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## Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on June 13, 2019 in Richmond, Virginia with the following members present:

Board members present:

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

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Farley Beaton, Jeanne Chenault, Michael Cooper, Harriet Covey, Juanita Cribbs, Nathan Dowdy, Barry Faison, Bryan Gardiner, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, LaShaunda King, Kristina Koutrakos, Matt Lacy, Aubrey Layne, Chung Ma, Kiana Marshall, Curt Mattson, Walker Noland, Angela Payne, Steve Peterson, Ian Rose, Jillian Sherman, Daniel Whitlock, Cindy Wilkinson and Steve Woodall.

Guests present were:

Latosha Johnson, Department of Planning and Budget; Elizabeth Myers, Office of the Attorney General; J. Marshall Terry, Virginia Governmental Employees Association; Jessica Ackerman and Josette Bulova, Virginia Municipal League; Jeremy Bennett, Virginia Association of Counties; Michael Jay, House Appropriations Committee; Adam Rosatelli and Grace Wheaton, Senate Finance Committee; and Bea Snidow, Virginia Education Association.

The meeting convened at 1:16 p.m.

### Approval of Minutes

Upon a motion by Mr. Leighty, with a second by Mr. Montgomery, the minutes of the May 13, 2019 meeting were approved.

### Report of the Chief Investment Officer

Mr. Schmitz began his report with a market overview. Next, he discussed asset allocation and reviewed plan performance – which generally continues to be strong relative to benchmarks. He then discussed tracking error, information ratio and fund volatility – concluding the risk measures are within Board-approved levels. Mr. Schmitz then reviewed the New Investments and Terminations Report, the WaM Quarterly Summary Report, and the Manager Referral Quarterly Summary Report with the Board.

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Mr. Nason thanked Mr. Schmitz for his report.

#### **Annual Review of Strategic Asset Allocation**

Next, Mr. Schmitz discussed the recommended changes to update the Defined Benefit Plan Strategic Asset Allocation and Allowable Ranges. He noted the Board last approved a target asset mix on June 7, 2018 with an effective date of July 1, 2018. As agreed upon by the Board, Mr. Schmitz, as Chief Investment Officer, weighed market conditions and progress in moving to the new policy portfolio in developing suggested specific target exposures for the upcoming year. Mr. Schmitz presented these recommended target exposures and allowable ranges for FY 2020 to the Board.

Upon a motion by Mr. Nason, with a second by Ms. Cantor, the VRS Board of Trustees approved the following:

***Request for Board Action 2019-06-05:*** *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.*

Mr. Nason thanked Mr. Schmitz for his report.

#### **Report of the Audit and Compliance Committee**

The Board received the Audit and Compliance Committee Report of June 12, 2019 and placed it on file. Mr. Leighty gave the report from the Audit and Compliance Committee.

#### **UPDATE ON THE 2018 EMPLOYER ASSURANCES REVIEW**

Mr. Leighty advised that the Auditor of Public Accounts (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 of July.

#### **ENTRANCE WITH THE APA FOR THE VRS 2019 CAFR AUDIT**

Mr. Leighty noted that 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, 2019.

#### **AUDIT REPORTS**

Next, Mr. Leighty briefed the Board on the following reports presented to the committee:

- The review of *Governance* determined VRS' governance structure, processes, and policies appropriately guide the organization and its culture.
- The review of *Modernization Phase 4 Data Conversion* noted VRS' plan to migrate the remaining key data from the legacy mainframe system to VNAV was thorough and comprehensive.

- The review of *Real Assets Program* determined due diligence and monitoring activities are adequate and align with the applicable Investment Policy Statement.

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

Mr. Leighty discussed the status report on the Modernization Program – Phase 4 that was presented by management at the last meeting. VNAV retirements and disbursements processing is now in production, with ongoing monitoring in place. Management discussed plans to decommission the legacy mainframe system and other updates related to current production activities and the remaining release for Phase 4.

Internal Audit presented its Quarterly Review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget, and scope. Internal Audit acknowledged management's efforts and continued work.

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

Mr. Leighty advised that one alleged Fraud, Waste and Abuse Hotline complaint was reported to Internal Audit via the Office of the State Inspector General during the period of February 1, 2019 through April 30, 2019. The complaint alleged abuse of the short-term disability program. The complaint was determined to be unfounded and was closed.

