requested that all executive branch agencies develop plans to reduce discretionary spending and institute a hiring freeze. Although not an executive branch agency, VRS is following this guidance where appropriate and prudent. Accordingly, Mr. Faison noted that the FY20 budget projections incorporate approximately \$623,000 in expected discretionary spending reductions as a result of the COVID-19 pandemic and subsequent information received from the Governor's office. These are in addition to the reduction in personnel spending associated with a freeze in hiring for vacant positions Mr. Faison also noted that VRS will end the year with a positive balance, which will ultimately be returned to the Trust.

OTHER BUSINESS – RETURN TO THE OFFICE PLANNING UPDATE

Trish Bishop provided an update to the Committee on the status of the agency's return to the office planning. Ms. Bishop noted that the health, safety and welfare of our staff, members and employers is paramount in the planning process. She indicated that VRS leadership has developed a draft plan, which is currently under review. With a few limited exceptions, staff will continue in telework status through Labor Day. Flexibility will be critical as VRS navigates through the return to the office process.

Submitted to the Board of Trustees on June 11, 2020.

O'Kelly E. McWilliams, III, Chair
Administration and Personnel Committee

Approve changes to benchmarks and excess return objectives, effective July 1, 2020.

Requested Action

The VRS Board of Trustees approves the recommended changes to the benchmarks and excess return objectives, effective July 1, 2020.

Description/Background

Benchmarks and Excess Return Objectives. The VRS Board of Trustees uses benchmarks to monitor performance results and uses excess return objectives in calculations associated with the Investment Professionals' Pay Plan. At the June 19, 2015 meeting, the Board approved the program benchmarks and excess return objectives as recommended by Aon Hewitt. Since that time, the Board has approved various changes to asset class benchmarks; however, the adopted excess return objectives remained in effect. As directed by the Board, staff engaged Verus, the consulting firm that recently performed the asset liability study for the Board, to review the appropriateness of the benchmarks and the excess return objectives for the individual asset class programs and the total fund.

After careful analysis, Verus recommends the following benchmarks and excess return objectives.

Benchmarks: Recommended Changes

Program	
Private Equity	
Current Benchmark	MSCI All Country World Investable Market Index net of VRS taxes (lagged by 3 months) + 250 bps per annum
Recommended Benchmark	MSCI All Country World Investable Market Index net of VRS taxes (lagged by 3 months)
Private Investment Partnerships	
Current Benchmark	40% Private Equity (MSCI All Country World Investable Market Index (net of VRS taxes lagged by 3 months) + 250 bps per annum) 30% Real Estate (NCREIF ODCE Index, net, lagged by 3 months) 10% Other Real Assets (CPI-U Index + 400 bps per annum lagged by 3 months) 10% Credit Strategies Rate Sensitive (Bloomberg Barclays U.S. High Yield Ba-B 2% Issuer Cap Index) 10% Credit Strategies Non-Rate Sensitive (S&P Performing Loan Index)
Recommended Benchmark	33% Private Equity (MSCI All Country World Investable Market Index net of VRS taxes lagged by 3 months) 25% Real Estate (NCREIF ODCE Index, net, lagged by 3 months) 8% Other Real Assets (CPI-U Index + 400 bps per annum lagged by 3 months) 17% Credit Strategies Rate Sensitive (Bloomberg Barclays U.S. High Yield Ba-B 2% Issuer Cap Index) 17% Credit Strategies Non-Rate Sensitive (S&P Performing Loan Index)

Notes:

The recommended benchmark for Private Equity will be effective as of July 1, 2020.

The recommended benchmark for Private Investment Partnerships will be effective as of July 1, 2021, due to the illiquid nature of the program.

Benchmarks: No Recommended Changes

Program	Benchmark
Fixed Income	Fixed Policy-weighted Blend of Bloomberg Barclays U.S. Aggregate Index [90%], Bloomberg Barclays U.S. High Yield Ba-B 2% Issuer Cap Index [5%] and JP Morgan EMBI Global Core Index [5%]
Credit Strategies	Fixed Policy-weighted Blend of Bloomberg Barclays U.S. High Yield Ba-B 2% Issuer Cap Index [30%], Bloomberg Barclays U.S. Aggregate Index [10%] and S&P Performing Loan Index [60%]
Public Equity	MSCI All Country World Investable Market Index net of VRS taxes
Internal Equity	Asset-weighted Blend of the MSCI U.S. Standard Index, MSCI U.S. Small Cap Index, MSCI USA Minimum Volatility Index, MSCI World ex-U.S. Index, MSCI World ex-U.S. Minimum Volatility Index, MSCI Emerging Markets Index and EPRA/NAREIT U.S. Index net of VRS taxes
Real Assets	Asset-weighted Blend of the Total Real Estate benchmark (NCREIF ODCE Index (net, lagged by 3 months) [85%] and FTSE EPRA/NAREIT Developed REIT Index [15%]) and the Other Real Assets benchmark CPI-U Index + 400 bps per annum lagged by 3 months
Dynamic Strategies	60% MSCI All Country World Investable Market Index net of VRS taxes 20% Bloomberg Barclays U.S. Aggregate Index 10% Bloomberg Barclays U.S. High Yield Ba-B 2% Issuer Cap Index 10% JP Morgan EMBI Global Core Index
Risk-Based Investments	80% Diversifiers Benchmark (Bloomberg Barclays 3- month U.S. Treasury Bellwether + 250 bps per annum) 20% S&P Risk Parity 12% Volatility

Excess Return Objectives: Recommended Changes

Program	Excess Return Objective (basis points)	
	Current	Recommended
Fixed Income	20	25
Credit Strategies	50	75
Internal Equity	20	25
Private Equity	75	200
Private Investment Partnerships	75	120
Dynamic Strategies	30	25
Risk-Based Investments	30	25
Total Fund	30	45

Notes:

For the implementation of the incentive compensation calculation for those programs where the excess return objective changed, the calculation will be a blend of the current excess return objective (to be used until June 30, 2020) and the recommended excess return objective (to be used from July 1, 2020 onward).

Excess Return Objectives: No Recommended Changes

Program	Excess Return Objective (basis points)	
	Current	Recommended
Public Equity	30	30
Real Assets	75	75

Rationale for Requested Action

The benchmarks reflect the characteristics of a good benchmark per the CFA Institute: unambiguous, investable, measurable, appropriate, specified in advance, and reflective of current investment opinions. The excess return objectives reflect the strategies and current capabilities of staff within each program as well as for the total fund. The measures are 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.

Authority for Requested Action

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

The above action is approved on June 11, 2020 with an effective date of July 1, 2020.

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

Date

Approve FY 2021 APOs and Operational Measures.

Requested Action

The VRS Board of Trustees approves the FY 2021 Agency Performance Outcomes (APOs) and Agency Operational Measures.

Description/Background

Each year the VRS Board of Trustees approves Agency Performance Outcomes (APOs) and Operational Measures. The APOs are stretch goals for the Administrative staff. The Operational Measures are agency performance measures.

APOs (see attachment 1). The FY 2021 APOs have five stated outcomes summarized as follows:

1. Implement New myVRS Functionality – Online Retirement Processing
2. Implement New myVRS Functionality – Payment, Health Insurance Maintenance
3. ERM Implementation
4. Cardinal HCM Implementation – The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)

The objective is to attain three of the four APOs. Successful attainment of the APOs is the gainsharing portion of the performance management program of the Administrative Pay Plan for administrative staff. Under the gainsharing portion of the performance management program of the Investment Operations and Administration Pay Plan, investments operations staff are eligible for a bonus if their performance meets or exceeds expectations or is exceptional, as rated in their annual performance assessment, the employee consistently works, as a team member, to accomplish the goals of the Investment Department. Both bonuses are normally paid as a lump sum equal to 2.5% of salary.

Operational Measures (see attachment 2). VRS also identifies key operational measures each year. These measures are coupled with the APOs as part of the gainsharing portion of the performance management program. The objective is to meet or exceed the target goal for at least 13 of the 16 measures. Again, the expectation is that all employees will work collaboratively and contribute to accomplishing key functions of the agency.

Satisfying the APO and operational measure targets is required to earn the gainsharing bonus.

Rationale for Requested Action

The APOs are stretch goals for VRS, and VRS identifies key operational measures as organizational performance expectations for the fiscal year that must be maintained while working to satisfy the APOs and maintaining key agency functions. Both the Administrative and Investment Operations and Administration Staff Pay Plans contain gainsharing language to reward teamwork, collaboration and organizational results.

Although satisfaction of the APOs and Operational Measures is not an explicit condition for a gainsharing bonus to be paid to Investment Operations and Administration staff, the agency's practice is

that no gainsharing bonus is paid to Investment Operations and Administration staff in a year that Administrative staff is not eligible for a gainsharing bonus.

Authority for Requested Action

Code of Virginia § 51.1-124.22(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

O'Kelly E. McWilliams, Chairman
VRS Board of Trustees

Date



AGENCY PERFORMANCE OUTCOMES STATUS REPORT **FISCAL YEAR 2021** **Summary**

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

Overall Measure: 3 of 4 completed

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
1	Implement New myVRS Functionality - Online Retirement Processing (Measure: 4 of 6 completed)												
2	Implement New myVRS Functionality - Payment, Health Insurance Maintenance (Measure: 4 of 6 completed)												
3	ERM Implementation (Measure: 3 of 3 completed)												
4	Cardinal HCM Implementation - The Plan (Track 1), Agency (Track 2) and Retiree (Track 3) (Measure: 4 of 5 completed)												

Note: APO project schedules are tracked through the Roadmap process. APO outcomes are reported to the Board of Trustees at the conclusion of the fiscal year.



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2021

APO 1

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

APO 1 Measure: 4 of 6 completed

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
1 Implement New myVRS Functionality - Online Retirement Processing													
1.1	Complete staff and employer readiness activities, including staff training, for Member Portal (Online Retirement)												
1.2	Member Portal (Online Retirement) software is tested and ready for deployment												
1.3	Security enhancements necessary for go-live for Member Portal (Online Retirement) are complete												
1.4	Security penetration testing for Member Portal (Online Retirement) is complete												
1.5	Complete phased ramp-up of online retirement processing functionality												
1.6	Initiate and conduct quality monitoring for online retirement processing												



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2021

APO 2

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

APO 2 Measure: 4 of 6 completed

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
2 Implement New myVRS Functionality - Payment, Health Insurance Maintenance													
2.1	Complete staff and employer readiness activities, including staff training, for Payment/Health Insurance Maintenance												
2.2	Payment/Health Insurance Maintenance software is tested and ready for deployment												
2.3	Security enhancements necessary for go-live for Payment/Health Insurance Maintenance are complete												
2.4	Security penetration testing for Payment/Health Insurance Maintenance is complete												
2.5	Complete phased ramp-up of Payment/Health Insurance Maintenance functionality												
2.6	Initiate and conduct quality monitoring for Payment/Health Insurance Maintenance functionality												



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2021

APO 3

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

APO 3 Measure: 3 of 3 completed

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
3 ERM Implementation													
3.1	Complete risk assessment process to validate and prioritize risks identified in the risk portfolio												
3.2	Develop final risk response plan based on the outcomes of the risk assessment process												
3.3	Initiate the development of the initial risk response plan												



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2021

APO 4

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

APO 4 Measure: 4 of 5 completed

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
4 Cardinal HCM Implementation - The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)													
4.1	Update myVRS documentation related to information exchanges to and from the state central payroll system (CIPPS) and personnel management system (PMIS) to reflect process changes resulting from the implementation of the new Cardinal HCM system. (Track 1)												
4.2	Successfully test interfaces to and from the new Cardinal HCM system to myVRS, and monitor VRS third party vendors' completion of testing of interfaces to and from the Cardinal HCM system, in accordance with the testing schedule provided by DOA. (Track 1)												
4.3	Create or update, as appropriate, VRS policies and procedures, workflows, interface documentation and VRS signature authority to reflect process changes in the new Cardinal HCM system (Track 1, 2 and 3)												
4.4	Communicate with VRS staff concerning the transition to the new Cardinal HCM system and ensure education is provided to staff with roles in the system (Track 1, 2 and 3)												
4.5	Implement the new Cardinal HCM system and provide required reconciliation between the Cardinal HCM system and Kronos, as required. (Track 2)												

