



Virginia
Retirement
System®

We welcome visitors and remind you that public comment is not received at VRS meetings.

Written comments may be sent by:

- Email: trustees@varetire.org
- Mail: P.O. Box 2500, Richmond, VA 23218

About VRS

The Virginia Retirement System, an independent state agency, delivers retirement and other benefits to covered Virginia public sector employees. Learn more at varetire.org.

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Administration, Finance and Talent Management Committee Meeting

**901 East Cary Street
James Center, 4th floor
Richmond, VA 23219
Thursday, 4/23/2026
11:30 AM - 12:30 PM ET**

I. Approve Minutes

A. September 24, 2025

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II. RBA – Reappointment of IAC Members

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IV. Independent Consultant Review of Investment Benchmarks and Hurdles

VRS - Benchmark Incentive Hurdle Study 2026 - Page 33

V. Quarterly Budget Update

FY26 YTD Budget Report - Page 79

VI. One View Program Overview

One View Project - April 2026 - Page 81

VII. Administration and Investment Operations Incentive Compensation Initiative

Performance Compensation Initiative Overview - Page 90

Minutes

A regular meeting of the Virginia Retirement System Administration, Finance and Talent Management Committee was held on September 24, 2025, with the following members participating:

A. Scott Andrews, Chair

Lawrence Bernert III, Vice Chair (*attended remotely from Norfolk, VA under § 2.2-3708.3(B)(3)*)

John Bennett

Board members present:

Jessica Hood

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Dorothy Chiddo, Michael Cooper, David Cotter, Juanita Cribbs, Valerie Disanto, Curtis Doughtie, Jonathan Farmer, Laura Fields, Antonio Fisher, Kenny Fleming, Robert Irving, Sandy Jack, Wendy Jenkins, Jennifer Kazzie, LaShaunda King, Curt Mattson, Angela Payne, Matt Priestas, Paula Reid, Mark Rein, Amethyst Sloane, Virginia Sowers, Scott Weaver and Leslie Weldon.

Guests:

Jacob Hodges, Encore; Alex Jansson and Kimberly Sarte, Joint Legislative Audit and Review Commission and Jason Kobilka and Andrew Roper, Osmosis.

The meeting convened at 1:01 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the September 24, 2025, meeting of the Administration, Finance and Talent Management Committee.

Approval of Minutes

Following a motion by Mr. Bennett, with a second by Ms. Hood, the Committee approved the minutes of its June 17, 2025, meeting.

Review Attainment of FY 2025 Agency Performance Outcomes (APOs) and Operational Measures

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2025 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had five APOs for the fiscal year, with a target of completing at least four. Staff met this goal by successfully completing all five APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the timeliness of workflow documentation imaging, which resulted from one month in which staff faced significant resource constraints. Staff also

met the call abandonment rate target this year, which has been a challenge over the last couple of years. After some discussion by the Committee, staff advised that it would consider changes to the metrics to evaluate cyber security measures.

Upon a motion by Mr. Bennett, with a second by Mr. Bernert, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Attainment of FY 2025 Agency Performance Outcomes APOs and Operational Measures (and corresponding lump-sum bonus).

***Request for Board Action:** The VRS Board of Trustees approves the attainment of FY 2025 APOs and Operational Measures and a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

Mr. Andrews thanked Mr. Cooper for his presentation.

Review Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2025.

Upon a motion by Mr. Bennett, with a second by Ms. Hood, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Performance Bonuses for Eligible Administrative Employees and Investment Department Operations and Administration Employees

***Request for Board Action:** The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

Mr. Andrews thanked Ms. Reid for her presentation.

Budget Update

Jon Farmer, Budget and Reporting Manager, presented the FY 2025 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$10,457,000 million, which will be returned to the Fund. Mr. Farmer noted that most of the unexpended appropriation was due to delays in completing several initiatives due to resource constraints and competing priorities. As a result, VRS

requested and received a carryover appropriation in the amount of \$9,563,675 from the Department of Planning and Budget to complete the initiatives in FY 2026, which was reflected in an updated FY 2026 budget presented to the Committee. Next, Mr. Farmer presented the proposed FY 2027-2028 biennium budget, detailing the requests outlined in six decision packages. Following discussion with the Committee members, a request for board action was considered.

Upon a motion by Mr. Bennett, with a second by Ms. Hood, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Authorize Staff to Request Spending Authority from the Department of Planning and Budget

Request for Board Action: *The VRS Board of Trustees authorizes staff to request spending authority from the Department of Planning and Budget and legislature, as applicable, to execute planned initiatives for the next two fiscal years.*

Mr. Andrews thanked Mr. Farmer for his presentation.

Pay Plans Overview

Paula Reid, Director of Human Resources, presented proposed changes to the Investment Operations and Administrative Pay Plan. She advised that the changes were based on recommendations made by Mercer.

Upon a motion by Ms. Hood, with a second by Mr. Bennett, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Approve Amended Investment Operations and Administrative Pay Plan

Request for Board Action: *The Virginia Retirement System Board of Trustees approves an amended Investment Operations and Administration Staff Pay Plan ("Pay Plan"), effective September 25, 2025, which includes recommendations from the compensation market study for investments administration and operations positions conducted by Mercer.*

Mr. Andrews thanked Ms. Reid for the presentation.

Informational Item (Internal Audit Director's Performance Review)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance at its September 24, 2025, meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

FOIA Electronic Meeting Policy

Sandy Jack, Director of Policy, Planning and Compliance, advised the Committee that in accordance with Va. Code § 2.2-3708.3(D) as amended in 2024, the Board must approve its remote meeting policy by recorded vote at a public meeting at least once annually. No changes are proposed this year. Therefore, the Board will affirm its current FOIA Electronic Meeting Attendance Policy.

Upon a motion by Ms. Hood, with a second by Mr. Bennett, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Affirm “FOIA Electronic Meeting Attendance Policy”

Request for Board Action: *The Board affirms its “FOIA Electronic Meeting Attendance Policy.”*

Compensation and Benefits (Closed Session)

Mr. Bennett moved, with a second by Ms. Hood, that the Administration, Finance and Talent Management Committee of the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act to discuss the compensation and benefits of specific employees pursuant to the personnel exemption at *Code of Virginia § 2.2-3711(A)(1)*.

Upon return to open meeting, Mr. Bennett moved, with a second by Ms. Hood, the following resolution:

WHEREAS, the Administration, Finance and Talent Management Committee of 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 Committee 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 Committee.

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

Mr. Bernert: Aye
Mr. Bennett: Aye
Ms. Hood: Aye
Mr. Andrews: Aye

RBA: Approve FY 2025 Incentive Pay for Investment Professionals

Upon a motion by Mr. Bennett, with a second by Ms. Hood, the Committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: *The VRS Board of Trustees approves payment of an incentive amount of approximately \$8,700,836.10 for FY 2025 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2025, and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

RBA: Director's Performance Review

Upon a motion by Mr. Bennett, with a second by Ms. Hood, the Committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 31, 2025, and supplemental payment of \$99,750.00 made on December 1, 2025, as authorized in the 2025 Appropriation Act.*

Adjournment

There being no further business and following a motion by Mr. Bennett, with a second by Ms. Hood, the Committee agreed to adjourn the meeting at 3:05 p.m.

Chair

Date



Reappointment of IAC Members

Requested Action

The Board reappoints to the Investment Advisory Committee William “Hance” West and Nancy G. Leake, each for a two-year term ending December 31, 2027, and W. Bryan Lewis for a two-year term ending March 31, 2028.

Rationale for Requested Action

Mr. West, Ms. Leake, and Mr. Lewis all currently serve on the Investment Advisory Committee and each is willing to be reappointed for another two-year term. Mr. West is the retired Chief Investment Officer and Managing Director of Investure. Ms. Leake was previously an Advisory Partner with Partners Group (USA) Inc. and currently serves on several investment advisory boards. Mr. Lewis is the Chief Investment Officer and a Vice-President with the United States Steel Corporation. Copies of their biographies are attached.

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.

A. Scott Andrews, Chair
VRS Board of Trustees

Date

William H. West, Jr., CFA

[LinkedIn Profile](#)

Professional Summary

Accomplished Senior Investment Executive and CFA Charterholder with over 30 years of experience in endowment management, hedge fund portfolios, fixed income portfolio management, and asset securitization. Proven track record in leading prestigious investment offices, managing multi-billion dollar portfolios (\$12B+), and pioneering the outsourced investment office (OCIO) model for non-profit organizations.

Professional Experience

West Enterprises | *Jan 2024 – Present* **Retired / Private Investor**

- Managing personal investments and providing service to non-profits.

Investure, LLC | *Jan 2004 – Dec 2023* **Managing Director**

- Served as a Co-Founder and key leader for a pioneer in the full-service outsourced investment office (OCIO) model.
- Managed a select group of prestigious college endowments and foundations with total AUM exceeding **\$12 Billion**.
- Oversaw asset allocation and investment strategy across all asset classes, ensuring long-term growth for non-profit clients.
- Built and maintained institutional-grade relationships, providing mid-sized endowments with the capabilities of a large-scale investment office.

UVIMCO (University of Virginia Investment Management Company) | *Jun 2000 – Dec 2003* **Director**

- Co-managed the hedge fund portfolio and the internal fixed-income portfolio for the University endowment.
- Directly managed the University's operating funds account, balancing liquidity needs with risk-adjusted returns.

Dynex Capital | Jul 1996 – May 2000 Executive Vice President

- Directed all portfolio management and securitization efforts for a publicly traded Real Estate Investment Trust (REIT).
- Led strategic initiatives in capital markets and structured finance.

Mentor Investment Group – Wheat First Butcher Singer | Aug 1993 – Jun 1996 Managing Director / Portfolio Manager

- Managed institutional investment portfolios and contributed to firm-wide investment strategy and market analysis.
-

Education

University of Rochester – Simon Business School

- **MBA in Finance** (1986 – 1988)
 - *Activities:* Investment Club

Virginia Tech – Pamplin College of Business

- **BS in Accounting** (1982 – 1986)
 - *Activities:* Alpha Kappa Psi (Professional Business Fraternity)
-

Certifications & Skills

- **Chartered Financial Analyst (CFA):** CFA Institute (Issued Aug 1994)
- **Expertise:** Endowment & Foundation Management, Asset Allocation, Hedge Funds, Fixed Income, Securitization, REITs, and Institutional Relationship Management.

Nan Leake currently serves on the Investment Advisory Committee of the Virginia Retirement System and the Board of VCU Investment Management Company. She also serves on the Advisory Board of Hodes Weill & Associates, a global capital advisory firm focused on the real estate investment and funds management industry. Previously, she served on the Funds & Co-investments Investment Committee of Blue Earth Capital, a global impact investing firm based in Switzerland, and on both the Board and Investment Advisory Committee of the Richmond Retirement System.

Ms. Leake retired as a Partner in the Private Real Estate business unit at Partners Group, a global private markets investment manager with \$174 billion in assets under management. During her decade-long tenure at Partners Group, Ms. Leake was responsible for advancing the firm's real estate investment strategies and managing investor relationships. Throughout her 35-year career, Ms. Leake has been involved in all aspects of real estate investing, having worked exclusively with institutional investors to design, structure and implement their global real estate investment strategies. Prior to joining Partners Group, Ms. Leake was a senior consultant at Pension Consulting Alliance, Inc. ("PCA"), whose discretionary real estate asset management business was integrated into Partners Group in 2007. Before joining PCA, she worked at Property Investment Advisors, Inc., the Virginia Retirement System and NBS Realty Advisors.

Ms. Leake is also involved with Shalom Farms, a leading grower and provider of local produce and food access programing in at-risk communities in Richmond, Virginia. She has served on the boards of both Shalom Farms and The Maxwellton-Lachlan Foundation, which provides summer camp scholarships to needy youth. Ms. Leake also served on the UVA Real Estate Committee, a volunteer group of alumni with expertise across the real estate industry, championing an effort to raise significant private philanthropy to launch a formal University of Virginia Real Estate Center.

Ms. Leake is active in timber investing, regenerative agriculture and land management in Central Virginia. She resides on her farm in Goochland County with her husband and beloved dog.



Bryan Lewis

Vice President & Chief Investment Officer

Bryan Lewis joined U. S. Steel in August 2019 as vice president and chief investment officer. He has executive responsibility for the company's global investments for both the defined contribution and defined benefit plans, as well as other related programs.

Mr. Lewis arrived at U. S. Steel from the Pennsylvania State Employees' Retirement System (SERS), where he served as chief investment officer and managed a \$30 billion pension fund for the prior three years. Prior to that, he served as the executive director of the \$20 billion Illinois State Universities Retirement System.

Mr. Lewis is a member of the board of directors for Essential Utilities, as well as several non-profit and community organizations. In addition, Mr. Lewis was a fellow of the inaugural class of the Finance Leaders Fellowship and is a member of the Aspen Global Leadership Network.

A native of Rocky Mount, N.C., Mr. Lewis earned a bachelor's degree in economics from the University of Maryland at College Park, and completed a master's degree in business administration at the University of Miami in Coral Gables, Fla.

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Benchmark Recommendations

April 2026
Andrew Junkin

Agenda

- Review current VRS investment benchmarks
- Identify attributes of a good benchmark
- Discuss proposed enhancements
- Update on independent consultant review of benchmarks and hurdles
- Next steps

VRS Current Benchmarks

- **Public Equity** – custom 85%/15% blend of global cap weighted equity/global low volatility equity
- **Private Equity** – custom regionally adjusted cap weighted public equity index, lagged one quarter (75% North America, 20% Europe, 5% Asia and emerging markets)
- **Real Assets** – custom weighted blend of NCREIF ODCE (core real estate) and CPI+4% (other real assets)
- **Credit Strategies** – 50%/50% blend of high yield bonds/bank loans
- **Fixed Income** – custom 90%/5%/5% blend of investment grade US bonds/high yield bonds/emerging market debt
- **Diversifying Strategies** – 3-month treasury bills +2.5%
- **Private Investment Partnerships (PIP)** – 34%/33%/33% Credit Strategies/Private Equity/Real Assets benchmarks

Characteristics of a good benchmark

- According to the CFA Institute, an ideal benchmark would be:
 - **Specified in advance:** Constructed and agreed upon before the evaluation period begins.
 - **Appropriate:** Consistent with the investment style, mandate, or strategy.
 - **Measurable:** The return can be calculated frequently, accurately, and in a timely manner.
 - **Unambiguous:** The constituents and their weights are clearly defined and identifiable.
 - **Reflective of current investment opinions:** The investor has current knowledge of the securities in the benchmark.
 - **Accountable:** The investor accepts responsibility for the benchmark's constituents and performance.
 - **Investable:** It is possible for an investor to replicate the benchmark, or "passively hold" it.

Current Benchmark Status

	<u>Public Equity</u>	<u>Private Equity</u>	<u>Real Assets</u>	<u>Credit Strategies</u>	<u>Fixed Income</u>	<u>Diversifying Strategies</u>
Specified in Advance	●	●	●	●	●	●
Appropriate	●	◐	●	●	●	◐
Measurable	●	●	●	●	●	●
Unambiguous	●	●	●	●	●	●
Reflective of Opinions	●	◑	◐	◐	●	◑
Accountable	●	◑	◐	◐	●	◑
Investable	●	●	◐	●	●	◑

VRS Proposed Benchmarks

- **Public Equity** – custom 85%/15% blend of global cap weighted equity/global low volatility equity
- **Private Equity** – [Fund Universe Benchmark \(MSCI Burgiss, ex Venture, ex Funds <\\$1B\)](#)
- **Real Assets** – custom weighted blend of NCREIF ODCE (core real estate) and CPI+4% (other real assets)
- **Credit Strategies** – 50%/50% blend of high yield bonds/bank loans, [lagged one quarter](#)
- **Fixed Income** – custom 90%/5%/5% blend of investment grade US bonds/high yield bonds/emerging market debt
- **Diversifying Strategies** – [75%/25%](#) 3-month treasury bills +2.5%/[HFRI Trend Index](#)
- **Private Investment Partnerships (PIP)** – 34%/33%/33% Credit Strategies/Private Equity/Real Assets benchmarks

Growth in Large Public Companies



Source: LSEG Datastream and © Yardeni Research. Standard & Poor's.

* Magnificent-7 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. Both classes of Alphabet are included.

Private Equity Benchmark Alternative

- Private Equity Fund Universe Benchmark– a benchmark comprised of actual private equity funds
 - These can be customized to better represent an investor’s actual investment approach, including geography, style, vintage year, fund size, etc.
 - Best fit for us is the MSCI Burgiss Private Equity Index ex. Venture and Funds <\$1B.
 - Sourced from actual manager data
 - More clearly represents the investible opportunity set
 - Many large pension fund peers also benchmark vs. a fund universe index
 - Mercer found that ~1/3 of the largest 100 Public Funds use a Fund Universe benchmark. Examples include TRS, Wisconsin, CalSTRS, NY Common, North Carolina, PA PSERS, Maryland, Alaska Permanent, Ohio PERS & Ohio Teachers, New Jersey, etc.
 - Can be used to judge actual implementation success: return, risk, diversification, manager selection

Private Equity Benchmark Implementation

- To avoid timing risk and in acknowledgement that adjustments to a mature private investment portfolio take time, we would look to phase-in the benchmark over 5 fiscal years.

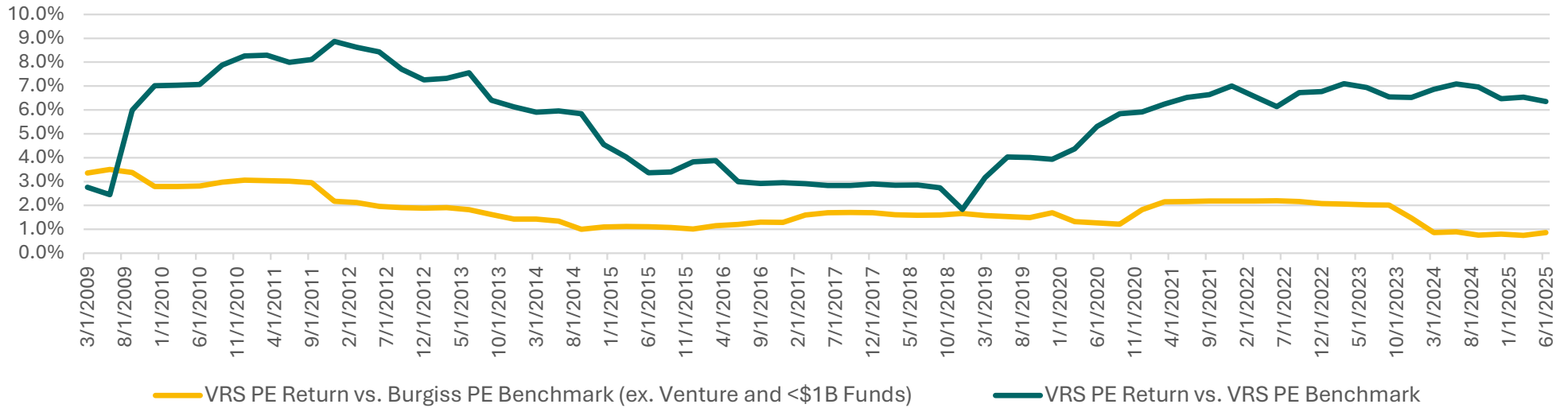
	Current Benchmark Public Market Index	Proposed Benchmark Private Fund Universe Index
FY 27	80%	20%
FY 28	60%	40%
FY 29	40%	60%
FY 30	20%	80%
FY 31	0%	100%

Performance Reporting: 12/31/25

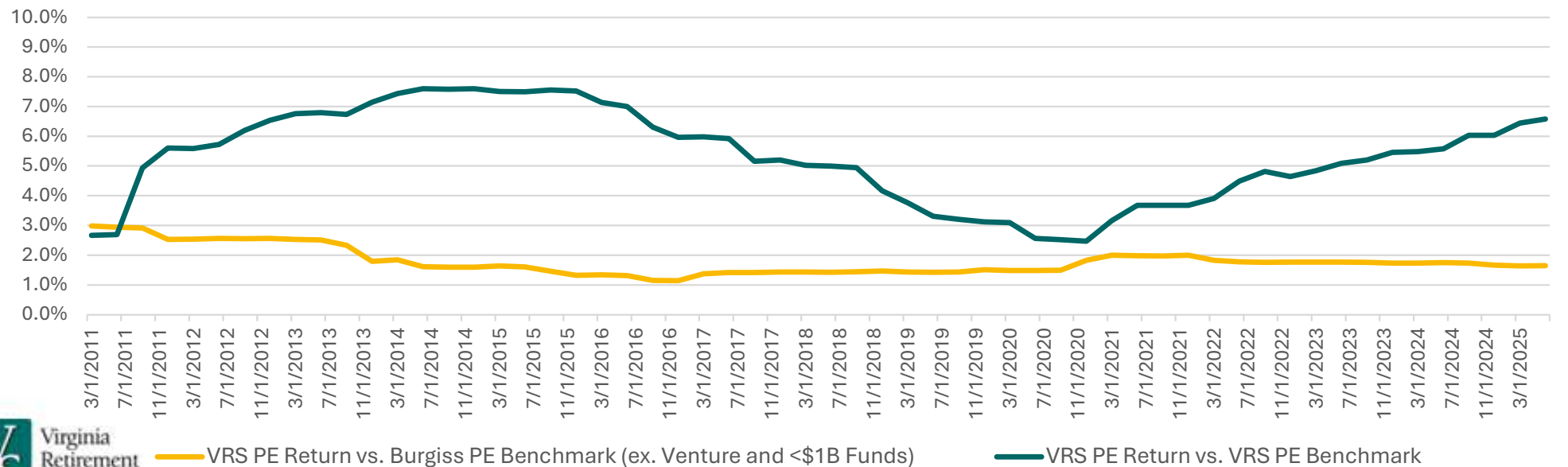
	(Net of Fees)						Fiscal YTD	Cal YTD	Market Value (\$MM)
	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month			
Total Public Equity	11.3	12.0	20.4	23.4	4.0	1.6	10.7	23.4	43,351
<i>Benchmark</i>	11.2	10.7	19.6	20.8	3.0	0.9	9.6	20.8	
Total Private Equity	14.2	12.9	6.9	8.1	2.2	2.3	4.6	8.1	19,845
<i>Benchmark</i>	14.0	14.1	23.5	17.7	7.3	3.2	19.9	17.7	
Total Real Assets	7.1	6.4	0.3	4.6	1.1	1.0	2.4	4.6	16,546
<i>Benchmark</i>	5.0	3.9	-1.9	4.4	0.9	0.3	2.0	4.4	
Total Credit Strategies	7.9	8.3	10.8	10.1	1.4	1.7	6.1	10.1	18,424
<i>Benchmark</i>	6.3	5.4	9.4	7.4	1.4	0.6	3.5	7.4	
Total Diversifying Strategies	n/a	5.4	7.9	7.8	2.3	1.9	5.1	7.8	6,158
<i>Benchmark</i>	n/a	4.7	8.7	6.7	1.6	0.5	3.3	6.7	
Total Private Investment Partnerships	9.1	11.3	8.4	7.3	2.0	2.0	4.8	7.3	2,113
<i>Benchmark</i>	8.2	8.3	9.7	9.7	3.1	1.4	8.1	9.7	
Total Fixed Income	3.1	0.6	5.8	8.6	1.4	0.0	4.0	8.6	19,362
<i>Benchmark</i>	2.2	0.0	5.2	7.7	1.2	-0.1	3.4	7.7	
Total Fund	8.9	8.8	10.6	12.8	2.5	1.5	6.5	12.8	129,409
<i>VRS Custom Benchmark</i>	8.3	7.6	12.6	12.8	2.8	1.0	7.7	12.8	

Private Equity Benchmark Tracking Error

3-year Rolling Tracking Error



5-Year Rolling Tracking Error

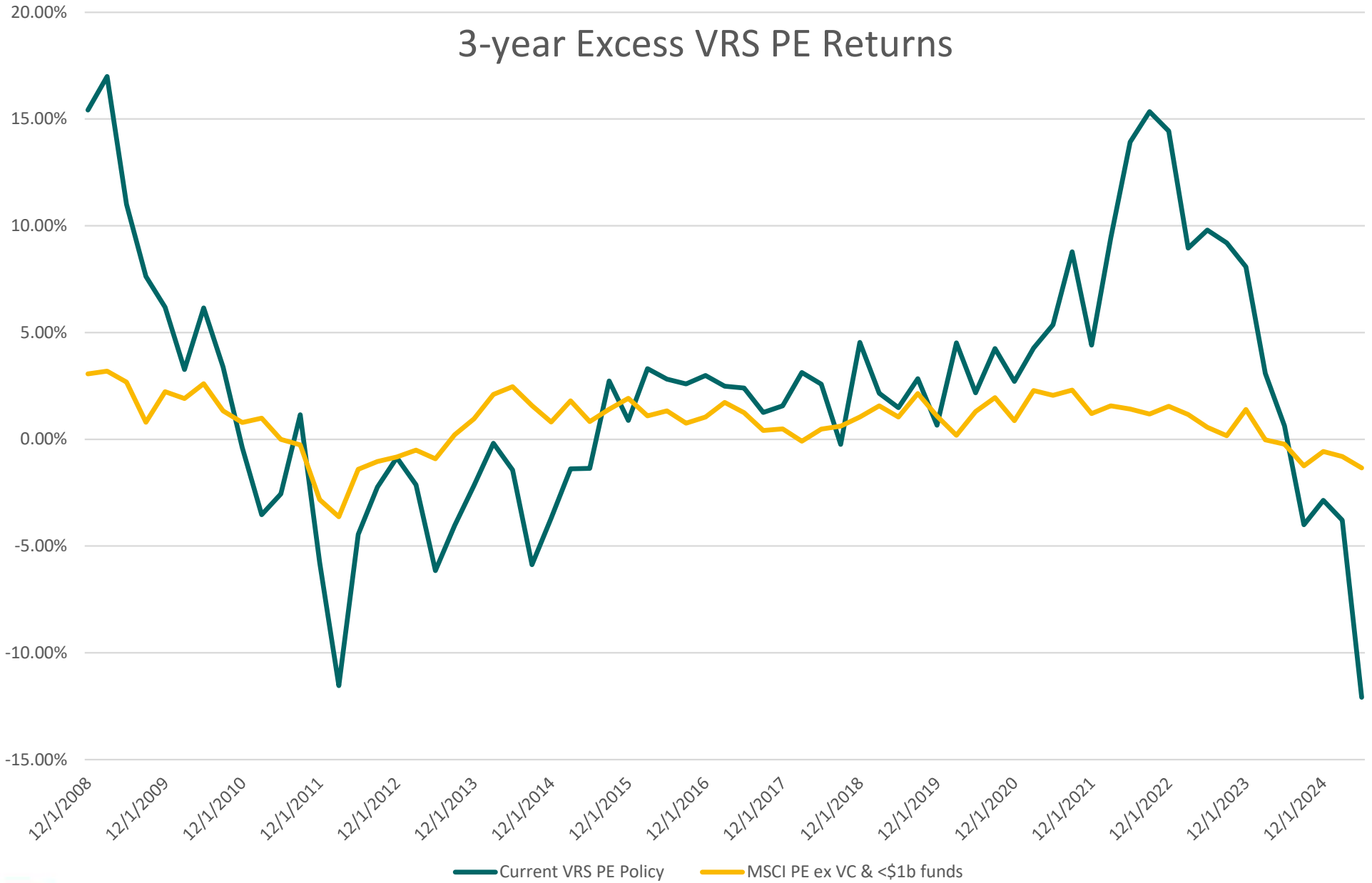


— VRS PE Return vs. Burgiss PE Benchmark (ex. Venture and <\$1B Funds)

— VRS PE Return vs. VRS PE Benchmark

Private Equity Benchmark Returns

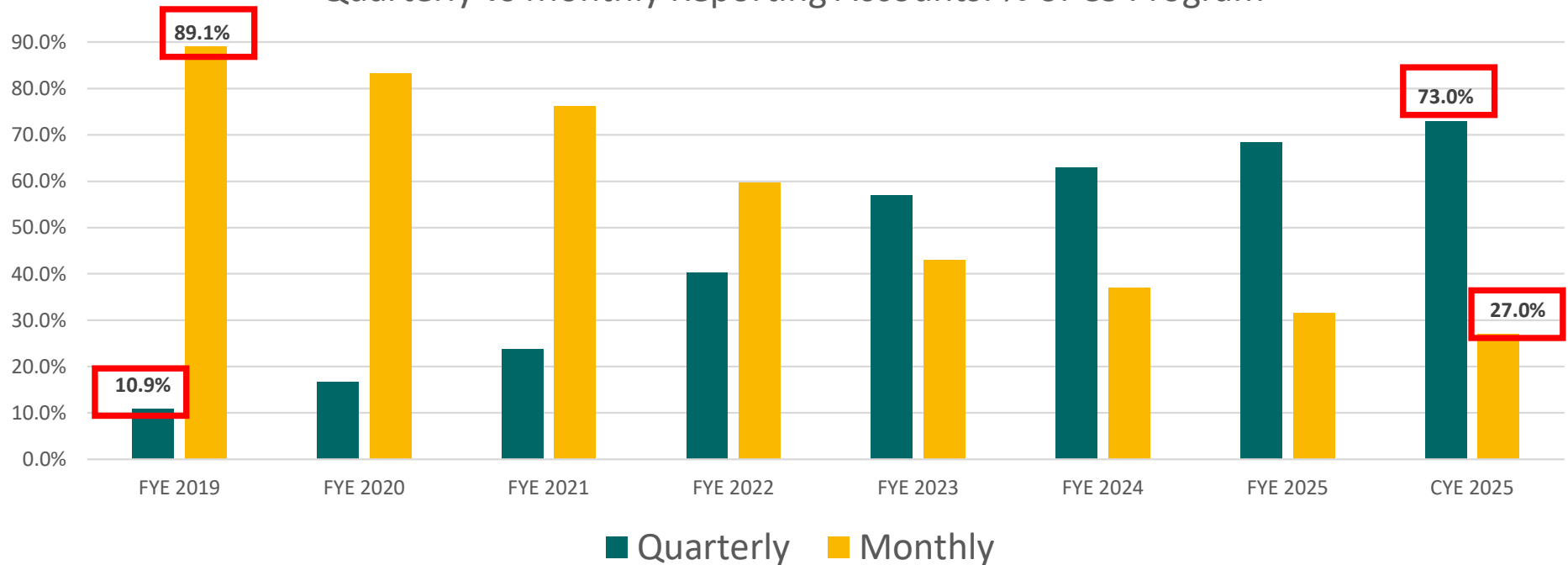
3-year Excess VRS PE Returns



Credit Strategies Has Evolved

- The investment vehicles utilized have changed over time as the program has become more private credit-focused.
- A lagged benchmark is needed to better match the reporting of the underlying investments.

