



Investment Policy Committee (IPC) Meeting

1300 East Main Street, Courtroom B, Richmond, VA 23219

**Thursday, 2/5/2026
11:00 AM - 12:00 PM ET**

1. Welcome and Introductions

2. Approval of Minutes (June 20, 2024)

IPC Meeting Minutes 06202024 FINAL - Page 2

3. Discussion on Possible Benchmark Changes

Investment Benchmark Education - February 2026, 013026 - Page 5

Minutes

A meeting of the Investment Policy Committee (IPC) of the Virginia Retirement System was held on June 20, 2024 at the Bank of America Building, 1111 East Main Street, Richmond, Virginia with the following members present:

A. Scott Andrews
John Bennett
Lawrence Bernert
Michael Disharoon
Susan Gooden (remote under §2.2-3708.3(B)(4))
Jessica Hood

Also present were Trish Bishop, Andrew Junkin, Jennifer Schreck, Jeanne Chenault, Michael Cooper, Perry Corsello, Laura Fields, Laurie Fennell, Antonio Fisher, Josh Fox, JT Grier, K.C. Howell, Kristina Koutrakos, Sandy Jack, Matt Lacy, Chung Ma, Curt Mattson, Scott Mootz, Vera Pleasants, Shawn Rabelais, Michael Scott, and Scott Weaver of the VRS staff.

Also in attendance was Jamie Bitz of the Joint Legislative Audit and Review Commission; Harrison Bader and Mitchel King of BlackRock; Cyril Espanol of Pageant Media; and Justin Ferrell of the Virginia Auditor of Public Accounts.

Mr. Andrews called the meeting to order at 11:45 a.m.

Mr. Andrews announced that Dr. Gooden will be joining remotely today, participating in accordance with § 2.2-3708.3 (B)(4) of the Code of Virginia and the VRS Remote Meeting Attendance Policy.

Attendance

Mr. Andrews took a roll call of each IPC member for attendance purposes:

Mr. Bell – not present
Mr. Bennett – present
Mr. Bernert – present
Mr. Disharoon – present
Dr. Gooden – present
Ms. Hood – present
Mr. James – not present
Ms. Pantele – not present
Mr. Andrews – present

Minutes

A motion was made by Mr. Disharoon and seconded by Mr. Bennett to approve the minutes for the April 20, 2023 Committee meeting. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Bernert – aye
Mr. Disharoon – aye
Dr. Gooden – aye
Ms. Hood – aye
Mr. Andrews – aye

Committee Charter Review

Ms. Jack, Director of Policy, Planning and Compliance, reviewed proposed changes to the Investment Policy Committee charter. The updates provide clarity in some sections of the policy and reflect associated changes since the last review. A motion was made by Mr. Disharoon and seconded by Mr. Bennett to recommend approval of the changes to the Committee Charter. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Bernert – aye
Mr. Disharoon – aye
Dr. Gooden – aye
Ms. Hood – aye
Mr. Andrews – aye

Investment Benchmarks and Performance Hurdles

Mr. Junkin presented an overview of the current Investment Benchmarks and Performance Hurdles. Mr. Junkin noted to perpetuate VRS' good governance practices, the Board regularly reviews investment benchmarks and hurdles for investment staff incentive compensation. RVK, an independent consulting firm, conducted a study of the benchmarks and hurdles and found that current benchmarks and hurdles are appropriate and not in need of change. RVK presented their findings to the Investment Advisory Committee and to the Board in April 2024. A motion was made by Mr. Disharoon and seconded by Mr. Bernert to recommend the Request for Board Action to affirm Benchmarks and Performance Hurdles. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Bernert – aye
Mr. Disharoon – aye
Dr. Gooden – aye
Ms. Hood – aye
Mr. Andrews – aye

Asset Allocation Update

Mr. Junkin presented an update on the Asset Allocation and Leverage project. Mr. Junkin reported on the implementation progress, launched in January 2024 at ~1%. Based on cash needs, the VRS portfolio is using less leverage than the policy portfolio and will continue to explore additional sources of funding. A motion was made by Mr. Disharoon and seconded by Mr. Bernert to recommend the Request for Board Action to approve FY2025 Defined Benefit Plan Strategic Asset Allocation. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Bernert – aye
Mr. Disharoon – aye
Dr. Gooden – aye
Ms. Hood – aye
Mr. Andrews – aye

Adjournment

A motion was made by Mr. Bennett and seconded by Mr. Disharoon to adjourn the meeting. The motion was unanimously approved via roll call:

Mr. Bennett – aye
Mr. Bernert – aye
Mr. Disharoon – aye
Dr. Gooden – aye
Ms. Hood – aye
Mr. Andrews – aye

The meeting was adjourned at 12:08 p.m.