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

Mr. Leighty noted that the committee received and reviewed the quarterly travel expense and per diem report.

#### 2020 ANNUAL AUDIT PLAN ASSESSMENT AND VALIDATION

Mr. Leighty discussed the risk assessment process to finalize the 2020 Annual Audit Plan, which is derived from the approved Long-Range Audit Plan. Mr. Leighty noted that the proposed Fiscal Year 2020 annual audit plan will be presented to the committee for its review and approval at the September meeting.

#### MISCELLANEOUS UPDATES

Mr. Leighty concluded his report by noting the next Audit and Compliance Committee meeting is scheduled for September 12, 2019 at 2:00 p.m.

Mr. Nason thanked Mr. Leighty for his report.

#### **Report of the Administration and Personnel Committee**

The Board received the Administration and Personnel Committee Report of June 12, 2019 and placed it on file.

#### APPROVAL OF MINUTES

Mr. Nason noted the first item taken up by the committee was the approval of the minutes from its November 14, 2018 meeting.

DISCUSSION AND CONSIDERATION OF FY 2020 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES

Next, Mr. Nason discussed the FY 2020 Agency Performance Outcomes (APOs) and Operational Measures that were presented to the committee. VRS has identified five (5) APOs and sixteen (16) Operational Measures for FY 2020. The committee discussed the goals and methods used to calculate the performance targets of certain operational measures, including the process for calculating the call abandonment rate. Mr. Nason advised that staff will explore and follow up with additional information for the committee regarding various alternative methodologies for calculating the call abandonment rate in the future. Successful attainment of the APOs and Operational Measures is the gainsharing portion of the Performance Management Policy.

Upon a motion by Mr. Nason, with a second by Mr. Harris, the VRS Board of Trustees approved the following action:

***Request for Board Action 2019-06-06: The VRS Board of Trustees approves the FY 2020 Agency Performance Outcomes (APOs) and Agency Operational Measures.***

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE MEMBERS

Mr. Nason advised that the committee recommends the appointment of Lawrence E. Kochard, Ph.D., as the Chairperson of the Investment Advisory Committee for a two-year term.

Upon a motion by Mr. Nason, with a second by Ms. Cantor, the VRS Board of Trustees approved the following action:

***Request for Board Action 2019-06-07: The Board approves the appointment of Lawrence E. Kochard, Ph.D., as the Chairperson of the Investment Advisory Committee for a two-year term that ends on May 31, 2021.***

The committee also recommends the reappointments of Michael Beasley and Rod Smyth to the Investment Advisory Committee, each for a two-year term.

Upon a motion by Mr. Nason, with a second by Mr. Harris, the VRS Board of Trustees approved the following action:

***Request for Board Action 2019-06-08: The Board reappoints to the Investment Advisory Committee: Michael Beasley for a two-year term ending June 20, 2021; and, Rod Smyth for a two-year term ending June 20, 2021.***

REAPPOINTMENT OF DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE MEMBERS

Mr. Nason advised that the committee recommends the reappointment of Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee, each for a two-year term.

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Mr. Nason noted that Robert C. Carlson has been removed from the RBA pending clarification from the Attorney General's office concerning the prohibition on local elected and appointed officials serving on advisory committees.

Upon a motion by Mr. Nason, with a second by Mr. Montgomery, the VRS Board of Trustees approved the following action:

***Request for Board Action 2019-06-09: The Board reappoints Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2021.***

#### REVIEW AND APPROVE ADMINISTRATIVE PAY PLAN UPDATES

Next, Mr. Nason discussed the draft of the amended Administrative Pay Plan. The 2019 Appropriation Act requires the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. Generally, the VRS Administrative Pay Plan is adjusted in accordance with the requirements of the Appropriation Act. The amendment would be effective June 10, 2019 and is consistent with changes made to the Commonwealth's Classified Compensation Act. Mr. Nason noted that the salary ranges for the Investment Operations and Administration Pay Plan and Investment Professionals' Pay Plan will not be adjusted at this time; however, these plans will be reassessed at the conclusion of ongoing classification and compensation studies.

