

**APPROVED BY THE BOARD OF TRUSTEES: JUNE 15, 2006  
UPDATED JULY 1, 2025**

## 1. Investment Objective

The investment objective of the VRS defined benefit plan portfolio is to maximize return while managing risk within an acceptable range. Because of the long-term nature of the plan's liabilities, the horizon for investment decisions is generally defined as 10 years or longer. Risk is assessed in an asset-liability framework, and primary risk measures are volatility in the plan's assets, funded status and contribution rates.

The objective of the investment staff is to execute the asset allocation policy established by the Board of Trustees and to attempt to add value relative to the policy benchmarks.

The *Code of Virginia* § 51.1-124.30 requires that "the Board shall...invest the assets of the Retirement System with the care, skill, prudence and diligence under the circumstances prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Board shall also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so."

## 2. Decision Making

The Board is responsible for establishing broad policy guidelines and benchmarks that will enable the VRS Trust Fund to achieve its investment objective. Board decisions are required in the following areas:

1. Asset Allocation Targets (Policy Risk/Reward Parameters)
2. Allowable Ranges Around the Policy Targets
3. Total Fund and Program Level Benchmarks
4. Active Risk Ranges Relative to Policy
5. Strategic Asset Allocation Leverage Target (Asset Allocation Leverage and Rebalancing Leverage)

Beyond these broad policy decisions, the Board delegates to the Chief Investment Officer (CIO) all other decisions relating to the investment of VRS assets, subject to the guidelines presented in this document.

In carrying out its fiduciary duty to oversee the investments of the fund, the Board will consider advice and recommendations provided by the VRS Investment Advisory Committee (IAC). The specific duties and responsibilities of the IAC are described in the IAC Charter.

## 3. Asset Allocation/Rebalancing

The Board has an Investment Policy Committee (IPC). Its membership is the entire Board of Trustees. The IPC is a forum for the Board to discuss the fund's mission, objectives, risk tolerance and asset allocation, and strategic asset allocation leverage. *(continued)*

### **3. Asset Allocation/Rebalancing (*continued*)**

The fund's strategic asset allocation mix will be set by the Board and reviewed periodically. Annually, the Board will review the capital market return projections. In setting the strategic asset allocation mix, the Board will give consideration to the recommendations of the CIO and the IAC. A significant change in capital market conditions, pension program demographics or benefit formula could trigger a fresh asset/liability study.

In developing policy parameters, the Board will work on an asset-liability analysis with an outside expert on such issues. Normally an analysis will be made every two to three years to coincide with the contribution rate-setting cycle. This project is designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. The Board will also establish an allowable range around each asset class target weight within which the CIO is granted discretion.

Appendix 1 shows the fund's current strategic asset allocation mix and the allowable range for each asset class.

### **4. Total Fund Performance Benchmark**

The Board will establish the total fund performance benchmark. In analyzing the performance of the fund and the investment staff, the Board will use a VRS Custom Benchmark. The VRS Custom Benchmark represents the strategic asset allocation mix and the program level benchmarks established by the Board during the asset allocation process. The VRS Custom Benchmark is rebalanced monthly. See Appendix 1 for details.

Assets involved in transition from one mandate to another may be temporarily managed within "Transition Accounts" and such individual accounts might not be benchmarked during the transition period. The CIO will ensure that such transitions are completed on a timely basis, consistent with market conditions.

### **5. Active Risk Allocation**

The Board will establish a total fund active risk range that describes the degree of tolerance for yearly variation in the fund's performance relative to the Total Fund Custom Benchmark. The primary risk measure used for this purpose is Tracking Error, calculated as the standard deviation of the difference between the fund's return and the benchmark's return. From this measure, probability estimates can be derived to help the Board estimate the risk of underperforming the benchmark by certain margins. It is recognized that statistical measures, such as tracking error, are in fact just estimates and do not guarantee that observed performance will occur as expected.

Appendix 1 shows the current tracking error range for the total fund.