Quarterly vs Monthly Reporting Accounts: % of CS Program



Diversifying Strategies Program

- Diversifying Strategies has changed meaningfully over the last several years
 - Combined former Risk Based Investing program with Dynamic Strategies program
 - Program now has two major components: Risk Responders and Return Enhancers
 - Risk Responders are designed to provide ballast when public equity markets are down
 - Return Enhancers are designed to harvest returns in most market environments in a way that is uncorrelated to the rest of the VRS portfolio

Diversifying Strategies Benchmark Components

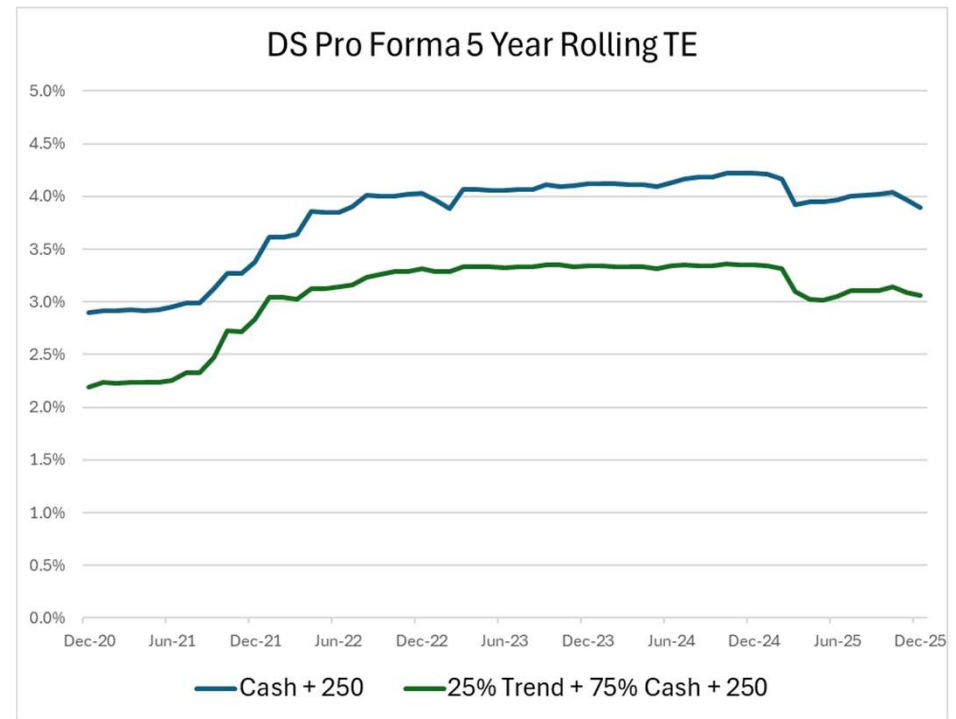
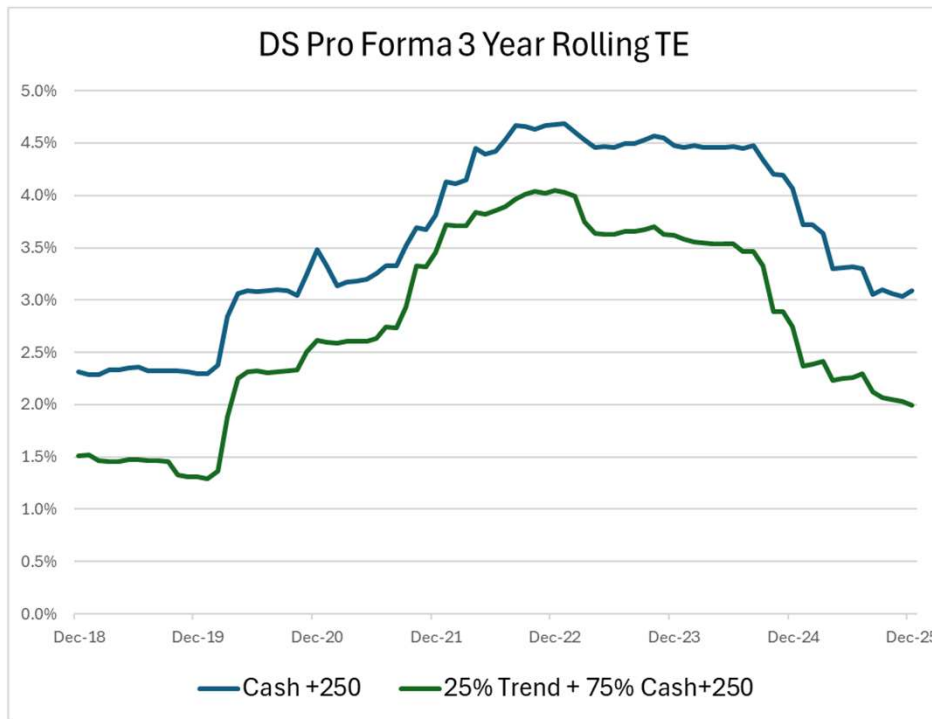
- Cash + 250 bps (current benchmark)
 - Consistent with an absolute return mandate
 - Serves as a proxy for the opportunity cost of capital
 - Never negative with a historic volatility around 1%
- HFRI Trend Following Index
 - Better reflects the make up of the defensive portion of the program
 - Exhibits a higher correlation to experienced and modeled returns
 - Introduces volatility into the benchmark more consistent with overall return patterns

Diversifying Strategies Benchmark Alternative

- Move to a blended benchmark
 - Retain cash plus 250 bps for absolute return – 75% of benchmark
 - Use HFRI Trend Following Index for the defensive portion of the program – 25% of benchmark
 - Weightings aligned with strategy evolution
- HFR Institutional Trend Following Index
 - Equal-weighted index representing the largest funds open to investment
 - Consistent with funds that are investible for an allocator of VRS's size
 - Index methodology consistent with VRS reporting and operational needs

Reduced Tracking Error

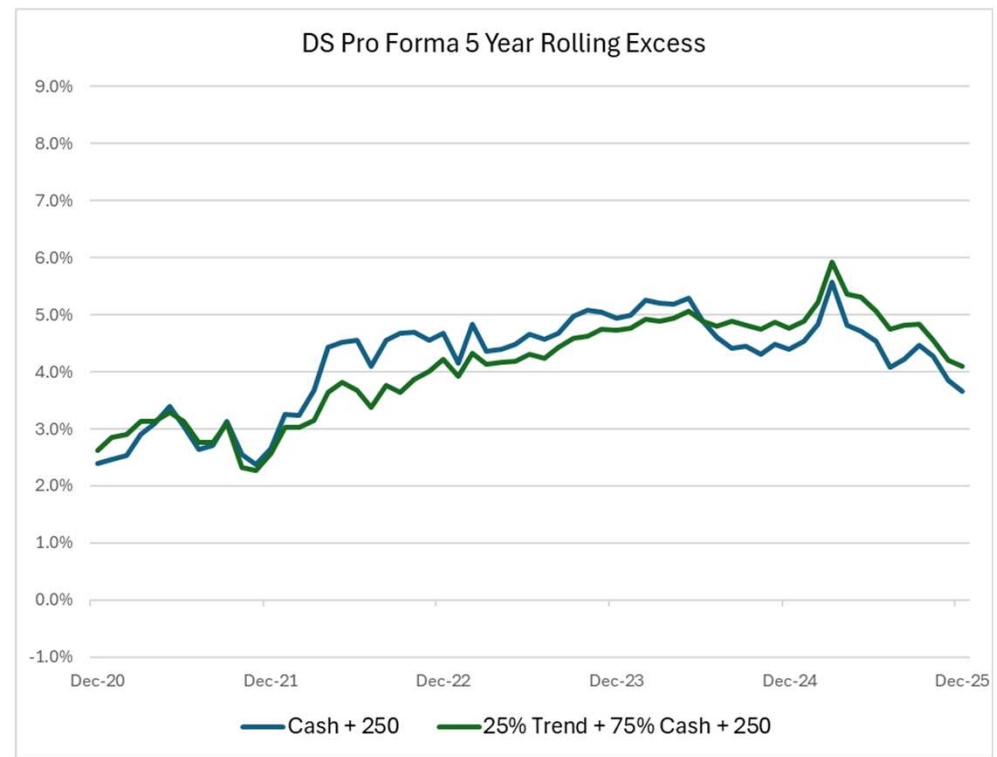
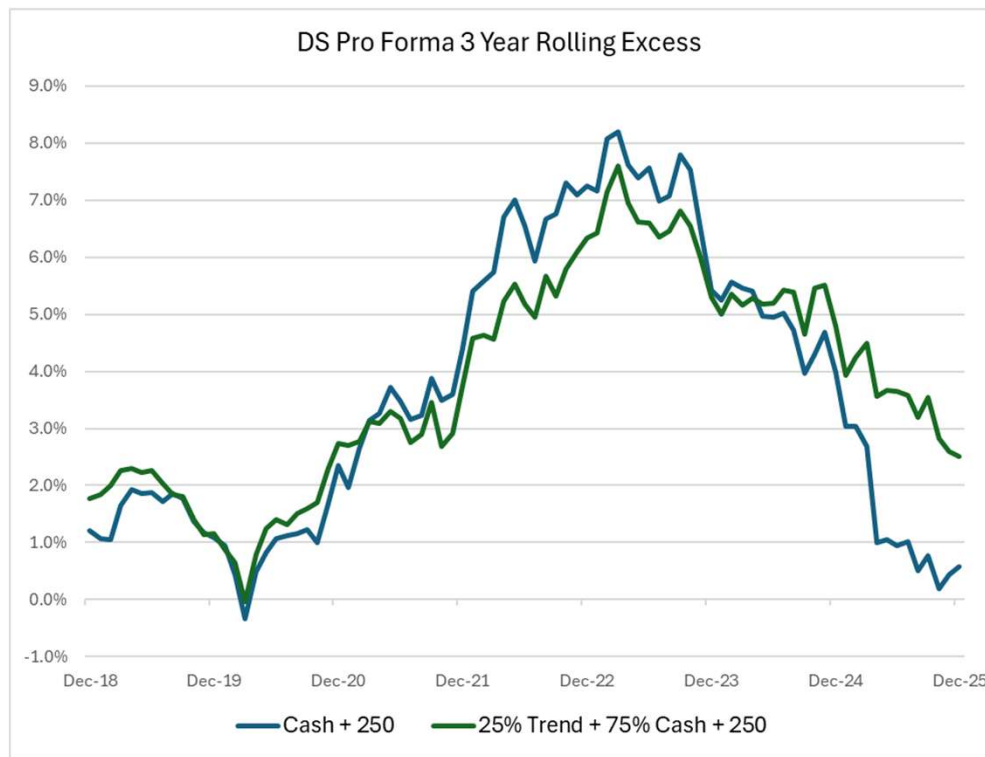
The HFR Institutional Trend Following Index is about 70% correlated with the historical performance of the current Diversifying Strategies defensive mandates, thus reducing overall program tracking error.



Given the reconstitution of the program in 2024, pro-forma returns of the current program constituents are used for benchmark evaluation.

Smother Excess Returns

Excess returns with the blended index is slightly smoother given the changes in cash rates the past few years.



Given the reconstitution of the program in 2024, pro-forma returns of the current program constituents are used for benchmark evaluation.

Total Plan Impact & Conclusion

- Updating these three benchmarks suggests Total Fund tracking error could drop to 1.0-1.5% based on pro-forma estimates.
- The proposed changes allow the Board to separately and cleanly answer allocation outcomes (are illiquid investments adding value vs. public markets) and implementation decisions (are VRS staff adding value through manager selection)?
- All changes are prospective, starting no sooner than July 1st, 2026.

Process Update, Governance, and Next Steps

- November 2025: IAC discussions on benchmark evolution; private market program reviews
- January 2026: Mercer hired to review benchmark and hurdle rates as part of our regular schedule of independent review
- February 2026: Benchmark education presentation to IPC
- April 8, 2026: VRS benchmark review and recommendations presented to IAC
- April 23, 2026: VRS benchmark review and recommendations presented to Board
- April 23, 2026: Mercer presents to AFT and Board
- July 1, 2026: Effective date for changes (earliest)

VRS

Benchmark & Incentive Hurdle Study 2026

Peter Grant / Tom Stephens



Executive Summary

- Mercer completed a detailed evaluation of the benchmarks and incentive hurdles used by VRS for the Total Fund and underlying asset classes.
- The analysis conducted by Mercer indicates that the current benchmarks used by VRS are generally suitable though recent data suggest that some changes may be appropriate.
- Mercer agrees with the proposed changes to the Private Equity, Credit Strategies and Diversifying Strategies benchmarks – each is conceptually sound and supported by quantitative evidence.
- Mercer proposes adjusting the incentive hurdles for Private Equity (from 200bps to 30bps) and Total Fund (from 45bps to 30bps).
 - Both due to the change in the Private Equity benchmark
 - No changes recommended for other asset classes
- Mercer also proposes an incentive hurdle (30bps) for Diversifying Strategies.

Policy Overview – Current

Current	Allocation *	Incentive Hurdle (bps)	Benchmark Description
Public Equity (traditional)	33%	30	85% MSCI ACWI IMI ex Selected Countries (net VRS tax rates) / 15% MSCI World Min Vol ex Selected Countries (net VRS tax rates)
Public Equity (internal)	16%	25	Roll-up of underlying account benchmarks
Private Equity	16%	200	Regional benchmarks of MSCI ACWI IMI ex Selected Countries (net VRS tax rates) lagged by 3 months, weighted to reflected the Private Equity opportunity set (currently 75% N America, 20% Europe, 5% Asia & EM)
Real Assets	13%	75	MV weighted blend of NCREIF Private Real Estate Benchmark (ODCE index (net) lagged by 3 months) and Other Real Assets Benchmark (CPI-U Index plus 400 basis points p.a. lagged by 3 months)
Credit Strategies	15%	75	50% Morningstar LSTA Performing Loan Index / 50% Bloomberg US HY Ba/B 2% Issuer Cap Index
Diversifying Strategies	4%	n/a	ICE BofA US 3-Month Treasury Bill Index plus 250 basis points p.a.
PIP	2%	n/a	33% Private Equity Custom Benchmark / 25% NCREIF Private Real Estate Benchmark / 8% Other Real Assets Custom Benchmark / 17% Bloomberg US HY Ba/B 2% Issuer Cap Index / 17% Morningstar LSTA Performing Loan Index
Fixed Income	15%	25	90% Bloomberg US Agg Bond Index / 5% Bloomberg US HY Ba/B 2% Issuer Cap Index / 5% JPM EMBI Global Core Index
Total	100%	45	Blend of asset class benchmarks at policy weights

Policy Overview – with Proposed Changes

Future	Current Hurdle (bps)	Proposed Hurdle (bps)	Benchmark Description
Public Equity (traditional)	30	30	85% MSCI ACWI IMI ex Selected Countries (net VRS tax rates) / 15% MSCI World Min Vol ex Selected Countries (net VRS tax rates)
Public Equity (internal)	25	25	Roll-up of underlying account benchmarks
Private Equity	200	30	MSCI Private Capital Index - pooled equity benchmark excluding venture capital and excluding funds under \$1B in size (lagged by 3 months)
Real Assets	75	75	MV weighted blend of NCREIF Private Real Estate Benchmark (ODCE index (net) lagged by 3 months) and Other Real Assets Benchmark (CPI-U Index plus 400 basis points p.a. lagged by 3 months)
Credit Strategies	75	75	50% Morningstar LSTA Performing Loan Index / 50% Bloomberg US HY Ba/B 2% Issuer Cap Index (lagged by 3 months)
Diversifying Strategies	n/a	30	75% ICE BofA US 3-Month Treasury Bill Index plus 250 basis points p.a. / 25% HFRI Institutional Trend Index
PIP	n/a	n/a	33% Private Equity Custom Benchmark / 25% NCREIF Private Real Estate Benchmark / 8% Other Real Assets Custom Benchmark / 17% Bloomberg US HY Ba/B 2% Issuer Cap Index / 17% Morningstar LSTA Performing Loan Index
Fixed Income	25	25	90% Bloomberg US Agg Bond Index / 5% Bloomberg US HY Ba/B 2% Issuer Cap Index / 5% JPM EMBI Global Core Index
Total	45	30	Blend of asset class benchmarks at policy weights

Notes on Methodology & Metrics used

- Analysis is based on quarterly rolling returns (from monthly custodian data)*.
- **“Success rate”** defined as the proportion of rolling 3-year and 5-year excess returns that exceeded the hurdle
 - A measure of how successful a portfolio been in achieving excess return objective.
- **“R-squared”** measures the proportion of the variation in portfolio returns that are explained by the benchmark.
 - Measure of explanatory power of benchmark
 - Can help identify mismatches and assessing benchmark suitability
- **“Tracking error”** measures the variability/volatility of excess returns.
 - Should be low for passive mandates
 - For active mandates, higher tracking error typically signifies greater active risk taking (deviations from benchmark)
 - Higher tracking error should be rewarded with higher excess returns (over the long-run)
- **“Tracking error implied hurdle”** is the level that neutralizes the impact of random variability of excess returns on expected incentive compensation**.
 - The intent is to set a hurdle at which incentive compensation is rewarding skill and not luck (over longer periods of time).

Performance Analysis – Benchmark Fit

Based on quarterly rolling returns

- Average R-Squared measures are reasonably high (only PE is below 80%) – suggests benchmarks have generally been a good fit.
- R-Squared over the last 5 years is significantly lower for PE and Credit Strategies – *benchmark fit is significantly improved with the planned changes**.

Current	Avg 3yr R-Squared	Avg 5yr R-Squared	Last 5yrs R-Squared	Last 5yrs R-Squared New Bmk
Public Equity (traditional)	99%	99%	98%	98%
Public Equity (internal)	99%	99%	99%	99%
Private Equity	61%	59%	28%	88%
Real Assets	81%	82%	91%	91%
Credit Strategies	88%	92%	57%	76%
Diversifying Strategies	81%	84%	77%	n/a*
Fixed Income	89%	86%	99%	99%
Total Fund	98%	98%	91%	98%

Performance Analysis – Current Success Rates

Based on quarterly rolling returns

- Success rates (% of rolling 3yr/5yr periods portfolio exceeding hurdle) are reasonably strong – notably Real Assets and Fixed Income.
- Only Public Equity (traditional) has a success rate below 50% (on a 5-year basis).

Asset Class	Current Hurdle (bps)	3yr Success Rate	5yr Success Rate	# Periods
Public Equity (traditional)	30	53%	40%	97
Public Equity (internal)	25	60%	62%	97
Private Equity	200	59%	58%	97
Real Assets	75	80%	73%	97
Credit Strategies	75	55%	70%	85
Diversifying Strategies*	n/a	61%	50%	29
Fixed Income	25	80%	81%	97
Total Fund	45	56%	69%	97

Performance Analysis – Success Rates with New Benchmarks

Based on quarterly rolling returns

- Success rates for Private Equity (5yr) and Credit Strategies (3yr and 5yr) similar with new benchmark
- 3yr success rate for Private Equity reduced (*but improved post-GFC – see later analysis for more detail*)
- Success rates for new benchmarks not available for Diversifying Strategies due to limited history (*see later analysis for more detail*)

Asset Class	Current Hurdle (bps)	3yr Success Rate	5yr Success Rate	Proposed Hurdle (bps)	3yr Success Rate New Bmk	5yr Success Rate New Bmk
Private Equity	200	59%	58%	30	47%	56%
Credit Strategies	75	55%	70%	75	55%	68%
Diversifying Strategies*	n/a	61%	50%	30	n/a	
Total Fund**	45	53%	63%	30	61%	50%

Benchmark Changes & Hurdle Implications

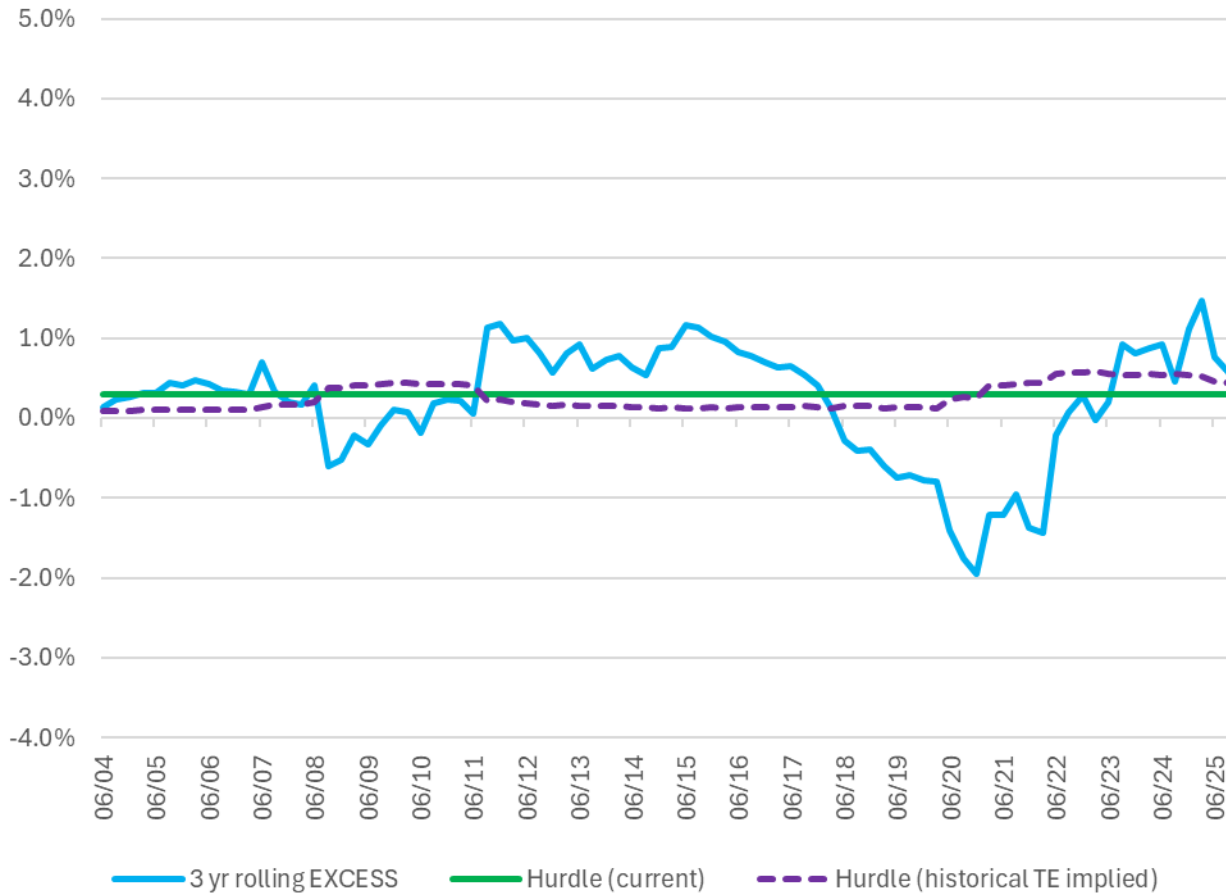
Private Equity – What is Changing and Why?

- Benchmark is changing from a lagged public equity-based benchmark to a MSCI Private Capital Index – pooled equity benchmark excluding venture capital and excluding funds under \$1B in size (lagged by 3 months).
- Private benchmark better reflects risk and return characteristics of the asset class.
 - Deviations between private portfolio and public benchmark have been significant over the past few years
 - Caused by public market volatility, not reflective of success or failure of private portfolio implementation
 - Problem faced by many institutional investors with private market allocations
- While private market benchmarks are less common for pension funds, adoption is increasing and already a common approach for other institutional asset owners with large private asset allocations (e.g., endowments).
- **Mercer agrees with the planned change** (and supports the use of MSCI as a best-in-class provider of benchmark returns for private markets*).
- It is more difficult to outperform a private benchmark – **a new hurdle is proposed.**
 - Private benchmarks embed the structural advantages of investing in private markets
 - They are peer-based, meaning persistent outperformance requires relative skill
 - Private benchmarks can also exhibit survivorship bias

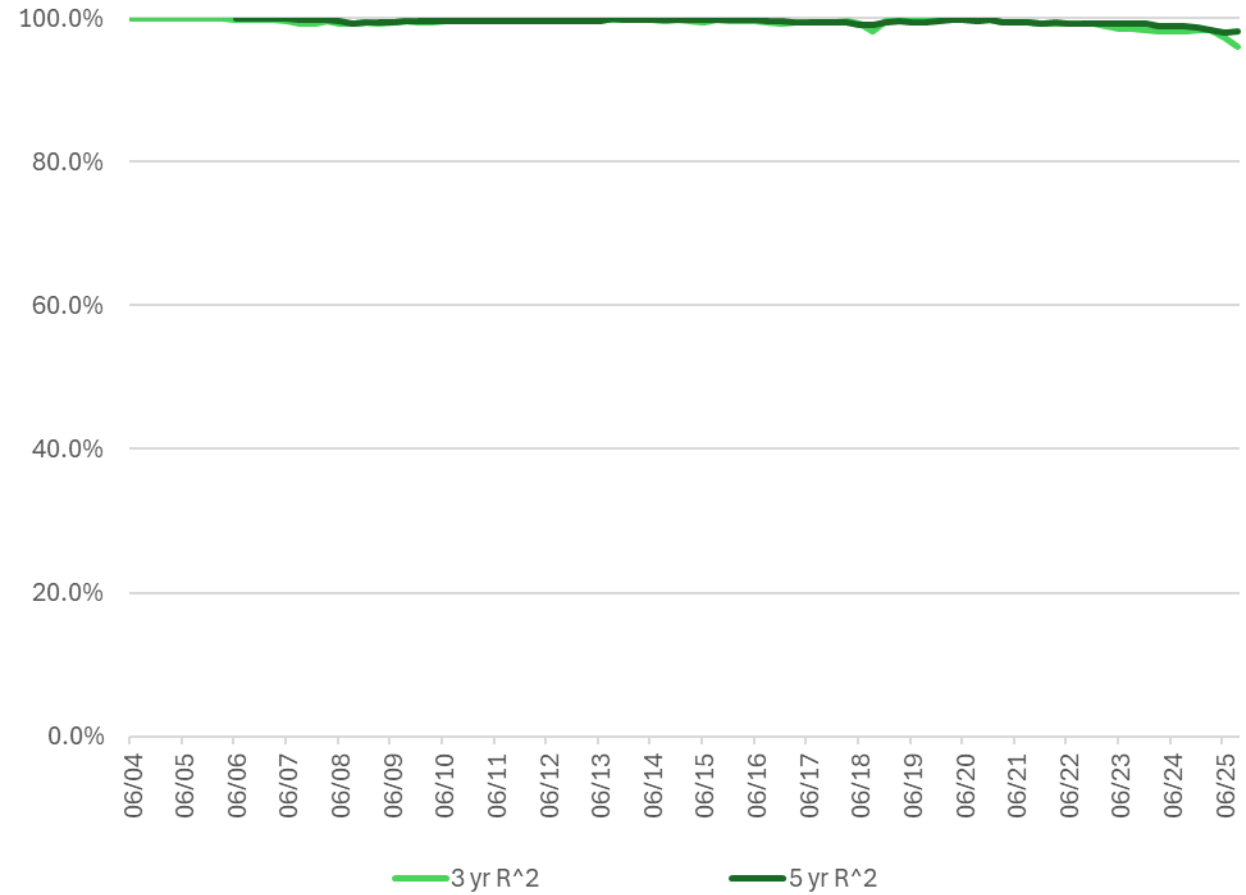
Why is the Current Private Equity Benchmark Problematic?

Comparison vs. Public Equity: Analytics Details – Public Equity (traditional)

Rolling 3-year Excess vs. Hurdles



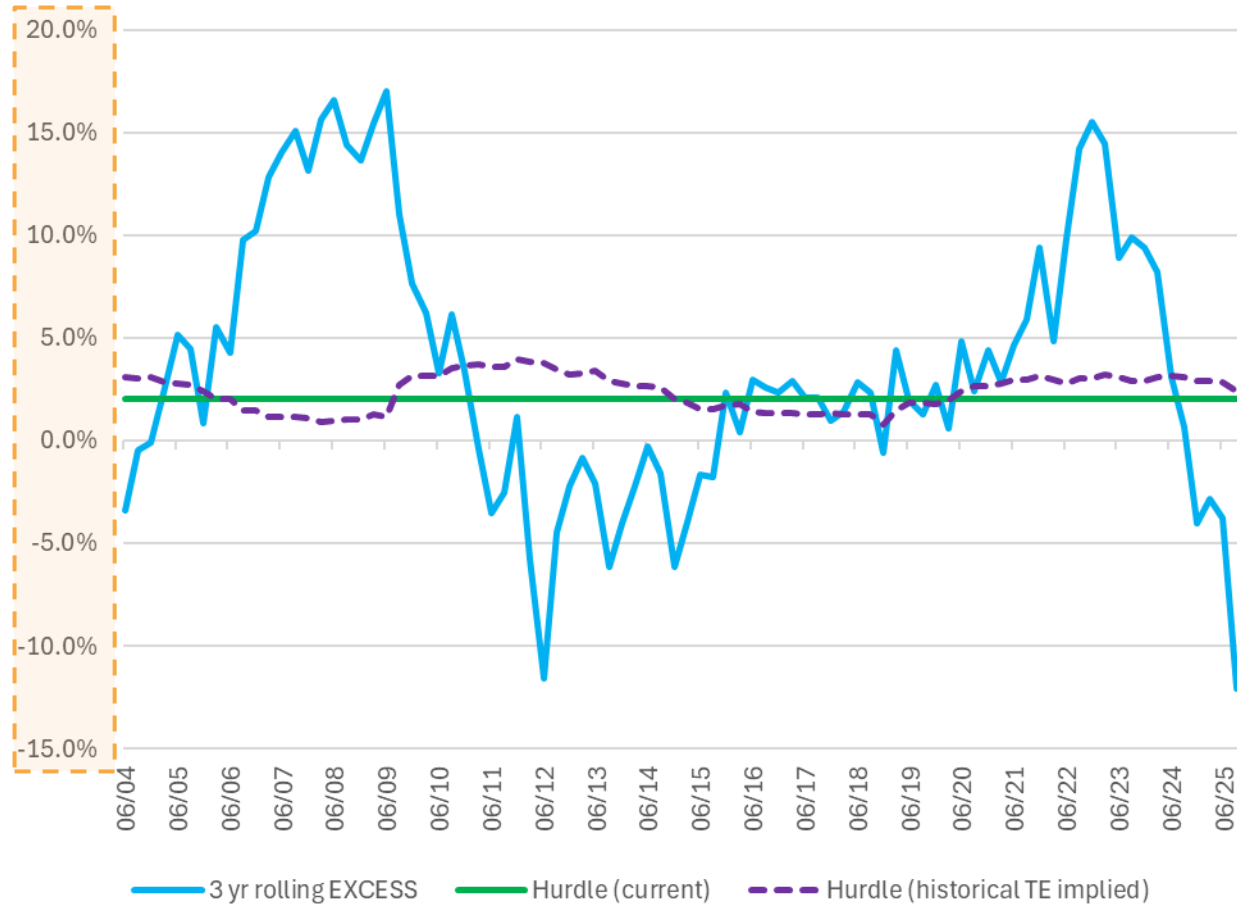
Rolling 3- and 5-year R-squared



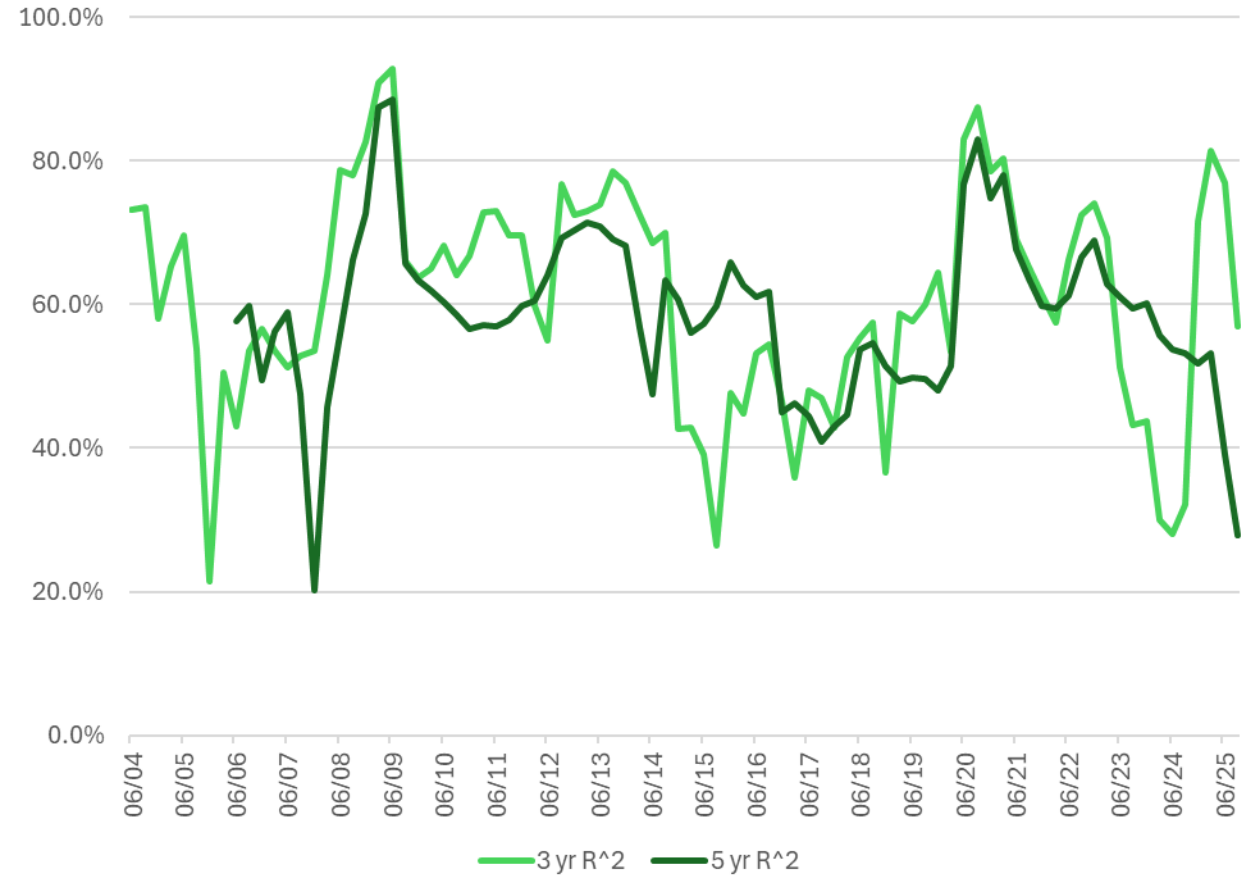
Why is the Current Private Equity Benchmark Problematic?