Upon a motion by Mr. Nason, with a second by Mr. Montgomery, the VRS Board of Trustees approved the following action:

***Request for Board Action 2019-06-10: The VRS Board of Trustees approves an amended Administrative Pay Plan.***

#### BUDGET UPDATE

Mr. Nason concluded his report by noting that the committee was presented with a summary of the FY 2019 budget and expenses from July 1, 2018 – May 29, 2019.

#### **Report of the Director**

Ms. Bishop began her report by discussing the Deficit Provision Acknowledgement Form. VRS and other state agencies are required annually to confirm that their obligations and expenditures do not exceed their appropriations. Ms. Bishop noted that VRS expenditures and obligations did not exceed appropriations. The reporting form specifically states that each member of the Board has been provided with a copy of the notice. The executed form will be sent to the Department of Planning and Budget.

Ms. Bishop briefed the Board on the current status of the FY 2019 Agency Roadmap and noted that most projects have been moved into "green status" with the exception of the Cardinal Payroll System Implementation. While the host agency, Department of Accounts (DOA), continues to evaluate its revised project schedule, VRS has completed all requirements to date and will resume project activities

when the new project schedule is released. Ms. Bishop advised that some FY 2019 Modernization projects, such as online retirements, are still in progress and have been added to the FY 2020 Roadmap.

Ms. Bishop advised that she, the Chief Investment Officer, and the Board Chair will provide an annual update to the Joint Legislative Audit and Review Commission on July 15, 2019.

Ms. Bishop acknowledged the hard work of the VRS employees who successfully and efficiently executed the June 2019 disbursements to over 200,000 retirees and beneficiaries.

Next, Ms. Bishop provided the Board with the following updates:

- Ian Rose, with the Virginia Management Fellows program, joined VRS for an eight-month period.
- VRS received the Commonwealth Award of Excellence from the Public Relations Society of America, Richmond Chapter, for the myVRS Financial Wellness Communications Strategy.
- VRS received the Capital Award of Merit for the redesign of the VRS employer website.

Ms. Bishop commended the VRS response and commitment to assisting those affected by the recent tragedy in the City of Virginia Beach. The Board was briefed on the additional benefits provided to the beneficiaries of victims of felonious assault, which include Virginia Education Savings Trust accounts for those with minor children.

Mr. Nason thanked Ms. Bishop for her report. After noting there were no agenda items for the July meeting, Mr. Nason cancelled the July 16, 2019 Board meeting.

#### **Litigation Update (Closed Session)**

Mr. McWilliams moved, with a second by Mr. Montgomery, that the Virginia Retirement System Board of Trustees convene in closed session for consultation with legal counsel regarding specific legal matters requiring the provision of legal advice by such counsel, pursuant to the consultation with legal counsel exemption at *Code of Virginia* § 2.2-3711(A)(8).

Upon return to open meeting, Mr. McWilliams moved, with a second by Mr. Montgomery, the following resolution:

WHEREAS, the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, *Code of Virginia* § 2.2-3712 requires a certification by this Committee that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

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The Board approved the resolution upon the following roll call vote:

Mitchell L. Nason: Aye  
Diana F. Cantor: Aye  
Hon. J. Brandon Bell, II: Aye  
Wallace G. Harris: Aye  
W. Brett Hayes: Aye  
William H. Leighty: Aye  
O'Kelly E. McWilliams, III: Aye  
Joseph W. Montgomery: Aye  
Troilen G. Seward: Aye

There being no further business, the meeting adjourned at 2:30 p.m.



Chair



Secretary

## Report

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

### **UPDATE ON THE 2018 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 2019 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, 2019.

### **AUDIT REPORTS**

The Committee received three audit reports.

- The review of *Governance* determined VRS' governance structure, processes, and policies appropriately guide the organization and its culture.
- The review of *Modernization Phase 4 Data Conversion* noted VRS' plan to migrate the remaining key data from the legacy mainframe system to VNAV was thorough and comprehensive.
- The review of *Real Assets Program* determined due diligence and monitoring activities are adequate and align with the applicable Investment Policy Statement.