## **6. Program and Manager Level Policies**

The Board delegates to the CIO the authority to establish and modify as necessary the program level investment policy statements. Individual manager investment policy statements can be approved by the respective Program Managers provided they work in concert with the overarching program level investment policy statements. Each program and investment manager policy statement (both internal and external) should clearly define the investment objectives, allowable strategies, limits, risks and performance benchmarks applicable to the program or account in question. In the case of commingled investments or where VRS is a limited partner, the appropriate fund documents (i.e., Limited Partnership Agreement, Offering Memorandum, etc.) may be used in lieu of the investment manager policy statement. The program level policy statement should also include due diligence procedures for hiring, monitoring and terminating investment managers. The CIO is responsible for ensuring that adequate due diligence is being performed in the evaluation of potential and existing investments, and that all investment activity will be legal and in compliance with appropriate regulatory bodies.

## **7. Investment Manager Selection and Termination**

The CIO has full authority to hire and fire investment managers and negotiate or renegotiate fees at any time using processes deemed likely to achieve the best investment results for the fund. The CIO will report any hirings or terminations at the next Board meeting.

## **8. Risk Management**

Risk management is a primary objective for the investment staff, and investment results will be reviewed in the context of risk-adjusted returns. The primary risk objectives for the fund are to (1) manage the volatility of the fund within a reasonable range around the targeted volatility as established in the asset allocation process, and (2) manage the tracking error of the fund within the tracking error range as established by the total fund risk budget. Should the total fund experience active risk outside of the tracking error range, the CIO is responsible for communicating the variance to the Board on a timely basis. In addition, the CIO is responsible for obtaining and/or developing appropriate systems, models, tools and reports necessary to monitor the risks of the fund and effectively communicate such risks on a regular basis to the Board.

## **9. Authority to Execute Contracts**

The CIO and the Chief Administrative Officer (CAO) have full authority to execute contracts on behalf of VRS, provided that any contract relating directly to an investment decision must be approved by the CIO. Such contracts may include, but not be limited to, investment management contracts, partnership agreements, subscription agreements, service agreements, consulting contracts and contracts for derivative investment instruments consistent with the fund's investment policy and strategies.

## 10. Best Execution

Generally, all investment transactions executed on behalf of the fund will be made on the basis of best execution. VRS defines best execution as the process and price that results in the best overall performance impact, as judged by the portfolio manager, taking into account current market conditions. VRS will generally discourage the use of soft dollar arrangements, and where such arrangements are utilized, staff will review this usage for reasonableness.

## 11. Foreign Adversaries

VRS will mitigate its direct and indirect economic exposure to foreign adversaries as identified by federal agencies involved in law enforcement, national security, securities regulation, and economic policies related to the economic activities of U.S. persons. The Board delegates to the Chief Investment Officer all decisions relating to the implementation and administration of such exposure.

## 12. Litigation and Proxy Voting Policies

All investment activity will be consistent with the Board's Litigation Policy and Proxy Voting Policy, which outline procedures for proxy voting, securities litigation and involvement in investor groups.

## 13. Use of Consultants/Service Providers

The CIO has authority to hire consultants, research providers and other service providers, provided that such expenditures are in alignment with the Board-approved investment department operating budget.

## 14. Reporting

The CIO is responsible for reporting on a timely basis the significant activity and results of the fund. Such reports will include regular performance reports and commentary and updates as needed in each Board meeting. The CIO will respond in a timely manner to requests for information from the Board.

## 15. Code of Ethics

The investment staff will conduct its affairs in a manner that reflects the highest standards of ethical conduct. The staff is expected to comply with the [CFA Institute Code of Ethics and Standards of Professional Conduct](#).

**VRS Defined Benefit Plan Investment Policy Statement  
as of July 1, 2025\*\*  
Appendix 1**

<b>Asset Class (Strategies)</b>	<b>Policy Target %</b>	<b>Allowable Range</b>	<b>Benchmark</b>	<b>Tracking Error Range</b>
Public Equity	32%	25% – 39%	Public Equity Custom	
Private Equity	16%	9% – 23%	Private Equity Custom	
Real Assets	14%	7% – 21%	Real Assets Custom	
Credit Strategies	16%	9% – 23%	Credit Strategies Custom	
Diversifying Strategies	5%	2% – 10%	Diversifying Strategies Custom	
Private Investment Partnerships	2%	0% – 4%	Private Investment Partnerships Custom	
Exposure Management Portfolio	0%	0% – 6%		
Fixed Income	16%	12% – 23%	Fixed Income Custom	
Cash	2%	0% – 7%	ICE BofA U.S. 3-Month Treasury Bill Index	
<b>Total Fund with Asset Allocation Leverage</b>	103%		VRS Custom Benchmark	100 – 300 bps
Asset Allocation Leverage	-3%	-4% – 0%		
Total Fund	100%			
<b>High-Level Exposure</b>				
Total Equity	48%	38% – 58%		
Fixed Income + Cash	18%	12% – 27%		
<b>Rebalancing Leverage</b>		-3% – 0%		

\*\* Previous date was January 1, 2025.