Comparison vs. Public Equity: Analytics Details – Private Equity – Current Benchmark

Rolling 3-year Excess vs. Hurdles



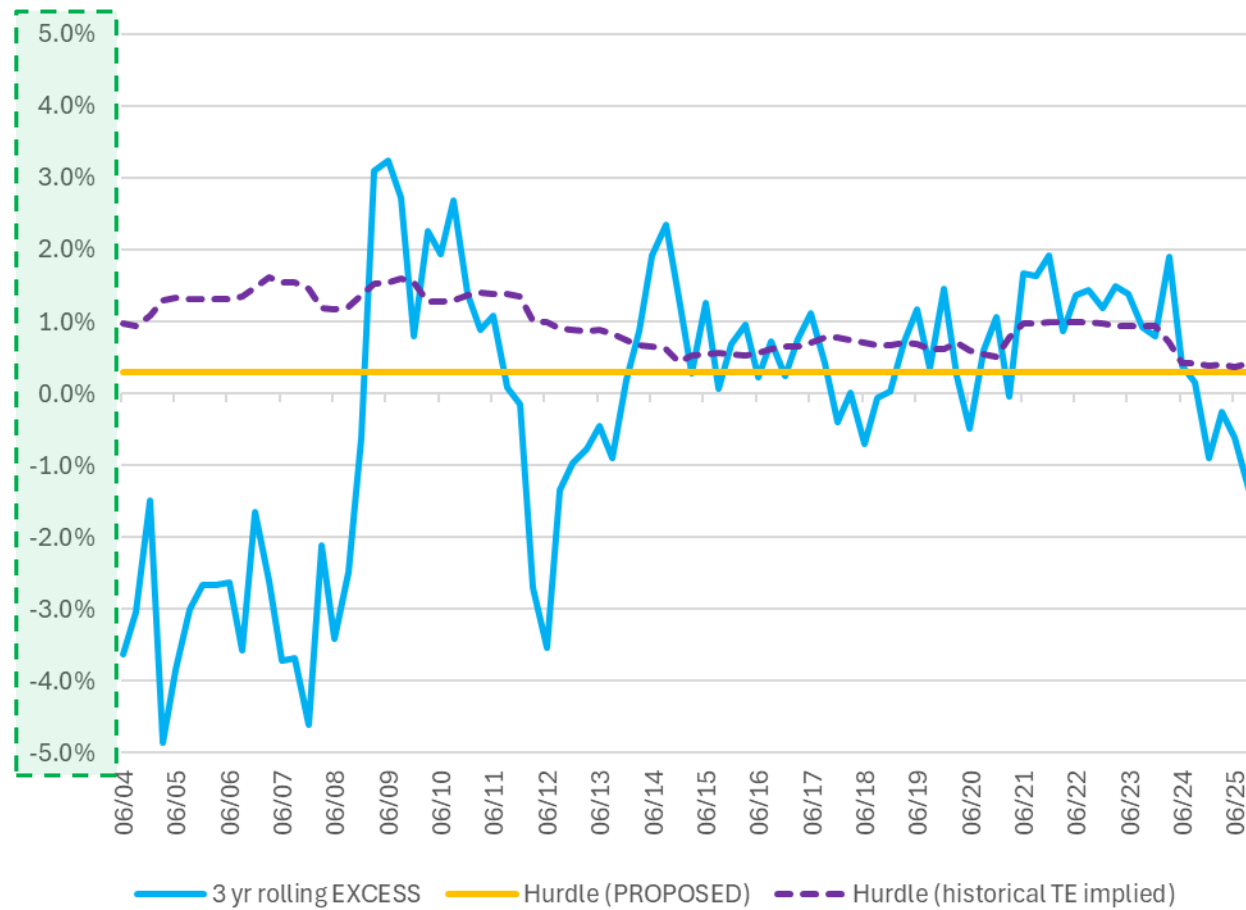
Rolling 3- and 5-year R-squared



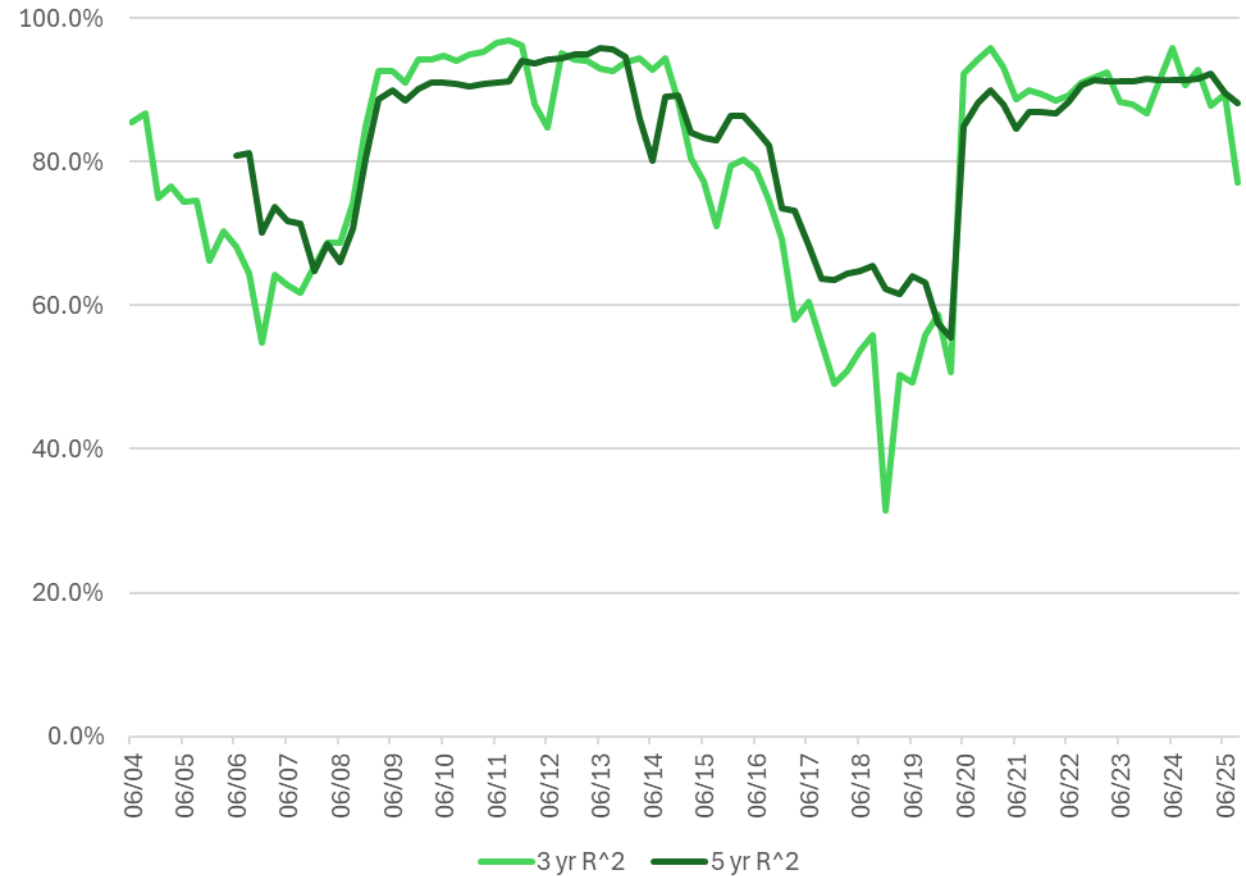
How does the New Private Equity Benchmark Help?

Comparison vs. Public Equity: Analytics Details – Private Equity – New Benchmark

Rolling 3-year Excess vs. Hurdles



Rolling 3- and 5-year R-squared



Private Equity – Impact of Change to New Benchmark

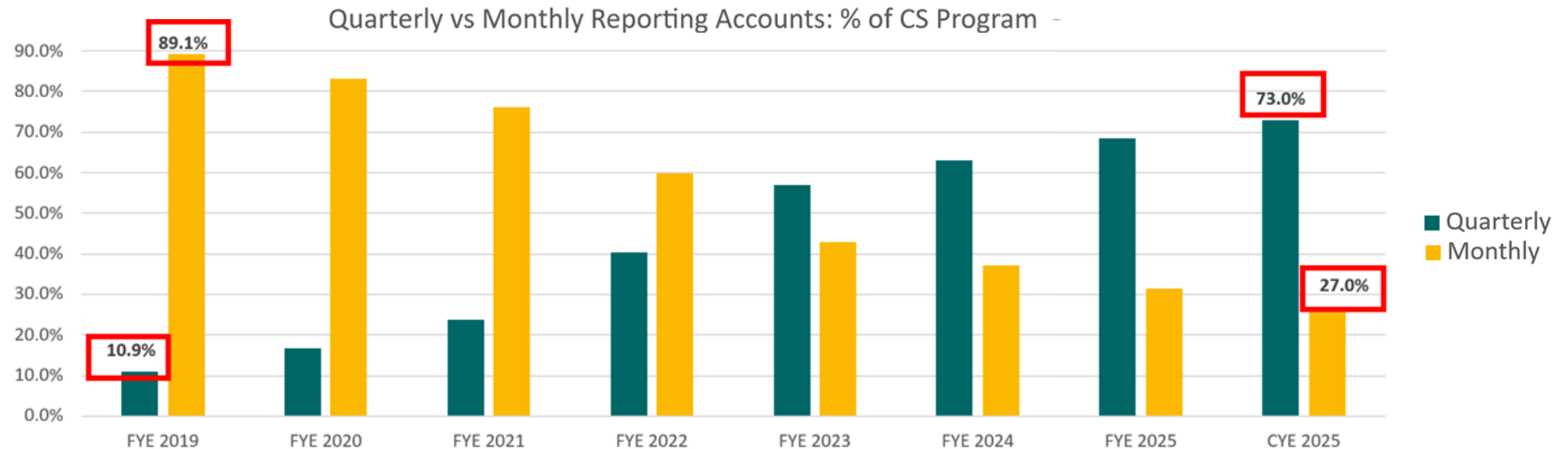
Analysis based on quarterly rolling returns

- Historical analysis using the new private markets benchmark shows a better fit and a higher explanatory power (R-Squared) than the current public market-based benchmark.
- Success rates are shown for a range of hurdles above the new benchmark.
- **Mercer proposes a hurdle of 30bps.**

Private Equity	Avg 3yr R-Squared	Avg 5yr R-Squared	Last 5yrs R-Squared	Hurdle (bps)	3yr success rate	5yr success rate	3yr success rate post-GFC	5yr success rate post-GFC
Current benchmark	61%	59%	28%	200	59%	58%	47%	56%
New benchmark	80%	83%	88%	40	44%	47%	51%	60%
				30	47%	56%	55%	72%
				20	51%	62%	62%	77%

Credit Strategies – What is Changing and Why?

- Benchmark remains 50% Morningstar LSTA Performing Loan Index / 50% Bloomberg US HY Ba/B 2% Issuer Cap Index but **it will be lagged by 3 months.**
- Asset class has become more private credit-focused (as illustrated in the chart below*) – the benchmark change improves alignment between the (now) less-liquid portfolio and benchmark.



- **Mercer agrees with the planned change.**
- Similar underlying exposures so **hurdle should remain appropriate.**

Credit Strategies – Impact of Change to New Benchmark

Analysis based on quarterly rolling returns

- New benchmark (with lags) shows a better fit and a higher explanatory power (R-Squared) than the current benchmark (no lags).
- Success rates are relatively unchanged with the same hurdle – **Mercer does not propose any change.**

Credit Strategies	Avg 3yr R-Squared	Avg 5yr R-Squared	Last 5yrs R-Squared	Hurdle (bps)	3yr success rate	5yr success rate
Current benchmark	88%	92%	57%	75	55%	70%
New benchmark	92%	95%	76%	75	55%	68%

Diversifying Strategies – What is Changing and Why?

- Benchmark is changing from 3-Month US T-Bills plus 250bps p.a. to 75% 3-Month US T-Bills plus 250bps p.a. / 25% HFRI Institutional Trend Index.
- Asset class represents a combination of underlying strategies intended to provide diversification with other asset classes.
 - Trend-based strategies are one of the underlying strategies* – **conceptually sound** to introduce HFRI trend index.
 - Mercer factor analysis shows that trend is only significant risk factor exposure** – **suggests the choice of benchmark is appropriate.**
- **Mercer agrees with the planned change.**
- VRS requested that Mercer **propose an incentive hurdle** for the asset class.

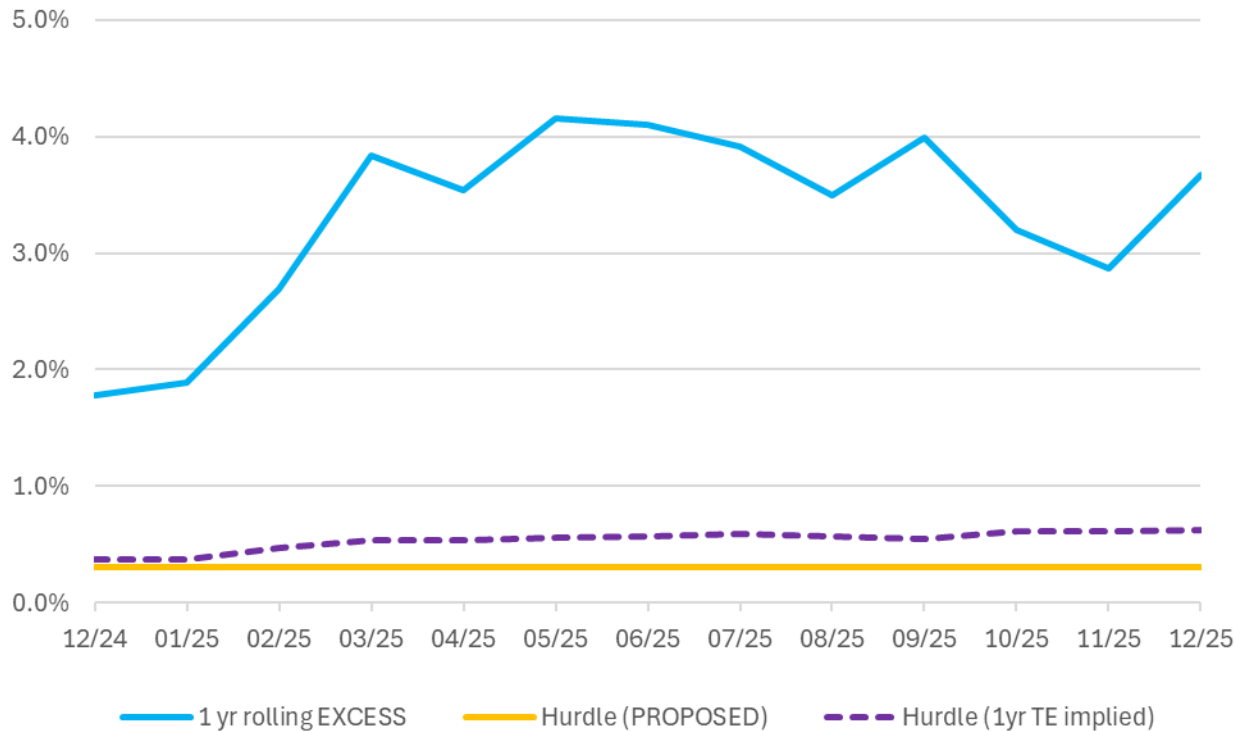
Factor exposures	Portfolio	Benchmark
Bonds	-0.13	0.00
Equity	-0.03	0.00
Trend	0.44	0.50
Inflation	0.15	0.01
Value	0.09	0.00
Size	-0.09	0.00

Diversifying Strategies – Impact of Change to New Benchmark

Analysis based on monthly rolling returns

- Prior hurdles for Dynamic Strategies and Risk Based Investments (which were combined to form Diversifying Strategies) were in line with Public Equity and Fixed Income asset classes (25-30bps), reflecting the similar opportunity set.

Rolling 1-year Excess vs. Hurdles



- The historical data available for performance analysis using the new benchmark is very limited, meaning the success rate and R-squared metrics are less useful (and not comparable to the current benchmark measures – which reflect a much longer period).
 - The last two years was also a particularly poor period for trend strategies.
- Considering the above, **Mercer recommends setting a 30bps hurdle** and suggests reassessing when more data is available.

Total Fund – Impact of Change to New Benchmark

- The Total Fund benchmark is a blend of the underlying asset class benchmarks at policy weights.
- The change to the Private Equity benchmark has the biggest impact on Total Fund excess returns.
- The new Private Equity benchmark is more difficult to outperform – this is reflected in the proposed Private Equity hurdle of 30bps, which has been reduced from 200bps.
- Historical performance analysis of the proposed Total Fund Benchmark shows that a hurdle of 30bps results in similar success rates and is consistent with the historical tracking error.

Total Fund	Hurdle (bps)	3yr success rate	5yr success rate
Current benchmark	45	53%	63%
New benchmark	30	61%	50%

- **Mercer**, therefore, **proposes a new hurdle of 30bps** for the Total Fund.

Performance Analysis Detail

Analytics Details – Public Equity (traditional)

3yr Success rate: 53%

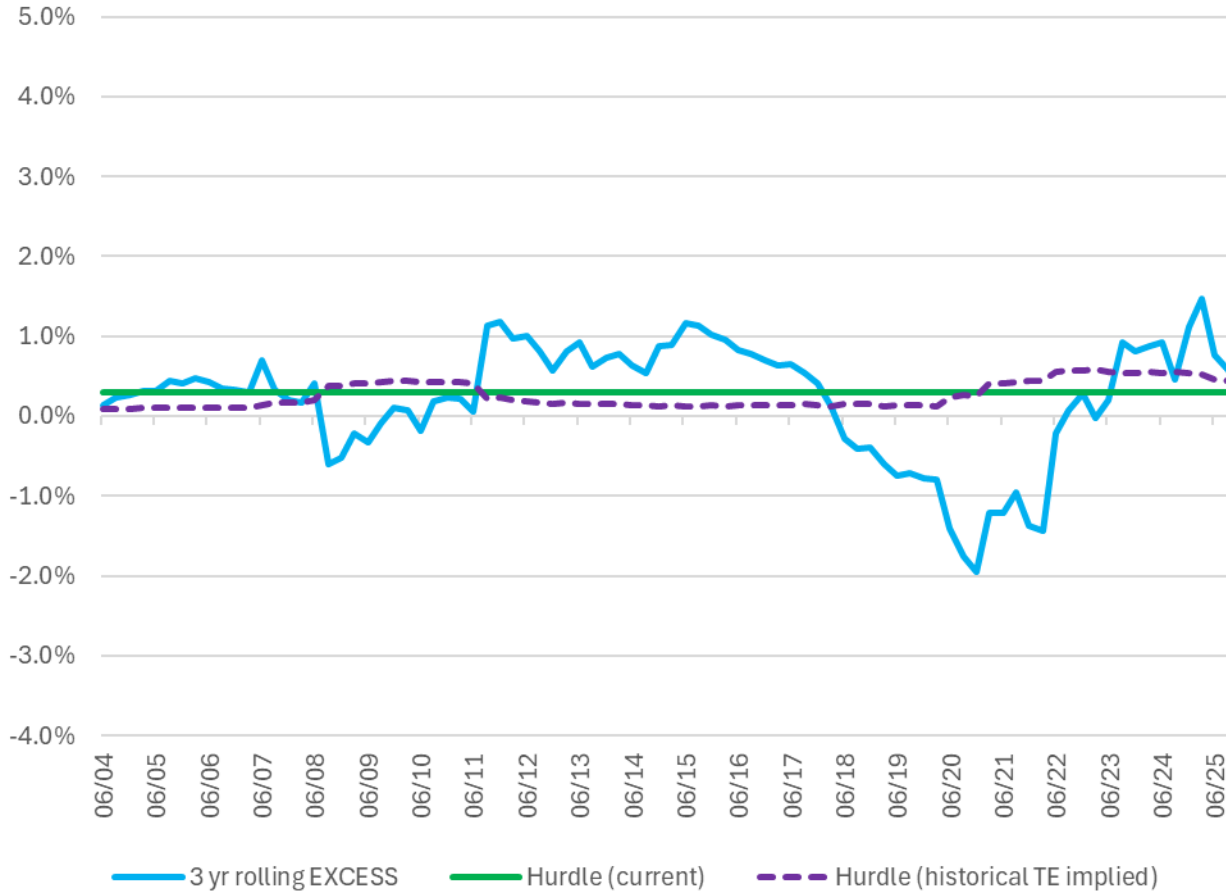
TE implied hurdle (bps): 26

Current hurdle (bps): 30

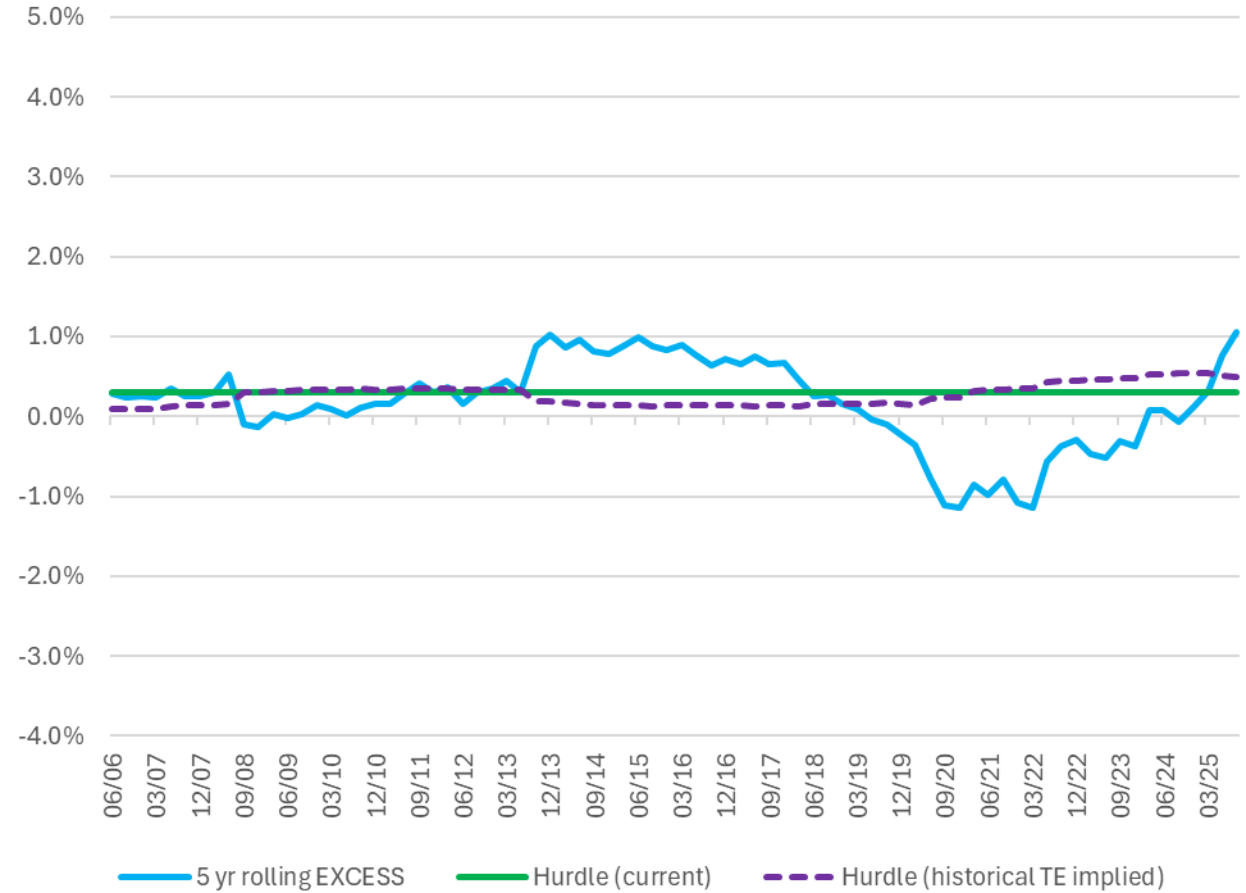
5yr Success rate: 40%

TE implied hurdle (bps): 27

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Public Equity (traditional)

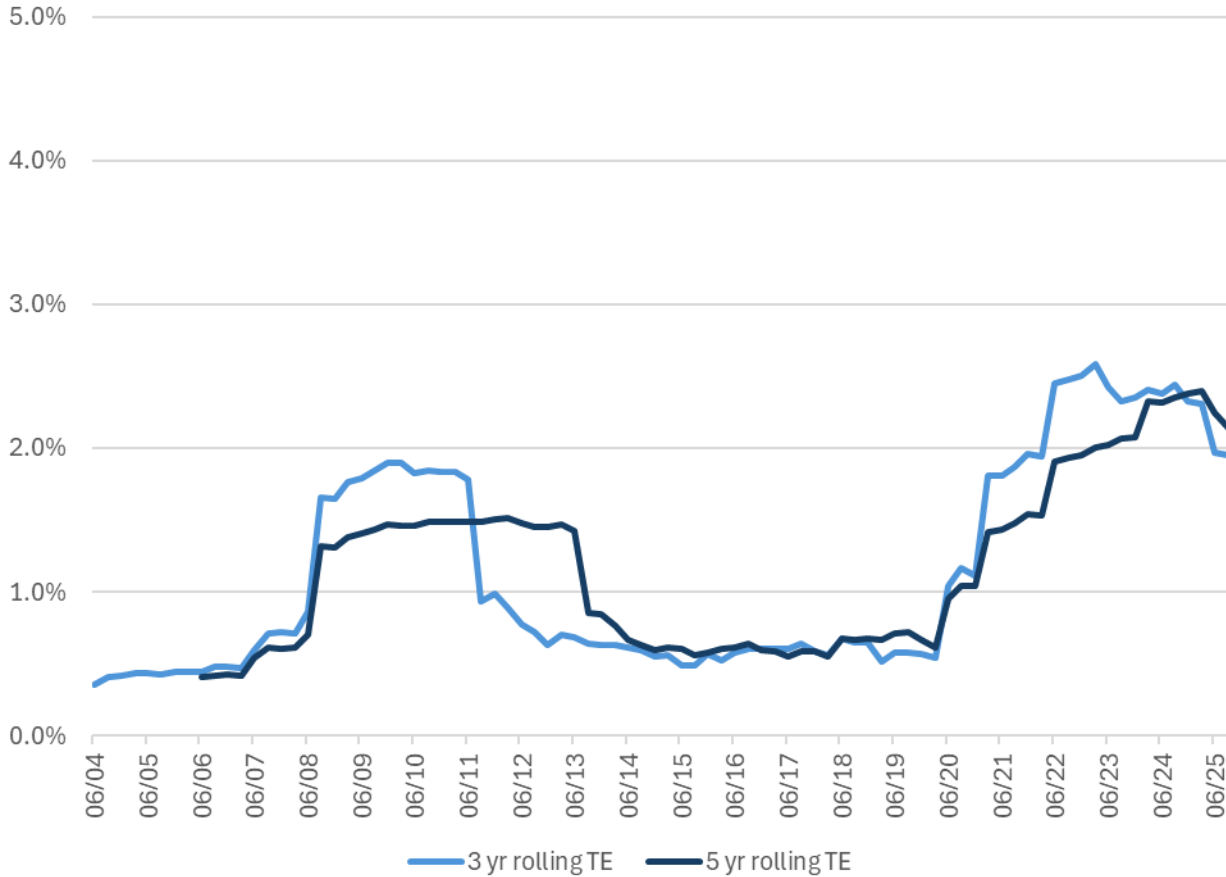
Avg 3yr TE: 1.1%

Avg 5yr TE: 1.2%

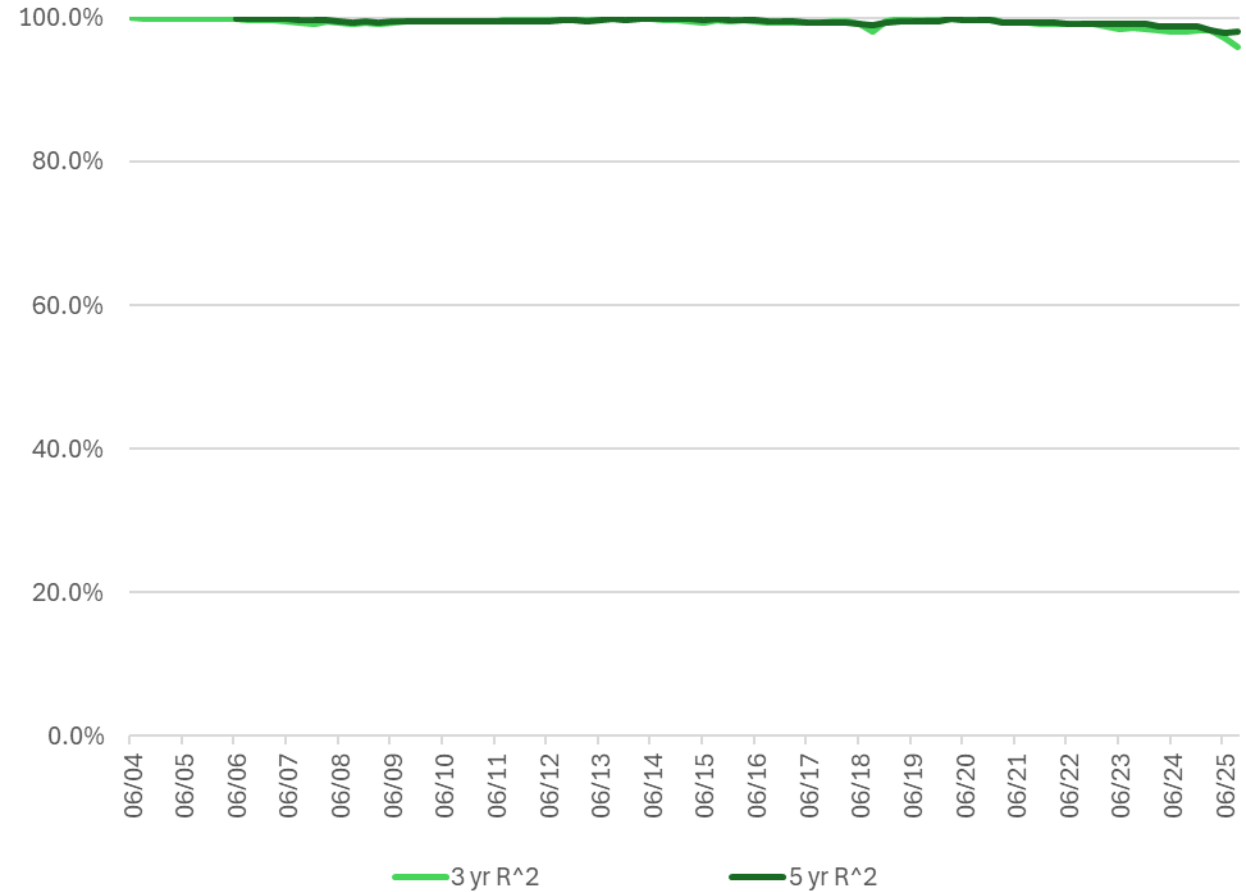
Avg 3yr R-Squared: 99%

Avg 5yr R-Squared: 99%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Public Equity (internal)