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

Management presented its status report on the Modernization Program - Phase 4. VNAV retirements and disbursements processing is now in production, with ongoing monitoring in place. Management discussed plans to decommission the legacy mainframe system and other updates related to current production activities and the remaining release for Phase 4.

Internal Audit presented its Quarterly Review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget, and scope. Internal Audit acknowledged management's efforts and continued work.

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

One alleged Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of February 1, 2019 through April 30, 2019 was presented to the Committee. The complaint alleged abuse of the short-term disability program which was determined to be unfounded. Therefore, the case was closed.

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

The Committee received and reviewed the quarterly travel expense and per diem report.



**2020 ANNUAL AUDIT PLAN ASSESSMENT AND VALIDATION**

Ms. Schreck discussed the risk assessment process to finalize 2020 Annual Audit Plan which is derived from the approved Long-Range Audit Plan. Ms. Schreck noted the proposed Fiscal Year 2020 annual audit plan will be presented to the Committee for its review and approval at the September meeting.

**MISCELLANEOUS UPDATES**

Ms. Schreck indicated the next meeting of the Committee is scheduled for September 12, 2019 at 2:00 pm.

Respectfully submitted to the Board of Trustees on June 13, 2019.



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

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## Report

The Administration and Personnel Committee met on June 12, 2019 and discussed the following:

### **APPROVAL OF MINUTES**

The Committee approved the minutes of its November 14, 2018 meeting.

### **DISCUSSION AND CONSIDERATION OF FY 2020 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES**

Mr. Cooper gave a presentation to the Committee on the FY 2020 Agency Performance Outcomes (APOs) and Operational Measures. VRS has identified five (5) proposed APOs and sixteen (16) Operational Measures for FY 2020. The Committee discussed the goals and methods used to calculate the performance targets of certain operational measures, including the process for calculating the call abandonment rate. Staff will explore and follow-up with additional information for the committee regarding various alternative methodologies for calculating the call abandonment rate in the future. Successful attainment of the APOs and Operational Measures is the gainsharing portion of the Performance Management Policy.

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

***Request for Board Action:*** The Board approves the FY 2020 Agency Performance Outcomes (APOs) and Operational Measures.

### **REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE MEMBERS**

The Committee recommends the appointment of Lawrence E. Kochard, Ph.D., as the Chairperson of the Investment Advisory Committee for a two-year term.

***Request for Board Action:*** The Board approves the appointment of Lawrence E. Kochard, Ph.D., as Chairperson of the Investment Advisory Committee for a two-year term that ends on May 31, 2021.

The Committee recommends the reappointment of Michael Beasley and Rod Smyth to the Investment Advisory Committee, each for a two-year term.

***Request for Board Action:*** The Board reappoints to the Investment Advisory Committee: Michael Beasley for a two-year term ending June 20, 2021; and, Rod Smyth, for a two-year term ending June 20, 2021.

### **REAPPOINTMENT OF DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE MEMBERS**

The Committee recommends the reappointment of Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee, each for a two-year term. Please note that Mr. Robert C. Carlson has been removed from the RBA pending clarification from the Attorney General's office concerning the prohibition on elected and appointed officials serving on advisory committees.

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**Request for Board Action:** The Board reappoints Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2021.

**REVIEW AND APPROVE ADMINISTRATIVE PAY PLAN UPDATES**

Ms. Bishop reviewed the draft of the amended Administrative Pay Plan. The 2019 Appropriation Act requires the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. Generally, the VRS Administrative Pay Plan is adjusted in accordance with the requirements of the Appropriation Act. This increase would be effective June 10, 2019 and is consistent with changes made to the Commonwealth's Classified Compensation Plan. Ms. Bishop noted that the salary ranges for the Investment Operations and Administration Pay Plan and Investment Professionals' Pay Plan will not be adjusted at this time; however, these plans will be reassessed at the conclusion of ongoing classification and compensation studies.

The Committee recommends approval of the amended Administrative Pay Plan to the full Board.

**Request for Board Action:** The Board approves an amended Administrative Pay Plan.

**BUDGET UPDATE**

Ms. Peeks presented a summary of the FY 2019 budget and expenses from July 1, 2018 – May 29, 2019.

Submitted to the Board of Trustees on June 13, 2019.



Mitchell L. Nason, Chair  
Administration and Personnel Committee