A. Scott Andrews, Chairperson



Benchmark Overview

February 2026
Andrew Junkin

Agenda











































- Review current VRS investment benchmarks
- Discuss possible enhancements
- Update on independent consultant review of benchmarks and hurdles
- Next steps

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.

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

| | <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 |  |  |  |  |  |  |

Private Equity Benchmark Alternative

- Private Equity Fund Universe Benchmark – a benchmark comprised of actual private equity funds
 - Can be customized to better represent an investor's actual investment approach, including geography, style, vintage year, fund size, etc.
 - Sourced from actual manager data
 - Can be used to judge actual implementation success: return, risk, diversification, manager selection

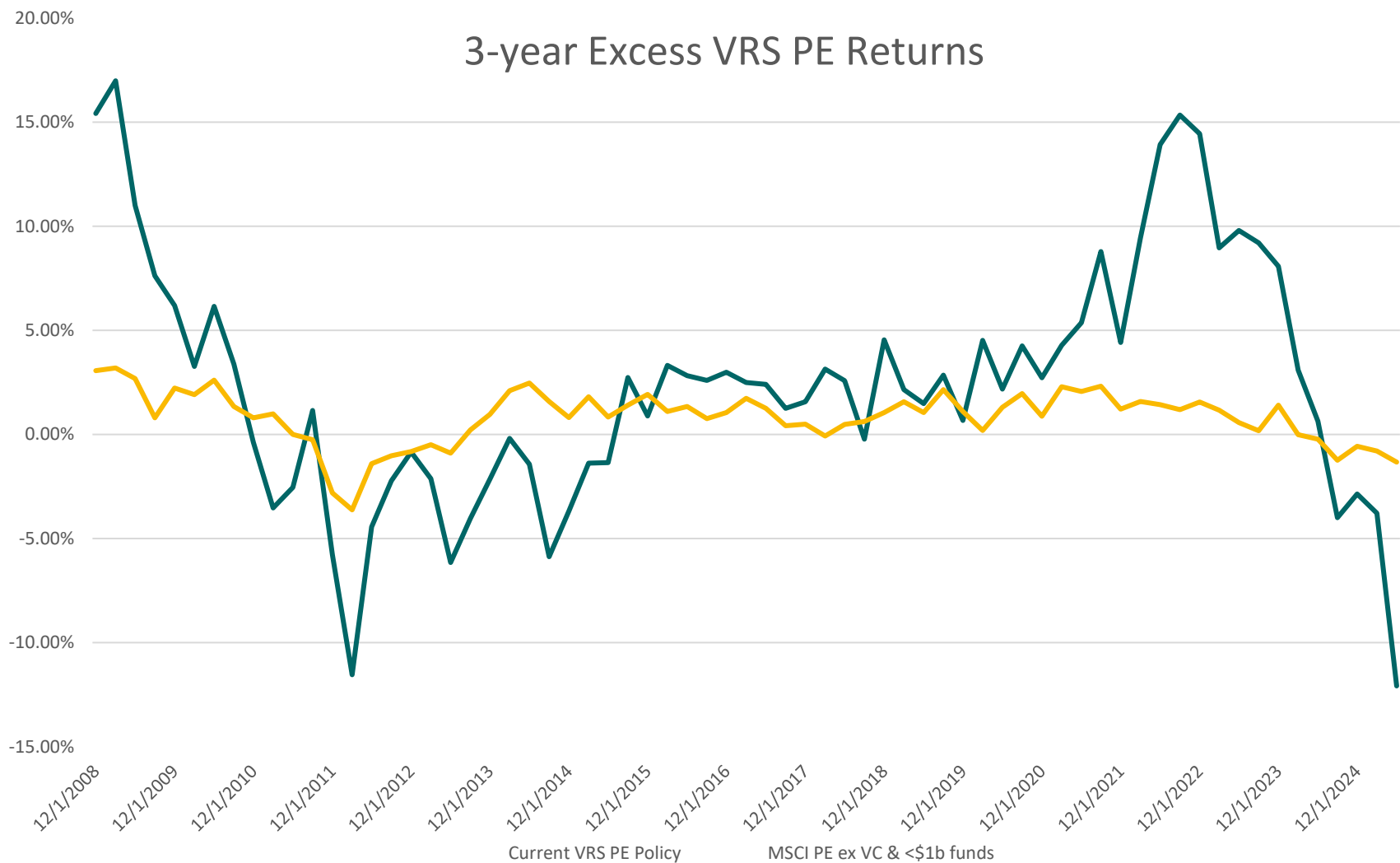
Growth in Large Public Companies



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

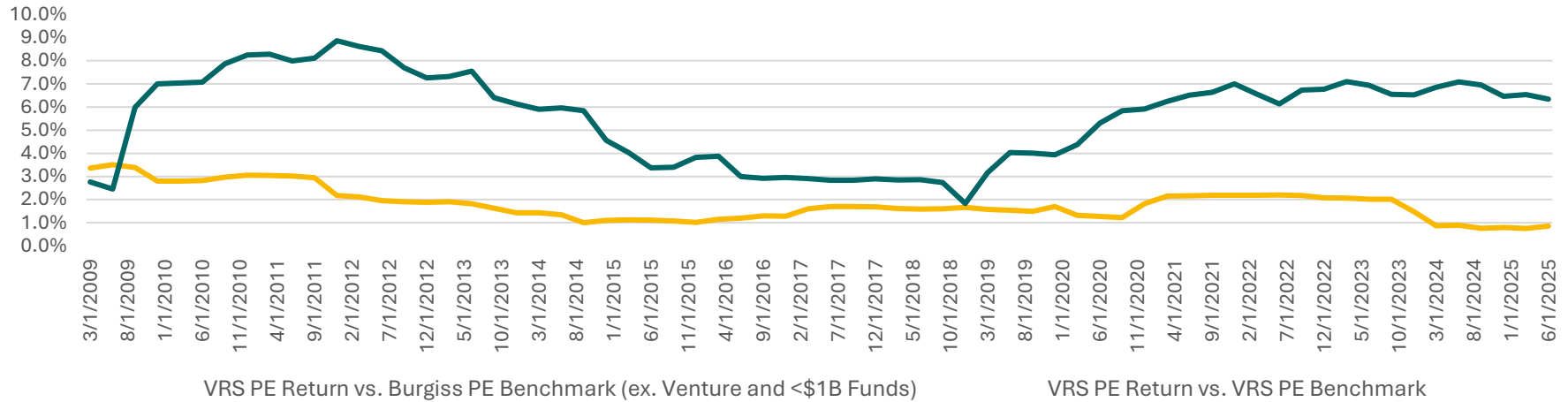
* Magnificent-7 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. Both classes of Alphabet are included.