FISCAL YEAR 2021 OPERATIONAL MEASURES STATUS REPORT

July-20

Current Status - All Operational Measures

YTD Status - All Operational Measures

■ On Target ■ Off Target

■ On Target ■ Off Target — Target

OM #	Operational Measure (OM)	Description	Strategic Goal	Target (Goal)	Current Status	YTD Status	Reporting Frequency	Comments
1	Timeliness of Monthly Financial Account Reconciliations	Percentage of monthly financial control reconciliations completed by last business day of the following month	Strong Financial Viability	> 95.00%	-	-	Monthly	
2	Average Abandoned Call Rate	Percentage of calls to the Customer Counseling Center (CCC) that result in hang-ups while in the queue	Continuous Improvement of Effective and Efficient Operations	< 7.00%	-	-	Monthly	
3	Timeliness of Response to Messages Received by the Customer Counseling Center (CCC)	Average response time to emails received by the CCC	Continuous Improvement of Effective and Efficient Operations	1.00 business days	-	-	Monthly	
4	Timeliness of Monthly Retirement Disbursements	Percentage of monthly retirement disbursements processed no later than the first business day of the month	Continuous Improvement of Effective and Efficient Operations	100.00%	-	-	Monthly	
5	Timeliness of Service Retirements Processed	Percentage of service retirements processed so that retiring members are set up to receive retirement benefits on the first retirement payment date for which they are eligible	Continuous Improvement of Effective and Efficient Operations	95.00%	-	-	Monthly	
6	Accuracy of Service Retirements Processed	Percentage of service retirements processed for which the corresponding benefit payment correctly reflects the member's service record	Continuous Improvement of Effective and Efficient Operations	99.00%	-	-	Monthly	
7	Timeliness of Disability Retirements Processed	Percentage of disability retirements processed within 30 days of VRS receiving notification of approval by the Medical Review Board	Continuous Improvement of Effective and Efficient Operations	98.00%	-	-	Monthly	
8	Accuracy of Disability Retirements Processed	Percentage of disability retirements processed for which the corresponding benefit paid correctly reflects the member's service record	Continuous Improvement of Effective and Efficient Operations	99.00%	-	-	Monthly	
9	Timeliness of Workflow Documentation Imaging	Percentage of workflow documents imaged within one business day of receipt	Continuous Improvement of Effective and Efficient Operations	99.50%	-	-	Monthly	
10	Planned IT System Availability	Percentage of time critical systems are available during periods of planned availability	Superior Technological Tools that Enable Efficient Delivery of Service	99.50%	-	-	Monthly	
11	Timeliness of Employer Contribution Confirmations	Percentage of Employer Contribution Confirmation (CC) snapshots completed in VNAV by the end of the month in which they are due	Superior Technological Tools that Enable Efficient Delivery of Service	97.00%	-	-	Monthly	
12	Implementation of Corrective Action to Audit Recommendations	Percentage of audit recommendations for which VRS management represents that corrective action has been implemented by the approved target date	Continuous Improvement of Effective and Efficient Operations	> 95.00%	-	-	Quarterly	

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

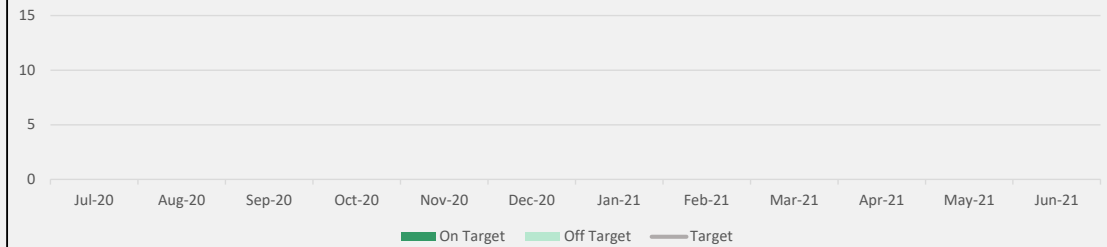
FISCAL YEAR 2021 OPERATIONAL MEASURES STATUS REPORT

July-20

Current Status - All Operational Measures

■ On Target ■ Off Target

YTD Status - All Operational Measures



OM #	Operational Measure (OM)	Description	Strategic Goal	Target (Goal)	Current Status	YTD Status	Reporting Frequency	Comments
13	Preventable Employee Turnover	Percentage of employees voluntarily separating VRS employment due to preventable experiences	Exceptional Organizational Culture and Work Environment	< 10.00%	-	-	Annual	
14	Cost to Administer Defined Benefit Plans	Annual pension administration cost for defined benefit plans, as compared to peer group median reported by CEM Benchmarking, Inc.	Strong Financial Viability	FY 2020 CEM Peer Cost Average	-	-	Annual	Will not know FY 2020 CEM peer cost until spring 2021
15	Systems Security Awareness	Percentage of eligible staff who have completed security training in compliance with the agency's and Commonwealth's security policies	Continuous Improvement of Effective and Efficient Operations	100.00%	-	-	Annual	Measure reported on an annual basis
16	Employee Professional Development	Percentage of full-time VRS administration employees receiving at least 8 hours of professional development	Highly Skilled and Trained Staff	85.00%	-	-	Annual	Measure reported on an annual basis

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.



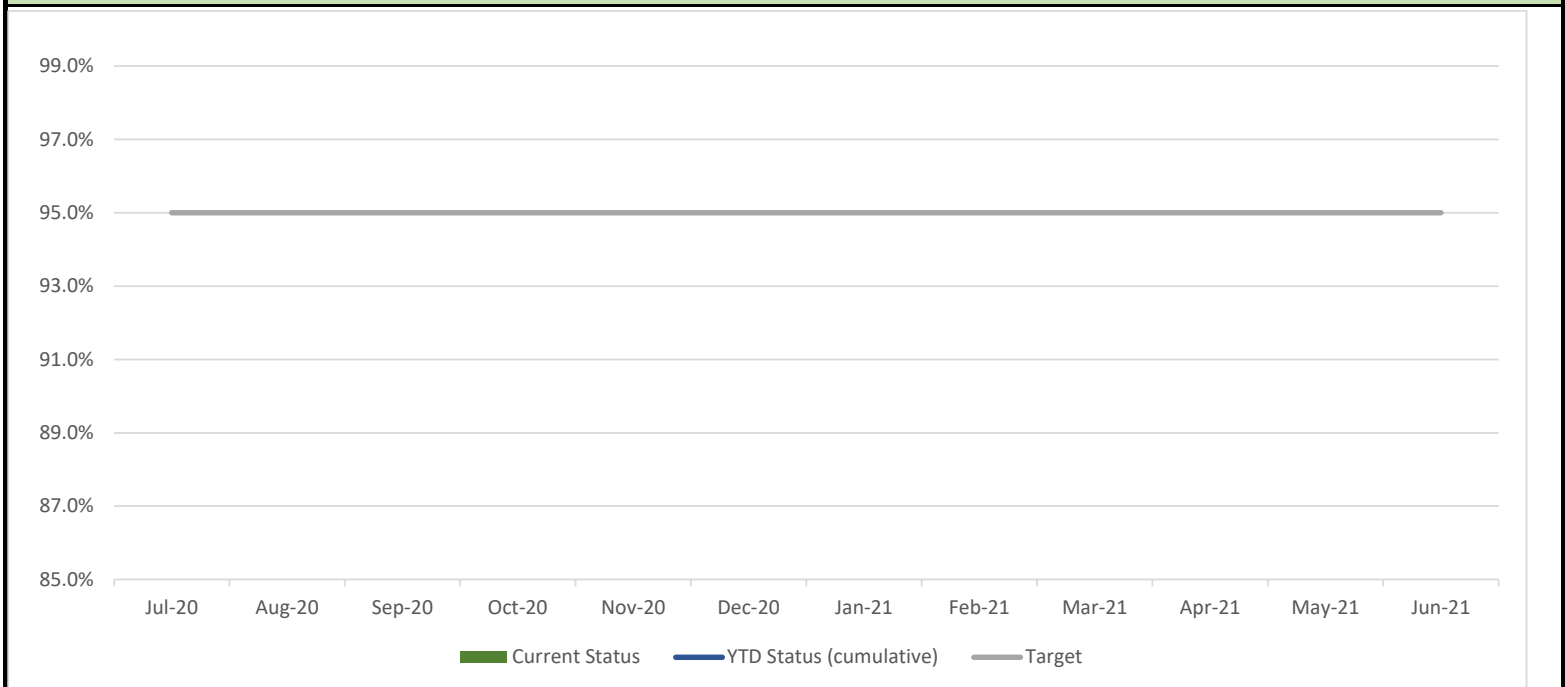
Fiscal Year 2021 Operational Measures

Reporting Period: July-20

OM
1

Operational Measure	Timeliness of Monthly Financial Account Reconciliations		
Strategic Goal	Strong Financial Viability		
Description	Percentage of monthly financial control reconciliations completed by last business day of the following month		
Calculation Methodology	The number of financial account reconciliations completed by the last business day of the month, divided by the total accounts requiring reconciliation each month.		
Data Source	Finance Control Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	> 95.00%	Baseline (Performance History)	99%
Target Rationale: Accounts for potential impacts due to ongoing pandemic and system changes		Baseline Rationale: 5 year average = 99%	
Current Reporting Month Status	0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Ongoing pandemic impacts processes and agency resources	Identify alternative processes to work around disruptions, and cross-train staff for backup as needed	
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit system availability	Enact business continuity plan for technology outages	
3	Unanticipated external/internal requests for new programs that expand the overall number of reconciliations	Streamline process for approving and implementing new programs to expedite roll-out and ensure accurate reconciliation reporting	

YTD Performance History

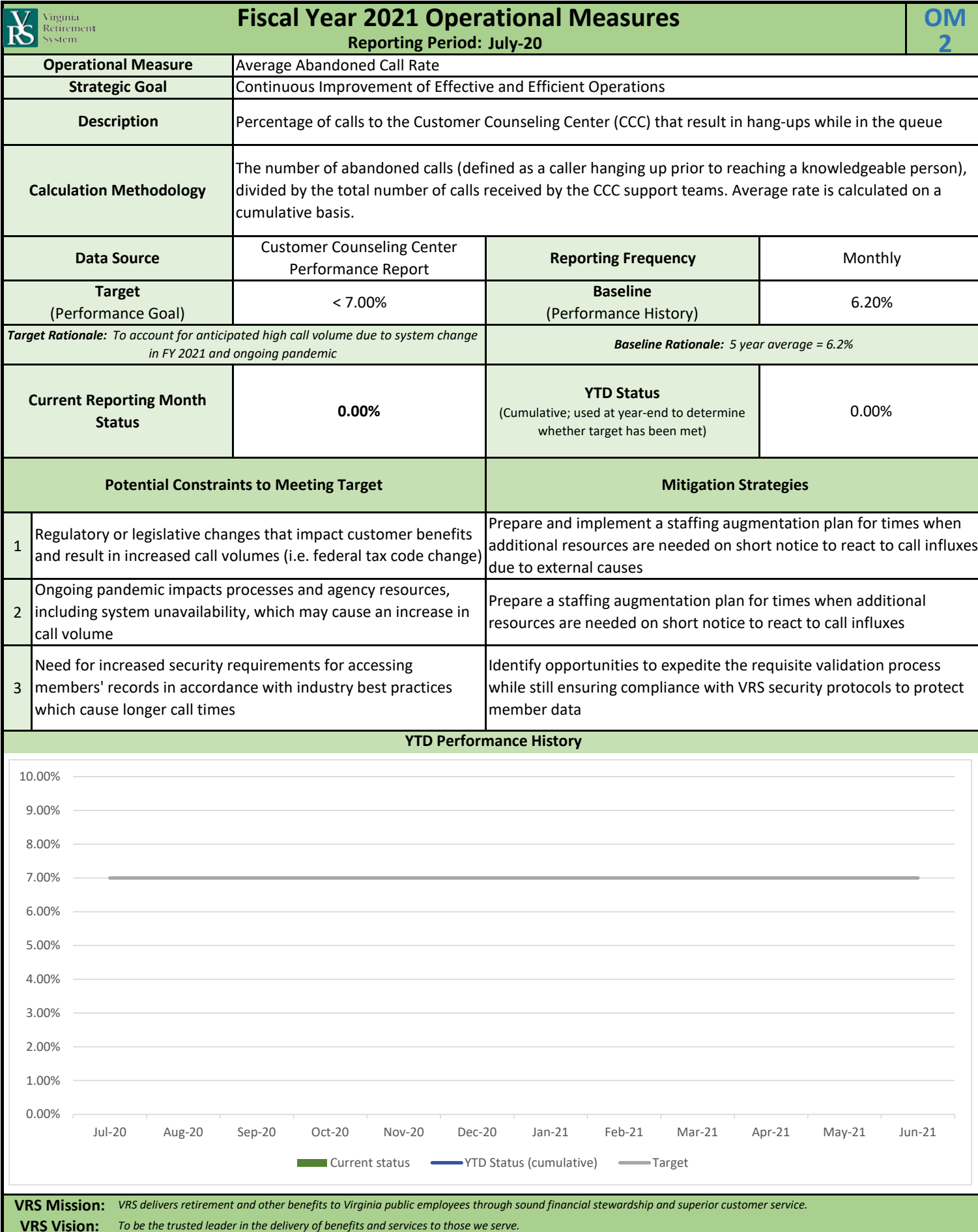


VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.