3yr Success rate: 60%

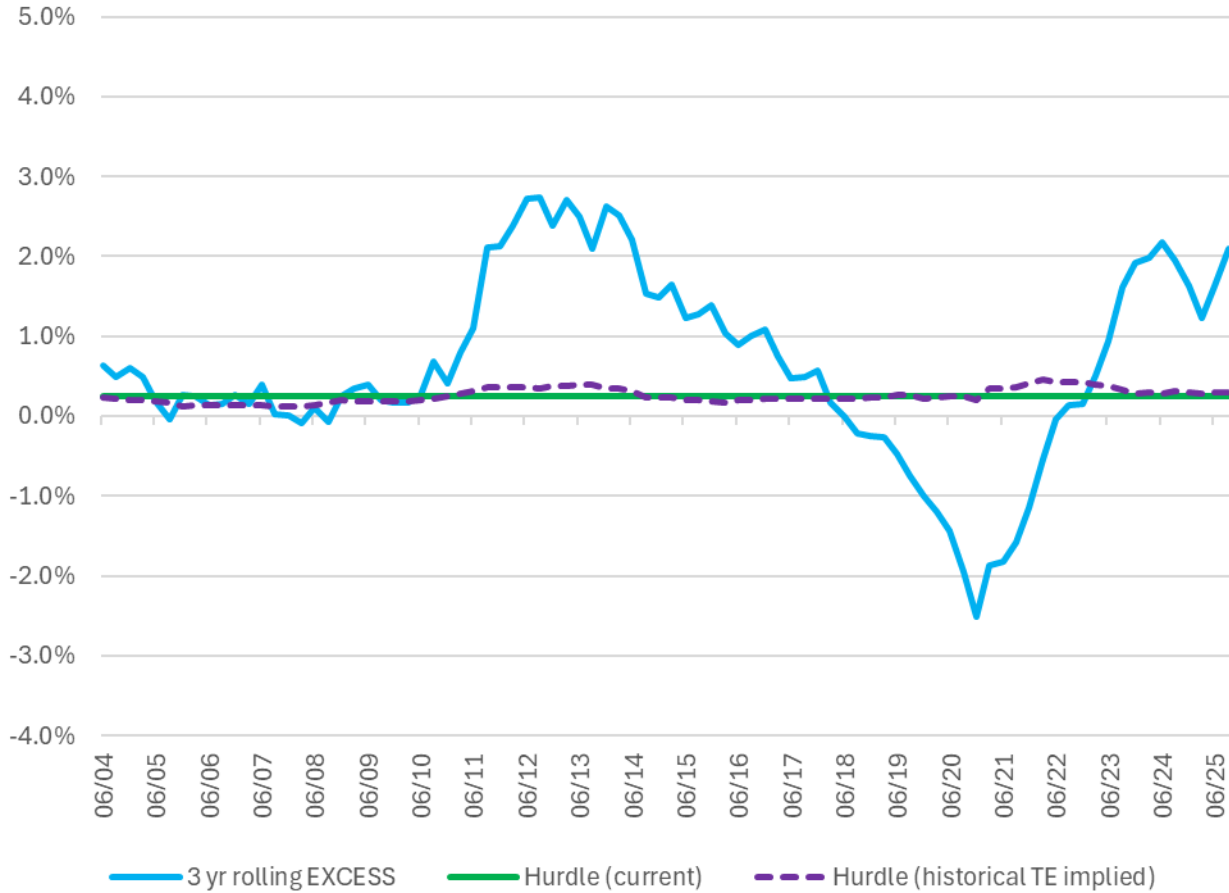
TE implied hurdle (bps): 25

Current hurdle (bps): 25

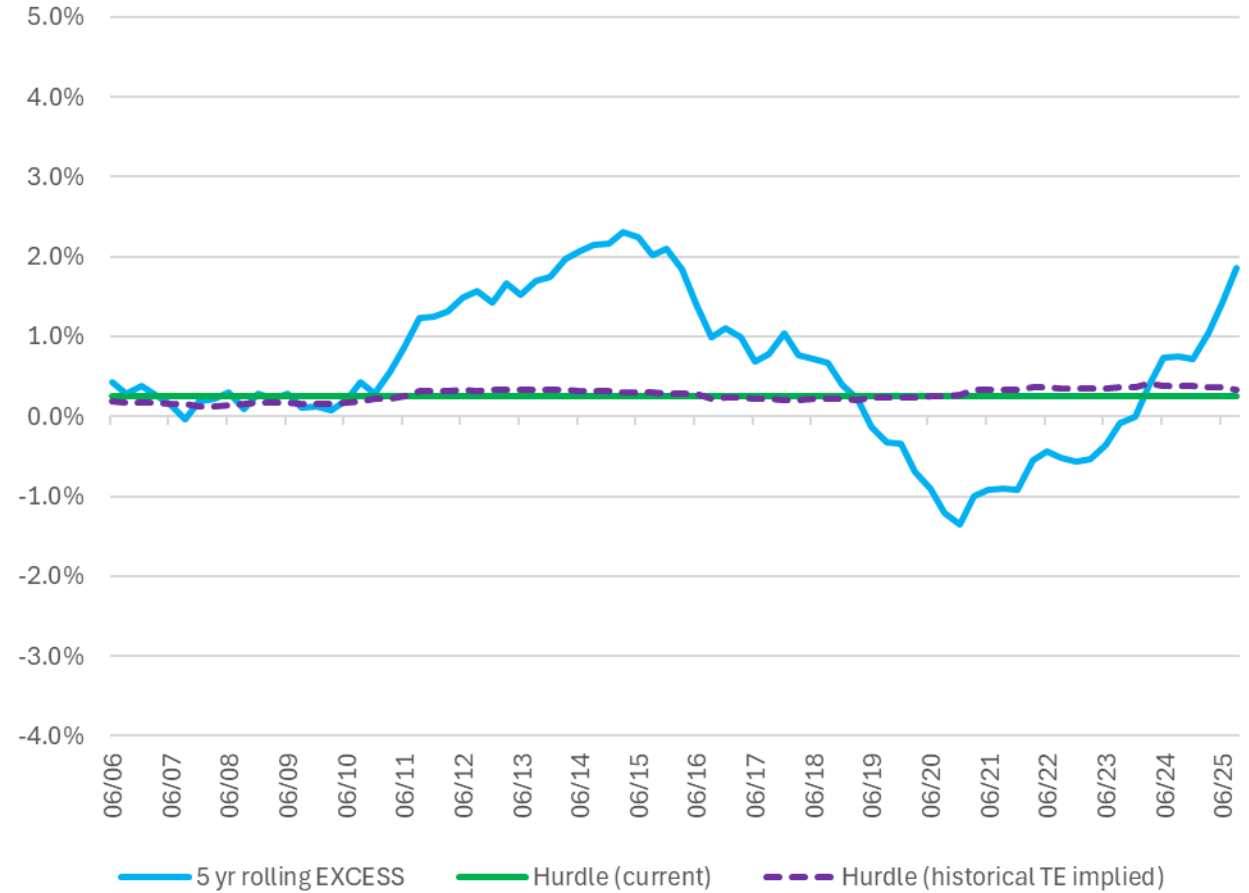
5yr Success rate: 62%

TE implied hurdle (bps): 27

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Public Equity (internal)

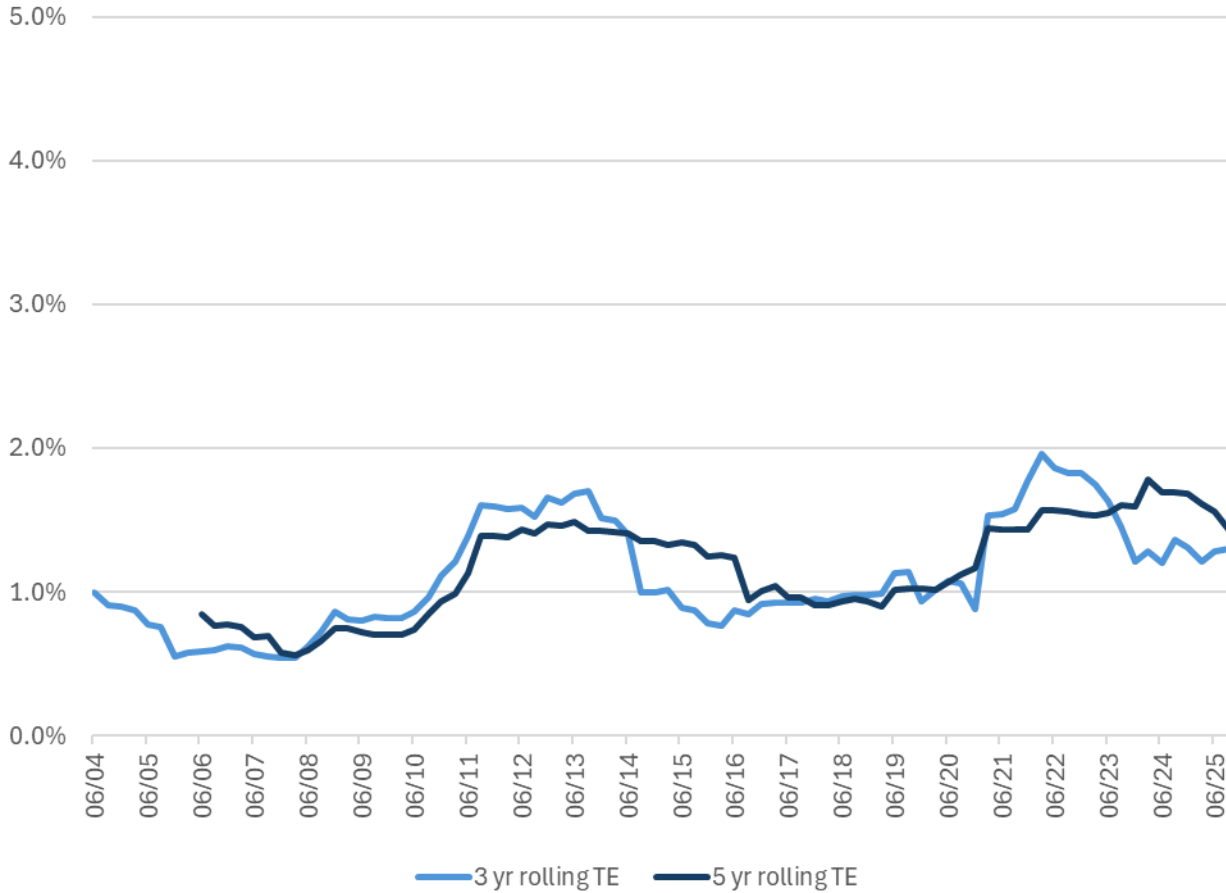
Avg 3yr TE: 1.1%

Avg 5yr TE: 1.2%

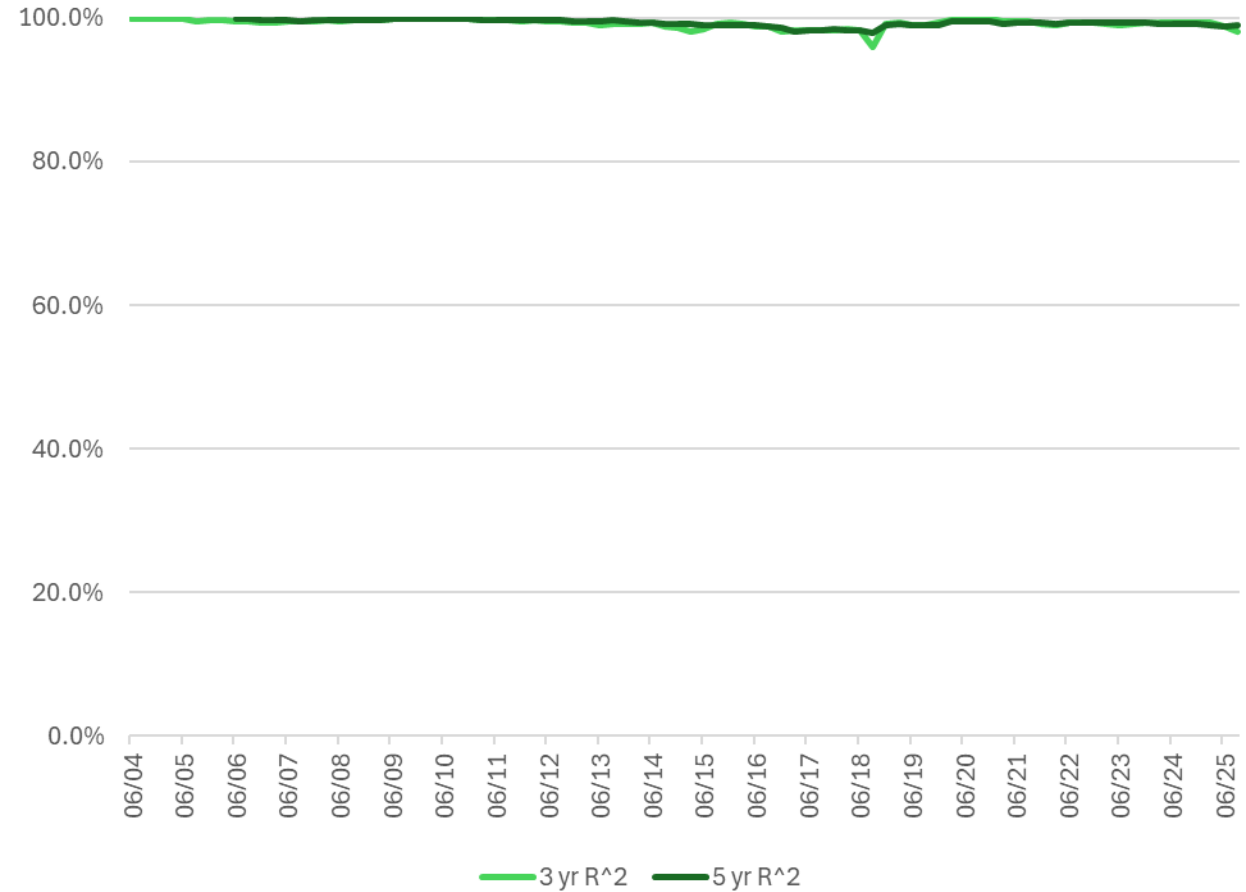
Avg 3yr R-Squared 99%

Avg 5yr R-Squared 99%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Private Equity

3yr Success rate: 59%

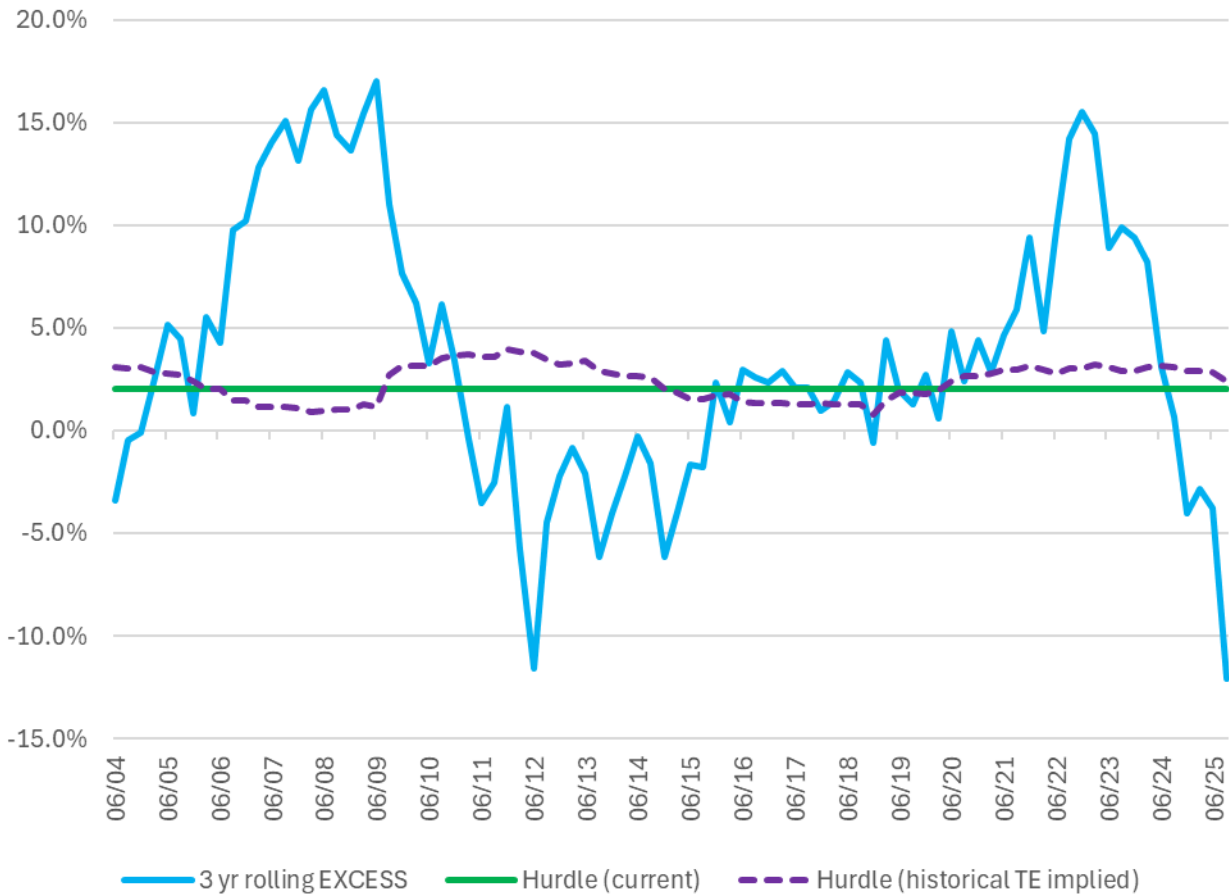
TE implied hurdle (bps): 236

Current hurdle (bps): 200

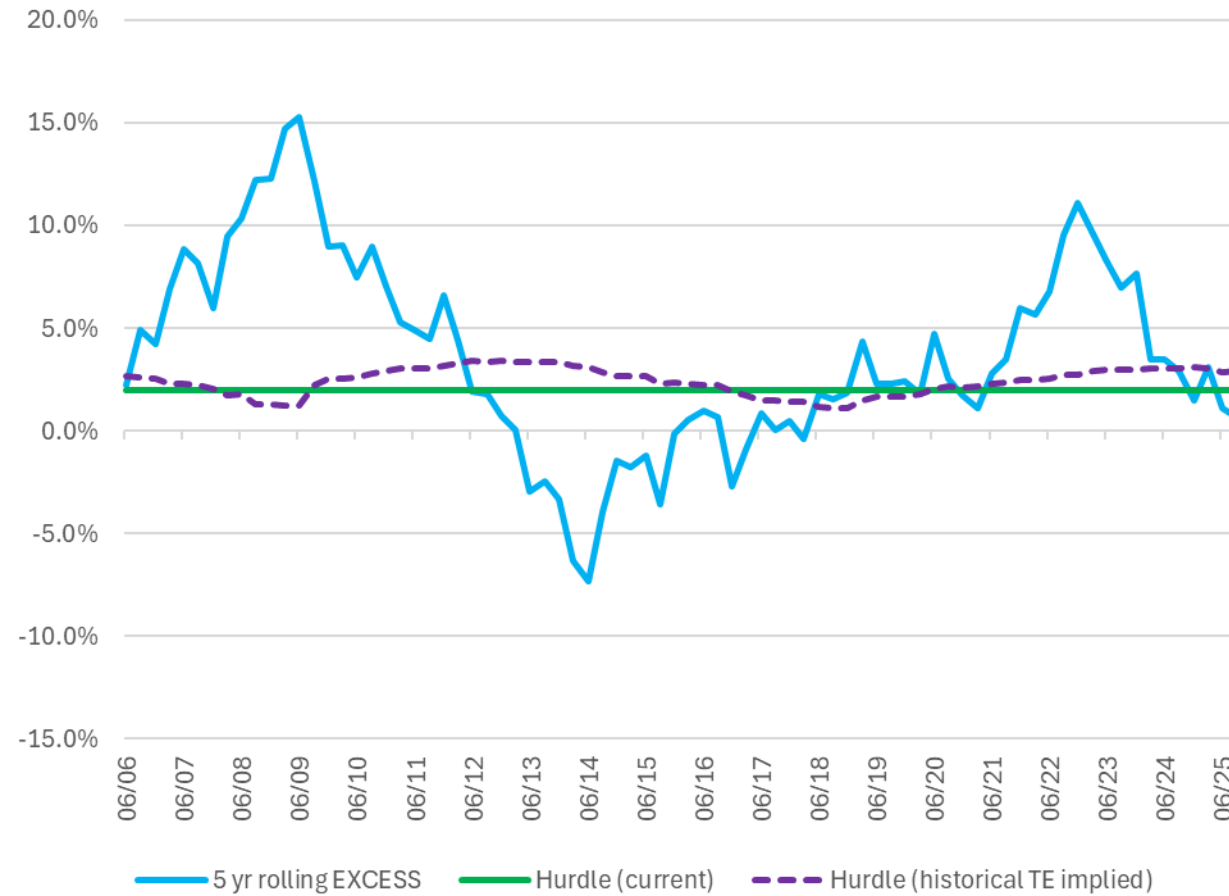
5yr Success rate: 58%

TE implied hurdle (bps): 241

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Private Equity

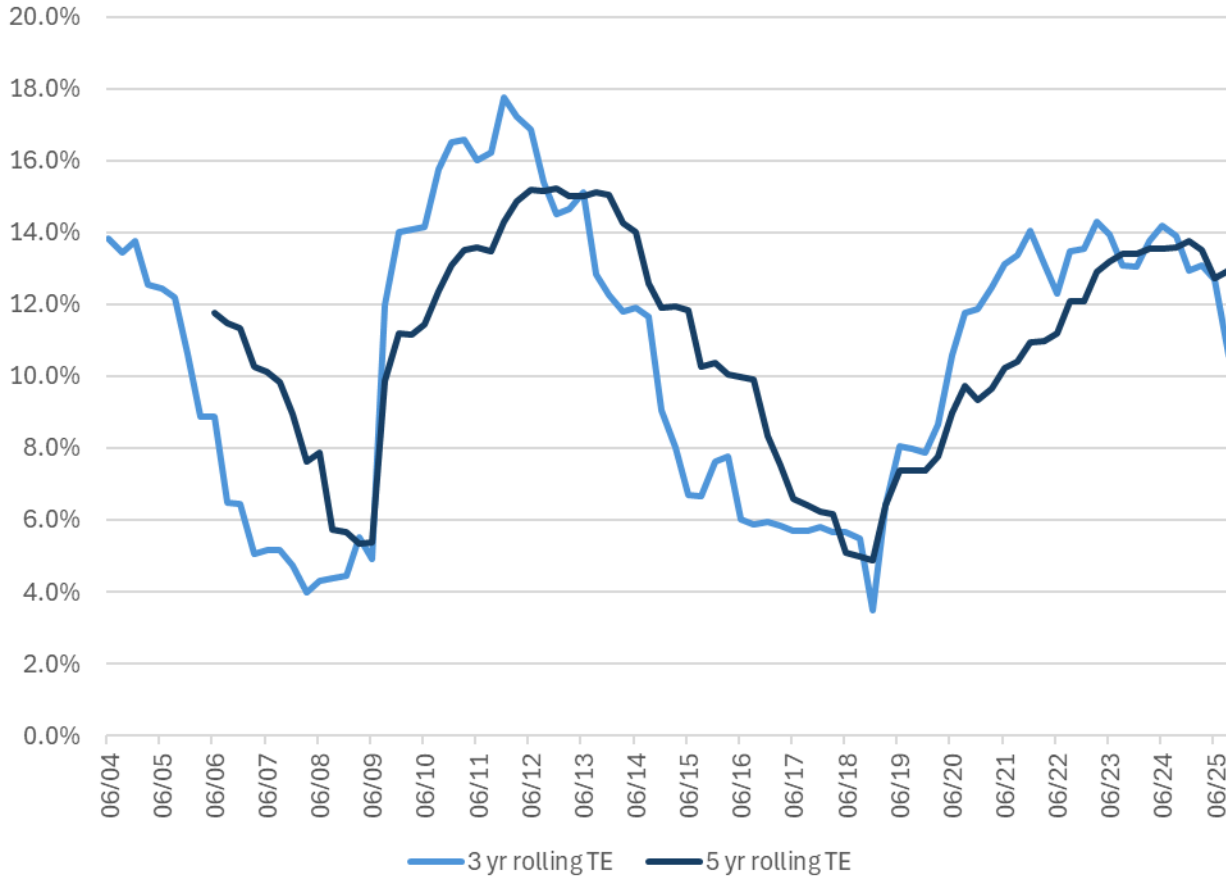
Avg 3yr TE: 10.5%

Avg 5yr TE: 10.7%

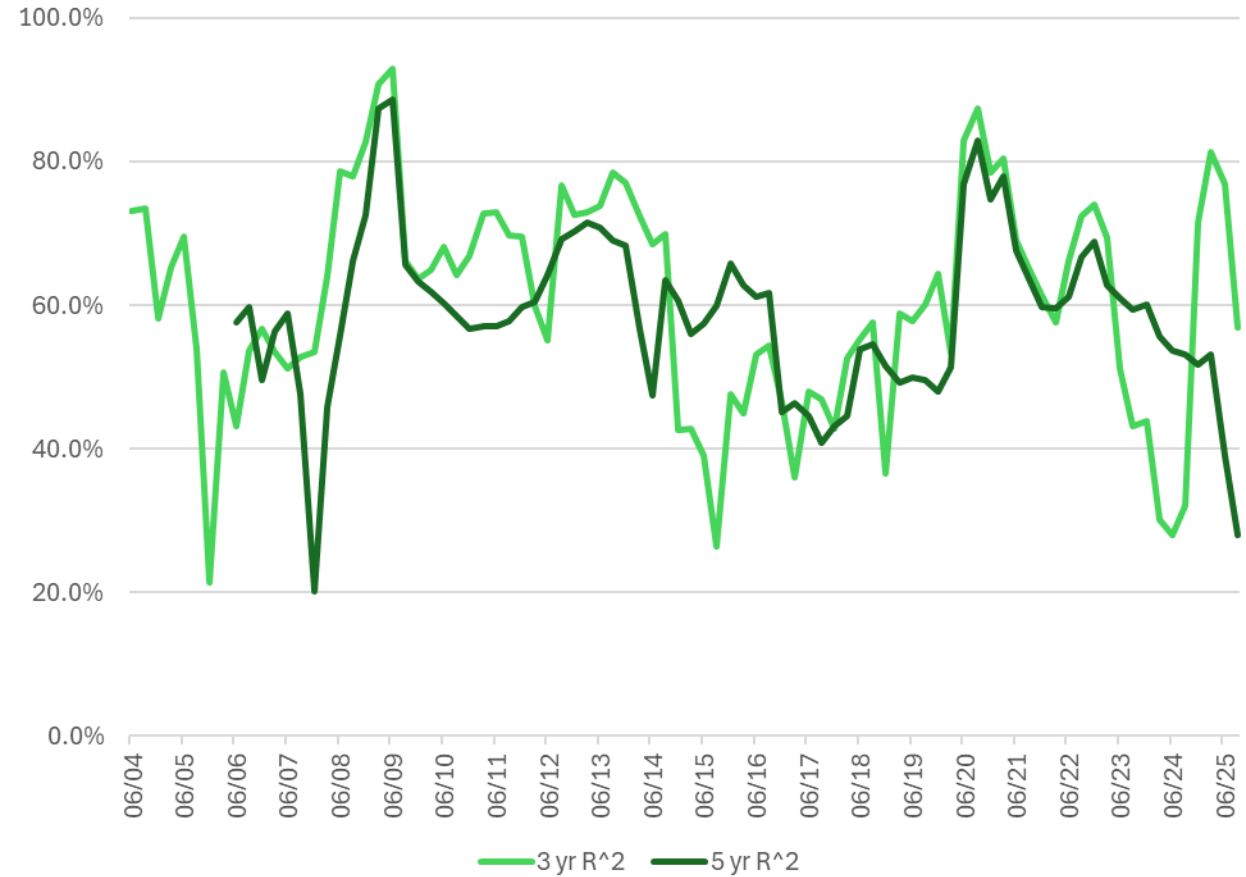
Avg 3yr R-Squared: 61%

Avg 5yr R-Squared: 59%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Private Equity New Benchmark

3yr Success rate: 47%

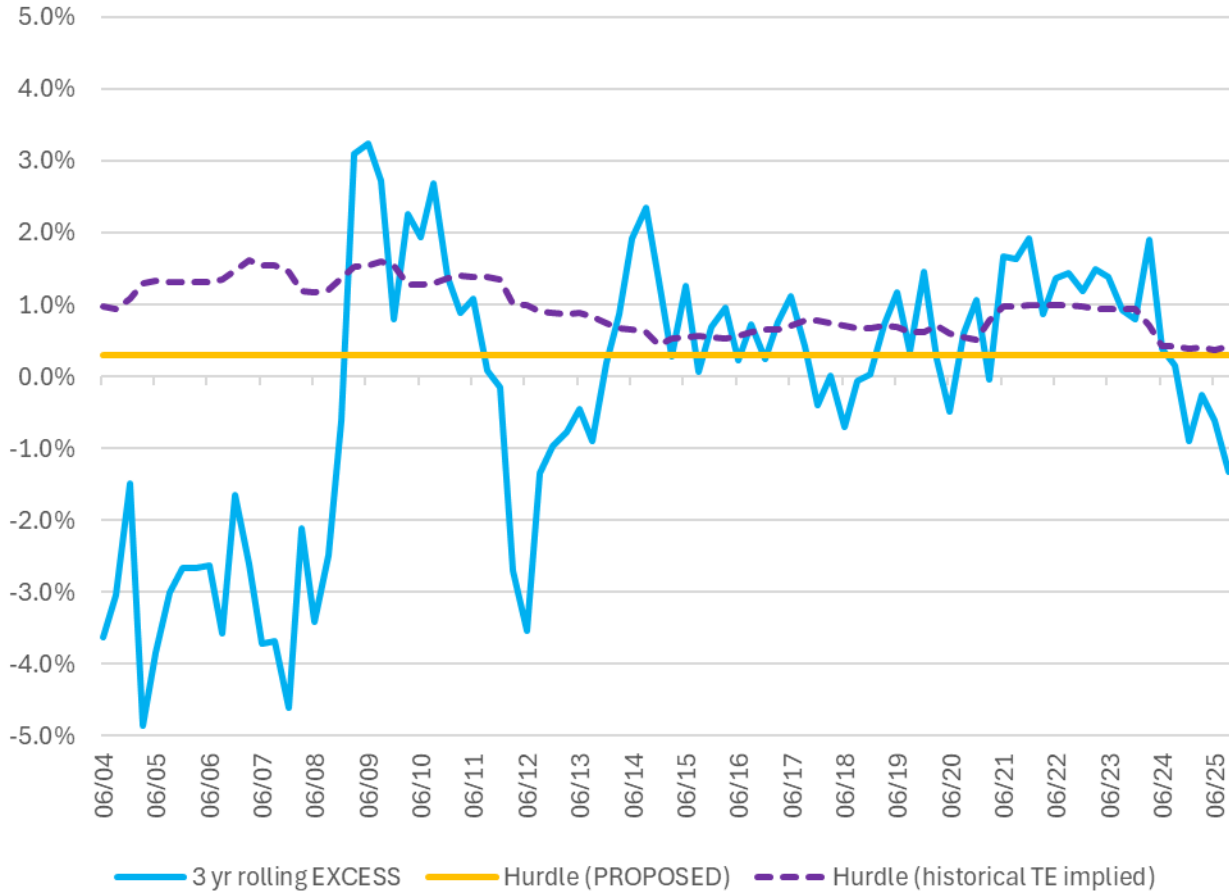
TE implied hurdle (bps): 94

Proposed hurdle (bps): 30

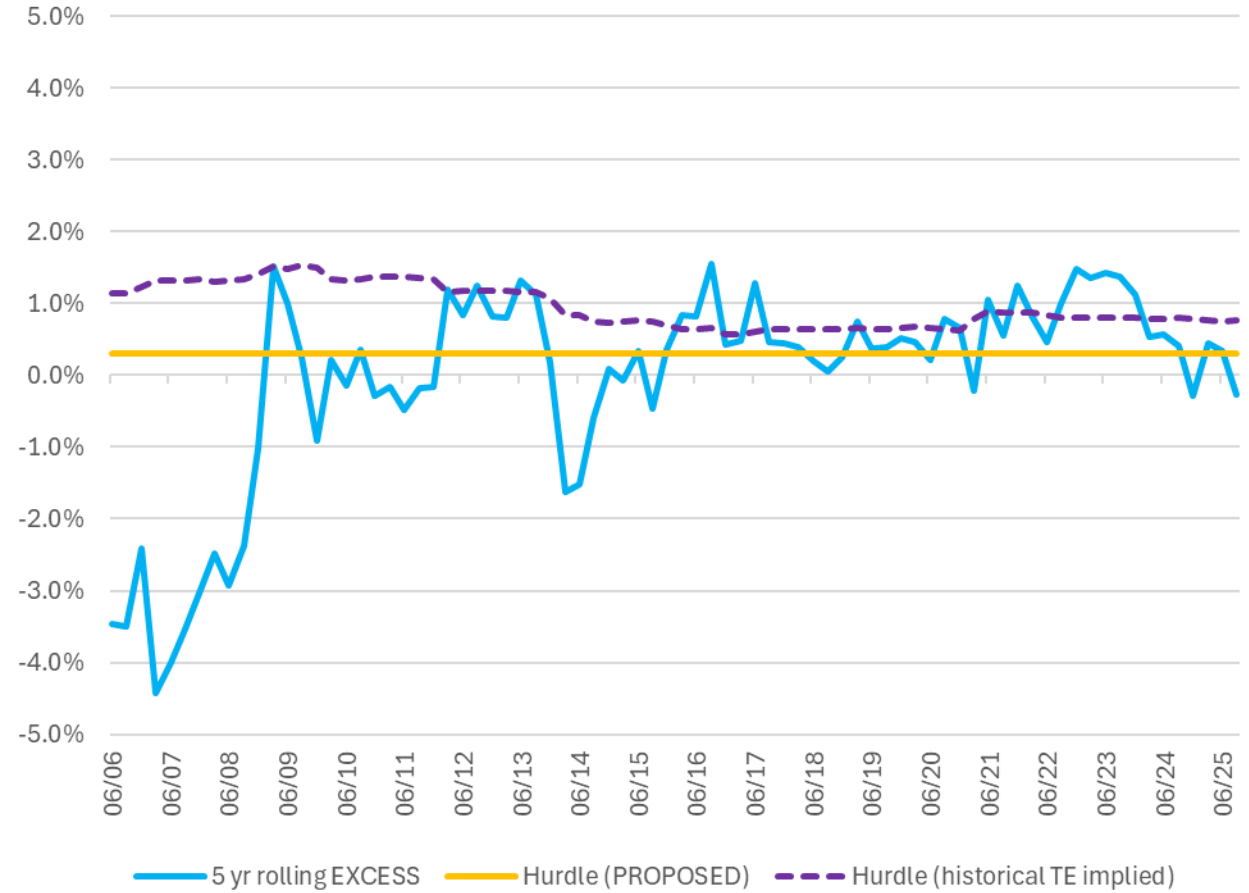
5yr Success rate: 56%

TE implied hurdle (bps): 95

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Private Equity New Benchmark