Private Equity Benchmark Returns

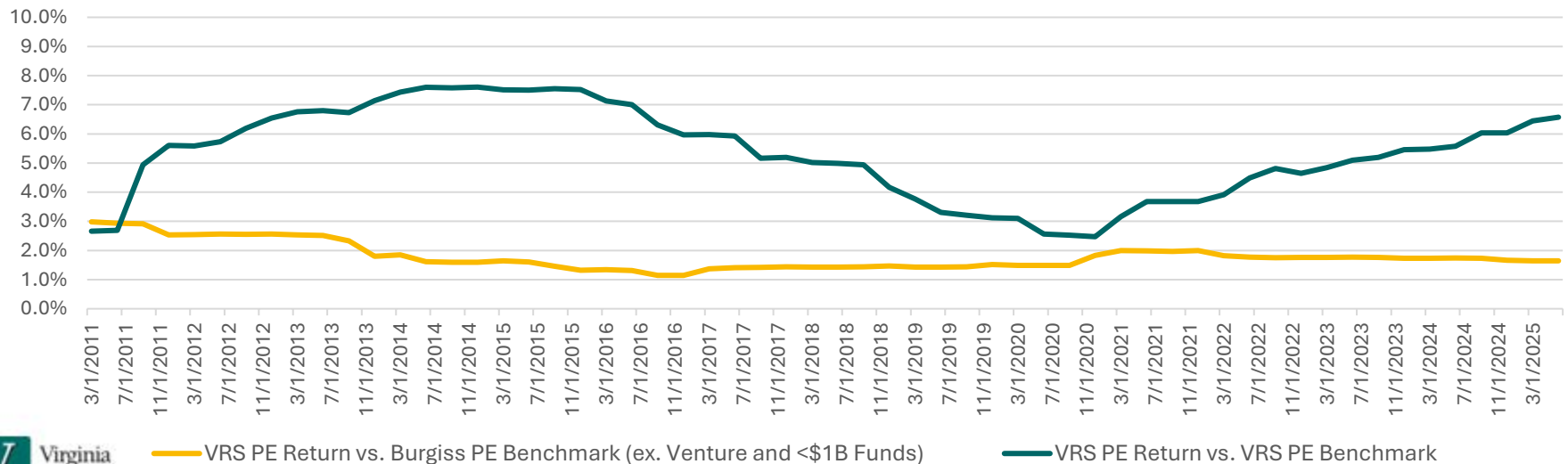


Private Equity Benchmark Tracking Error

3-year Rolling Tracking Error



5-Year Rolling Tracking Error

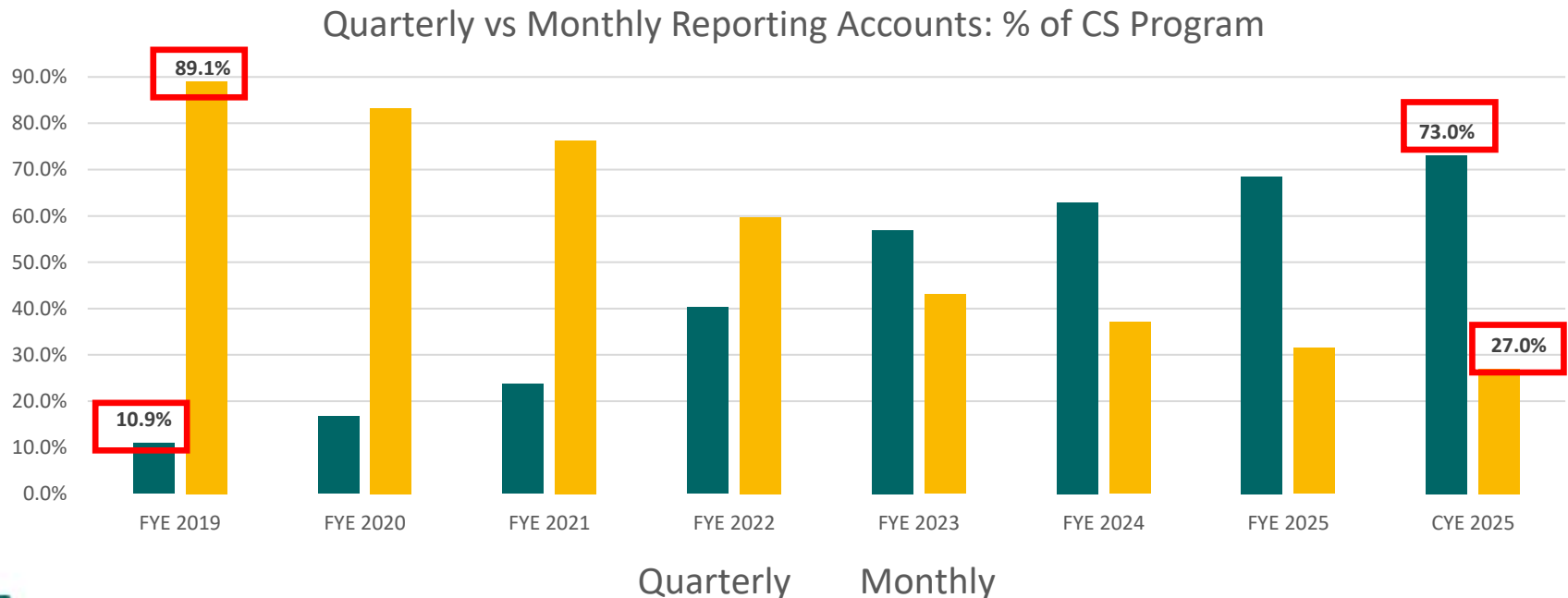


Ongoing Research

- VRS is continuing to review fund universe benchmarks
- Provides more meaningful relative risk and return data
- More clearly represents the investible opportunity set