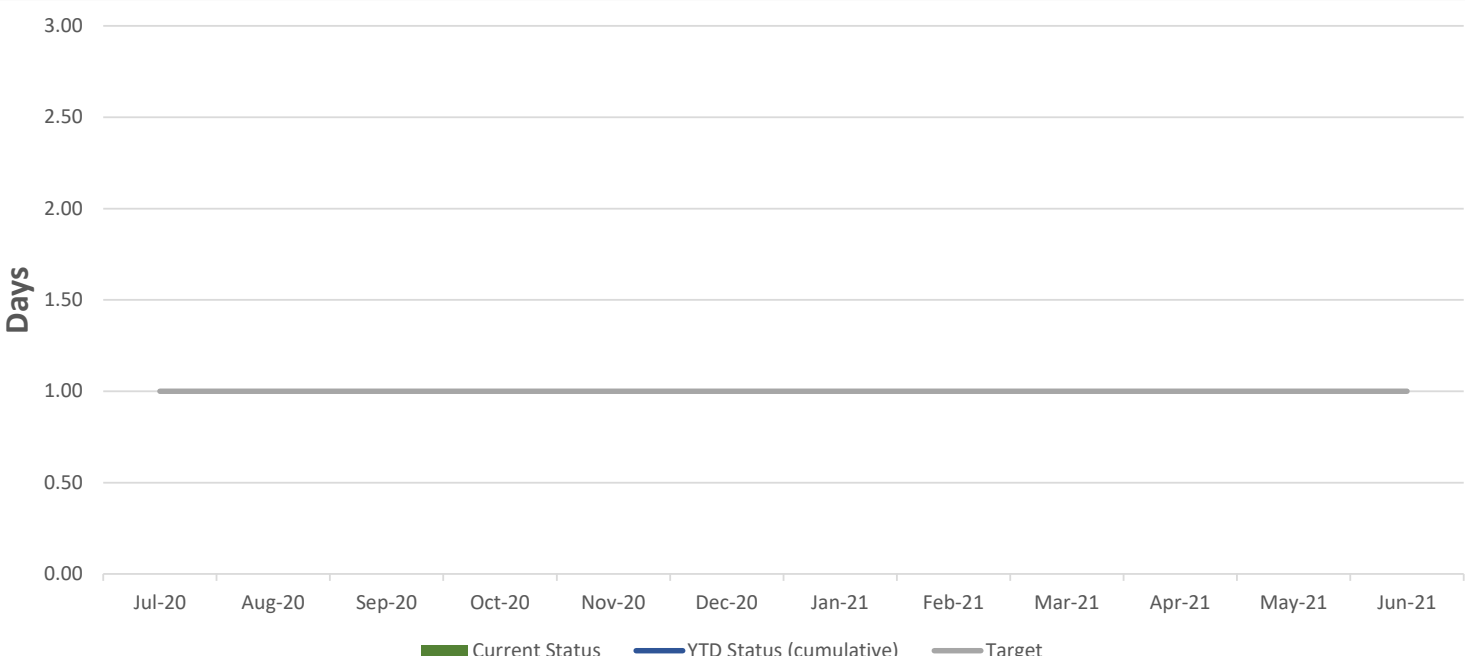
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.



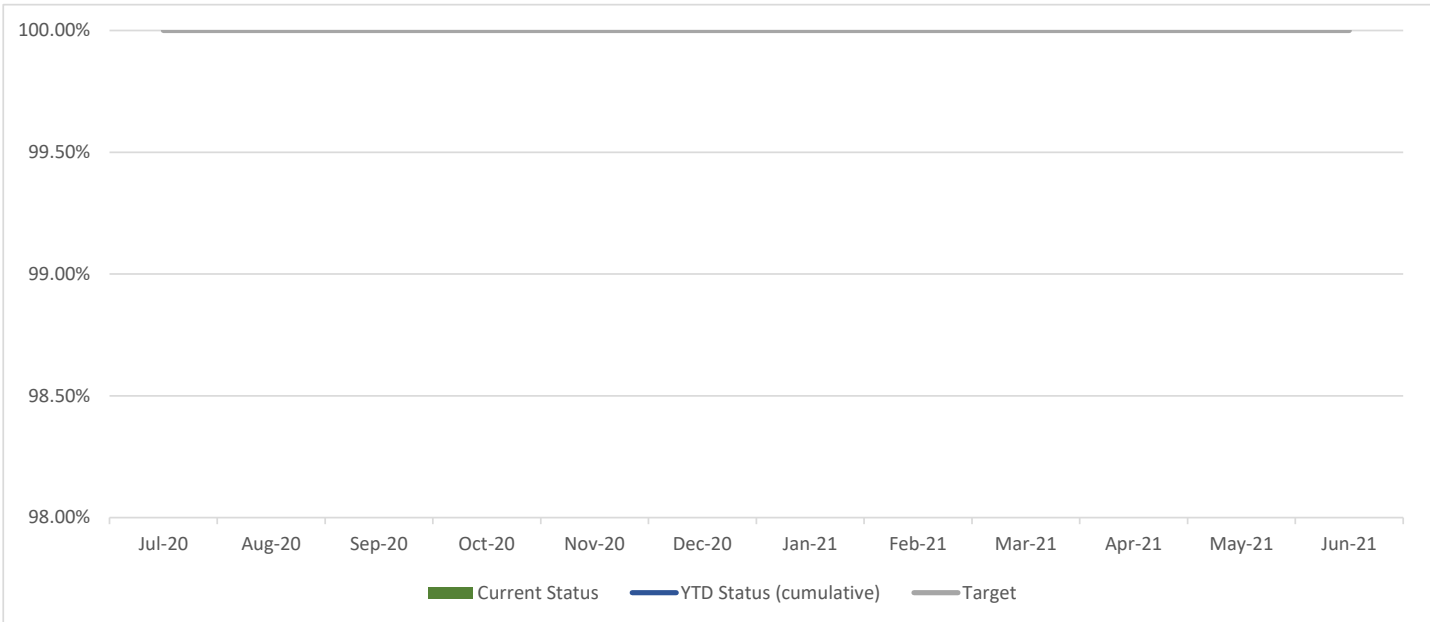
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

		Fiscal Year 2021 Operational Measures			OM 3
Reporting Period: July-20					
Operational Measure		Timeliness of Response to Messages Received by the Customer Counseling Center (CCC)			
Strategic Goal		Continuous Improvement of Effective and Efficient Operations			
Description		Average response time to emails received by the CCC			
Calculation Methodology		The number of messages responded to within two business days, divided by the total number of messages responded to by the CCC. Note: In FY 2021, the CCC is expected to transition its electronic communications from the current traditional email platform to secure messaging conducted through myVRS.			
Data Source		Customer Counseling Center Performance Report	Reporting Frequency		Monthly
Target (Performance Goal)		1.00 business days	Baseline (Performance History)		1.30 business days
<i>Target Rationale: Maintain recent performance</i>			<i>Baseline Rationale: 5 year average = 1.3 days</i>		
Current Reporting Month Status		0.00	YTD Status (Cumulative; used at year-end to determine whether target has been met)		0.00
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Transition may occur in FY 2021 from traditional emails to secure messaging through the MyVRS portal		Proactively train CCC staff on the process changes that will occur when secure messaging is implemented		
2	Ongoing pandemic impacts processes and agency resources, including system outages that disable email/secure messaging capabilities		Prepare a staff augmentation plan for times when additional resources are needed to address email backlogs resulting from system outages		
3	Historically high rate of turnover of CCC staff		Continue recruitment and retention measures to attract and retain CCC staff		
YTD Performance History					
					
VRS Mission: <i>VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.</i>					
VRS Vision: <i>To be the trusted leader in the delivery of benefits and services to those we serve.</i>					


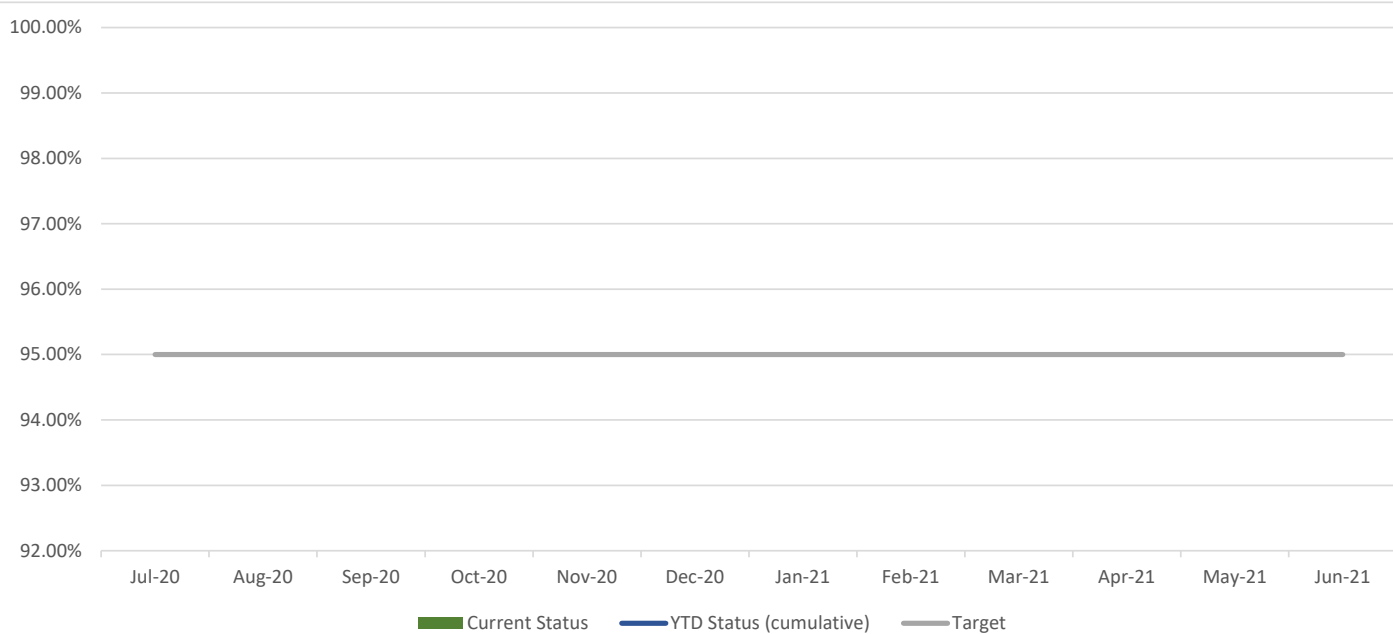
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Virginia Retirement System		Fiscal Year 2021 Operational Measures		OM 4	
		Reporting Period: July-20			
Operational Measure		Timeliness of Monthly Retirement Disbursements			
Strategic Goal		Continuous Improvement of Effective and Efficient Operations			
Description		Percentage of monthly retirement disbursements processed no later than the first business day of the month			
Calculation Methodology		The number of monthly retirement disbursements processed so that the payment date is no later than the first business day of the month, divided by the total number of monthly retirement disbursements that require processing each month. "Processed" is defined as funds having been disbursed to retirees; "disbursed" is defined as the funds having been paid out of the VRS account. This process requires VRS to submit documentation to external partners (Virginia Department of Treasury, banking partner) in sufficient time to meet the first business day of the month requirement.			
Data Source		Benefit Disbursements Performance Report	Reporting Frequency	Monthly	
Target (Performance Goal)		100.00%	Baseline (Performance History)	100.00%	
Target Rationale: Maintain recent performance			Baseline Rationale: 5 year average = 100%		
Current Reporting Month Status		0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.00%	
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Dependence upon external parties who are integral to the process (i.e., Virginia Department of Treasury and banking partner)		Develop contingency plan in concert with external parties to ensure open lines of communication and alternate processes in the event of a potential delay		
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit ability to process and/or transmit fund documentation to external stakeholders		Enact business continuity plan for technology outages		
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability		Cross-train existing staff and ensure redundancy of staff authorized to approve retirements		
YTD Performance History					
					
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.					
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.					


