

Minutes

A joint meeting of the Investment Policy Committee and the Administration and Personnel Committee of the Virginia Retirement System was held on October 18, 2018 with the following members present:

Investment Policy Committee:

Mitchell L. Nason, Chair
Diana F. Cantor, Vice Chair
Wallace G. Harris
William H. Leighty
O'Kelly E. McWilliams
Joseph W. Montgomery
Troilen G. Seward

Administration and Personnel Committee:

Mitchell L. Nason, Chair
Diana F. Cantor, Vice Chair
Wallace G. Harris
Joseph W. Montgomery

The following Investment Advisory Committee member was present:
Rod Smyth

Also present: Trish Bishop, Ron Schmitz, Rory Badura, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Sara Denson, Josh Fox, Robert Irving, Curt Mattson, Taylor Melton, Laurie Nelson, Andrea Peeks, Jennifer Schreck, Capri Stanley-Smith, Lisa Turner and Cynthia Wilkinson of the VRS Staff;
Joe McMahon of JLARC and Michael Oak of McLagan (*by phone*).

Mr. Nason called the meeting to order at 10:10 a.m.

Approval of Minutes

Mr. Nason moved, with a second by Ms. Cantor, that the Investment Policy Committee approve the following meeting minutes:

- September 19, 2017
- October 19, 2017
- December 14, 2017
- February 8, 2018
- April 12, 2018
- August 28, 2018

The motion was unanimously approved.

A motion was made by Mr. Montgomery and seconded by Mr. Harris to approve the September 12, 2018 Administration and Personnel Committee meeting minutes. The motion was unanimously approved.

**Incentive Compensation
Plan for Investment
Professionals**

Based on the discussion at the September 12, 2018 Administration and Personnel Committee meeting, the VRS Board of Trustees asked McLagan to continue its review of market compensation and incentive pay practices for the Investment Professionals' Pay Plan ("Pay Plan") with regard to the alternative frameworks for the absolute return adjustment.

Mr. Oak of McLagan presented additional information related to various options that could be included in the Pay Plan, specifically related to the absolute return adjustment. Mr. Oak noted such options could provide guidance to the Board with regard to incentive pay, particularly in years with negative returns.

After a robust and thorough discussion about the various options, Mr. Leighty moved, with a second by Mr. Montgomery, to endorse McLagan's Option VI (as presented in the report given by Mr. Oak) and requested the Administration and Personnel Committee present it to the Board in November.

Option VI is defined as:

Negative returns adjusted as is. No adjustment for returns between 0% and the assumed rate of return, currently 7%. Positive adjustment for returns in excess of the assumed rate of return.

The motion was unanimously approved. The Administration and Personnel Committee will review any amendments to the Pay Plan and any impact testing at its next meeting. After its review, the Administration and Personnel Committee will then bring the recommendation to the Board at the November meeting.

**Asset/Liability Study
Planning Overview**

Mr. Schmitz provided a brief overview of the upcoming Asset/Liability Study process. Mr. Schmitz stated the last formal study was performed in 2016 and the next formal study is tentatively planned for 2019. In addition, Mr. Schmitz noted VRS staff plans to perform updates to the study in interim years, so that the Asset/Liability process is addressed



annually. There was a discussion about the proposal and also about the various service providers available to perform the study. Mr. Schmitz then discussed the proposed timeline for this project. There was overall agreement with this timeline and plan.

Adjournment

The next Investment Policy Committee and Administration and Personnel Committee meetings are scheduled for November 14, 2018 at 11:00 a.m.

There being no further business, Mr. Nason adjourned the meeting adjourned at 11:55 a.m.

11-13-18
Date



Mitchell L. Nason, Chair