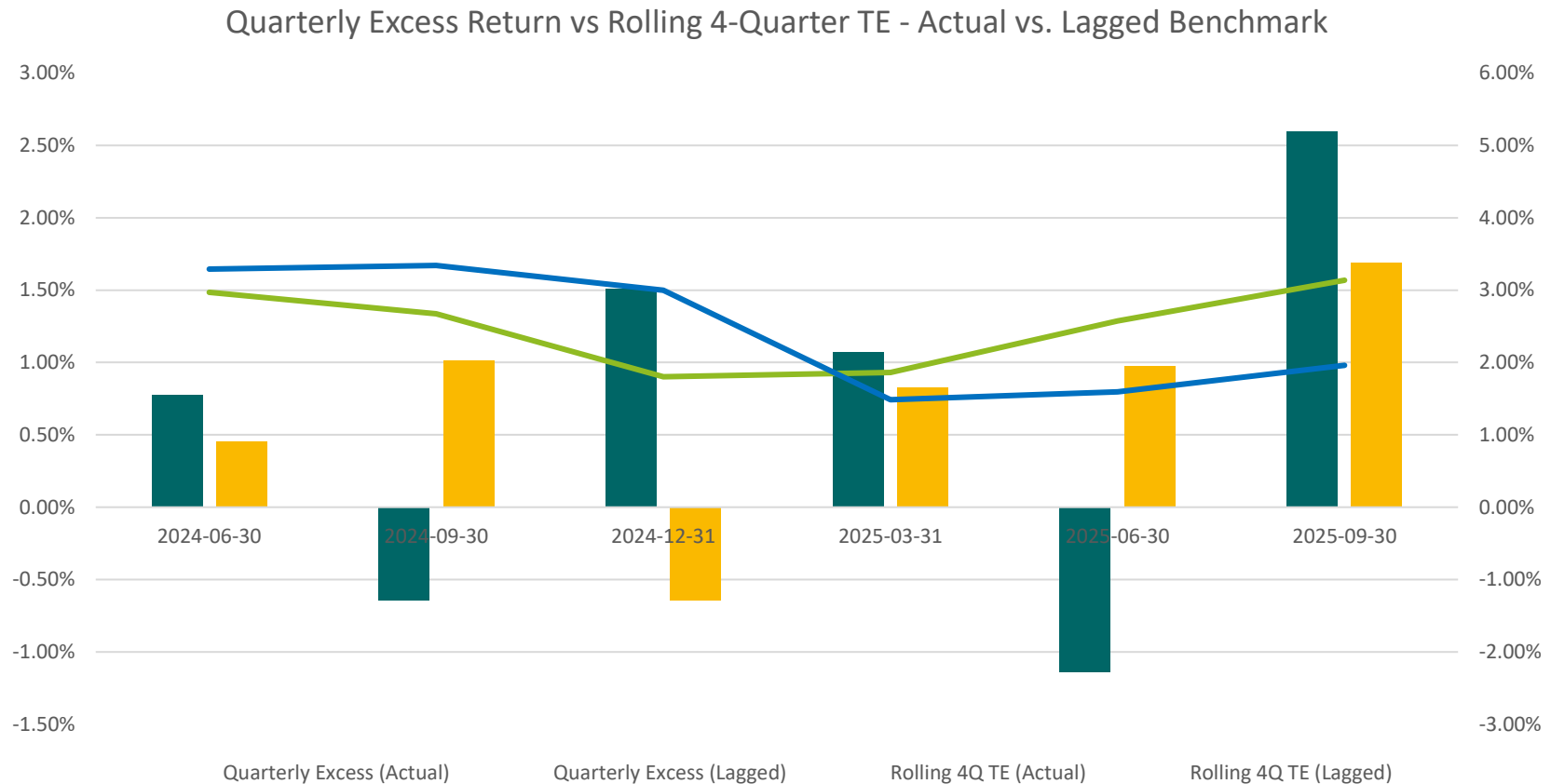
Credit Strategies Has Evolved

- 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.



Lagging the Index to Match Program Structure

- This change is expected to reduce Credit Strategies and Total Fund Tracking Error.