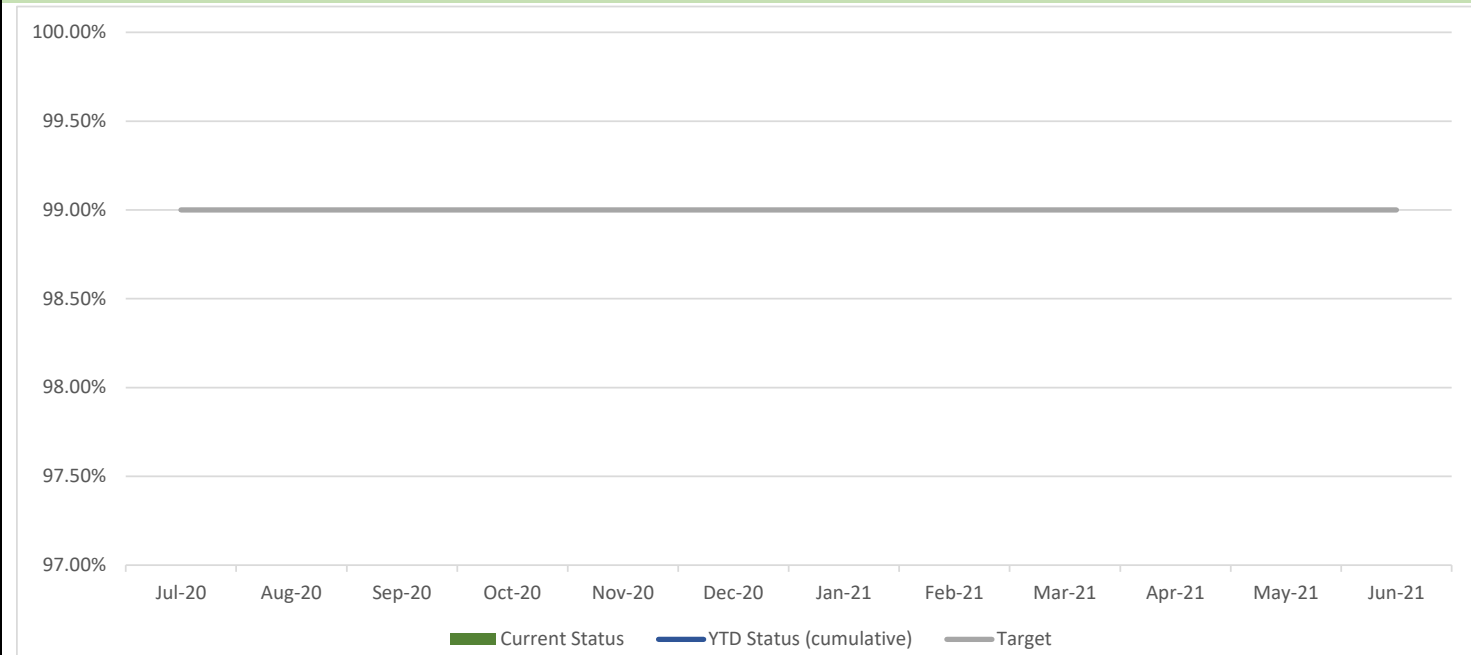
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

		Fiscal Year 2021 Operational Measures		OM 5	
		Reporting Period: July-20			
Operational Measure		Timeliness of Service Retirements Processed			
Strategic Goal		Continuous Improvement of Effective and Efficient Operations			
Description		Percentage of service retirements processed so that retiring members are set up to receive retirement benefits on the first retirement payment date for which they are eligible			
Calculation Methodology		The number of service retirement payments processed by the first payment date on which the member is eligible to receive retirement benefits, divided by the total number of initial payments made for the same time period. The "first payment date on which the member is eligible to receive retirement benefits" is based on the date by which VRS receives a member's retirement application that is determined by VRS to be complete, accurate, and ready for payment processing. "Processed" is defined as funds having been paid to retirees; "disbursed" is defined as the funds having been paid out of the VRS account.			
Data Source		Service Retirement Performance Report	Reporting Frequency		Monthly
Target (Performance Goal)		95.00%	Baseline (Performance History)		97.90%
Target Rationale: Accounts for system conversion and ongoing pandemic			Baseline Rationale: 5 year average = 97.90%		
Current Reporting Month Status		0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)		0.00%
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes		Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition		
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit ability to process retirements		Enact business continuity plan for technology outages		
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability		Cross-train existing staff and ensure redundancy-of staff authorized to approve retirements		
YTD Performance History					
					
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.					
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.					

Overall Measure: 13 of 16 meet or exceed target

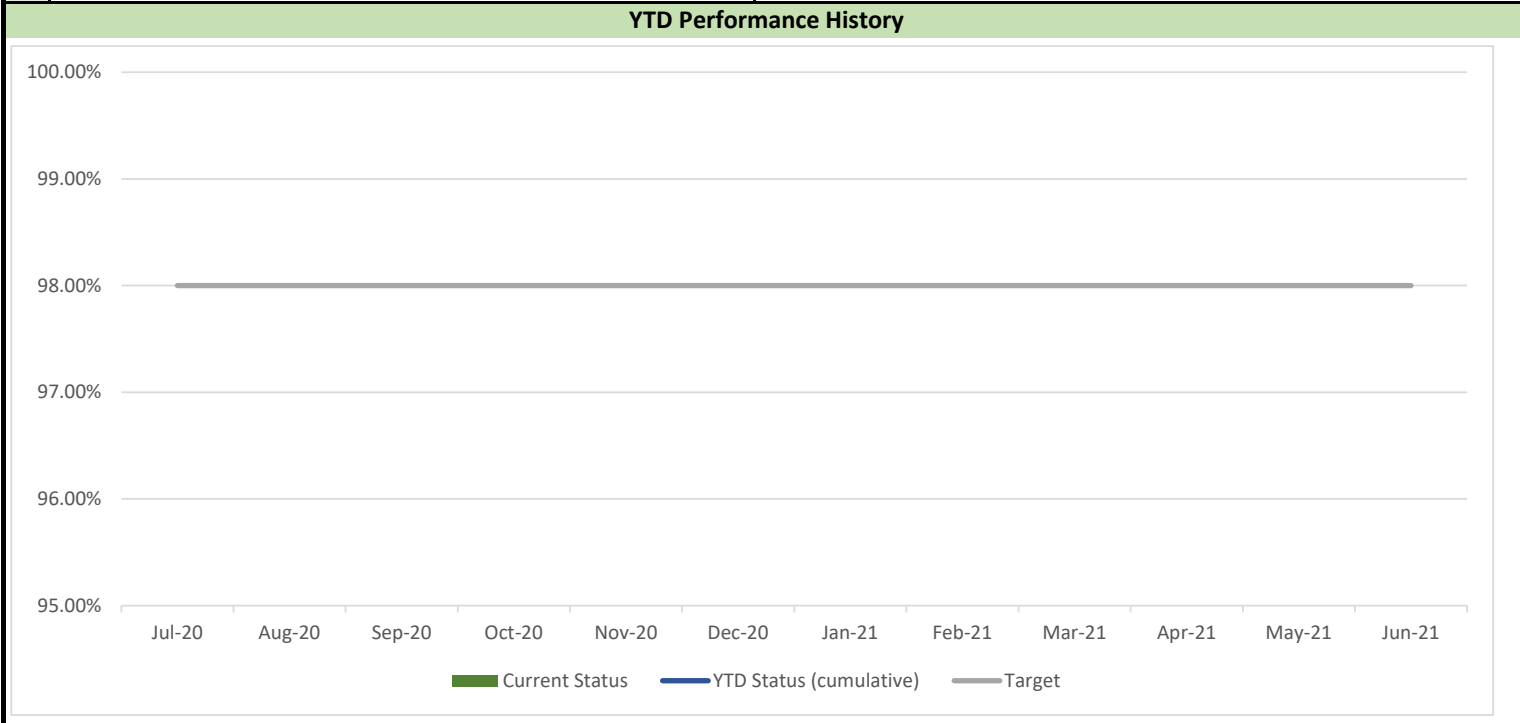
Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

		Fiscal Year 2021 Operational Measures		OM 6	
		Reporting Period: July-20			
Operational Measure		Accuracy of Service Retirements Processed			
Strategic Goal		Continuous Improvement of Effective and Efficient Operations			
Description		Percentage of service retirements processed for which the corresponding benefit payment correctly reflects the member's service record			
Calculation Methodology		The number of service retirement applications processed and corresponding benefit paid accurately, divided by the total number of initial service retirement benefits processed and paid. An accurate benefit payment is defined as the benefit amount correctly reflecting the member's service record. "Processed" is defined as funds having been paid to retirees; "paid" is defined as the funds having been paid out of the VRS account.			
Data Source		Service Retirement Performance Report	Reporting Frequency		Monthly
Target (Performance Goal)		99.00%	Baseline (Performance History)		99.00%
<i>Target Rationale: Maintain recent performance</i>			<i>Baseline Rationale: 5 year average = 99%</i>		
Current Reporting Month Status		0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)		0.00%
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes		Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition		
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit ability to process retirements		Enact business continuity plan for technology outages		
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability		Cross-train existing staff and ensure redundancy of staff authorized to approve retirements		
YTD Performance History					
					
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.					
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.					

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Disability Retirements Processed		
Strategic Goal	Continuous Improvement of Effective and Efficient Operations		
Description	Percentage of disability retirements processed within 30 days of VRS receiving notification of approval by the Medical Review Board		
Calculation Methodology	The number of disability retirements processed within 30 days after VRS receives notice of approval of the application by the Medical Review Board. "Processed" is defined as funds having been paid to retirees; "paid" is defined as the funds having been paid out of the VRS account.		
Data Source	Disability Retirement Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	98.00%	Baseline (Performance History)	98.80%
Target Rationale: To account for potential processing delays due to system conversion in FY 2021 and ongoing pandemic impacts		Baseline Rationale: 5 year average = 98.80%	
Current Reporting Month Status	0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes	Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition	
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit ability to process retirements	Enact business continuity plan for technology outages	
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability	Cross-train existing staff and ensure redundancy of staff authorized to approve retirements	


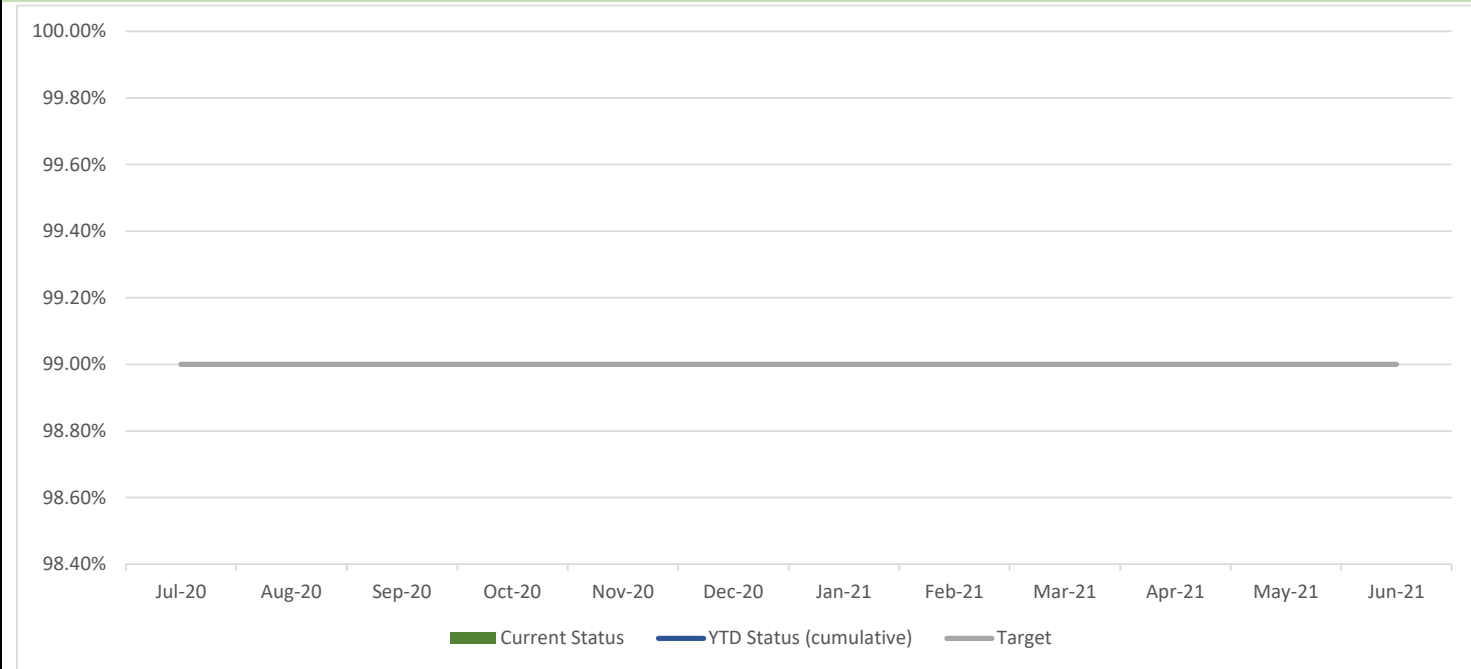


VRS Mission:

VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

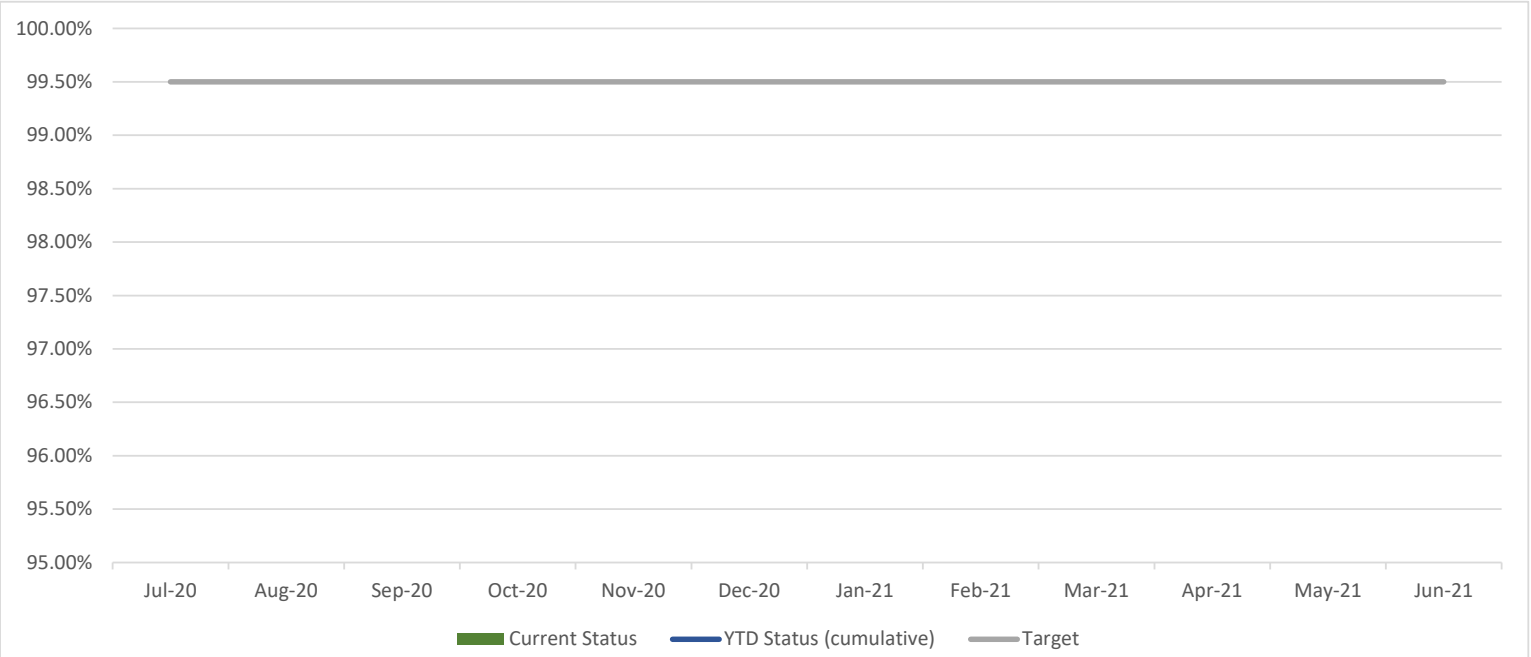
VRS Vision:

To be the trusted leader in the delivery of benefits and services to those we serve.