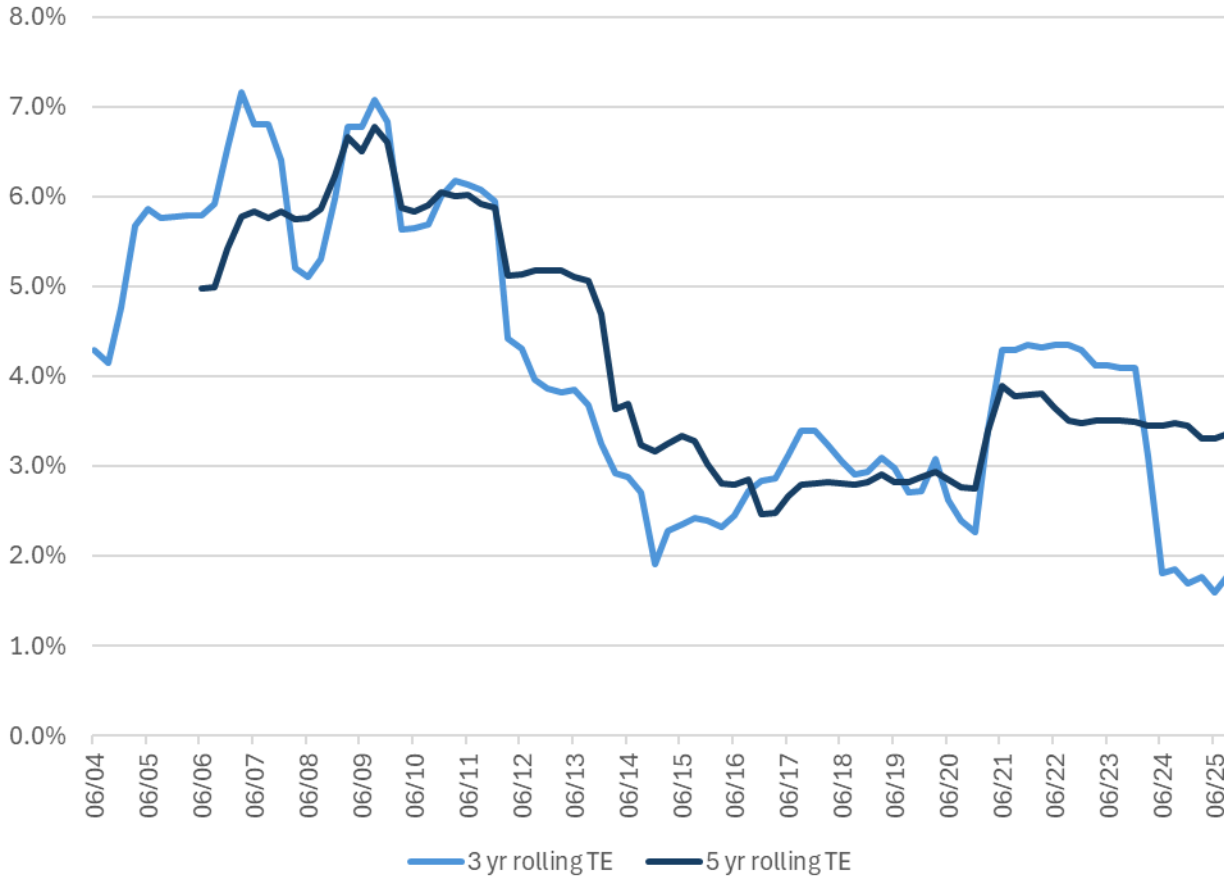
Avg 3yr TE: 4.1%

Avg 5yr TE: 4.2%

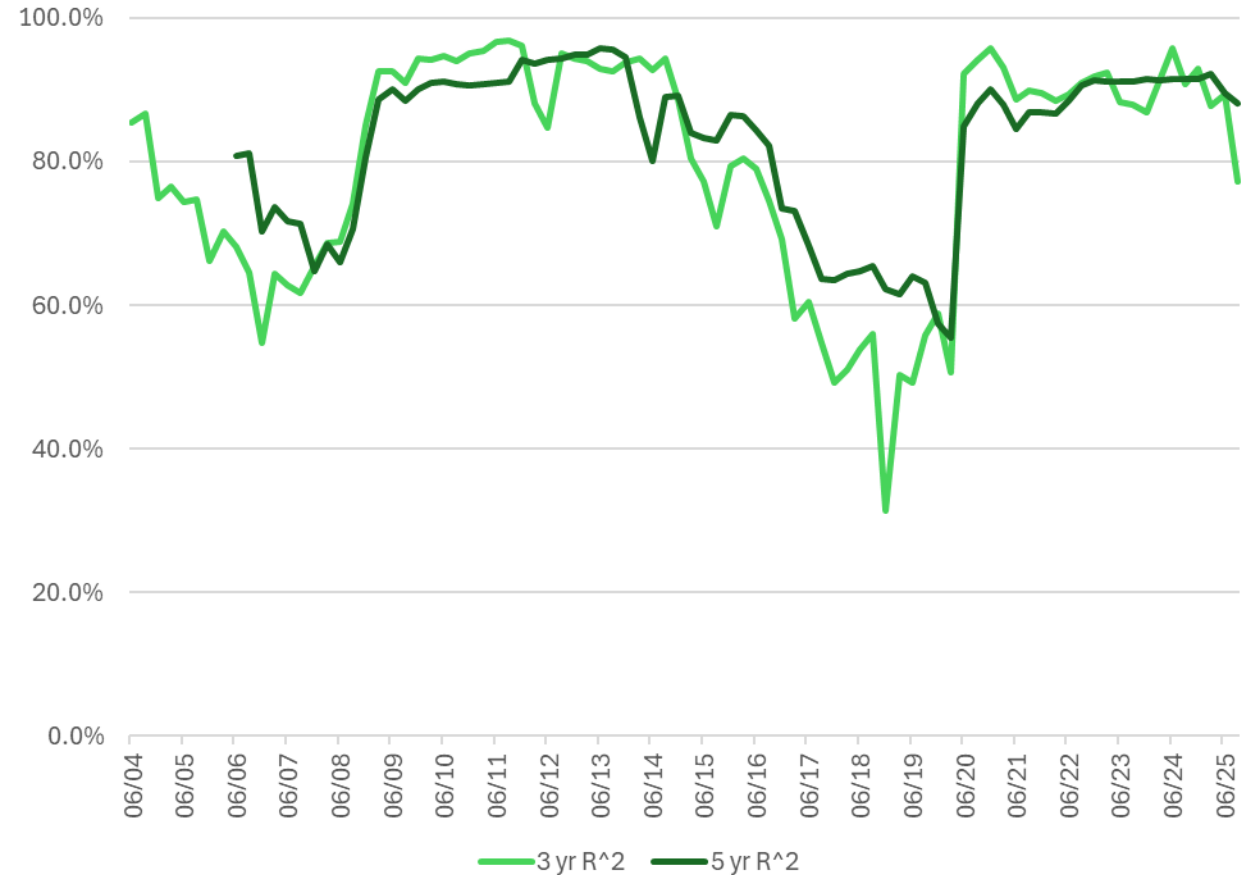
Avg 3yr R-Squared: 80%

Avg 5yr R-Squared: 83%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Real Assets