Diversifying Strategies Program

- Diversifying Strategies has changed meaningfully over the last several years
 - Combined former Risk Based Investing program with Dynamic Strategies program
 - Program 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 Evaluation

- Cash plus 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%

- Trend indices
 - Better reflect the make up of the defensive portion of the program
 - Exhibit a higher correlation to experienced and modeled returns
 - Introduce volatility into the benchmark more consistent with overall return patterns

Diversifying Strategies Benchmark Alternative

■ Move to a blended benchmark

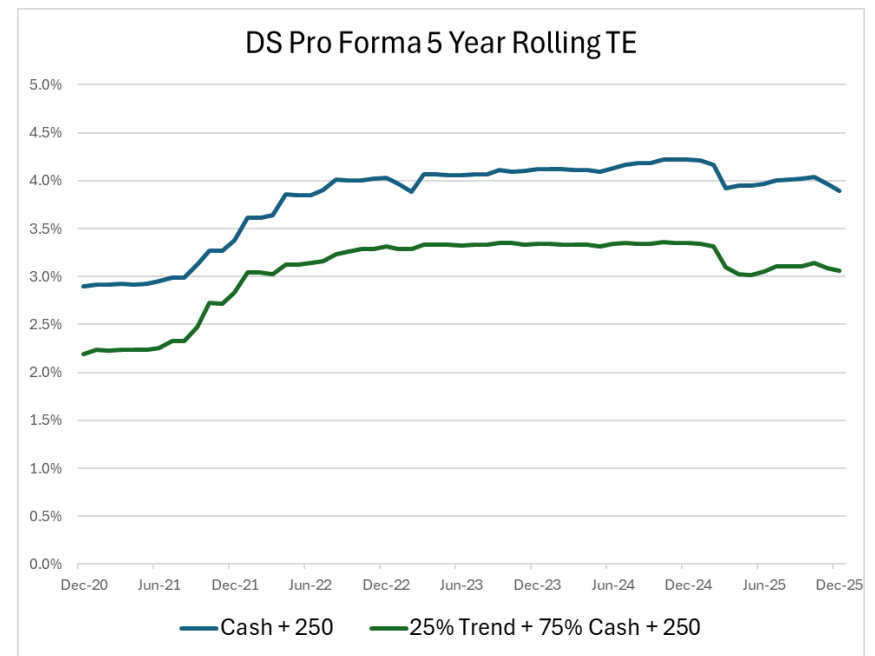
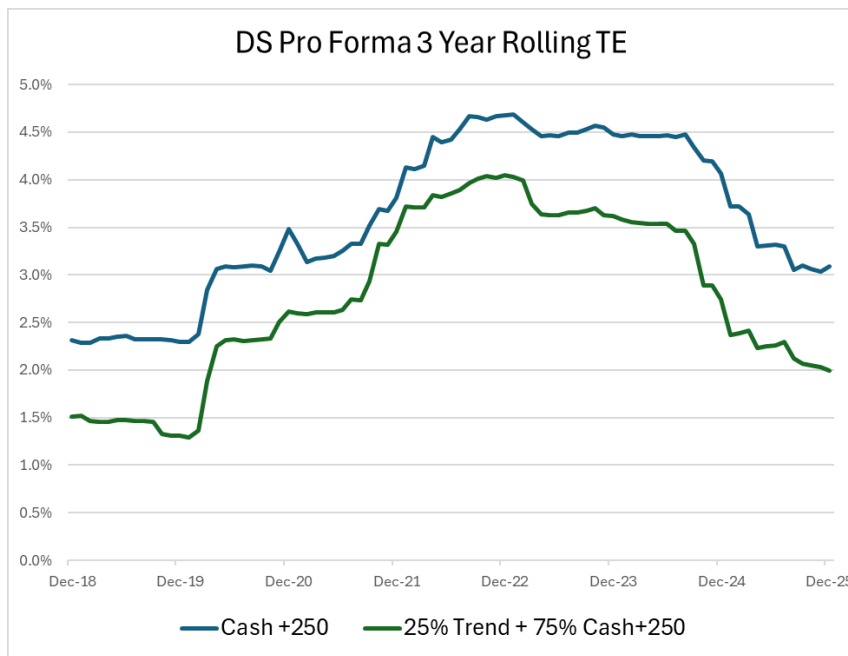
- Retain cash plus 250 bps for absolute return – 75% of benchmark
- Use a trend index for the defensive portion of the program – 25% of benchmark
- Weightings aligned with strategy evolution