		Fiscal Year 2021 Operational Measures				OM 8	
		Reporting Period: July-20					
Operational Measure		Accuracy of Disability Retirements Processed					
Strategic Goal		Continuous Improvement of Effective and Efficient Operations					
Description		Percentage of disability retirements processed for which the corresponding benefit paid correctly reflects the member's service record					
Calculation Methodology		The number of disability retirement applications processed and corresponding benefit paid accurately, divided by the total number of initial disability retirement benefits processed and paid. An accurate benefit payment is defined as the benefit amount correctly reflecting the member's service record. "Processed" is defined as funds having been paid to retirees; "paid" is defined as the funds having been paid out of the VRS account.					
Data Source		Disability Retirement Performance Report		Reporting Frequency		Monthly	
Target (Performance Goal)		99.00%		Baseline (Performance History)		99.00%	
Target Rationale: Maintain recent performance				Baseline Rationale: 5 year average = 99%			
Current Reporting Month Status		0.00%		YTD Status (Cumulative; used at year-end to determine whether target has been met)		0.00%	
Potential Constraints to Meeting Target				Mitigation Strategies			
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes			Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition			
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit ability to process retirements			Enact business continuity plan for technology outages			
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability			Cross-train existing staff and ensure redundancy of staff authorized to approve retirements			
YTD Performance History							
							
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.							
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.							

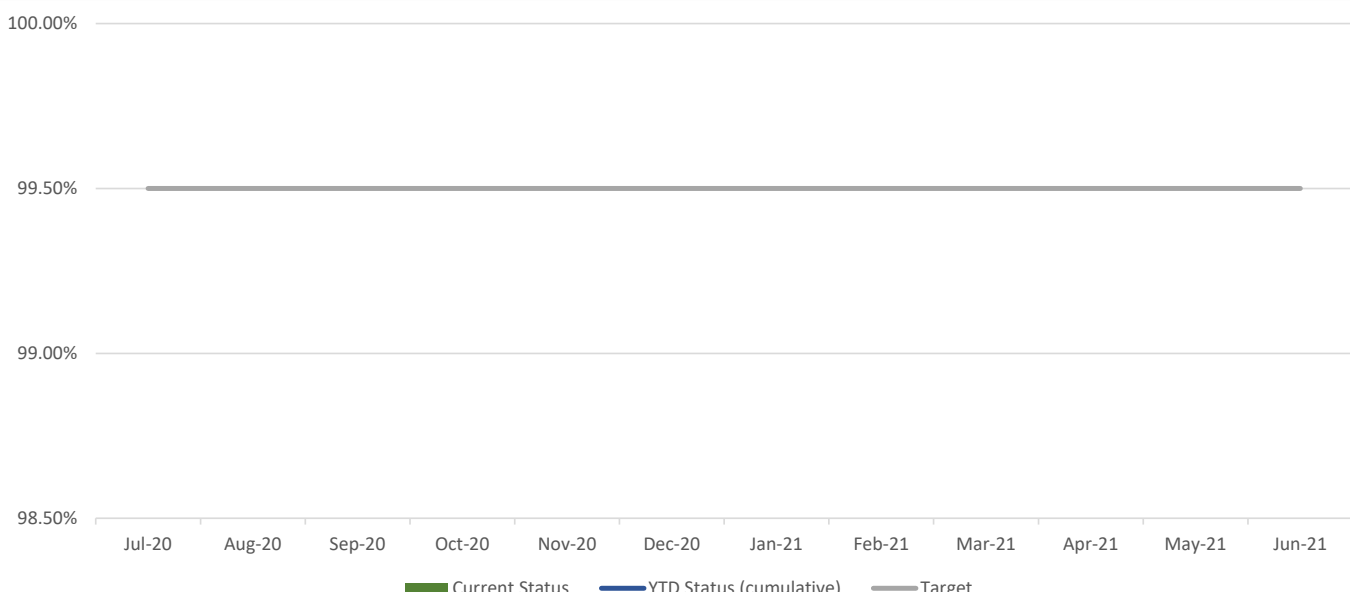
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Virginia Retirement System			Fiscal Year 2021 Operational Measures		OM 9
			Reporting Period: July-20		
Operational Measure		Timeliness of Workflow Documentation Imaging			
Strategic Goal		Continuous Improvement of Effective and Efficient Operations			
Description		Percentage of workflow documents imaged within one business day of receipt			
Calculation Methodology		The number of documents imaged within one business day of receipt by the Imaging business unit, divided by the number of documents received by the Imaging unit within the same timeframe. Currently, an average of 20,000 documents are imaged per month.			
Data Source		Technology Services SLEs Performance Report	Reporting Frequency		Monthly
Target (Performance Goal)		99.50%	Baseline (Performance History)		99.90%
Target Rationale: Maintain recent performance			Baseline Rationale: 5 year average = 99.9%		
Current Reporting Month Status		0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)		0.00%
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Dependence upon current Imaging unit staffing level to ensure expedient and accurate processing within the prescribed turnaround time		Prescribe duties that merit the continuance of the current Imaging unit staffing level (with respect to the anticipated transition in FY 2021 to online retirements that should reduce paper form intake levels)		
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit system availability		Enact business continuity plan for technology outages		
3	Staffing constraints; specific skill set required limits feasibility for untrained staff to produce results with same efficiency and effectiveness		Establish a routine cross-training program to ensure well-trained staff are available at all times		
YTD Performance History					
					
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.					
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.					

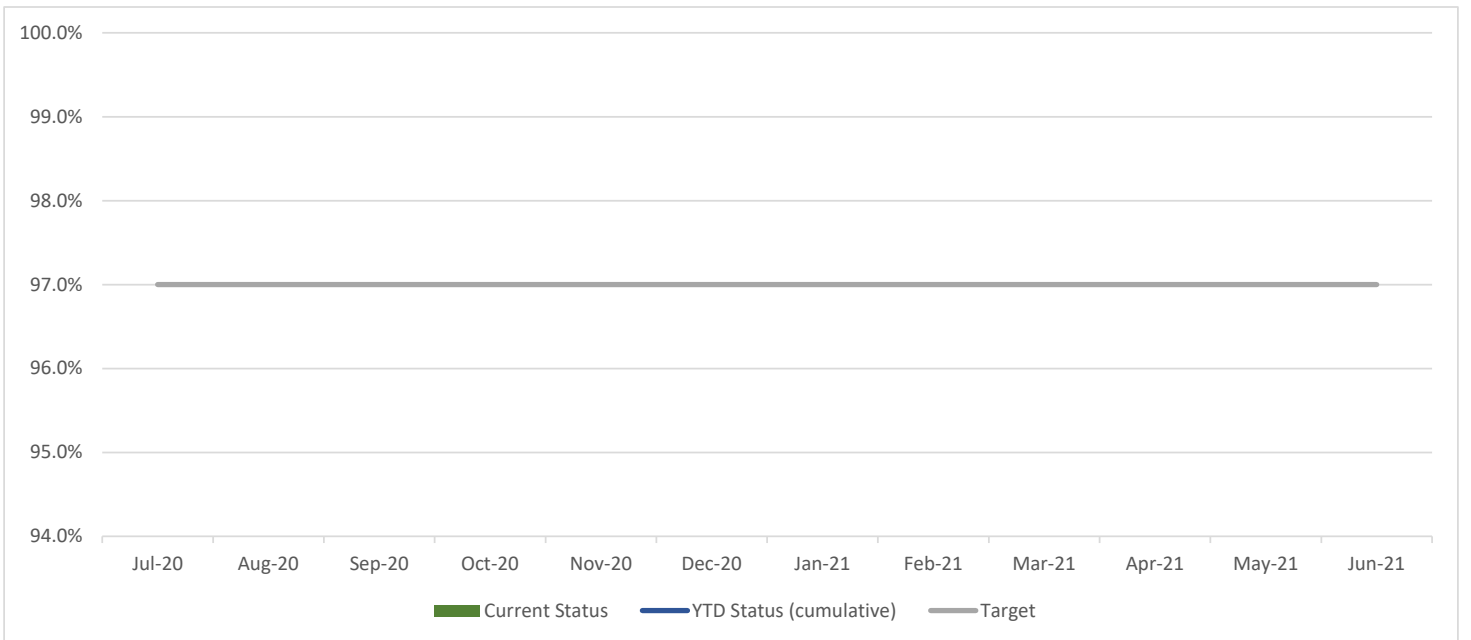
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

VRS Virginia Retirement System		Fiscal Year 2021 Operational Measures		OM 10	
Reporting Period: July-20					
Operational Measure		Planned IT System Availability			
Strategic Goal		Superior Technological Tools that Enable Efficient Delivery of Service			
Description		Percentage of time critical systems are available during periods of planned availability			
Calculation Methodology		Percentage of time during which critical business systems are available for use by VRS staff and customers, divided by the total time for which it was planned that said systems would be available. Critical business systems include: VNAV, telephone, email, internet, MyVRS, Imaging, Investments, MUNIS, Customer Counseling Center Cisco phone system, and remote access. Note: business systems deemed "critical" may change periodically depending on business needs or system changes (ex: RIMS was decommissioned in spring 2019 and is no longer considered a critical business system as of that time). Periods of availability are pre-determined based on business needs and requirements regarding routine system testing, maintenance and upgrades. "Availability" is defined as being able to be used by the majority of persons for whom it is intended and for the majority of purposes for the system's intended use.			
Data Source		Technology Services SLEs Performance Report	Reporting Frequency		Monthly
Target (Performance Goal)		99.50%	Baseline (Performance History)		99.90%
Target Rationale: Maintain recent performance			Baseline Rationale: 5 year average = 99.9%		
Current Reporting Month Status		0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)		0.00%
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Failure on the part of third party business partners to provide dependent services		Implement back-up plans (ex: different phone line)		
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit system availability		Enact business continuity plan for technology outages		
3	Timing of a potential system failure that limits staff resources available to respond immediately		Strategically plan staffing availability to address potential system failures in the most effective manner		
YTD Performance History					
					
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.					
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.					

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

VRS Virginia Retirement System		Fiscal Year 2021 Operational Measures		OM 11
		Reporting Period: July-20		
Operational Measure		Timeliness of Employer Contribution Confirmations		
Strategic Goal		Superior Technological Tools that Enable Efficient Delivery of Service		
Description		Percentage of Employer Contribution Confirmation (CC) snapshots completed in VNAV by the end of the month in which they are due		
Calculation Methodology		The number of employer CC snapshots received by the end of the month in which they are due, divided by the total number of employer CC snapshots required for the same time period. VRS works with employers to ensure that monthly CC snapshots are posted in a timely fashion. There are over 1,000 employers reporting to VRS for which CC snapshots are required on a monthly basis.		
Data Source		Employer Reporting Contribution Confirmation and Payment Status Report	Reporting Frequency	Monthly
Target (Performance Goal)		97.00%	Baseline (Performance History)	97.60%
Target Rationale: Maintain recent performance		Baseline Rationale: 5 year average = 97.60%		
Current Reporting Month Status		0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.00%
Potential Constraints to Meeting Target			Mitigation Strategies	
1	Dependence on over 1,000 employers to submit their confirmations on time every month		Proactively communicate with employers with a focus on those with a history of delinquent submissions to mediate potential causes for delay	
2	Impact of ongoing pandemic on resources at the employer level that prevent their timely submission of CC snapshots		Proactively communicate with employers to identify potential impacts and assist as appropriate with the submission process	
3	Cardinal implementation for state employers may delay timely submission due to additional responsibilities during Cardinal transition		Provide notice to state employers of potential for delay due to Cardinal implementation and advise that they prepare to ensure timely report submission	
YTD Performance History				
				
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VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.				