3yr Success rate: 80%

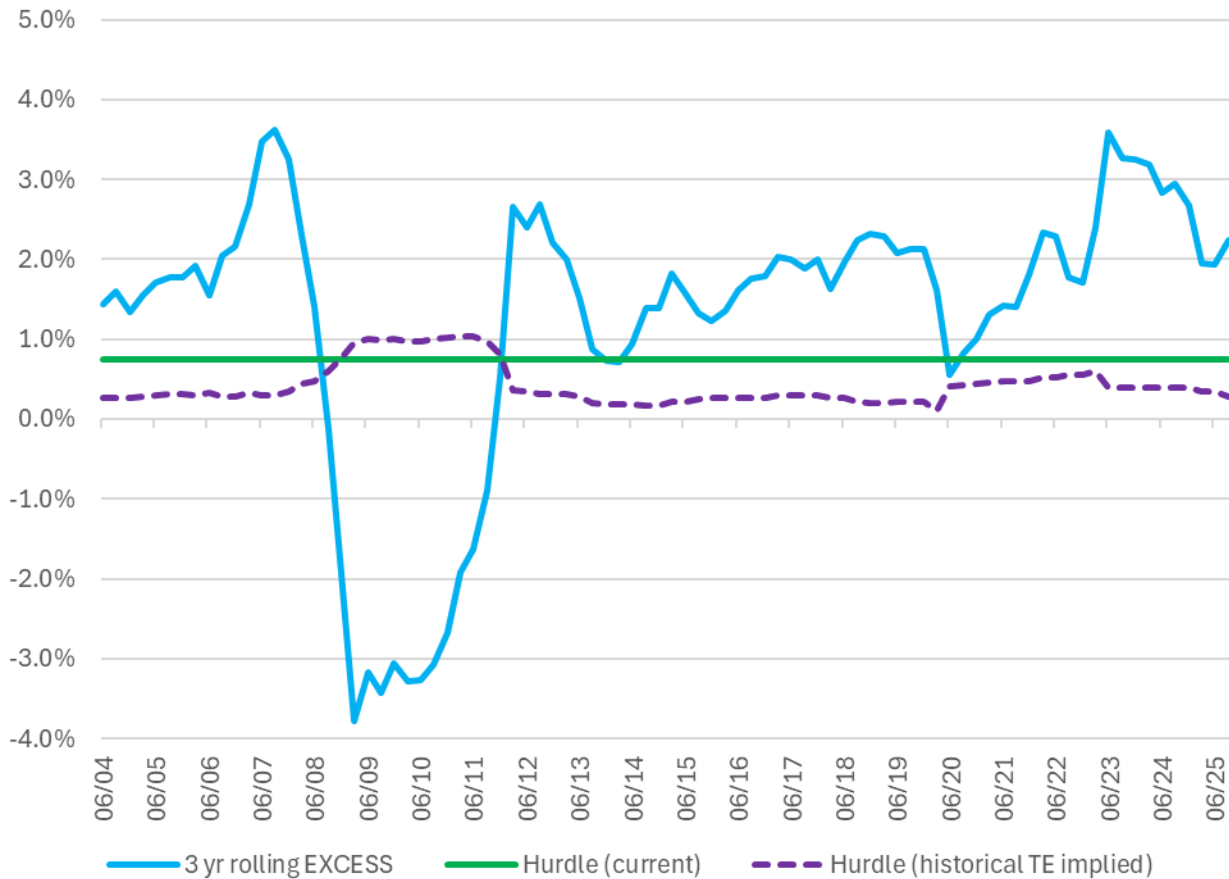
TE implied hurdle (bps): 42

Current hurdle (bps): 75

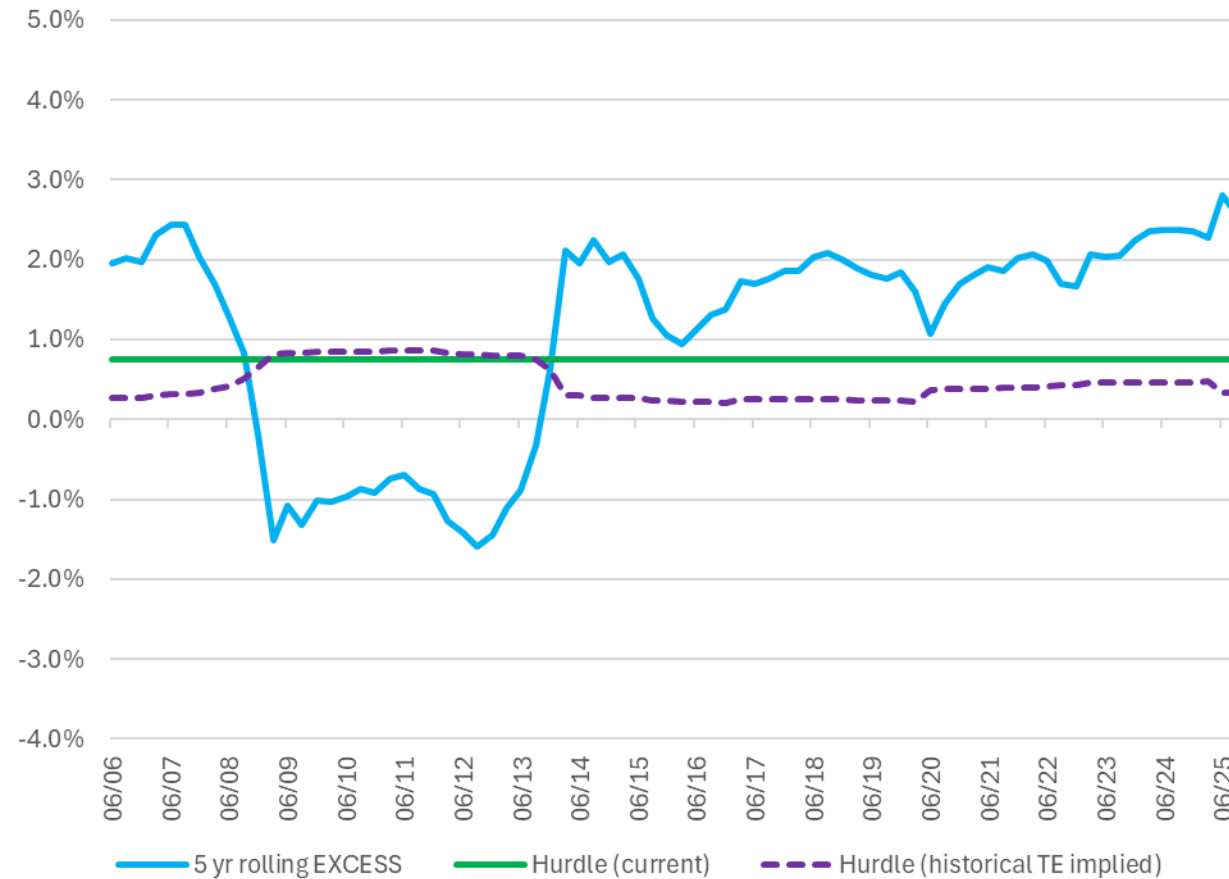
5yr Success rate: 73%

TE implied hurdle (bps): 46

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles

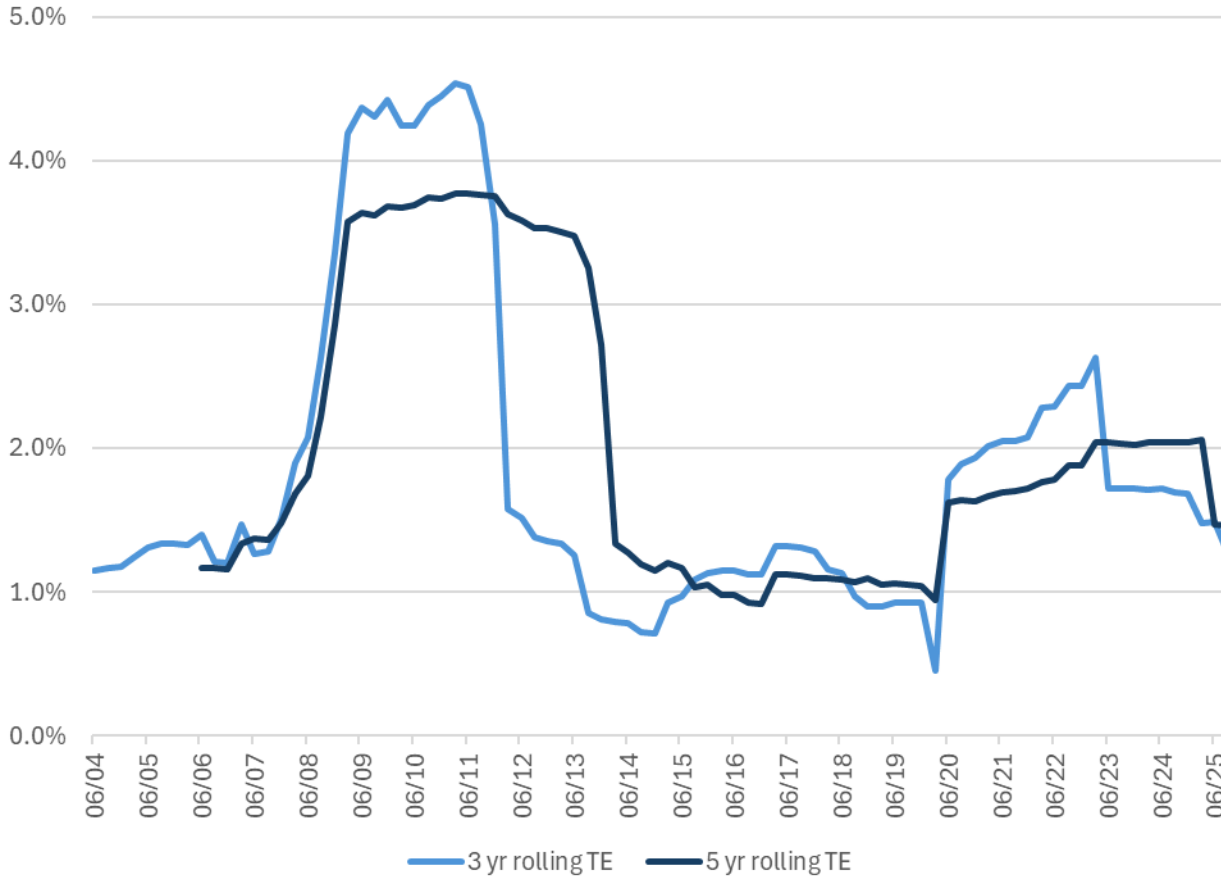


Analytics Details – Real Assets

Avg 3yr TE: 1.8%

Avg 5yr TE: 2.0%

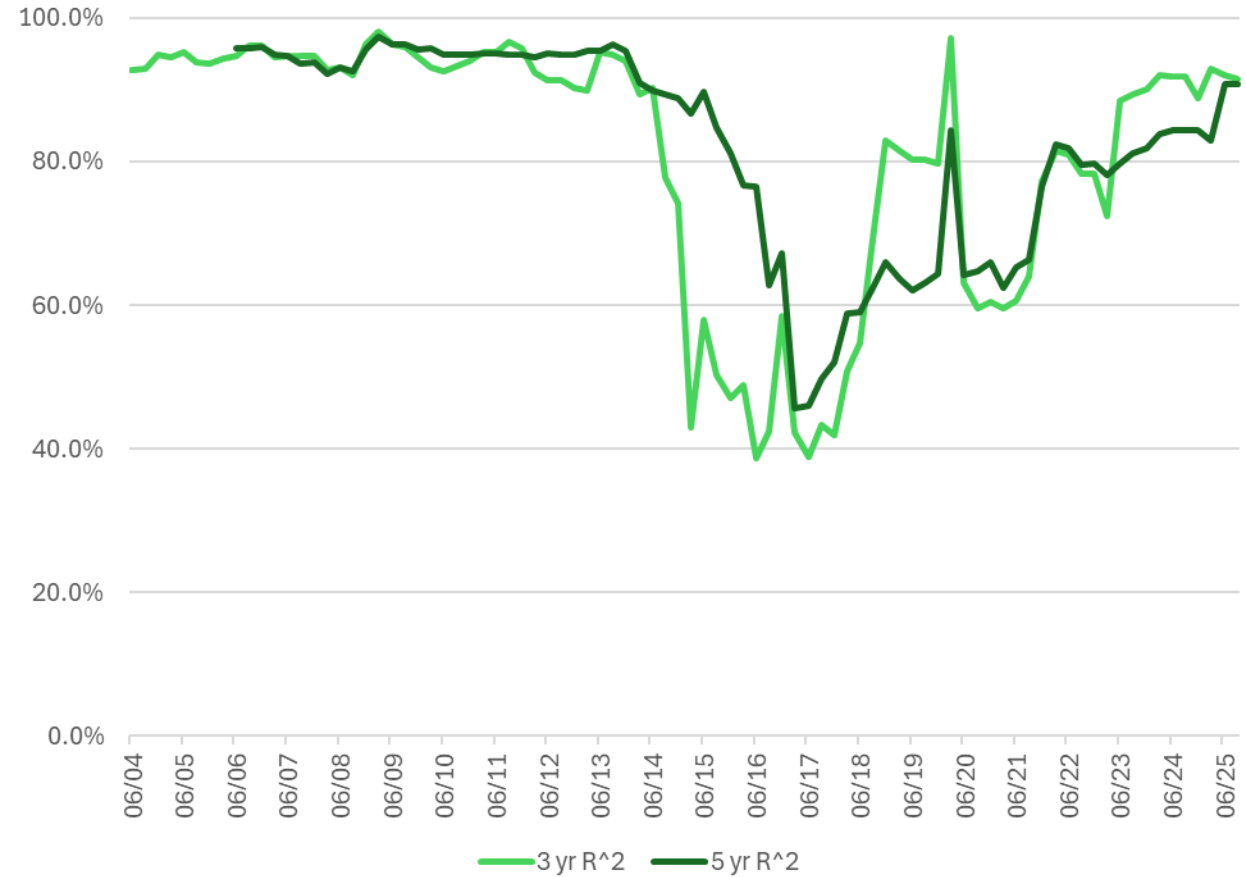
Rolling 3- and 5-year Tracking Error



Avg 3yr R-Squared: 81%

Avg 5yr R-Squared: 82%

Rolling 3- and 5-year R-squared



Analytics Details – Credit Strategies

3yr Success rate: 55%

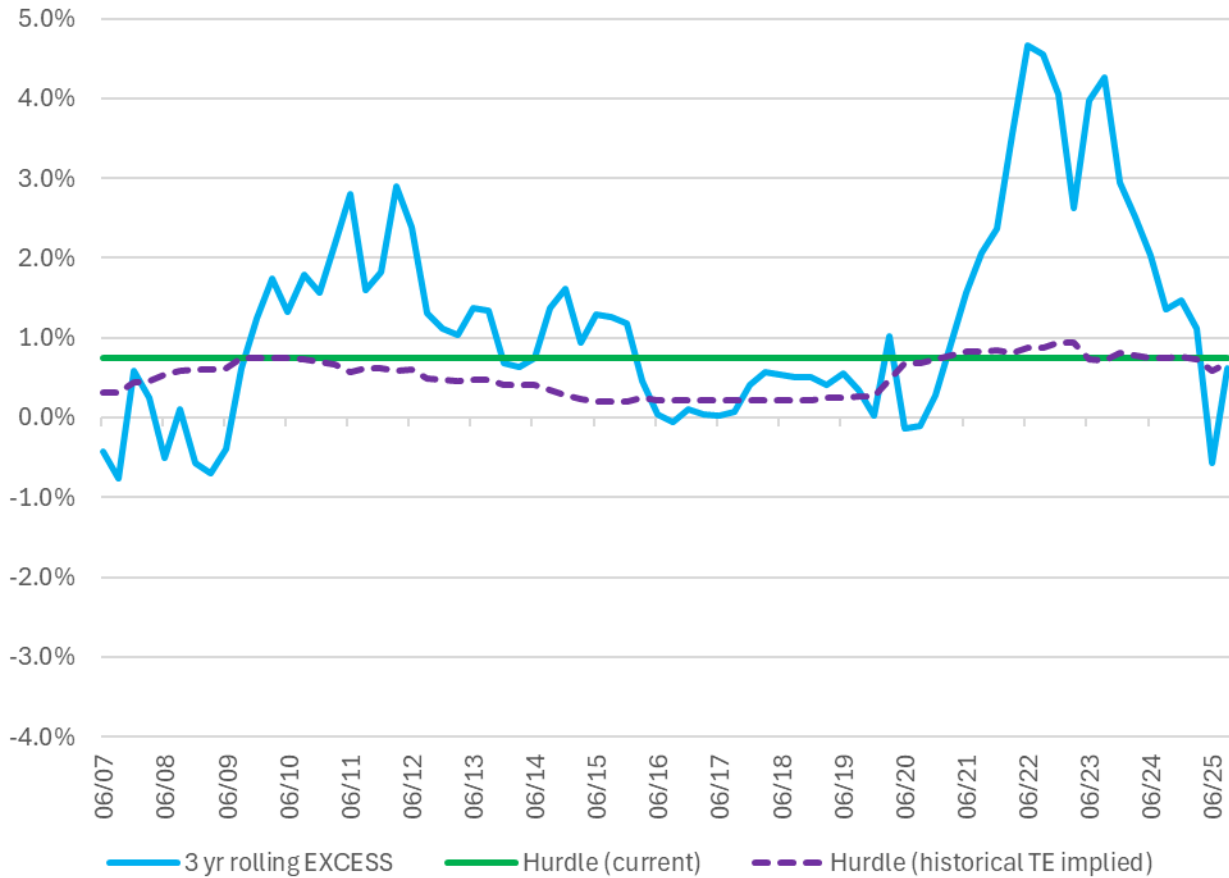
TE implied hurdle (bps): 52

Current hurdle (bps): 75

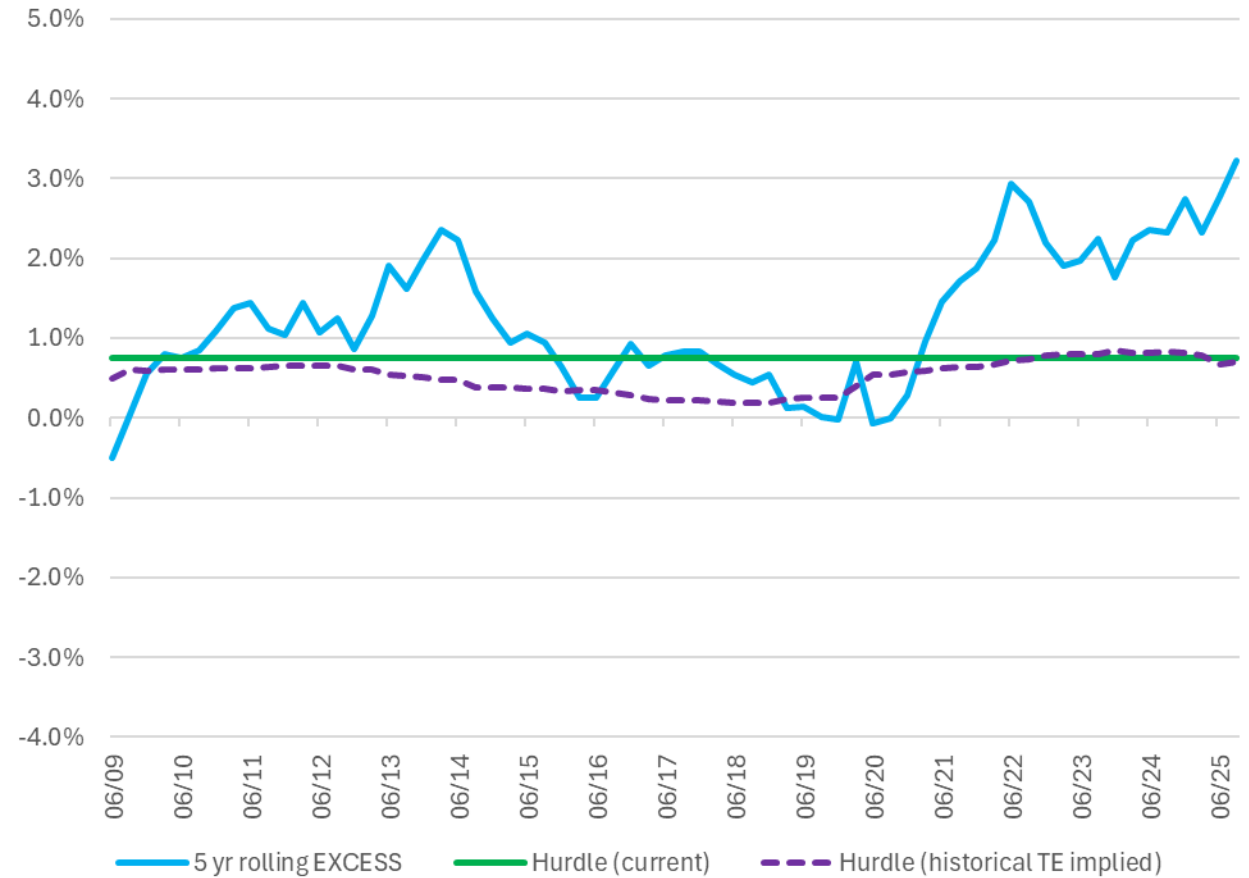
5yr Success rate: 70%

TE implied hurdle (bps): 53

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Credit Strategies

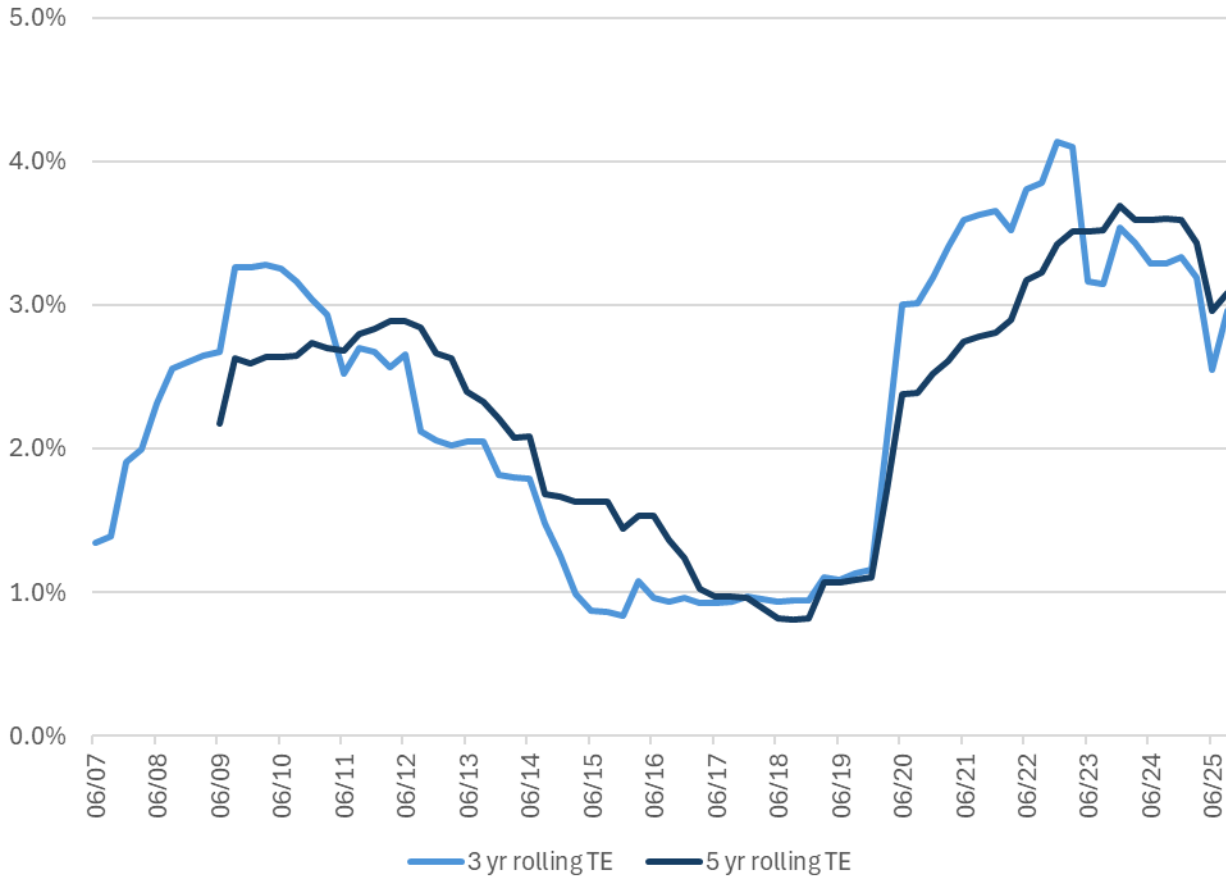
Avg 3yr TE: 2.3%

Avg 5yr TE: 2.3%

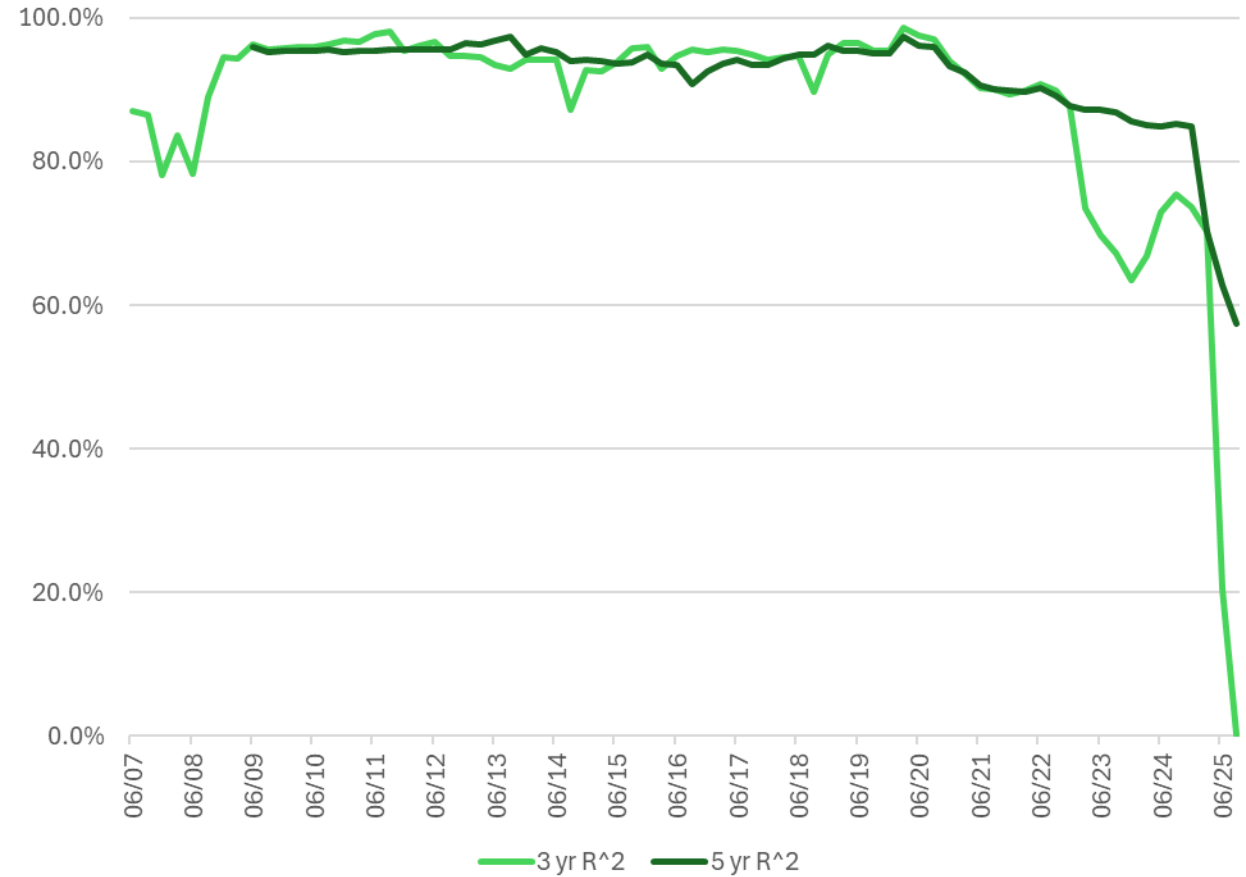
Avg 3yr R-Squared 88%

Avg 5yr R-Squared 92%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Credit Strategies New Benchmark

3yr Success rate: 55%

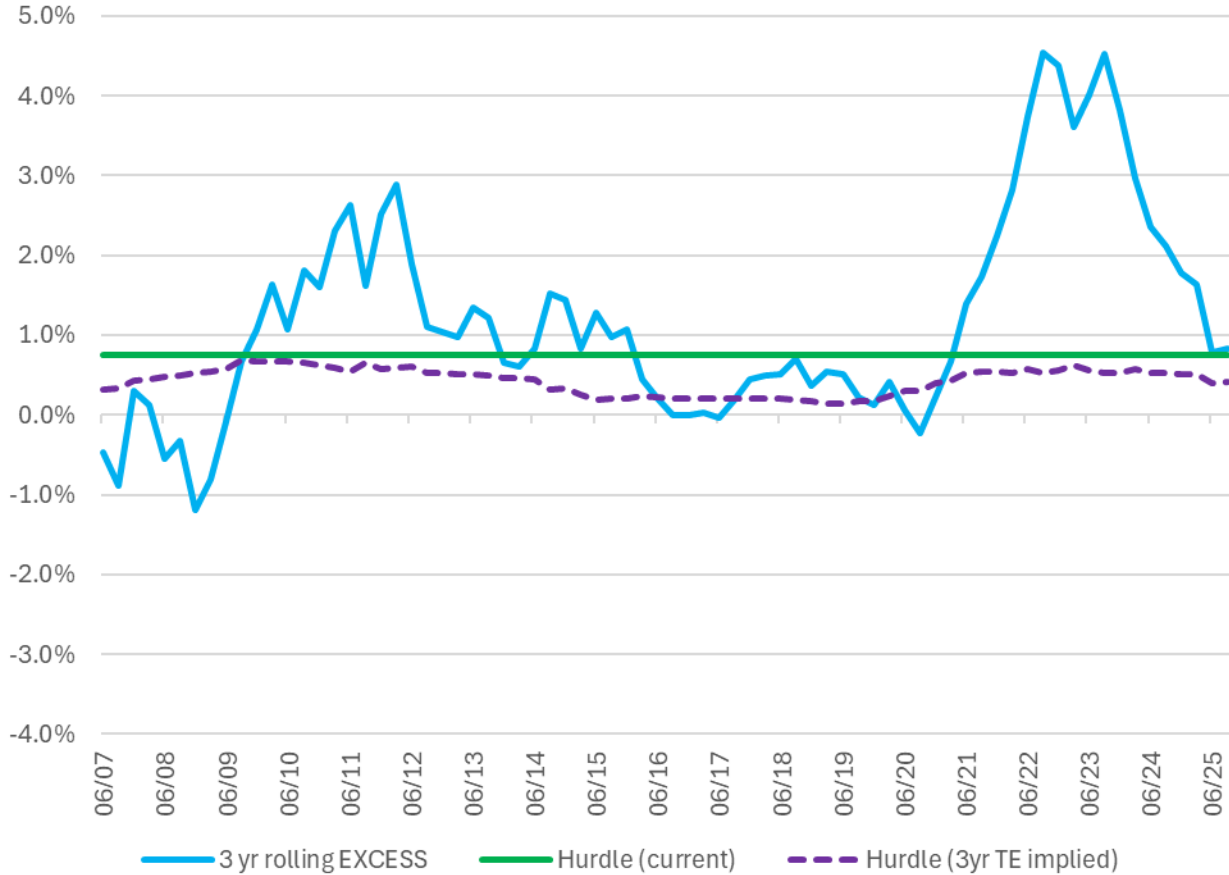
TE implied hurdle (bps): 42

Current hurdle (bps): 75

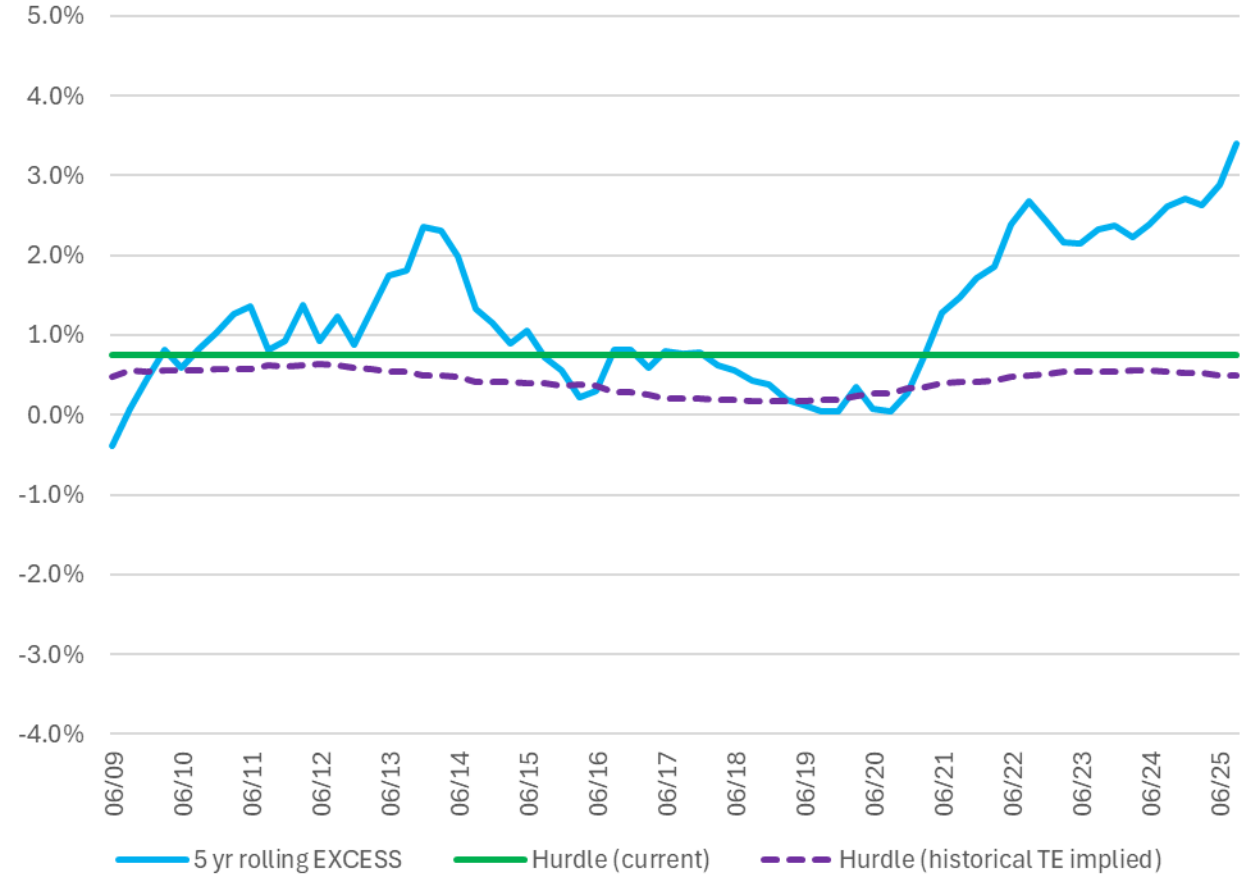
5yr Success rate: 68%

TE implied hurdle (bps): 43

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Credit Strategies **New Benchmark**

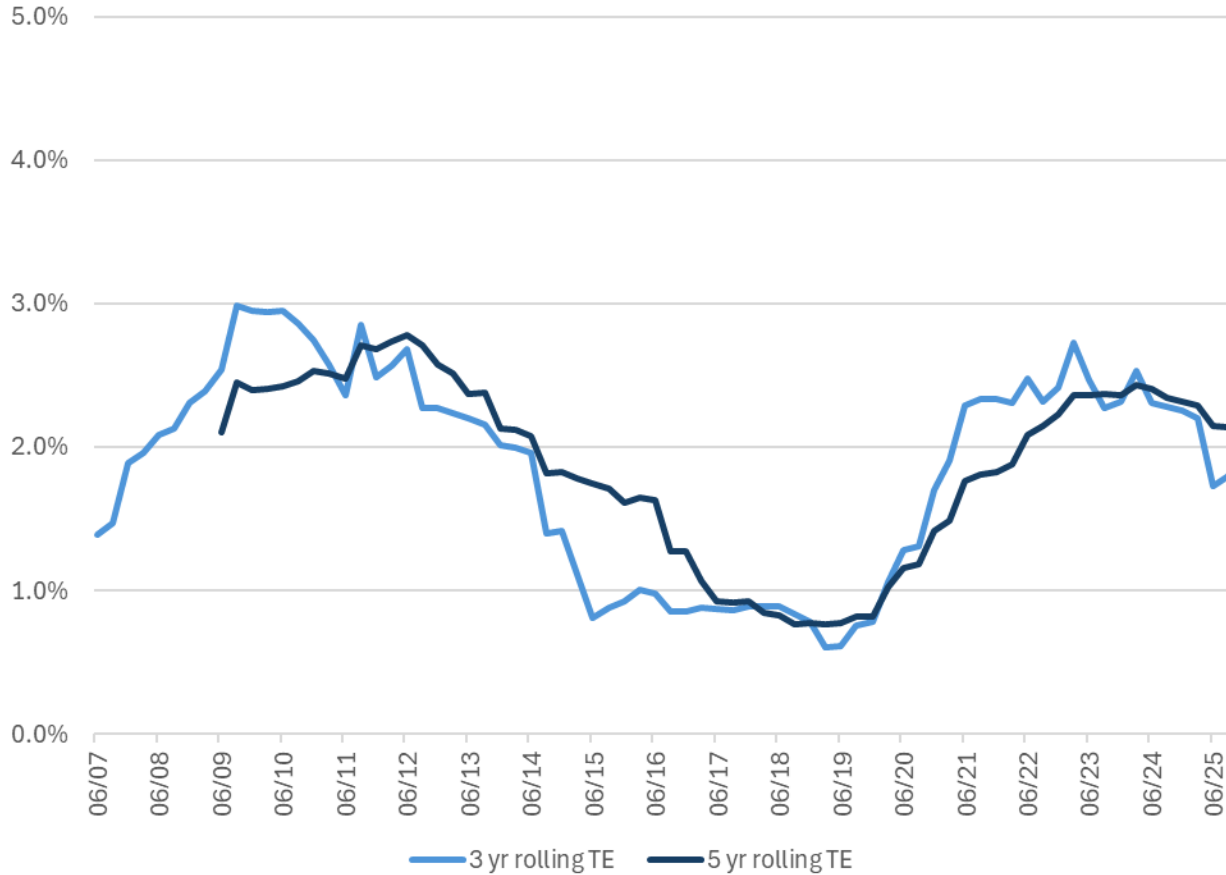
Avg 3yr TE: 1.8%

Avg 5yr TE: 1.9%

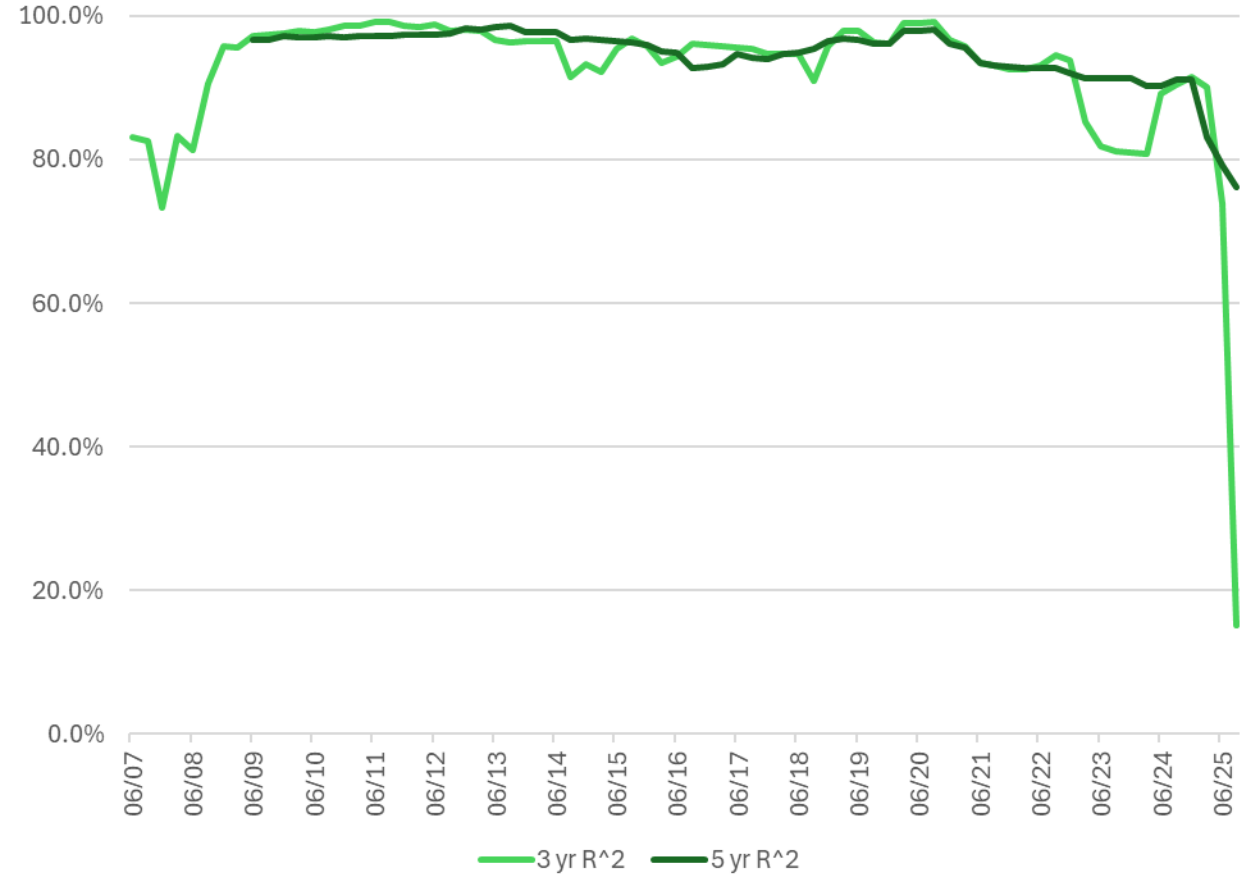
Avg 3yr R-Squared 92%

Avg 5yr R-Squared 95%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Diversifying Strategies

3yr Success rate: 61%

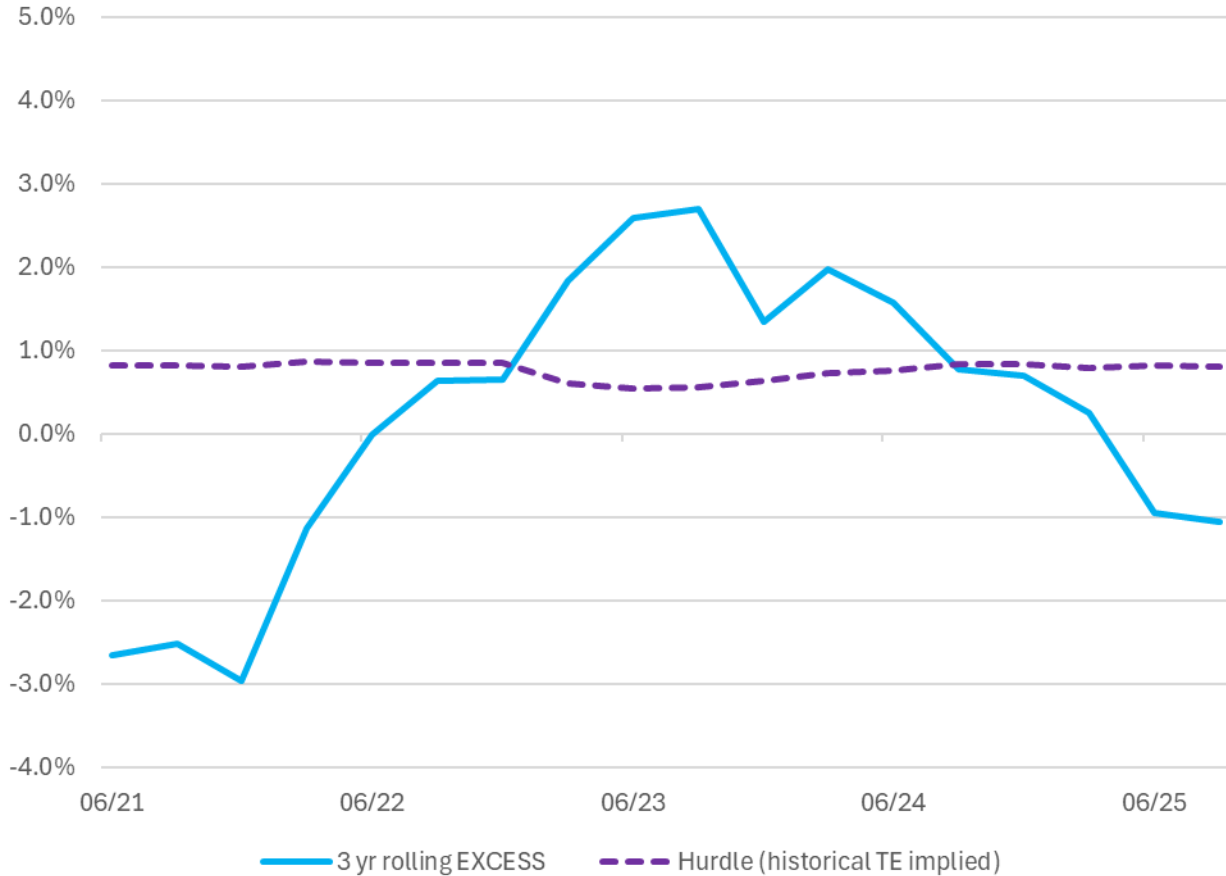
TE implied hurdle (bps): 76

Current hurdle (bps): n/a

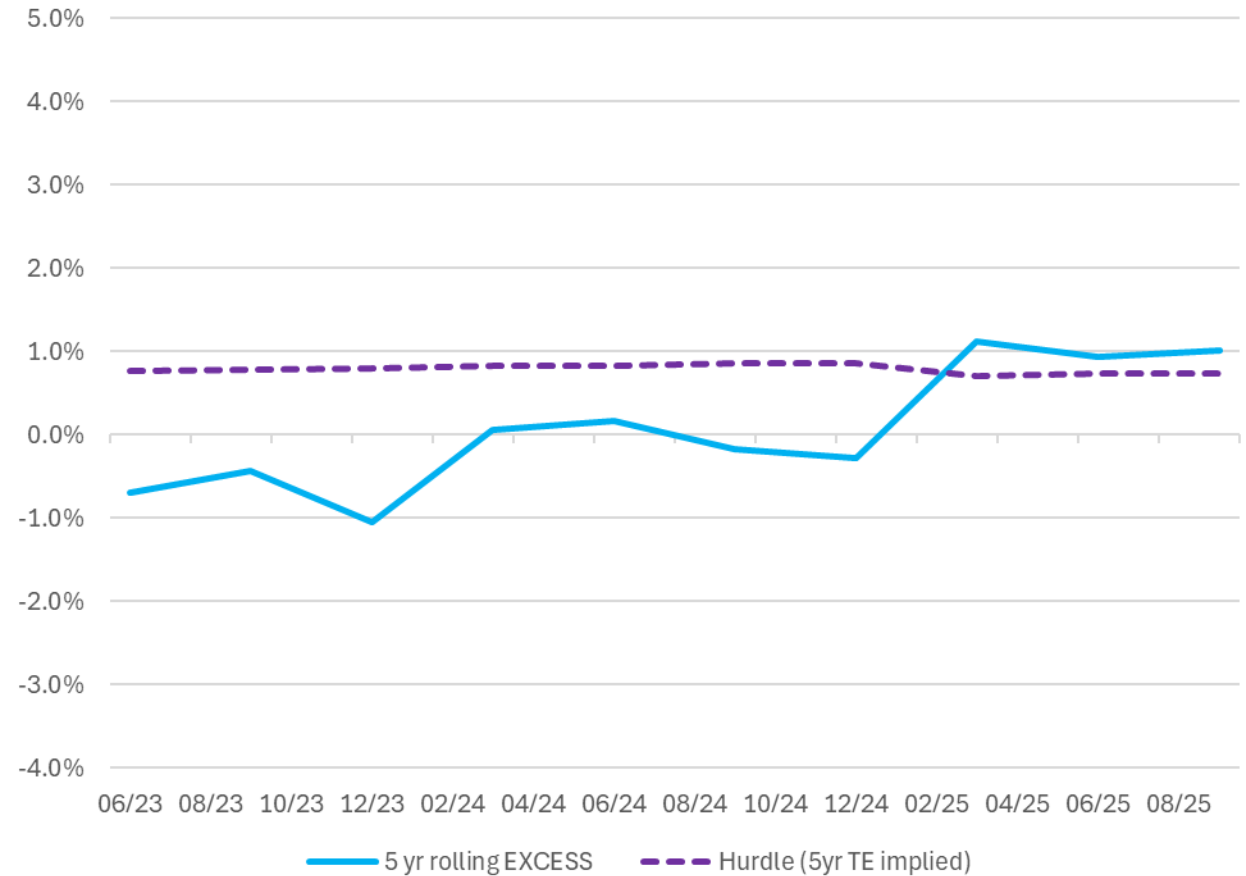
5yr Success rate: 50%

TE implied hurdle (bps): 78

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Diversifying Strategies

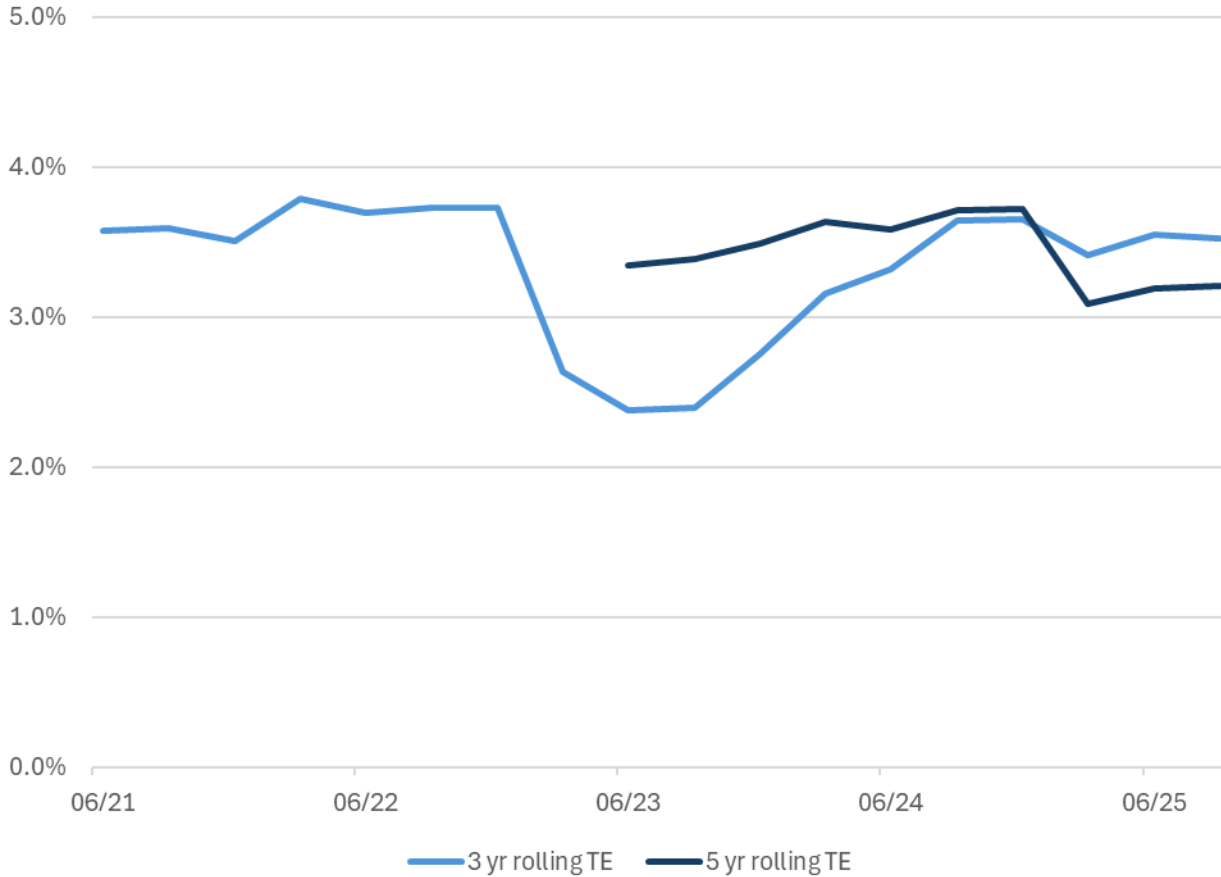
Avg 3yr TE: 3.3%

Avg 5yr TE: 3.4%

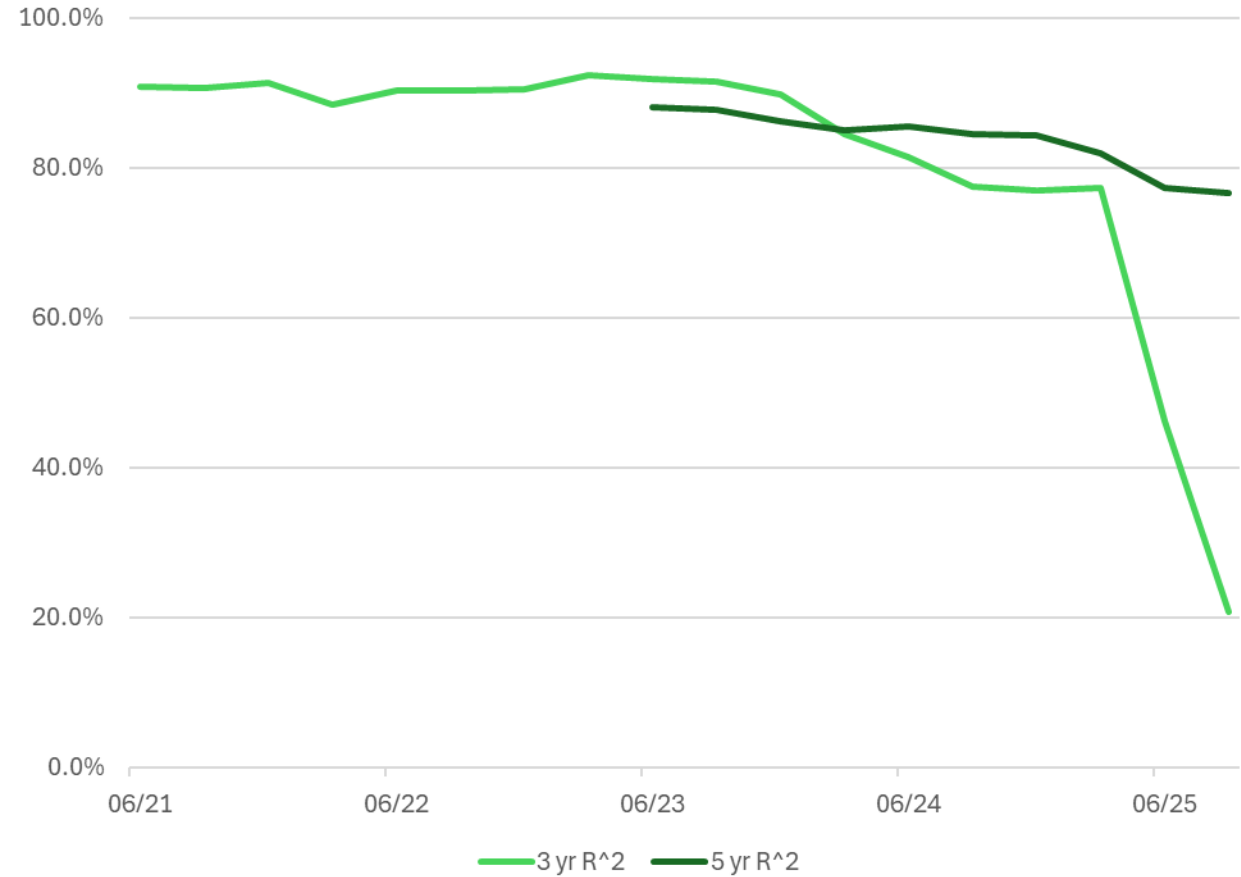
Avg 3yr R-Squared 81%

Avg 5yr R-Squared 84%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Diversifying Strategies **New Benchmark**