■ Evaluating 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 the VRS's size
- Index methodology consistent with VRS reporting and operational needs

Reduced Tracking Error

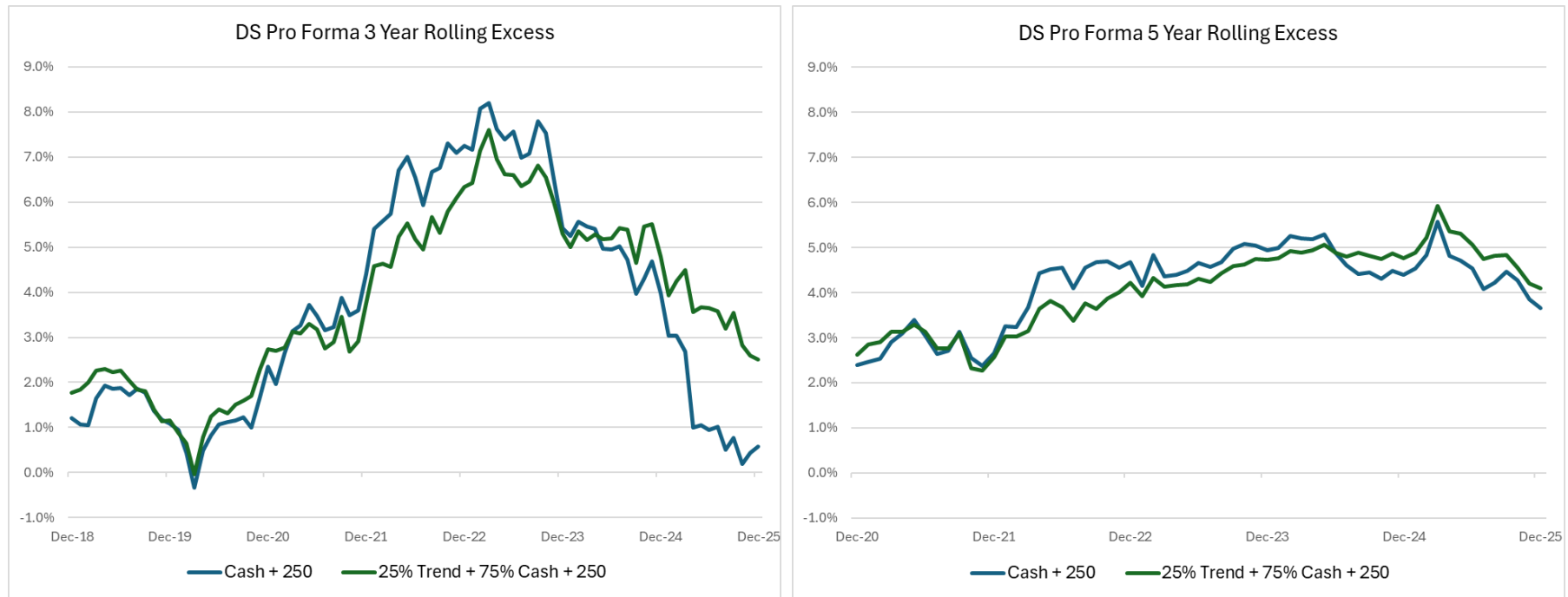
The HFR Institutional Trend Following Index is about 70% correlated with the historical performance of the current Diversifying Strategies defensive mandates, thus reducing overall program tracking error.



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

Smoother 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.

Independent Consultant Benchmark and Hurdle Review

- Mercer hired to review benchmark and hurdle rates as part of our regular schedule of independent review
- Project has kicked off; discussions about potential benchmark evolution included
- Mercer will present to AFT and Board in April
- Any program-level benchmark evolution would affect total fund benchmark
 - Programs roll up to the total fund benchmark
 - Similarly, program-level and total fund benchmarks might change in parallel

Next steps

- VRS will conclude benchmark review and present recommendations to IAC
- Mercer will present independent benchmark and hurdle review to AFT and Board in April
- Changes implemented no earlier than 7/1/26