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.



Fiscal Year 2021 Operational Measures

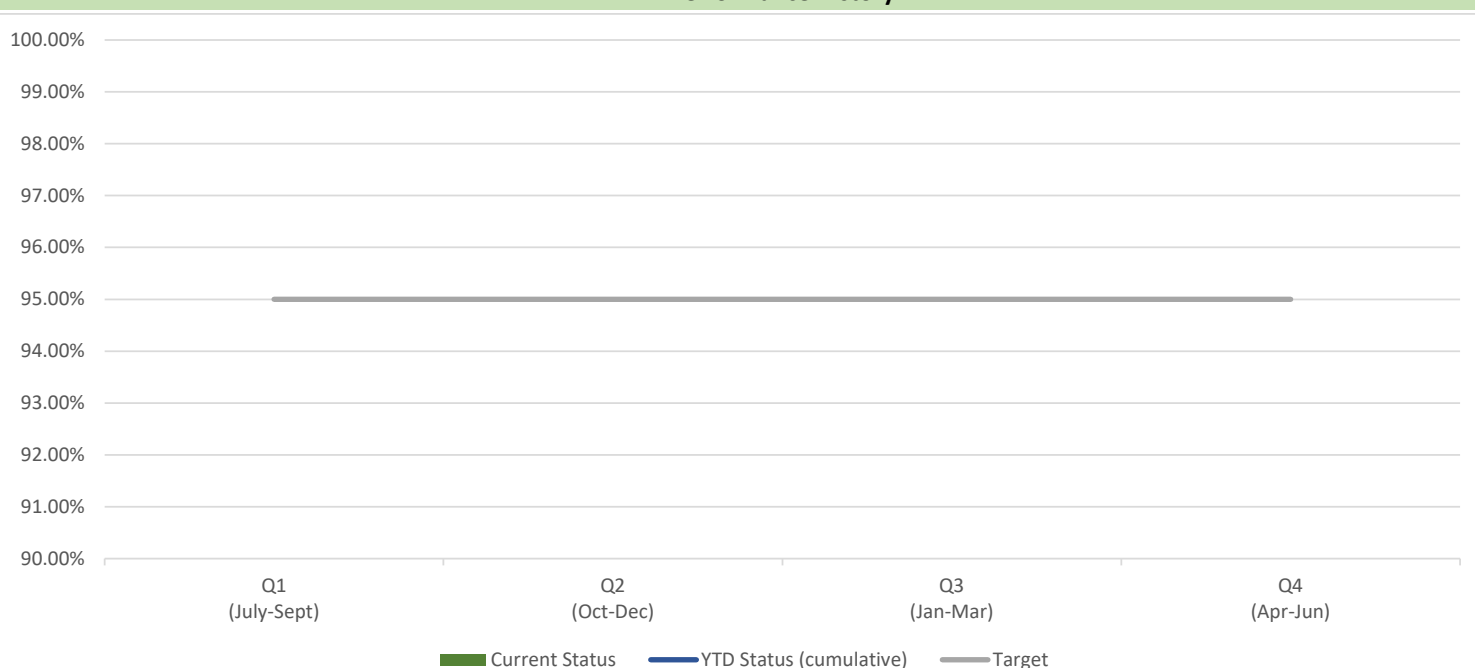
Reporting Period: July-20

OM
12

Operational Measure	Implementation of Corrective Action to Audit Recommendations		
Strategic Goal	Continuous Improvement of Effective and Efficient Operations		
Description	Percentage of audit recommendations for which VRS management represents that corrective action has been implemented by the approved target date		
Calculation Methodology	The number of audit recommendations for which VRS management has represented that corrective action has been implemented, divided by the total number of audit recommendations for which corrective action is needed as of the date the measure is calculated. VRS management establishes target dates and provides periodic updates to Audit regarding whether actions have been taken. Audit tracks responses in the Audit Recommendation Follow-Up System (ARFUS).		
Data Source	ARFUS	Reporting Frequency	Quarterly
Target (Performance Goal)	> 95.00%	Baseline (Performance History)	94.00%
Target Rationale: Maintain recent performance		Baseline Rationale: 5 year average = 94.00%	
Current Reporting Month Status	0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.00%

Potential Constraints to Meeting Target		Mitigation Strategies
1	High cost to implement necessary corrective action	Work within existing agency allocations and, if necessary, also with state budgetary processes to obtain resources needed to effectuate corrective action
2	Limited staff resources to effectively implement necessary corrective action	Adjust allocation of staffing resources to enable corrective action implementation
3	External factors that delay ability to take necessary corrective action (ex: legislative mandates that redirect agency resources, ongoing pandemic)	Communicate with DEC and Audit regarding possible adjustment of target date to accommodate timeline of when resources will be available

YTD Performance History



VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.



Fiscal Year 2021 Operational Measures


Reporting Period: July-20

OM
13

Operational Measure		Preventable Employee Turnover	
Strategic Goal		Exceptional Organizational Culture and Work Environment	
Description		Percentage of employees voluntarily separating VRS employment due to preventable experiences	
Calculation Methodology		The number of Administration employees who voluntarily separate from VRS employment due to preventable reasons, divided by the total number of Administration employees who voluntarily separate VRS employment, when total employee turnover exceeds 5% within the same period of time. Preventable turnover is determined from exit interview results, and includes substantiated reports of unsuccessful supervision or management, unsatisfactory work environment, insufficient resources to complete one's job effectively, and unavailability of training opportunities.	
Data Source	Human Resources Department Exit Interview Survey Results	Reporting Frequency	Annual
Target (Performance Goal)	< 10.00%	Baseline (Performance History)	5.88%
Target Rationale: Maintain recent performance		Baseline Rationale: FY 2019 results	
Current Reporting Month Status	0.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Unrealistic employee expectations regarding VRS work environment and responsibilities	Provide clear position descriptions and responsibilities upon hire; outline organization culture and expectations on a regular basis; ensure open communication between employees, managers and supervisors	
2	Reorganization due to myVRS enhancements may alter current work responsibilities for some employees	Provide clear and open communication throughout the implementation process; Offer sufficient training opportunities for employees tasked with new responsibilities	
3	Ongoing pandemic impacts employee morale	Continue direct outreach to employees, provide EAP resources and implement employee engagement activities	
YTD Performance History			
[Reported as an annual measure]			
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.			
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.			

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

 Virginia Retirement System		Fiscal Year 2021 Operational Measures		OM 14
Reporting Period: July-20				
Operational Measure		Cost to Administer Defined Benefit Plans		
Strategic Goal		Strong Financial Viability		
Description		Annual pension administration cost for defined benefit plans, as compared to peer group median reported by CEM Benchmarking, Inc.		
Calculation Methodology		VRS pension administration cost per active member and annuitant for defined benefit plans as compared to that of its peer group, as calculated by CEM Benchmarking, Inc. The average peer cost calculated by CEM is available on delay and will not be known until spring 2021. At that time the FY 2020 annual agency cost will be compared to the to the FY 2020 CEM peer cost to determine whether VRS's cost is lower than the peer average.		
Data Source		CEM Benchmarking, Inc.	Reporting Frequency	Annual
Target (Performance Goal)		Lower than the FY 2020 CEM Peer Cost Average	Baseline (Performance History)	N/A
Target Rationale: Measuring VRS annual administrative cost for FY 2020 against the most current peer data as provided by CEM Benchmarking, Inc.			Baseline Rationale: N/A	
Current Reporting Month Status		-	YTD Status (Used at year-end to determine whether target has been met)	-
Potential Constraints to Meeting Target			Mitigation Strategies	
1	Significant unanticipated costs to administer pension plans due to external influences, including the ongoing pandemic		Work within existing agency allocations and prioritize spending plans to ensure administrative expenditures remain reasonable	
2	Dependent upon expenditure patterns for the CEM Peer group for administrative cost average		Maintain communications with CEM peers to stay informed on any spending abnormalities that may skew CEM-calculated peer costing	
3	FY 2020 CEM cost not known until late into FY 2021 (limiting agency ability to react if missing target)		Proactively calculate and monitor agency administrative cost in anticipation of receiving the FY 2020 CEM cost; adjust agency spending if out of line with recent CEM peer cost averages	
YTD Performance History				
[Average Pension Administration Cost for VRS' Peer Group, as provided by CEM Benchmarking, will be known in spring 2020]				
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.				
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.				

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Fiscal Year 2021 Operational Measures


Reporting Period: July-20

OM
15

Operational Measure		Systems Security Awareness	
Strategic Goal		Continuous Improvement of Effective and Efficient Operations	
Description		Percentage of eligible staff who have completed security training in compliance with the agency's and Commonwealth's security policies	
Calculation Methodology		Percentage of eligible staff who have completed the agency's annual security training, VRS User IT Security Policy Training ("security training"), divided by the total eligible agency staff. Employees who join the agency during FY 2021 are required to complete security training within 30 days after their start date. All staff are required to complete the training during the annual training window. The training provides information on such critical security practices as protecting sensitive data, utilizing effective passphrases, reviewing acceptable technology use policies, being on alert for phishing and other malpractices, and more. The percentage is calculated on a cumulative basis and reported annually (with the total requirement recalculated monthly as new staff are hired and required to obtain security training).	
Data Source	Technology Services SLEs Performance Report	Reporting Frequency	Annual
Target (Performance Goal)	100.00%	Baseline (Performance History)	100.00%
Target Rationale: Maintain high security awareness		Baseline Rationale: All VRS staff completed security training in FY 2020	
Current Status	-	YTD Status (Cumulative; used at year-end to determine whether target has been met)	-
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Unavailability of the Virginia Learning Center (VLC, a non-VRS application) for training	Provide sufficient time for staff to obtain training within prescribed timeline to allow for possible VLC system unavailability	
2	Ongoing pandemic impacts processes and agency resources, including technology outages that limit system availability	Enact business continuity plan for technology outages	
3	New training requirements as set-forth by the Commonwealth Security Policy that require changes to the prepared security training	Proactively coordinate with different units within VRS to ensure sufficient time and resources to make necessary changes to the prepared training	
YTD Performance History			
[Reported as an annual measure]			
VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.			
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.			

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

 Virginia Retirement System		Fiscal Year 2021 Operational Measures Reporting Period: July-20		OM 16	
Operational Measure		Employee Professional Development			
Strategic Goal		Highly Skilled and Trained Staff			
Description		Percentage of full-time VRS administration employees receiving at least 8 hours of professional development			
Calculation Methodology		The number of eligible full-time VRS administration employees who have completed at least 8 hours of professional development, divided by the total number of eligible full-time administration employees. Eligible employees are full-time administration staff hired after July 1, 2020 who are not on short- or long-term disability or FMLA during FY 2021. Qualifying professional development includes courses designated in the Virginia Learning Center (VLC), as well as conferences, webinars, college or trade school classes, and any other professional development as approved by the Human Resources Director. Number of hours received is tracked on a cumulative basis and reported quarterly.			
Data Source		Human Resources Performance Report	Reporting Frequency		Annual
Target (Performance Goal)		85.00%	Baseline (Performance History)		91.30%
Target Rationale: Maintain recent performance and increased total # of hours			Baseline Rationale: 5 year average = 91.32%		
Current Status		-	YTD Status (Cumulative; used at year-end to determine whether target has been met)		-
Potential Constraints to Meeting Target			Mitigation Strategies		
1	Limited staff flexibility to obtain professional development due to significant staff time dedicated to implementation of myVRS enhancements in FY 2021		Encourage staff to plan for professional development opportunities before and/or after periods of time dedicated to implementation myVRS enhancements		
2	Dependence on IT system availability/accessibility for trainings and/or time tracking		Advise staff to plan to be proactive about obtaining professional development and reporting their hours earned as they go		
3	Limited progressive course availability on relevant subject matter area		Ongoing communication between managers and staff to expand and identify new learning opportunities		
YTD Performance History					
[Reported as an annual measure]					
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VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.					

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Reappointment of IAC Members.

Requested Action

The Board reappoints to the Investment Advisory Committee: Theodore Economou for a two-year term ending September 13, 2022; and Deborah Allen Hewitt, Ph.D., for a two-year term ending October 16, 2022.

Rationale for Requested Action

Theodore Economou and Deborah Allen Hewitt, Ph.D., currently serve on the Investment Advisory Committee (IAC) and are willing to be reappointed for another two-year term. Mr. Economou is Chief Investment Officer Multi-Asset at Lombard Odier Asset Management (Switzerland) SA, and Dr. Hewitt is Clinical Professor Emerita at the Mason School of Business at the College of William & Mary.

Authority for Requested Action

Code of Virginia § 51.1-124.26 requires the Board to appoint an Investment Advisory Committee to provide the Board with sophisticated, objective, and prudent investment advice, which will further assist the Board in fulfilling its fiduciary duty as trustee of the funds of the Retirement System.

The above action is approved.