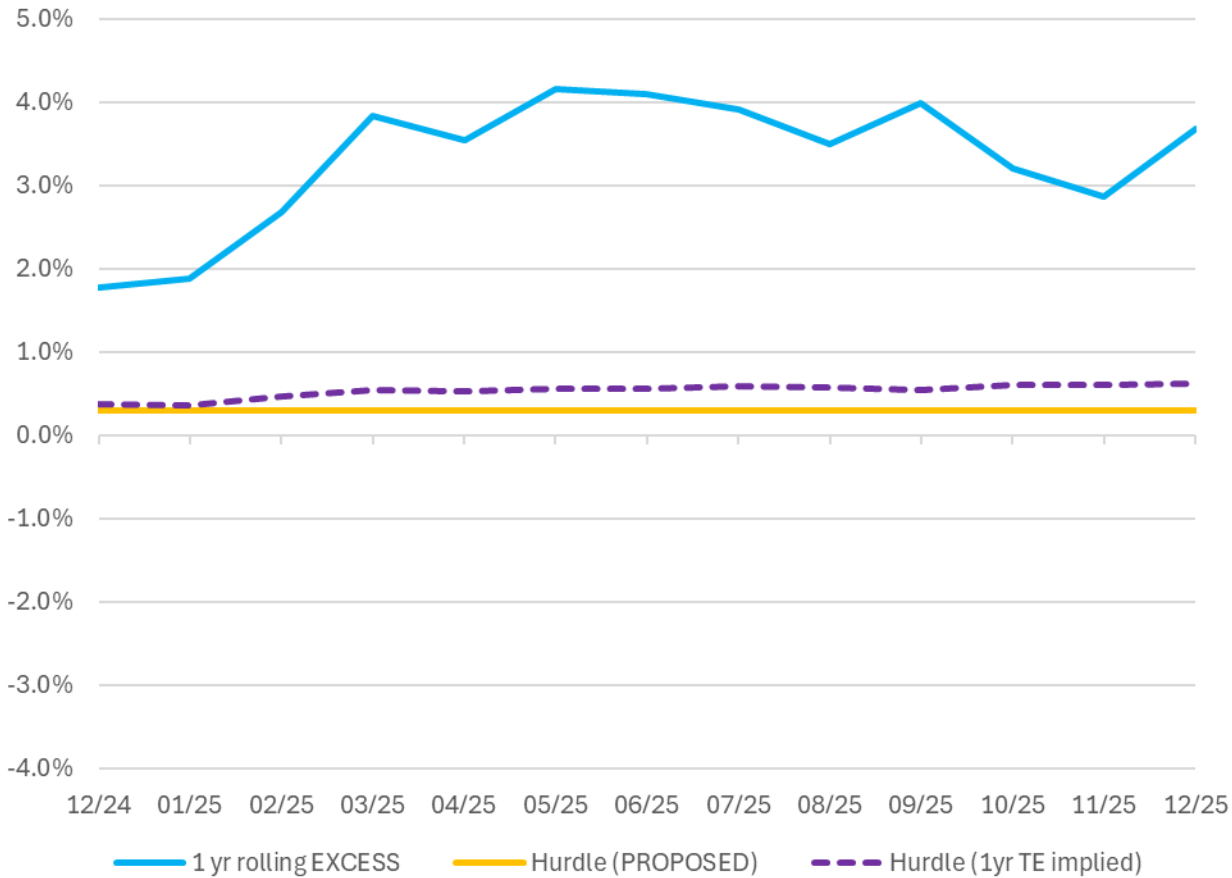
1yr Success rate: 100%

TE implied hurdle (bps): 51

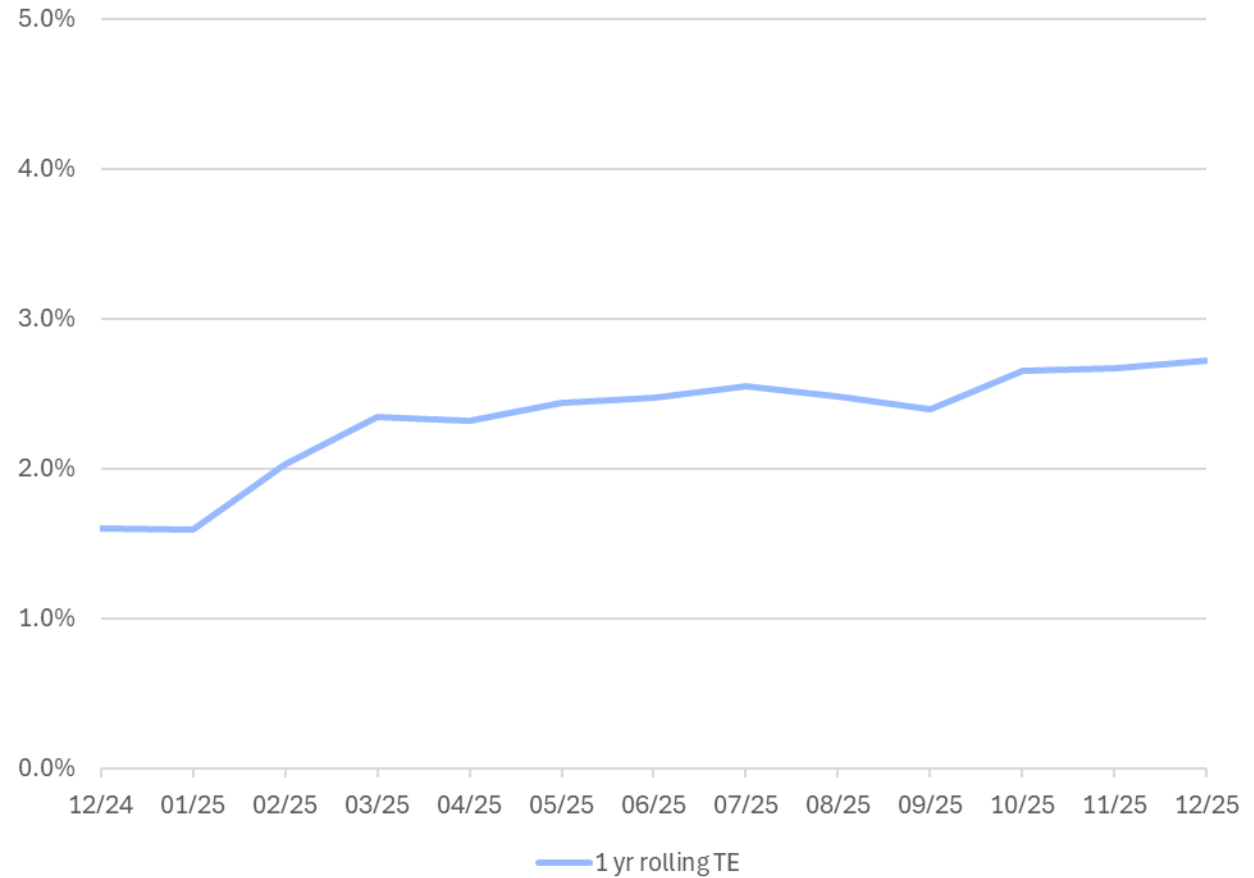
Proposed hurdle (bps): 30

Avg 1yr TE 2.3%

Rolling 1-year Excess vs. Hurdles



Rolling 12-month Tracking Error



Analytics Details – Fixed Income

3yr Success rate: 80%

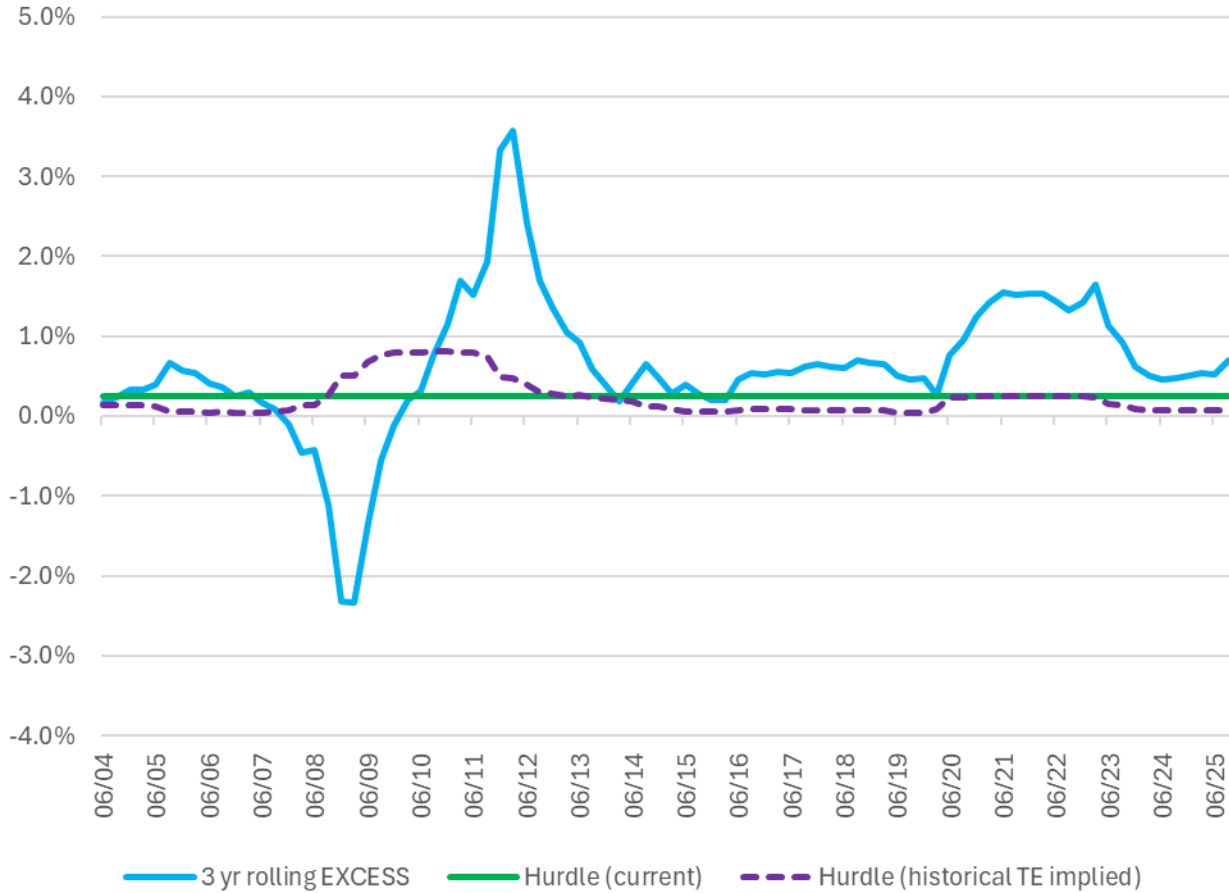
TE implied hurdle (bps): 22

Current hurdle (bps): 25

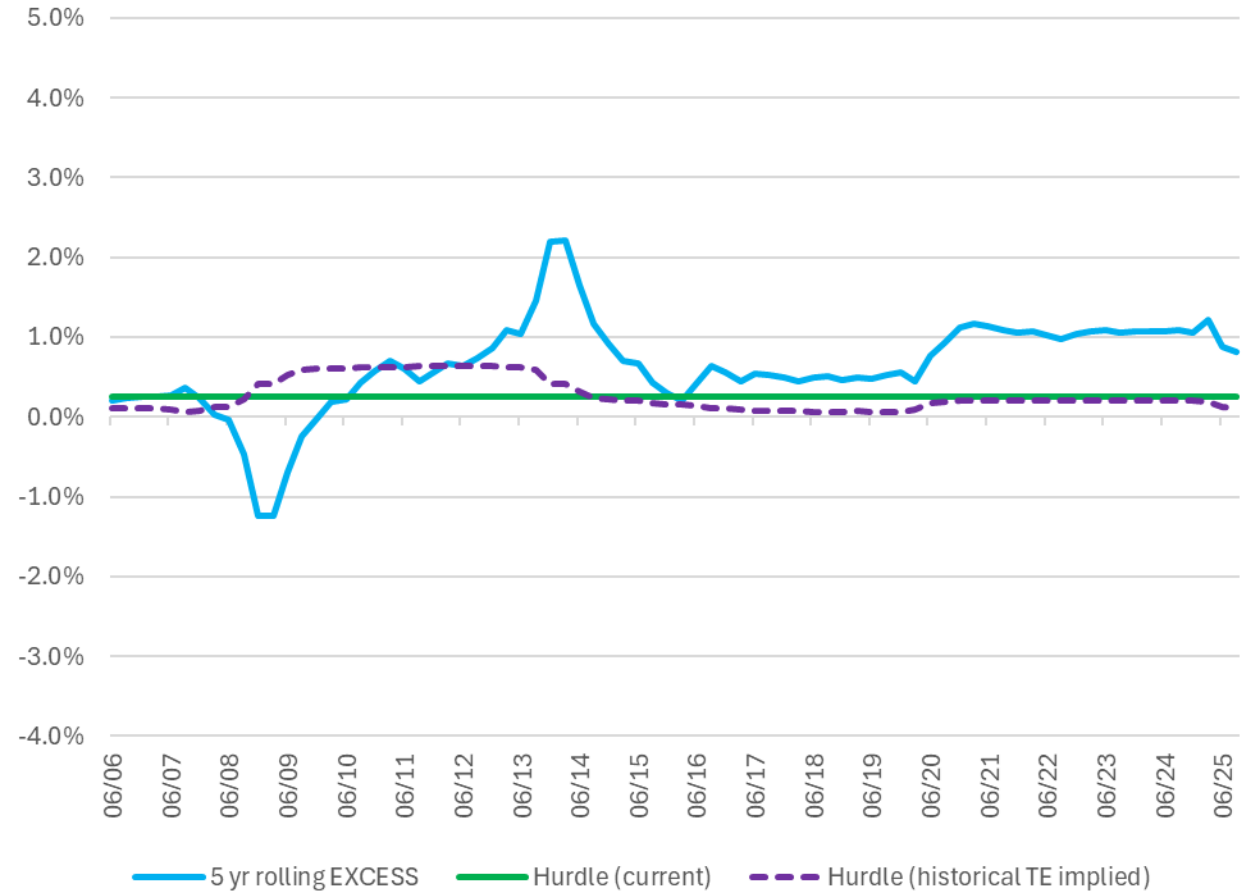
5yr Success rate: 81%

TE implied hurdle (bps): 27

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Fixed Income

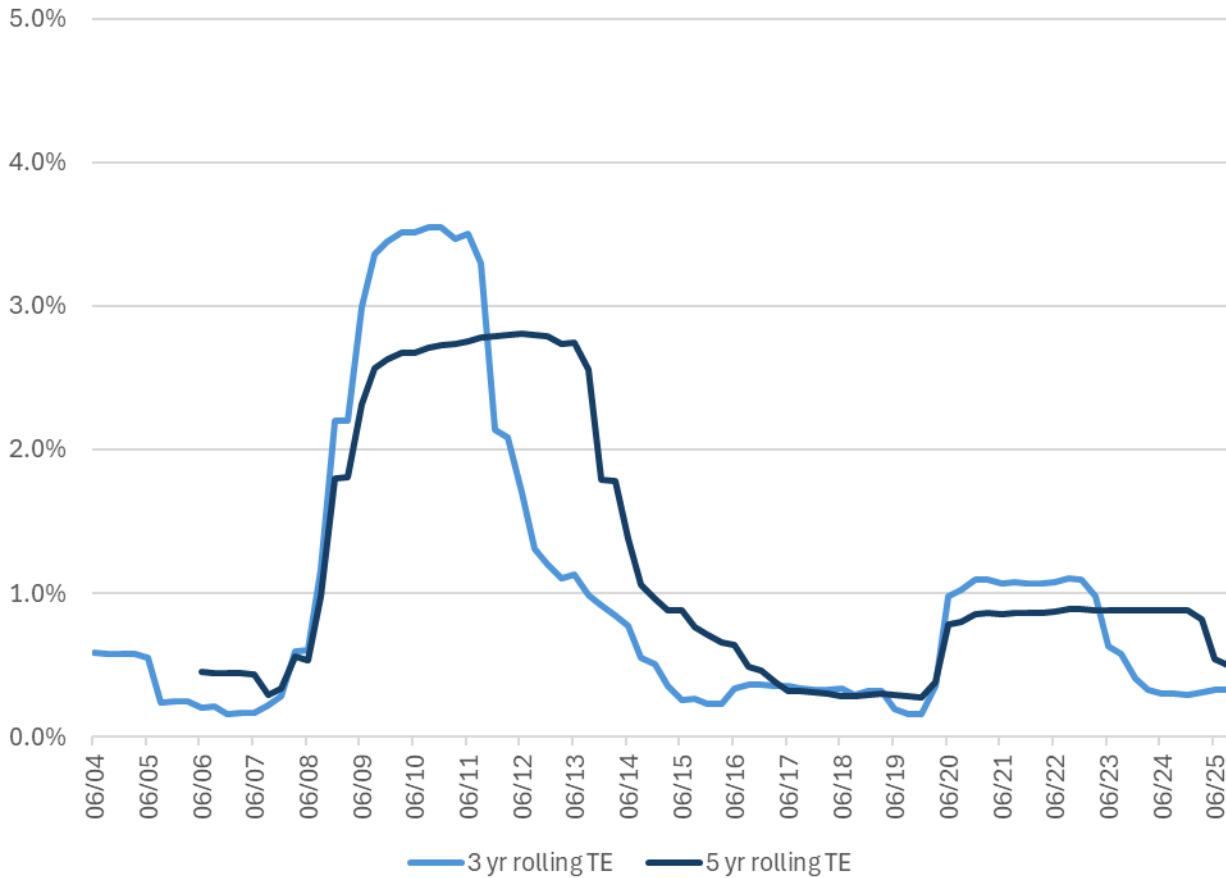
Avg 3yr TE: 1.0%

Avg 5yr TE: 1.2%

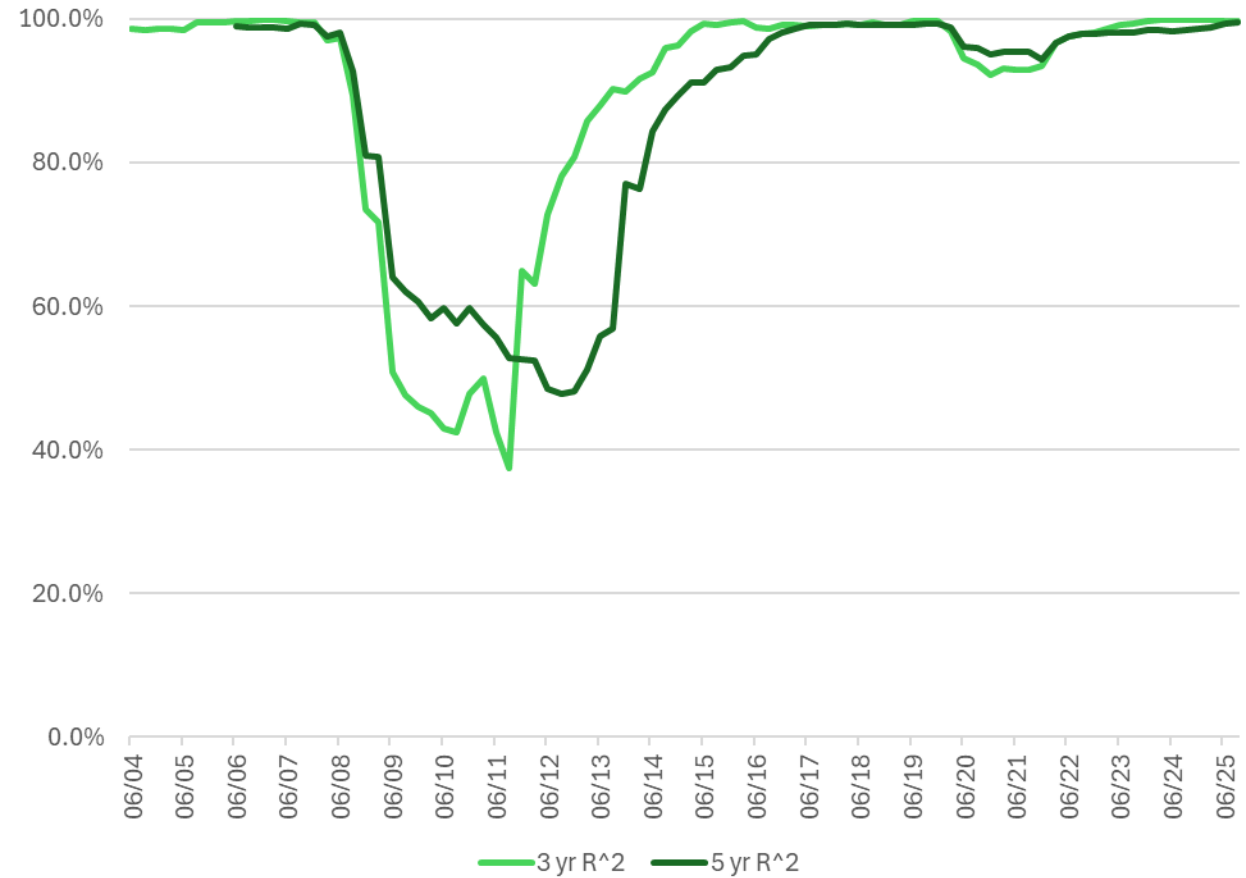
Avg 3yr R-Squared 89%

Avg 5yr R-Squared 86%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Total Fund