**Notes:**

The Board establishes and reviews the total fund tracking error range. The total fund tracking error range is the allowable observed tracking error calculated quarterly using five years of history. Should the plan experience active risk outside of the tracking error range, the CIO is responsible for communicating the variance to the Board on a timely basis. The total fund tracking error range is the amount of expected tracking error based on the total fund's current mix and strategies. The CIO establishes individual program tracking error ranges.

Staff will not, by its tactical actions, underweight or overweight any individual asset class beyond the minimum and maximum allowable ranges. However, market action or Fund liquidity needs could cause an individual asset class to be temporarily below the minimum allowable range or above the maximum allowable range. In such rare cases, using the high-level rebalancing ranges, the CIO will have the flexibility to exceed the individual allowable ranges if the deviation is related to market actions or Fund liquidity needs, if the CIO believes bringing an individual asset class back within its allowable range would not be economically prudent. If, however, the CIO determines an individual asset class needs to be brought back into its allowable range, staff will establish an action plan. In any event, the CIO will communicate the deviation to the Board on a timely basis.

Staff will not, by its tactical actions, cause the Strategic Asset Allocation Leverage (comprised of Asset Allocation Leverage and Rebalancing Leverage) to surpass its limit. However, market action or Fund liquidity needs could cause the Strategic Asset Allocation Leverage to be temporarily above the limit. In such rare cases, the CIO will have the flexibility to exceed the maximum limit if the deviation is related to market actions or Fund liquidity needs, if the CIO believes bringing the Strategic Asset Allocation Leverage back within its limit would not be economically prudent. If, however, the CIO determines the Strategic Asset Allocation Leverage needs to be brought back within its limit, staff will establish an action plan. In any event, the CIO will communicate the deviation to the Board on a timely basis. (continued)

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**Notes:**

The Public Equity Custom Benchmark is a weighted average of the MSCI ACWI IMI Index ex Selected Countries (net VRS taxes) (85%) and the MSCI World Min Vol Index ex Selected Countries (net VRS taxes) (15%).

The Private Equity Custom Benchmark is the regional benchmarks of the MSCI ACWI IMI Index ex Selected Countries (net VRS taxes) lagged by three months, weighted to reflect the Private Equity opportunity set (currently 75% North America, 20% Europe, and 5% Asia and Emerging Markets).

The Real Assets Custom Benchmark is the market value weighted blend of the NCREIF Private Real Estate Benchmark (ODCE Index (net) lagged by three months) and the Other Real Assets Custom Benchmark (the CPI-U Index plus 400 basis points per annum lagged by three months).

The Credit Strategies Custom Benchmark is a blend of the Morningstar LSTA Performing Loan Index (50%) and the Bloomberg U.S. High Yield Ba/B 2% Issuer Cap Index (50%).

The Diversifying Strategies Custom Benchmark is the ICE BofA U.S. 3-Month Treasury Bill Index plus 250 basis points per annum.

The Private Investment Partnerships Custom Benchmark is the weighted average of the Private Equity Custom Benchmark (33%), the NCREIF Private Real Estate Benchmark (25%), the Other Real Assets Custom Benchmark (8%), the Bloomberg U.S. High Yield Ba/B 2% Issuer Cap Index (17%), and the Morningstar LSTA Performing Loan Index (17%).

The Fixed Income Custom Benchmark is a blend of the Bloomberg U.S. Aggregate Bond Index (90%), Bloomberg U.S. High Yield Ba/B 2% Issuer Cap Index (5%) and the JP Morgan EMBI Global Core Index (5%).

The Leverage Custom Benchmark is the Secured Overnight Financing Rate (SOFR) plus 50 basis points per annum.

The VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.