O'Kelly E. McWilliams, Chairman
VRS Board of Trustees

Date

THÉODORE ECONOMOU, CFA

5, Avenue Gaspard-Vallette
1206 Geneva, Switzerland

Mobile: +41 79 696 0694
theodore.economou@cern.ch

Chief Investment Officer & Investment Advisor with global experience

- Experience in pension fund management and asset management, in Europe and USA.
- Professional experience in private assets including transactions, balance sheet structuring (equity & debt), and private equity portfolio investments.
- Won pension industry distinctions for innovations in risk management, management of equities, real estate, and alternative assets.

LOMBARD ODIER ASSET MANAGEMENT (Geneva, Switzerland) 2015–Present

Chief Investment Officer, Multi-Asset

Oversee multi-asset institutional portfolios, with direct responsibility for CHF 6Bn in institutional client assets, including pension funds and foundations.

- Direct team of 10 in London and Geneva
- Developed and implemented portfolio construction model “by time-horizon” to increase performance while actively controlling risk.
- Led growth of flagship “All Roads” DGF strategy.

LOMBARD ODIER PENSION FUND (Geneva, Switzerland) 2014–Present

Chair, Investment Committee

Led restructuring of 1.5Bn CHF investment portfolio to target higher performance.

- Restructured portfolio around time horizons in order to reconcile return, risk, and liquidity goals and constraints.
- Increased private assets allocation to 30%, strengthening the private equity program with a focus on buyouts and venture; initiated private credit allocation.
- Implemented dynamic cross-asset allocation in short-term-oriented portfolio.

CERN PENSION FUND (Geneva, Switzerland) 2009–2015

Chief Executive Officer & CIO

Led restructuring of the 4Bn CHF pension investment portfolio of the European Organization for Nuclear Research (CERN) to target absolute performance while managing risk.

- Designed and implemented comprehensive investment governance framework, later featured in the [Journal of Investment Consulting](#).
- Implemented first ever private equity and alternatives programs.
- Fund won several awards ([Investments & Pensions Europe](#), [CIO Magazine](#), [HFR](#) award for “outstanding career contribution by an individual investor”).

ITT CORPORATION (New York, USA) 1993 – 2009

Assistant Treasurer, Corporate Finance & Pensions

2002 – 2009

Led capital markets and pension investment activities.

- Designed debt financing to support \$3b in acquisitions of portfolio companies
- Led restructuring of \$5 billion U.S. DB pension investments portfolio, increasing private equity program to 20% of assets; among first to implement LDI in US (2003).
- Restructured DC plan options to include default target-date funds (2005).

- ITT Pension Fund realized top decile performance among US large pension funds, winning several awards, including *Institutional Investor's* 2005 Corporate Plan Sponsor of the Year Award.

Investment Trustee, ITT Industries Ltd Pension Scheme (Basingstoke, UK) 2003 – 2009

Achieved major diversification of investment portfolio, increasing non-UK exposure, and introducing private assets.

Director, Investor Relations

1996-2002

Directed ITT Corporation's relations with Wall Street, during a period of acquisitions and divestitures of private and public companies. Supported more than \$2b in acquisitions of portfolio companies and concurrent divestitures of another \$5b across several industries. Recognized among "Best Investor Relations Officers" in U.S. (2001) in Barron's survey.

Manager, Corporate Development

1993-1995

Analysis, planning, negotiation and execution of acquisitions and divestitures transactions in the global automotive industry

ACCENTURE (Geneva and Zurich, Switzerland)

1987 – 1991

Senior Consultant, Financial Services Group

Designed and implemented financial risk management systems for multinational financial corporations, exchanges, and banks.

BOARD AND COMMITTEE MEMBERSHIPS

BAE SYSTEMS PENSION SCHEME (London, United Kingdom)

2019–Present

External Advisor

Attend 4-6 investment committee meetings per year to advise on the management of £16b in scheme assets, with a particular focus on private markets.

VIRGINIA RETIREMENT SYSTEM (Virginia, USA)

2013–Present

Member, Investment Advisory Committee

Attend 3-4 investment committee and board meetings per year to advise on the management of \$80 billion in assets owned by the retirement system for the government employees of the commonwealth of Virginia, USA.

EDUCATION

Chartered Financial Analyst, CFA Institute, Charlottesville, Virginia, U.S.A.

1999

Master of Management, J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois, U.S.A.
Recipient of Alexander S. Onassis Scholarship

1993

Diplôme d'Ingénieur Mécanicien, Ecole Polytechnique Fédérale de Lausanne, Switzerland
(M.Sc., Federal Institute of Technology)

1987

LANGUAGES

- French (mother tongue), German (fluent)

OTHER BOARD & COMMITTEE MEMBERSHIPS

- Investor Steering Committee, *Alternative Investment Management Association (AIMA)*, London, United Kingdom (2013-2014)
- Secretary, *European Commission Task Force For A Pan-European Pension Fund*, Brussels, Belgium (2012-2013)
- Financial Engineering Advisory Board, *The Peter F. Drucker and Masatoshi Ito Graduate School of Management*, Claremont University, Claremont, USA (2014 to present)

Dr. Deborah Allen Hewitt—Biographical Information

Deborah Allen Hewitt is Clinical Professor Emerita at the Mason School of Business at the College of William & Mary. She specializes in the macroeconomics of emerging countries, as well as exchange rates, and the use of scenario analysis for long-run strategic planning. She has focused on the growth and global implications of political and economic developments in China for the past 10 years, during which she served on the Faculty Advisory Board of the W&M Confucius Institute.

Dr. Hewitt lived and worked abroad for nearly 20 years while serving as President of Claremont Economics Institute, an economics consulting and forecasting firm which advised multinational businesses and investment firms in the US and abroad. She lived in Japan during the height of their bubble economy in the late 1980s-early 1990s, and in Thailand during their rapid growth period. She maintains her international expertise by leading MBA Global Immersion classes to destinations such as China, India, Brazil, Poland, Czech Republic, and South Africa.

Dr. Hewitt has published numerous academic and business articles on the subjects of international trade and finance. She has also worked as an international economist at the US Treasury, and taught at UCLA and Claremont Graduate School.

Dr. Hewitt has served on several Boards, including the Endowment of the College of William & Mary, The Muscarelle Museum, and the Respite Program. She currently serves on the Investment Advisory Committee of the Virginia Retirement System, The Reves International Advisory Board, and the Endowment Committee of the Williamsburg United Methodist Church.

Dr. Hewitt holds her Ph.D. from Duke University, where she was a James B. Duke scholar. She is a member of Phi Beta Kappa and Beta Gamma Sigma.

Reappointment of DCPAC Member.

Requested Action

The Board reappoints Ravindra Deo to the Defined Contribution Plans Advisory Committee (DCPAC) for a two-year term ending June 20, 2022.

Rationale for Requested Action

Ravindra Deo currently serves on the DCPAC and is willing to be reappointed for another two-year term. Mr. Deo is Executive Director of the Federal Retirement Thrift Investment Board.

Authority for Requested Action

Code of Virginia § 51.1-124.26 authorizes the Board to appoint such other advisory committees as it deems necessary. Each member appointment requires a two-thirds vote of the Board, and advisory committee members serve at the pleasure of the Board.

The above action is approved.

O'Kelly E. McWilliams, Chairman
VRS Board of Trustees

Date

Ravindra Deo Ravindra Deo serves as the Executive Director of the largest defined contribution plan in the world. Ravindra joined the FRTIB in 2015 as the Chief Investment Officer. During his time at FRTIB, he also served as acting COO from June 2016 to February 2017, and acting Executive Director from May 2017 to August 2017. Ravindra started his career in 1986 and worked in the asset management industry for 29 years prior to joining the FRTIB. He has worked in a variety of roles including as an overlay asset allocator focused on risk reduction, as part of a team that worked on the creation of the first ETFs, as a team leader focused on lifestyle funds, and as an investment advisory consultant to some of the largest institutional investors in the world. He has been the lead on investment and manager research teams and has conducted extensive manager research on both alternative and traditional asset classes. Ravindra has a Bachelor of Technology from the Indian Institute of Technology, Delhi and an MBA from the University of California, Berkeley



Resolution of Appreciation

PRESENTED TO

Mitchell L. Nason

*W*HEREAS, Mitchell L. Nason was appointed to serve on the Virginia Retirement System Board of Trustees for his first term in February 2008 and was subsequently reappointed in February 2013; and

*W*HEREAS, the Governor of Virginia appointed him to serve as Chairman of the Virginia Retirement System Board of Trustees in May 2017, serving in this capacity with honor and distinction for an extended period; and

*W*HEREAS, Mr. Nason further contributed to the System by serving as a member, followed by service as Vice Chairman and then Chairman of the Benefits and Actuarial Committee, as a Member and then Chairman of the Administration and Personnel Committee, and as Vice Chairman of the Defined Contribution Plans Advisory Committee, and as a Member of the Investment Policy Committee, the Strategic Projects Committee and the Audit and Compliance Committee; and

*W*HEREAS, Mr. Nason began his service as a Trustee during one of the most turbulent market periods since the Great Depression and helped lead the system through this difficult period through his active participation in Board committees; and

*W*HEREAS, he witnessed a period of substantial change, including the implementation of two new retirement plans and administration responsibilities for the Line of Duty Act; and by virtue of his dedication and background developed extensive knowledge of the Virginia Retirement System employee benefits, financial, investment and economic matters, while making considerable contributions to the immeasurable success of the System, preserving the fund for future generations of members and retirees;

*N*OW, THEREFORE, BE IT RESOLVED, that on June 11, 2020, we, the members of the Board of Trustees of the Virginia Retirement System, hereby acknowledge Mr. Nason's superior leadership of the System, and express our deep gratitude for his exceptional contributions and his unwavering dedication to the Board of Trustees, the Virginia Retirement System, its members and the Commonwealth of Virginia.

O'KELLY E. MCWILLIAMS III, CHAIRMAN

Coverage Elected	Details
New VRS Employer with Pre-Tax Purchase of Prior Service	<ul style="list-style-type: none"> - Peanut Soil and Water Conservation District (Isle of Wight County) Effective June 1, 2020 - Town of Occoquan (Prince William County) Effective June 1, 2020
New Political Subdivision Group with Group Life Insurance, Health Insurance Credit and Pre-Tax Purchase of Prior Service	<ul style="list-style-type: none"> - Town of West Point School Board (King William County) Effective May 1, 2020
Enhanced Hazardous Duty 1.85% Multiplier	<ul style="list-style-type: none"> - Hampton Roads Regional Jail Authority (City of Portsmouth) Effective July 1, 2020 - City of Fredericksburg Effective July 1, 2020 - City of Norfolk Effective July 1, 2020
School Nutrition Employees Classified as Full-Time Positions	<ul style="list-style-type: none"> - Giles County School Board Effective September 1, 2017



VRS Roadmap FISCAL YEAR 2020

Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- Project timeline
- N/S Not started

Agency Performance Objectives (APOs)	Status	2019						2020					
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Implement New myVRS Functionality - Online Retirement Processing	◆												
Implement New myVRS Functionality - Payment, Health Insurance Maintenance	◆												
ERM Phase 2	●												
ORPHE Lineup Change	★												
Reengineer VRS Business Continuity Plans	●												
2020 Legislation	●												
IT Initiatives ¹	Status	2019						2020					
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Replace Enterprise Offsite Tape Backup Solution	★												
Replace Board Portal Solution	★												
Implement New Tools to Enhance Security Controls	●												
Develop and Implement New Modules for SAFE Training	●												
Upgrade All Agency Staff to Windows 10	★												
Implement Web Conferencing (WebEx) Solution for Board Meetings and Select Conference Rooms	★												
Cloud Migration	▲												
Office 365	●												
Rollout Access Management System to All Operating Units	▲												
Analysis and Planning for VNAV Framework Upgrade	●												
Complete RIMS Decommissioning	▲												

Other Projects ²	Status	2019						2020					
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Health Insurance Premium Holiday	★												
Commonwealth Bond Disclosure	★												
Cardinal HCM - Agency	●												
Cardinal HCM - Plan ³	●												
Post Phase 4 Planning	●												
Board of Trustees Code of Ethics Update	★												
Employee Engagement Initiative	●												
Hybrid Plan Auto Escalation	★												
VSDP and VLDP Long Term Care Plans RFP	●												
Six-year ORPHE Contribution Study	★												
Analysis and Planning for Financial System Upgrade	●												
VRS Strategic Plan Development (2022-2026)	N/S												
Operational/Ongoing Activities	Status	2019						2020					
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
COLA 2019	★												
FYE 2019	★												
Retirement Wave 2019	★												
Teacher Contracts	★												
MBPs	★												
Annual Code of Ethics Training	★												
VRS User IT Security Policy Training	★												
FOIA Training	N/S												
CAFR	★												
PAFR	★												
GASB 68	●												
GASB 75	●												
Actuarial Valuations	★												
MyVRS Annual Updates	★												
1099/W2	★												
Operational/Ongoing Activities	Status	2019						2020					
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Annual Roadmap Review	N/S												
FYE 2020	●												
Retirement Wave 2020	N/S												
ORPHE Surcharge Billing for FY 2020 ⁴	★												
ORPHE Surcharge Billing for FY 2021 ⁵	●												
Data Fixes	●												
Releases (including top BOLT items)	●												
Retirement and State Workforce Commission	●												
Employer Compliance Review	N/S												
Biennium Budget Preparation	●												
Performance Management Evaluation Process	●												
Sensitivity and Stress Testing Report	●												
Legislation FY 2020 - Placeholder	★												

¹Initiatives led directly by Technology Services.