3yr Success rate: 56%

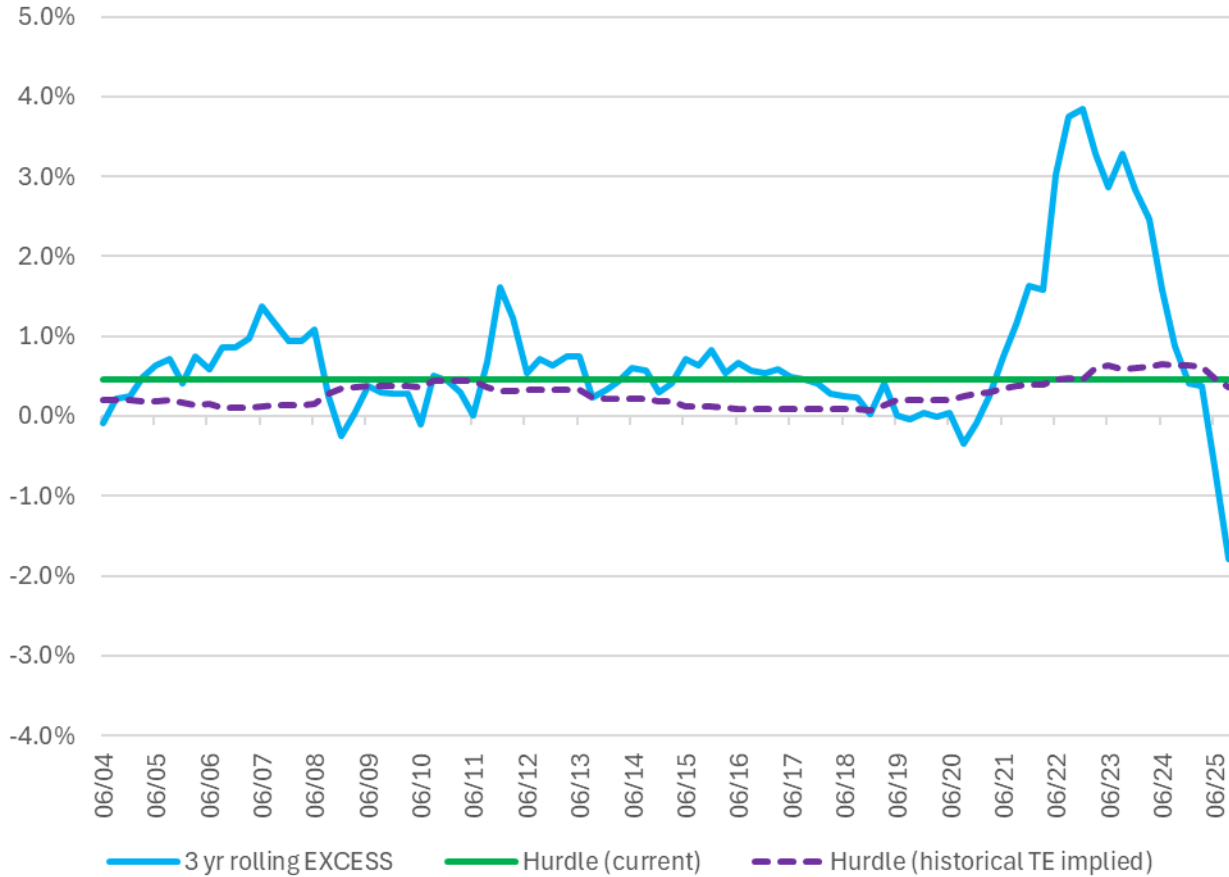
TE implied hurdle (bps): 28

Current hurdle (bps): 45

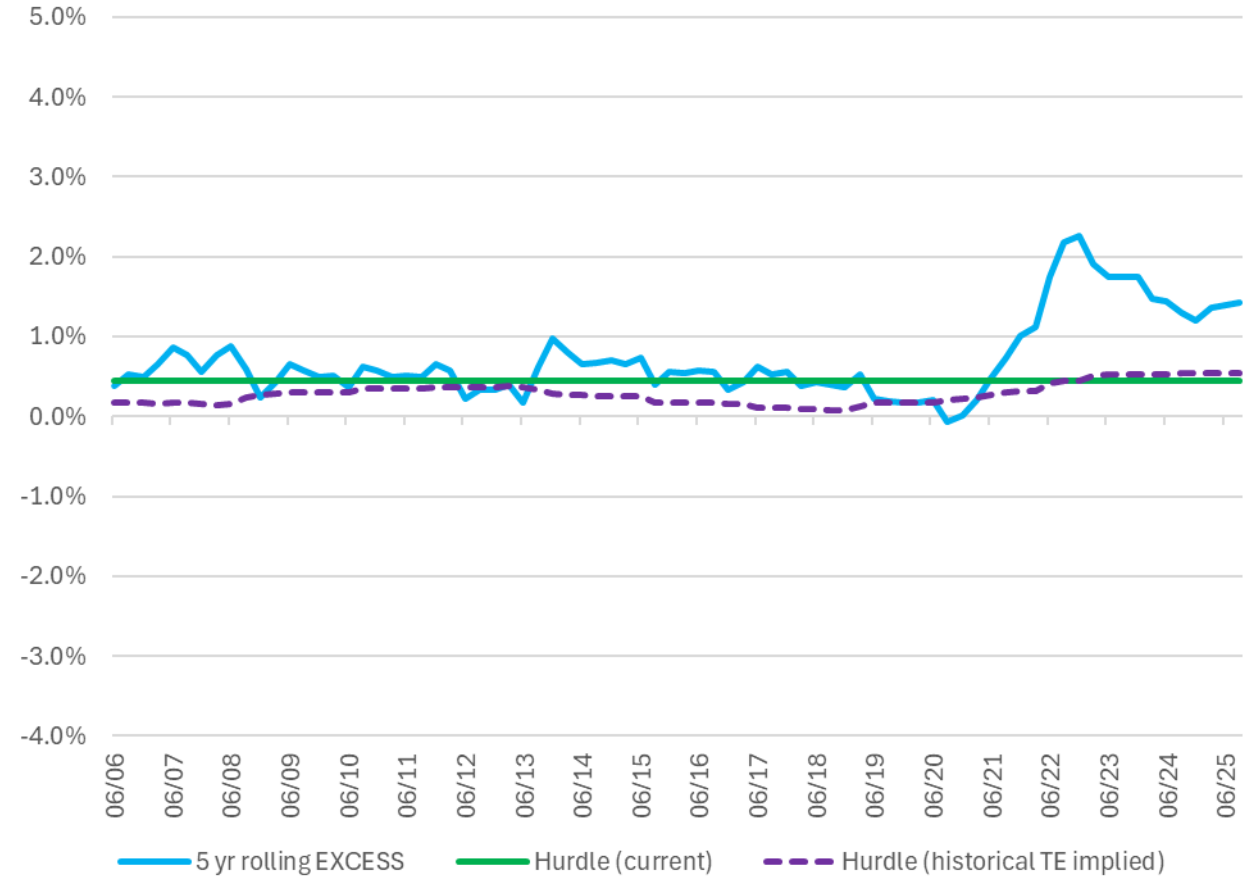
5yr Success rate: 69%

TE implied hurdle (bps): 28

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Total Fund

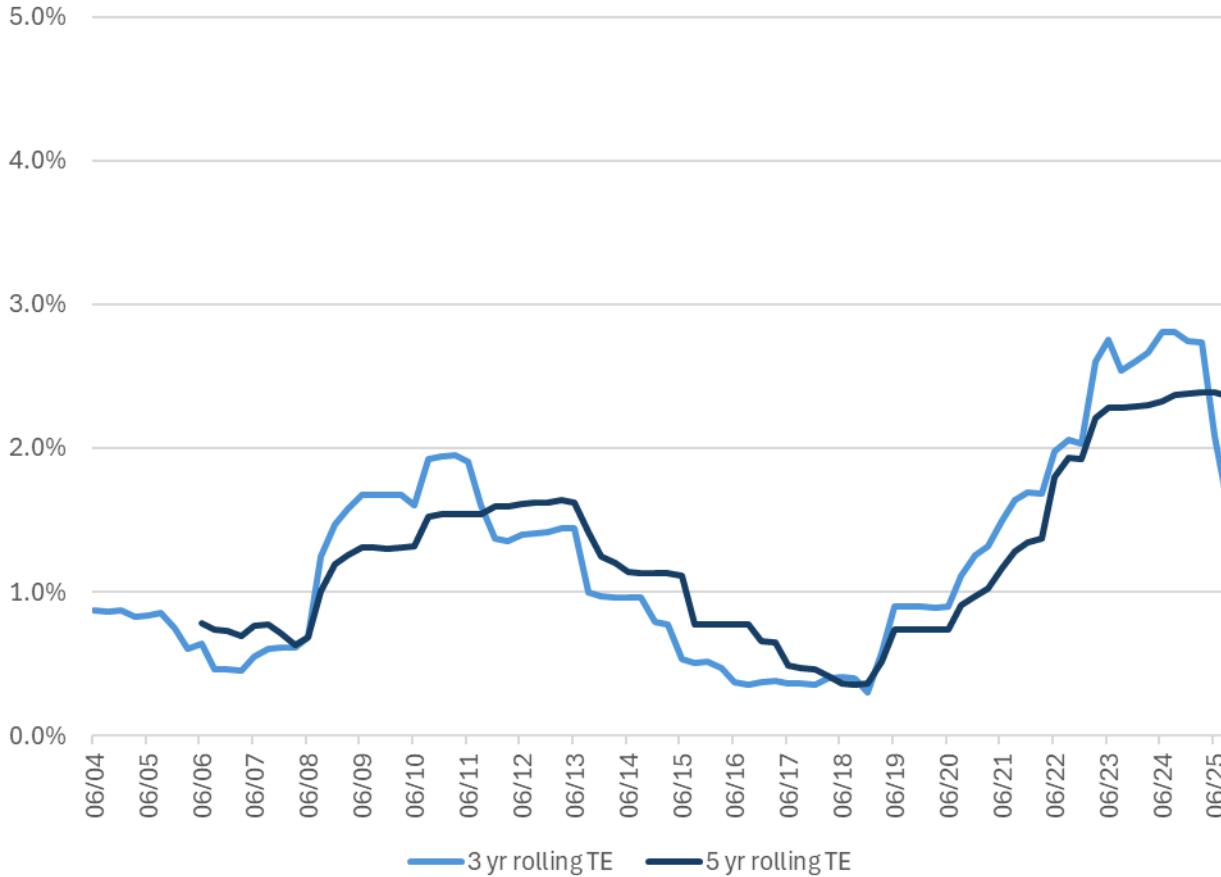
Avg 3yr TE: 1.2%

Avg 5yr TE: 1.2%

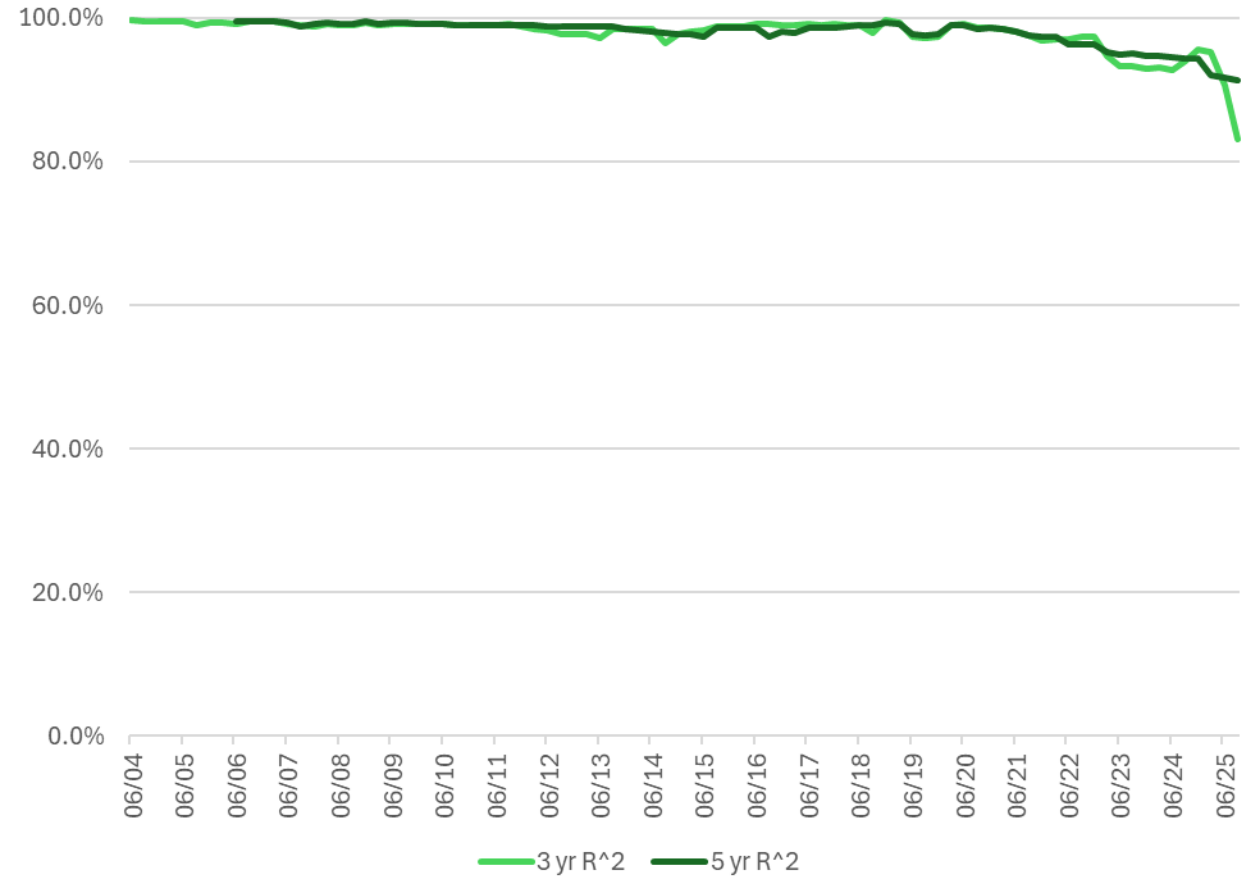
Avg 3yr R-Squared: 98%

Avg 5yr R-Squared: 98%

Rolling 3- and 5-year Tracking Error



Rolling 3- and 5-year R-squared



Analytics Details – Total Fund New Benchmark

3yr Success rate: 61%

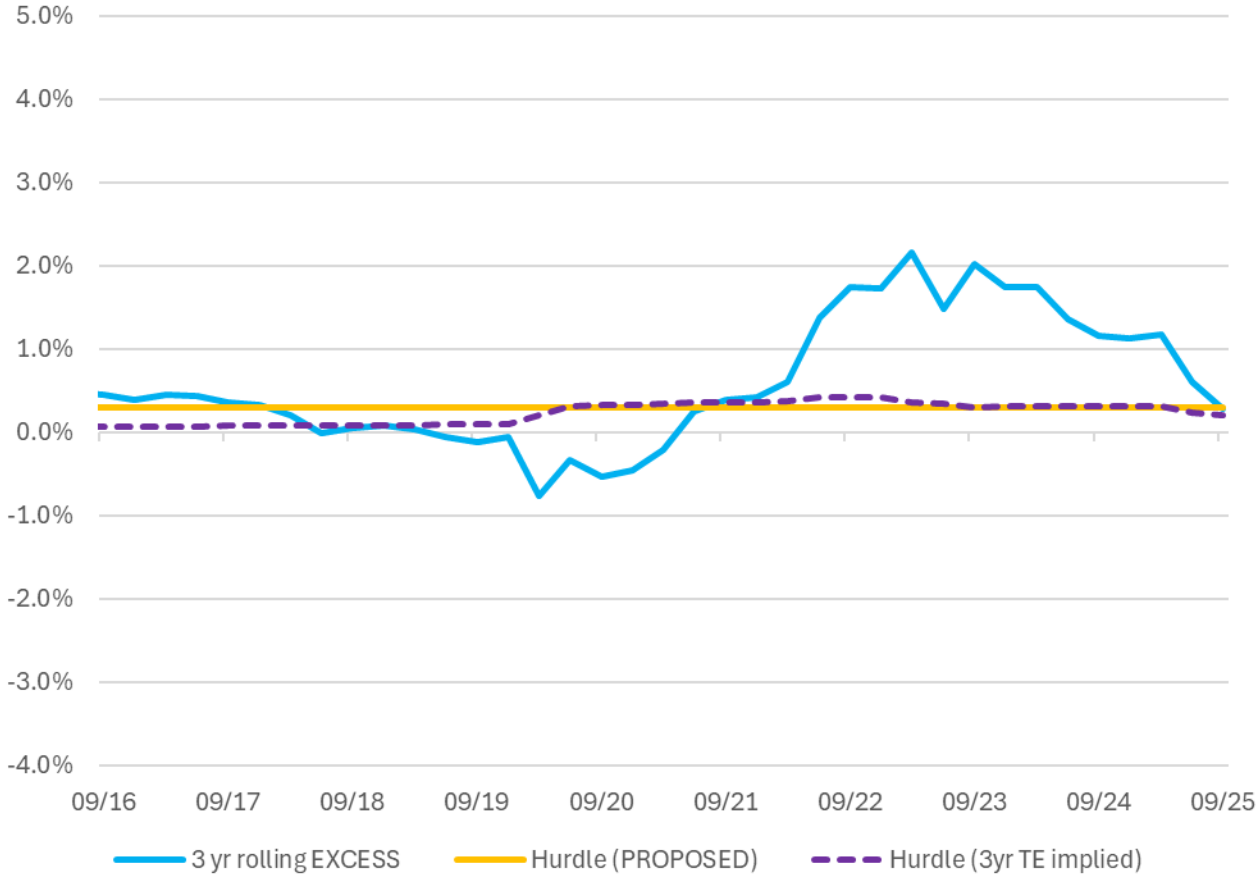
TE implied hurdle (bps): 23

Proposed hurdle (bps): 30

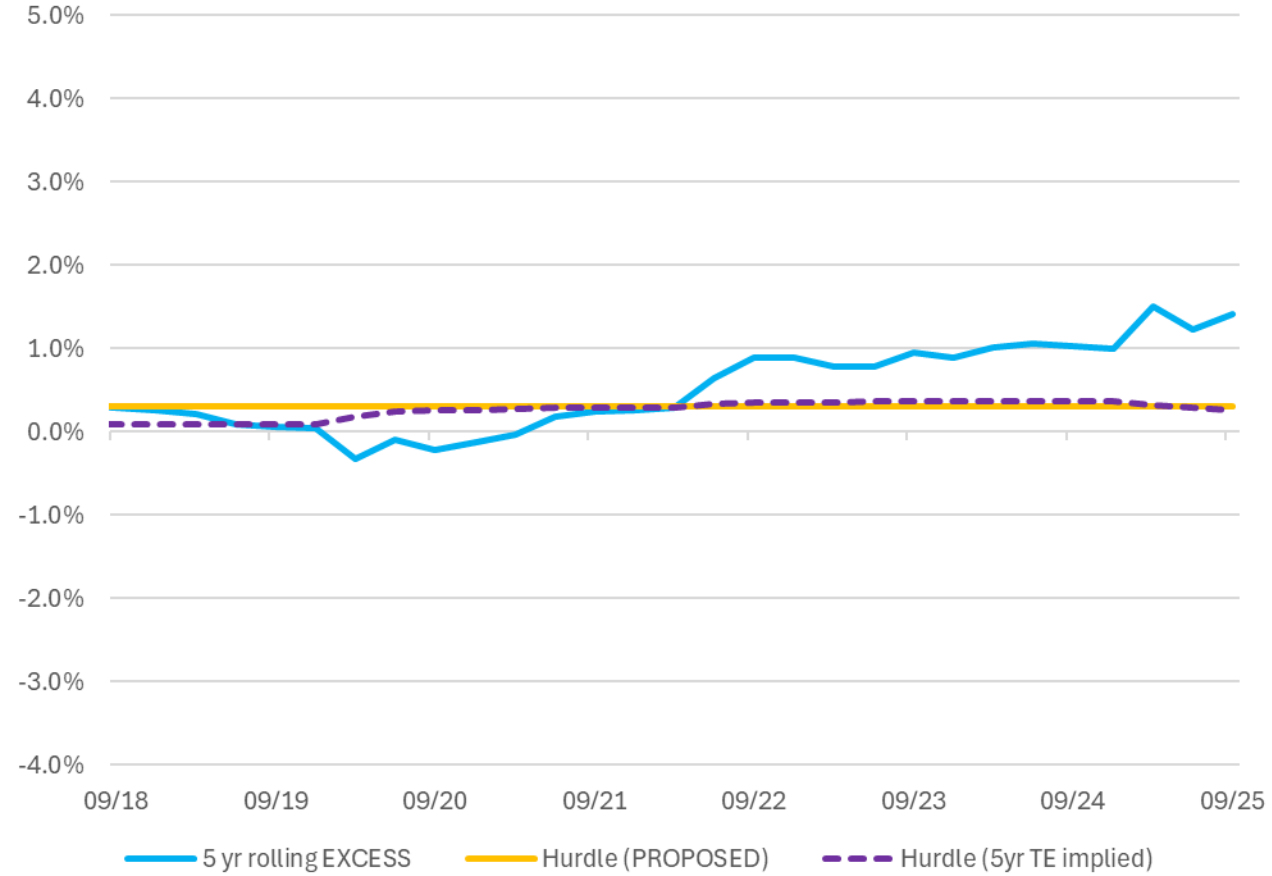
5yr Success rate: 50%

TE implied hurdle (bps): 26

Rolling 3-year Excess vs. Hurdles



Rolling 5-year Excess vs. Hurdles



Analytics Details – Total Fund New Benchmark

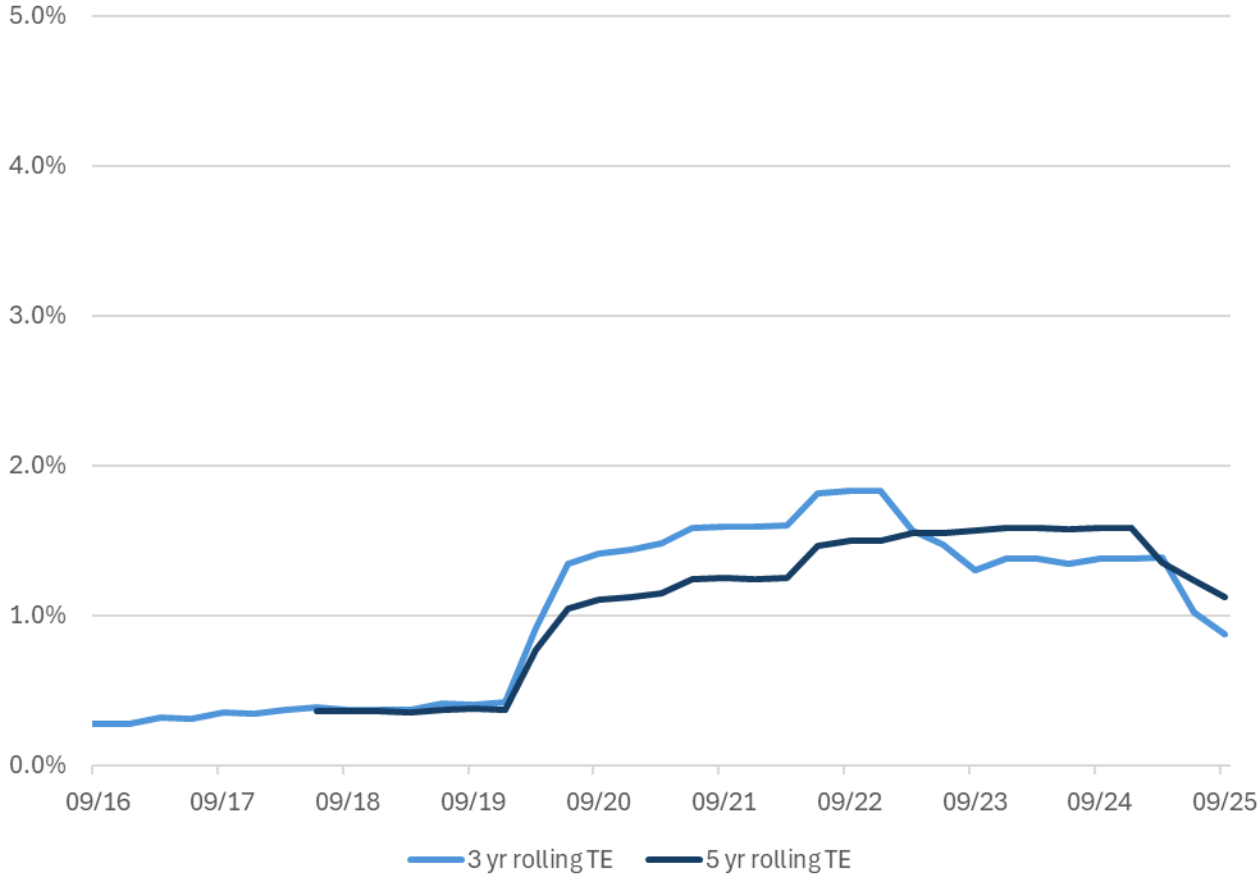
Avg 3yr TE: 1.0%

Avg 5yr TE: 1.1%

Avg 3yr R-Squared 98%

Avg 5yr R-Squared 98%

Rolling 3- and 5-year Tracking Error







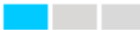
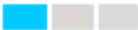










Rolling 3- and 5-year R-squared



Appendix

Assessment of Private Markets Benchmark Providers

				
PE coverage	 3,186 funds (since 1980)	 ~2,600 funds (since 1982)	 2,079 funds (since 1983)	 1,531 funds (since 1990)
VC coverage	 4,185 funds (since 1978)	 ~1,200 funds (since 1981)	 3,429 funds (since 1981)	 1,982 funds (since 1981)
Data sources	Private LP cash flow data (anonymized)	Private LP cash flow data (anonymized)	Private LP cash flow data (anonymized)	Private LP cash flow data (anonymized)
Data quality	 Industry standard	 High (limited customizability)	 Very high	 Very high

We are leaders in risk, strategy and people. One company, with four global businesses, united by a shared purpose to build the confidence to thrive through the power of perspective.



Virginia Retirement System (VRS) FY 2026 Budget to Actual Projections

	Current Budget ¹	Expenses through 2/28/2026	Projected Remaining Expenses	Projected Total Expenses ²	Projected Variance Favorable/ (Unfavorable)	Projected % Remaining
	A	B	C	D = B + C	E = A - D	F = E / A
Administration						
Personnel						
Salaries & Wages	24,274,000	16,875,000	7,015,000	23,890,000	384,000	1.6%
Fringe Benefits	9,902,000	6,942,000	2,779,000	9,721,000	181,000	1.8%
Incentive Compensation	1,331,000	1,183,000	27,000	1,210,000	121,000	9.1%
Contractual Services						
Management & Administration ³	4,437,000	1,157,000	2,116,000	3,273,000	1,164,000	26.2%
Professional Services ⁴	4,389,000	2,379,000	1,418,000	3,797,000	592,000	13.5%
Technical Services ⁵	4,508,000	2,517,000	1,231,000	3,748,000	760,000	16.9%
Travel & Training	669,000	228,000	214,000	442,000	227,000	33.9%
Network Infrastructure	2,228,000	1,334,000	760,000	2,094,000	134,000	6.0%
Equipment & Supplies	2,206,000	71,000	2,076,000	2,147,000	59,000	2.7%
Facility	5,042,000	2,494,000	1,028,000	3,522,000	1,520,000	30.1%
Administration Total	58,986,000	35,180,000	18,664,000	53,844,000	5,142,000	8.7%
Information Technology						
Personnel						
Salaries & Wages	8,307,000	5,209,000	2,711,000	7,920,000	387,000	4.7%
Fringe Benefits	3,129,000	2,007,000	1,044,000	3,051,000	78,000	2.5%
Incentive Compensation	393,000	295,000	45,000	340,000	53,000	13.5%
Contractual Services						
Management & Administration ³	1,344,000	916,000	255,000	1,171,000	173,000	12.9%
Professional Services ⁴	113,000	41,000	21,000	62,000	51,000	45.1%
Technical Services ⁵	11,815,000	7,444,000	3,968,000	11,412,000	403,000	3.4%
Travel & Training	104,000	63,000	31,000	94,000	10,000	9.6%
Network Infrastructure	8,653,000	4,708,000	3,545,000	8,253,000	400,000	4.6%
Equipment & Supplies	94,000	56,000	18,000	74,000	20,000	21.3%
Facility	306,000	203,000	92,000	295,000	11,000	3.6%
Information Technology Total⁶	34,258,000	20,942,000	11,730,000	32,672,000	1,586,000	4.6%



Virginia Retirement System (VRS) FY 2026 Budget to Actual Projections

	Current Budget ¹	Expenses through 2/28/2026	Projected Remaining Expenses	Projected Total Expenses ²	Projected Variance Favorable/ (Unfavorable)	Projected % Remaining
	A	B	C	D = B + C	E = A - D	E / A
Investment Management						
Personnel						
Salaries & Wages	18,781,000	13,292,000	5,486,000	18,778,000	3,000	0.0%
Fringe Benefits	6,000,000	4,292,000	1,706,000	5,998,000	2,000	0.0%
Incentive Compensation	8,019,000	7,978,000	26,000	8,004,000	15,000	0.2%
Contractual Services						
Management & Administration ³	1,014,000	156,000	145,000	301,000	713,000	70.3%
Professional Services ⁴	1,889,000	1,226,000	605,000	1,831,000	58,000	3.1%
Technical Services ⁵	13,087,000	5,369,000	5,420,000	10,789,000	2,298,000	17.6%
Travel & Training	832,000	310,000	150,000	460,000	372,000	44.7%
Network Infrastructure	359,000	255,000	72,000	327,000	32,000	8.9%
Equipment & Supplies	18,000	4,000	3,000	7,000	11,000	61.1%
Facility	719,000	476,000	225,000	701,000	18,000	2.5%
Investment Management Total	50,718,000	33,358,000	13,838,000	47,196,000	3,522,000	6.9%
VRS Subtotal	143,962,000	89,480,000	44,232,000	133,712,000	10,250,000	7.1%

¹ Original budget plus/minus transfers

² Projected Total Expenses are best estimates as of the creation of this report and are subject to change

³ Management & Administration includes postage, printing, communications, memberships, subscriptions, insurance, claims and bonds

⁴ Professional Services includes fiscal services, management services, legal services, media services, medical services, and auditing services

⁵ Technical Services includes computer operating services, contractors and data feeds

⁶ Does not include funds obligated through POs, but not yet paid



OneView Project

April 23, 2026

Presented by Dorothy Harmer, Investments Project
Manager

Agenda

- OneView Purpose and Objectives
- Project Structure
- Timeline
- Budget
- Project Risks & Mitigation
- Key Takeaways



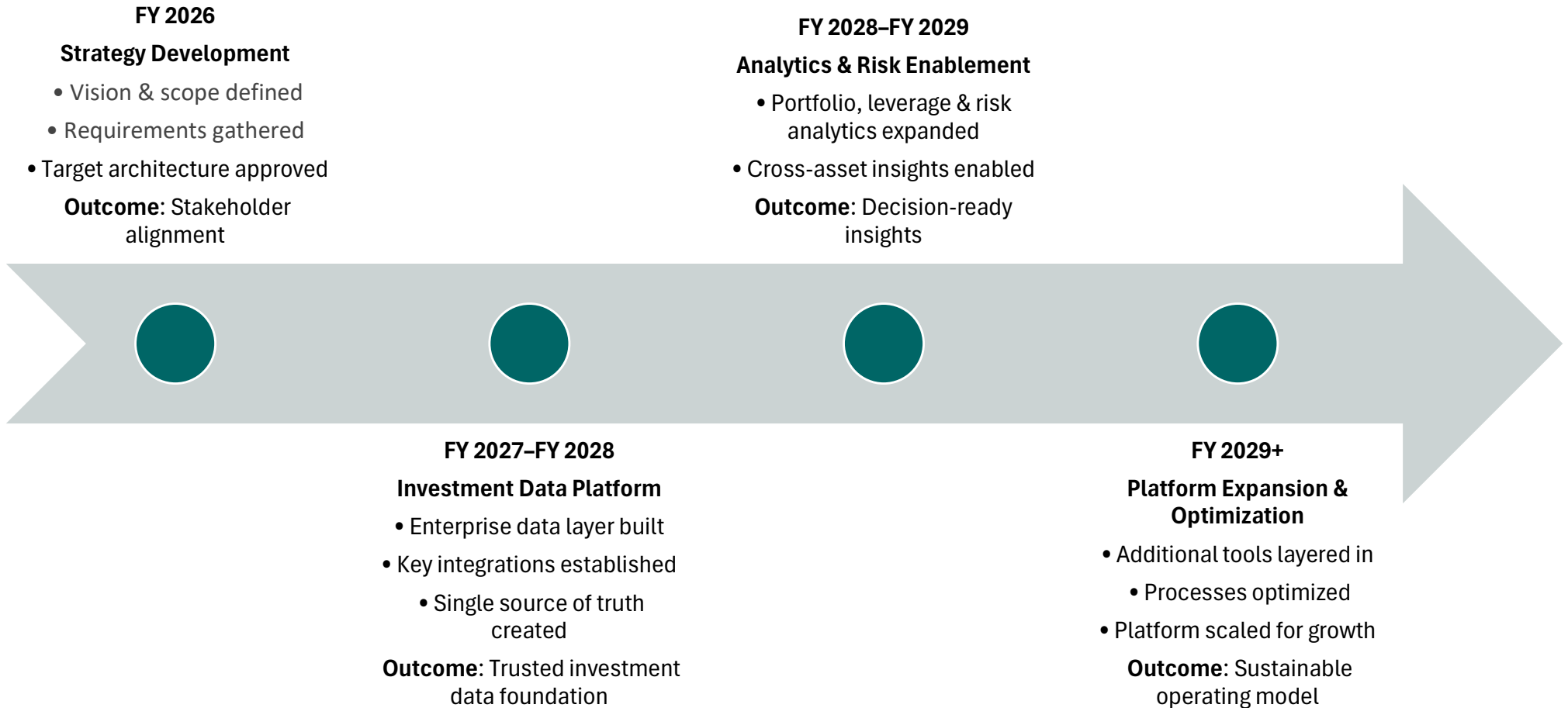
OneView Purpose & Objectives

- **Purpose:** OneView will establish an integrated platform supporting investment risk, leverage, treasury, and data management - providing capabilities that scale as the portfolio grows in size and complexity.
- **Objectives:**
 - Support the evolution of the leverage initiative through timely and accurate visibility into positions, funding, and liquidity.
 - Build a robust risk management framework to support portfolio analysis and oversight.
 - Provide investment staff with a unified view of data across all asset classes.

Project Structure

- Project Steering Committee includes Investments leadership, key stakeholders within Investments and IT
- Engaged with a consulting firm to architect a design
 - Full solution will be a combination of people, processes, and technology
 - Will start by building out the data layer and then adding technology as needed
- Working closely with existing vendors, like BNY, to enhance service offering
- IT will conduct security and architectural review prior to final approval

Timeline



OneView Budget

	FY27	FY28
Asset Management Platform and Support	\$ 7,350,000	\$ 9,575,000
Operating Cost – Contractors	\$ 2,650,000	\$ 2,650,000
New Position Cost	\$ 593,554	\$ 1,466,974
Per Year Total	\$10,593,554	\$13,691,974
Total for FY27 and FY28 (pending approval*) :		\$ 24,285,528



* Pending approval through state budgetary process

Project Risks & Mitigation

- **Timeline / scope creep (3–5 years):**
Mitigation: Developed with guidance from two external consulting firms, with emphasis on a disciplined requirements phase. Future scope changes will be managed through a change-request process.
- **Budget variance:**
Mitigation: Leveraged external expertise to develop a budget aligned with comparable peer initiatives. Ongoing monitoring will enable adjustments to timelines or deliverables to remain within approved funding.
- **Key person turnover:**
Mitigation: Solution architecture prioritizes foundational, modular capabilities, allowing continuity and flexibility in the event of staffing changes or strategic shifts.
- **Adoption / alignment:**
Mitigation: Implementing a structured change-management approach with early and ongoing stakeholder engagement, informed by lessons learned from comparable peer implementations.

Key Takeaways

- **Project name:** OneView
- **Objective:** Investment Department seeks an integrated suite of advanced tools and services to efficiently manage its portfolio
 - At a minimum, the solution will encompass data, portfolio, risk, leverage, and treasury management
 - The solution will likely rely on third-party systems and services, offering more capable and cost-effective alternatives to our in-house tools.
- **Timeline:** This effort is expected to span 3 – 5 years
- **Costs:** Most implementation expenses will occur in the first two years (FY27/28) at a total of ~\$25M





Virginia
Retirement
System®



Performance Compensation Initiative

April 23, 2026

Prepared for the
Administration, Finance and Talent Management Committee

- Overview
- Program Objective
- Timeline



Overview

- Working in consultation with  **THE STW GROUP**
SOLUTIONS THAT WORK

- Goals:



To enhance our current bonus structure to better reflect the contribution made by all individuals to the organization



To build the expertise of our **managers** by providing education and training that will allow them to be more dynamic participants in performance goals and outcomes



To reward specific, individual contributions that drive agency wide outcomes

Program Objective

“To dynamically enhance the employee experience by rewarding them for their direct contribution to the success of agency priorities, while simultaneously empowering managers to impact the same through direct involvement and coaching.”

BENEFITS

RECRUITMENT & RETENTION

- Reduces employee turnover & increases loyalty
- Motivates employees by mapping direct impact to agency success
- Attracts top talent

TEAMWORK

- Rewards **Teamwork** by acknowledging successful collaboration
- Differentiates high performers
- Develops manager skills

PERFORMANCE

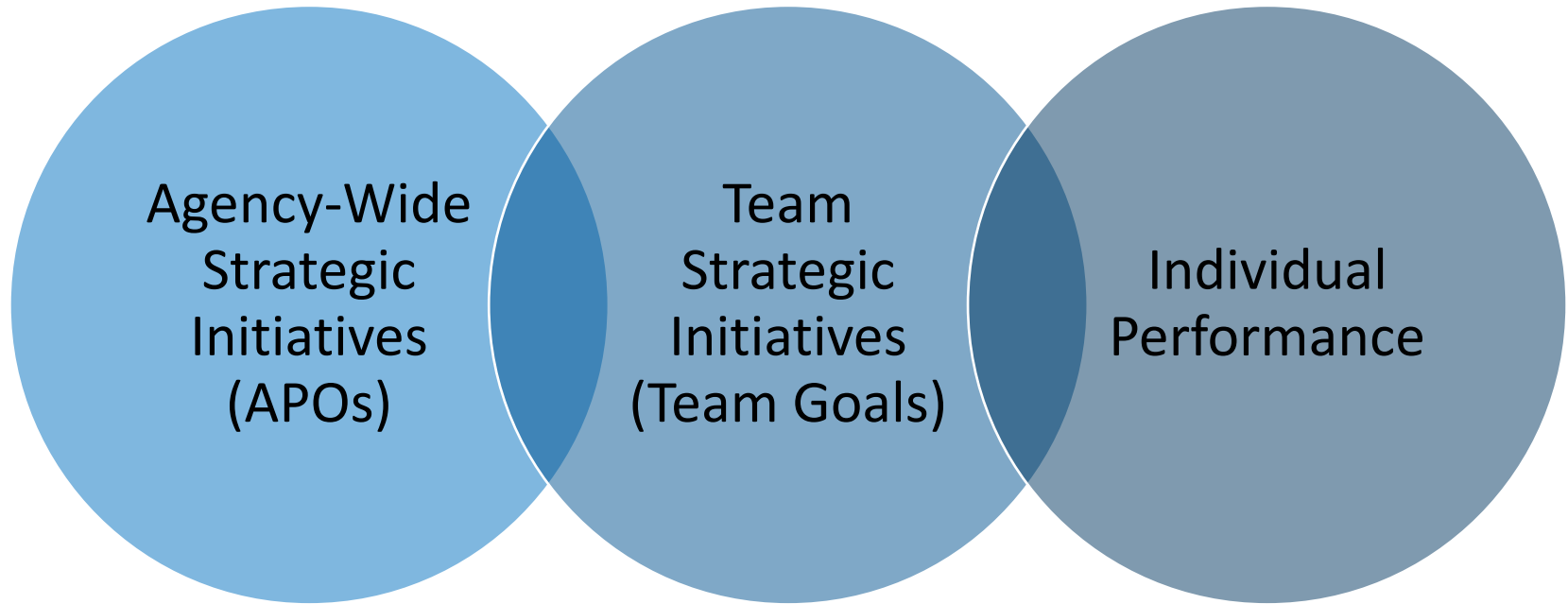
- Directly aligns with Organizational success
- Motivates employees to exceed goals
- Allows managers to coach to performance metrics

ACCOUNTABILITY

- Reinforces **Integrity** by tying incentives more closely to actual contributions
- Allows for **Agility** as projects evolve
- Provides clear and fair **Accountability**

Program Objective

Agency Goals



Agency-Wide
Strategic
Initiatives
(APOs)

Team
Strategic
Initiatives
(Team Goals)

Individual
Performance

Timeline

Fiscal Year 2026 (Initiation)



Fiscal Year 2027 (Pilot Development)



Fiscal Year 2028 (Full Implementation)

- Determine key components required for new plan.
- Begin communication agency-wide
- Metrics and payout process determined and approved –test run metrics and reporting
- Develop effective communication plans (Manager & Supervisor)
- Develop clear training plan for all audiences
- Develop a detailed Change Plan for Directors and Managers with risk analysis
- Assess Sponsors, Stakeholders, including managers
- Assess & Adjust as needed

- Cascade Stakeholder meetings and begin to add managers
- Cascade communication tools to keep everyone involved
- Roll-out training plan including comprehensive training for all employees
- Get systems in place for payout
- Get approval on metrics and conduct test run on selected audiences
- Assess & Adjust as needed based on Stakeholder conversations
- Adopt the new Performance Compensation Initiative

- Full activation & accountability for Performance Bonus Plan
- Work process into onboarding, other training and communications as appropriate
- Continue to assess & adjust as needed
- Make system enhancements and integrate experience of 2027
- Continued support for managers during transition, ensuring new managers are trained on the process

Timeline

STW Engagement