²Other initiatives are led by other business units and supported by Technology Services.

³Completion of this task is dependent upon the host agency (Department of Accounts) meeting its own project schedule, including deliverables due to VRS, in a timely manner. The project timeline will be updated once the Department of Accounts publishes the project revised implementation dates.

⁴ORPHE Billing for FY 2020 will be carried with new rates at the beginning of the fiscal year.

⁵From FY 2021 onwards, the billing process starts in January of each year.

Yellow Status Items

Item	Due Date	Comments
Cloud Migration	TBD	The Cloud Migration project was separated from the Microsoft Office 365 due to project complexity. Staff is developing strategic options for moving project forward.
Rollout Access Management System to All Operating Units	December 2020	Deployment of shared resources to critical projects and data cleanup initiative have impacted the overall project schedule. The project is expected to be complete by December 2020.
Complete RIMS Decommissioning	Estimated January 2021	The project has been completed. However, due to a Security Request System (SRS) dependency with RIMS, the system cannot be fully discontinued. SRS will be discontinued upon the completion of the Access Management System (RAMS), at which time RIMS will be fully decommissioned.

Red Status Items

Item	Due Date	Comments
Implement New myVRS Functionality – Online Retirement Processing	TBD	As planned, progress on new features for myVRS has slowed due to the reassignment of technical staff to support legislative changes imposed by the 2020 General Assembly. This has impacted the software build for the new myVRS features, and the new features will not be ready for implementation prior to June 30, 2020. Accordingly the APOs related to software build have been marked “Red”, the related subcomponents marked as “Red” or “Not Started” as applicable. The software build continues with reduced staffing, and a new implementation time will be determined that complements agency operations once the software is complete.

Implement New myVRS Functionality – Payment, Health Insurance Maintenance	TBD	As planned, progress on new features for myVRS has slowed due to the reassignment of technical staff to support legislative changes imposed by the 2020 General Assembly. This has impacted the software build for the new myVRS features, and the new features will not be ready for implementation prior to June 30, 2020. Accordingly the APOs related to software build have been marked “Red”, the related subcomponents marked as “Red” or “Not Started” as applicable. The software build continues with reduced staffing, and a new implementation time will be determined that complements agency operations once the software is complete.
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Realignments/Adjustments

Item	Due Date	Comments
N/A		

Deficit Provision Acknowledgment Form

(Appendix A of DPB's New Year Start-up instructions)

To: Director, Department of Planning and Budget

Section A (for all agencies)

Agency Acknowledgement

I have received, read, and understand your instructions regarding indebtedness of state agencies as they relate to the requirements of § 4-3.01 of the current Appropriation Act.

Agency Name _____ Agency Code _____

Other agencies in the Act (if any) for which your agency is responsible: _____

Agency/Cabinet Head Name _____

Agency/Cabinet Head Signature _____
(Personal signature is required above and cannot be delegated)

Date _____

Section B (if applicable to your agency)

Supervisory Board (see §2.2-2100 of the Code of Virginia for what constitutes a "supervisory board")

I have provided each member of the supervisory board of this agency with a copy of the notice in this memorandum and I will provide the same material to those appointed to the board in the future.

(Personal Signature of Agency Head)

Date: _____

Due to COVID-19 complications, an email option is provided this year instead of traditional mail:

E-mail to:

Scan the **signed** original; Save as a PDF, and Email to budget@dpb.virginia.gov.

NOTE: Provide your agency name and agency number as well as the phrase "Deficit Provision Acknowledgment Form" in the subject line of the email.

2020 RECONVENED SESSION

CHAPTER 1283

REENROLLED

§ 4-3.00 DEFICIT AUTHORIZATION AND TREASURY LOANS

§ 4-3.01 DEFICITS

a. GENERAL:

1. Except as provided in this section no state agency shall incur a deficit. No state agency receiving general fund appropriations under the provisions of this act shall obligate or expend moneys in excess of its general fund appropriations, nor shall it obligate or expend moneys in excess of nongeneral fund revenues that are collected and appropriated.

2. The Governor is authorized to approve deficit funding for a state agency under the following conditions:

a) an unanticipated federal or judicial mandate has been imposed,

b) insufficient moneys are available in the first year of the biennium for start-up of General Assembly-approved action, or

c) delay pending action by the General Assembly at its next legislative session will result in the curtailment of services required by statute or those required by federal mandate or will produce a threat to life, safety, health or property.

d) Such approval by the Governor shall be in writing under the conditions described in § 4-3.02 a Authorized Deficit Loans of this act and shall be promptly communicated to the Chairmen of the House Appropriations and Senate Finance Committees within five calendar days of deficit approval.

3. Deficits shall not be authorized for capital projects.

4. The Department of Transportation may obligate funds in excess of the current biennium appropriation for projects of a capital nature not covered by § 4-4.00 Capital Projects, of this act provided such projects a) are delineated in the Virginia Transportation Six-Year Improvement Program, as approved by the Commonwealth Transportation Board; and b) have sufficient cash allocated to each such project to cover projected costs in each year of the Program; and provided that c) sufficient revenues are projected to meet all cash obligations for such projects as well as all other commitments and appropriations approved by the General Assembly in the biennial budget.

b. UNAUTHORIZED DEFICITS: If any agency contravenes any of the prohibitions stated above, thereby incurring an unauthorized deficit, the Governor is hereby directed to withhold approval of such excess obligation or expenditure. Further, there shall be no reimbursement of said excess, nor shall there be any liability or obligation upon the state to make any appropriation hereafter to meet such unauthorized deficit. Further, those members of the governing board of any such agency who shall have voted therefor, or its head if there be no governing board, making any such excess obligation or expenditure shall be personally liable for the full amount of such unauthorized deficit and, at the discretion of the Governor, shall be deemed guilty of neglect of official duty and be subject to removal therefor. Further, the State Comptroller is hereby directed to make public any such unauthorized deficit, and the Director, Department of Planning and Budget, is hereby directed to set out such unauthorized deficits in the next biennium budget. In addition, the Governor is directed to bring this provision of this act to the attention of the members of the governing board of each state agency, or its head if there be no governing board, within two weeks of the date that this act becomes effective. The governing board or the agency head shall execute and return to the Governor a signed acknowledgment of such notification.

c. TOTAL AUTHORIZED DEFICITS: The amount which the Governor may authorize, under the provisions of this section during the current biennium, to be expended from loans repayable out of the general fund of the state treasury, for all state agencies, or other agencies combined, in excess of general fund appropriations for the current biennium, shall not exceed one and one-half percent (1 1/2%) of the revenues collected and paid into the general fund of the state treasury as defined in § 4-2.02 b. of this act during the last year of the previous biennium and the first year of the current biennium.

d. The Governor shall report any such authorized and unauthorized deficits to the Chairmen of the House Appropriations and Senate Finance Committees within five calendar days of deficit approval. By August 15 of each year, the Governor shall provide a comprehensive report to the Chairmen of the House Appropriations and Senate Finance Committees detailing all such deficits.

R E S O L U T I O N
FOR MASTER CUSTODIAL SERVICES

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by *Code of Virginia* § 51.1-149, on this 11th day of June 2020, it is HEREBY

PREVIOUS DESIGNATIONS REVOKED

RESOLVED, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign investment invoices and actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control as well as actions involving administrative matters and proxies within their custodial control are hereby revoked; and

VRS ASSET TRANSFERS AND ACCOUNT PAYMENTS

BE IT FURTHER RESOLVED, that dual signatures, one of which shall be from the Director of the Virginia Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director, or the Chief Technology Officer and the second shall be from the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer or the Investments Office Administrator, are hereby required and that those persons are designated and authorized by the Board to sign for all actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control that (i) are not initiated by an authorized investment advisor associated with the settlement of a purchase or sale transaction and (ii) are not for the payment of investment management, consulting or custodian fees. If investment personnel are unavailable, any two of the listed VRS administrative personnel could sign. However, in no event shall both signatures be those of investment department personnel; and

VRS ACCOUNT ADMINISTRATIVE MATTERS

BE IT FURTHER RESOLVED, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer, the Investments Office Administrator, the Controller and the Manager of Investment Accounting are designated by the Board as those additional persons authorized to open and close accounts and take other administrative actions for the VRS accounts not involving the signing of official documents in the name of the Board of Trustees of the VRS or the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control; and

PROXIES

BE IT FURTHER RESOLVED, that the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as the persons authorized to sign proxies for the VRS accounts; and

COMPLIANCE

BE IT FURTHER RESOLVED, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as those persons authorized to sign for all actions involving compliance issues to include, but not be limited to, class actions suits, tax exemptions, authorized signatures, stock and bond powers, required resolutions as needed, etc.

ATTEST:

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

Patricia S. Bishop
Secretary to the Board/VRS Director

**VIRGINIA RETIREMENT SYSTEM AUTHORIZED SIGNATURES
FOR MASTER CUSTODIAL SERVICES**

Patricia S. Bishop
Director

Ronald D. Schmitz
Chief Investment Officer

Barry C. Faison
Chief Financial Officer

L. Farley Beaton, Jr.
Chief Technology Officer

Michael P. Cooper
Chief Operating Officer

Robert L. Irving
Customer Services Director

Curtis M. Mattson
Chief Administrative Officer - Investments

Leslie B. Weldon
Controller

Laurie L. Fennell
Investments Compliance Officer

Abida W. Arezo
Manager of Investment Accounting

Danita R. Barnes
Investments Office Administrator

**COMMONWEALTH OF VIRGINIA
CITY OF RICHMOND, TO-WIT:**

The foregoing instrument was acknowledged before me this 11th day of June 2020 by O'Kelly E. McWilliams, III; Patricia S. Bishop; Ronald D. Schmitz; Barry C. Faison; L. Farley Beaton, Jr.; Michael P. Cooper; Robert L. Irving; Curtis M. Mattson; Leslie B. Weldon; Laurie L. Fennell, Abida W. Arezo and Danita R. Barnes.

LaShaunda B. King, Notary Public

My commission expires September 30, 2022.

RESOLUTION
FOR PAYMENT OF RETIREMENT SYSTEM FUNDS
IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by *Code of Virginia* § 51.1-149, on this 11th day of June 2020 it is hereby

RESOLVED, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign vouchers and Voucher Transmittals issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury are hereby revoked; and

BE IT FURTHER RESOLVED, that the State Treasurer, the Director of Operations, and the Director of Cash Management and Investments, or their designees, are hereby designated by the Board as those persons authorized to sign only those vouchers issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury which are contained in Agency Business Unit 15800 Account Number 103607, which has been designated by the Comptroller as the short-term investment account, including but not limited to, funds used to purchase short-term securities to mature within two (2) years and to effect repurchase agreements involving securities of varying maturities which are held as short-term investments; and

BE IT FURTHER RESOLVED, that the Director of the Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director and the Chief Technology Officer, whose signatures appear herein, are hereby designated by the Board as those persons authorized to sign Voucher Transmittals issued by the Retirement System for the payment of any and all funds of the Retirement System in the State Treasury and any and all accounts designated by the Comptroller as Retirement System funds accounts, including Agency Business Unit 15800 Account Number 103607, provided that such Voucher Transmittals shall be initialed by appropriate supervisory and management level staff personnel; and

BE IT FURTHER RESOLVED, that the Chief Financial Officer, the Customer Services Director and the Chief Technology Officer are not authorized to sign a Voucher Transmittal prepared in their respective department; and

BE IT FURTHER RESOLVED, that the Director of the Retirement System, the Chief Operating Officer, the Chief Investment Officer or the Chief Administrative Officer - Investments are hereby designated full authority to sign any and all official documents in the name of the Board of Trustees of the Virginia Retirement System including, but not limited to, leases, deeds, contracts, equity index futures and options on such futures, signature cards, minutes and purchase orders; and

BE IT FURTHER RESOLVED, that a copy of this resolution shall be forward immediately to the Office of the Comptroller.

ATTEST:

O'Kelly E. McWilliams, III
Chairman, VRS Board of Trustees

Patricia S. Bishop
Secretary to the VRS Board of Trustees

SIGNATURE PAGE
FOR PAYMENT OF RETIREMENT SYSTEM FUNDS
IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS

Patricia S. Bishop, Director

L. Farley Beaton, Jr., Chief Technology
Officer

Barry C. Faison, Chief Financial Officer

Ronald D. Schmitz, Chief Investment Officer

Michael P. Cooper, Chief Operating Officer

Robert L. Irving, Customer Services Director

Curtis M. Mattson, Chief Administrative
Officer - Investments

COMMONWEALTH OF VIRGINIA
CITY OF RICHMOND, TO-WIT:

The foregoing instrument was acknowledged before me this 11th day of June 2020 by O’Kelly E. McWilliams, III; Patricia S. Bishop; Barry C. Faison; L. Farley Beaton, Jr.; Ronald D. Schmitz; Michael P. Cooper; Robert L. Irving and Curtis M. Mattson.

LaShaunda B. King, Notary Public

My commission expires Sept. 30, 2022.