



December 1, 2023

MEMORANDUM

TO: VRS Board of Trustees
FROM: Patricia S. Bishop
Director
RE: Agenda Materials for December 7th Board Meeting

We are looking forward to the December 7th Board meeting beginning at 1:00 p.m. in the VRS Boardroom located at 1111 East Main Street, Bank of America - Pavilion Building, 3rd floor. Enclosed are the agenda and meeting materials. Boxed lunches will be available beginning at 11:00 a.m.

Listed below is a recap of the meetings scheduled for next week:

Meeting	Date	Location
Audit and Compliance Committee	Thursday, December 7 th , 10:00 a.m.	Bank of America Pavilion, 1111 E. Main St., 3 rd floor conference room
Board of Trustees	Thursday, December 7 th , 1:00 p.m.	Bank of America Pavilion, 1111 E. Main St., 3 rd floor conference room

Again, we look forward to seeing you next week. If you have any questions, please feel free to contact me.

Attachments

- cc: The Honorable Stephen E. Cummings, Secretary of Finance
- Craig Burns, Department of Taxation
- Michael Jay, House Appropriations Committee
- April Kees, Senate Finance Committee
- Mike Tweedy, Senate Finance Committee
- Zack Borgerding, Auditor of Public of Accounts
- Jon Howe, Department of Planning and Budget
- Dean Lynch, VA Association of Counties
- Katie Boyle, VA Association of Counties
- Bea Snidow, VA Education Association
- Jamie Bitz, Joint Legislative Audit & Review Commission
- Kimberly Sarte, Joint Legislative Audit & Review Commission
- Hal Greer, Joint Legislative Audit & Review Commission
- Elizabeth B. Myers, Office of the Attorney General
- Josette Bulova, VA Municipal League
- Lawrence Kochard, VRS Investment Advisory Committee
- Bonnie Atwood, VA Retired Teachers Association



Board of Trustees Meeting
VRS, 1111 E. Main St., 3rd Floor Board Room
Thursday, 12/7/2023
1:00 - 3:30 PM ET

I. Approve Minutes

Board Minutes 11.16.23 - Page 3

II. Report of the Chief Investment Officer

Chief Investment Officer Report - December 2023 - Page 9

Asset Allocation Report September 2023 - Page 14

Daily Asset Allocation Report 11.28.23 - Page 15

Performance Summary 9.30.23 - Page 16

Plan Tracking Error - Page 17

New Investments and Terminations 12.7.23 - Page 18

III. Report of the Defined Contribution Plans Advisory Committee

DCPAC Report 11.30.23 - Page 19

IV. Report of the Audit and Compliance Committee

A&CC Report 12.7.23 - Page 22

V. Report of the Director

FY 2024 Agency Roadmap Update - November - Page 24

Director's Report - Page 26

VI. Closed Session (Securities Litigation Update)

Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on November 16, 2023, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
Dr. Susan T. Gooden, Ph.D.
Jessica L. Hood
Lindsey K. Pantele

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Lauren Albanese, Stephen Adelaar, ZaeAnne Allen, Advait Apte, Harrison Bader, Rory Badura, Parham Behrooz, Ty Bowers, Jessica Budd, Caroline Cardwell, Jeanne Chenault, Michael Cooper, Perry Corsello, David Cotter, Sara Denson, Valerie Disanto, Pam Elam, Laurie Fennell, Antonio Fisher, Katherine Grawe, JT Grier, Krystal Groff, Dane Honrado, KC Howell, Robert Irving, Jennifer Kazzie, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Walker Noland, Greg Oliff, Angela Payne, Paula Reid, Andrew Ringle, Jummai Sarki-Hurd, Dan Schlussler, Kristy Scott, Michael Scott, Viet Tran, Emily Trent, Leslie Weldon, Dan Whitlock, Cindy Wilkinson and Steve Woodall.

Guests:

Harrison Bader, BlackRock; John Balaod, With Intelligence; Jamie Bitz, Joint Legislative Audit and Review Commission; Thomas Cosmer, Pine Bridge; Chris Doll, CEM Benchmarking, Inc; Jim Anderson, Becky Stouffer and Kurt Dosson, Gabriel, Roeder, Smith & Company; Elizabeth Myers, Office of the Attorney General; Jennifer O'Dell, Liuna; John O'Neil, Erin Shell and Amy Stokes, Auditor of Public Accounts.

The meeting convened at 1:00 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the November 16, 2023, meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Following a motion by Mr. Montgomery, with a second by Mr. Disharoon, the VRS Board of Trustees approved the minutes from its October 19, 2023, meeting.

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), began his report by noting the IAC met on November 15, 2023, and did not have the legally required quorum physically present to take

official action. Therefore, the minutes from the August 23, 2023, meeting, were not approved and will be taken up at the Committee's next meeting. The Committee received the Chief Investment Officer's (CIO) report that included an overview of market conditions, asset allocation, tracking error and total fund performance as of September 30, 2023. The Committee then received an update from Chung Ma on asset liability management. Next, Mr. Ma reviewed the proposed changes to the VRS Defined Benefit Plan Investment Policy Statement and the VRS Defined Benefit Plan Investment Belief Statements, as well as the proposed VRS Investment Leverage Policy. The Committee members indicated their agreement with proposed changes and the new policy. The Committee then received the Private Markets program reviews.

Mr. Andrews thanked Mr. Kochard for his report.

Report of the Chief Investment Officer

Andrew Junkin, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin then discussed the New Investments and Terminations report.

Next, Mr. Junkin said he was pleased to announce the recognition of Jummai Sarki-Hurd, VRS Portfolio Manager, Real Assets, as a Top 24 in '24 – Leading Allocators in Real Assets by Kayo Conference Series.

Mr. Junkin then turned the next portion of the report to Chung Ma, Managing Director, Portfolio Solutions Group, to provide an asset liability management update, including the current Roadmap to Launch, Expected Glide Path, and a summary of Implementation Progress. Mr. Ma then discussed the new VRS Investment Leverage Policy and discussed ways to monitor and report risk management results to the Board. Mr. Ma also stated with the introduction of the VRS Investment Leverage Policy, both the VRS Defined Benefit Plan Investment Policy Statement and the VRS Defined Benefit Plan Investment Belief Statements would require updates. Mr. Junkin then returned to discuss the RBAs revising the VRS Defined Benefit Plan Investment Policy Statement and the VRS Defined Benefit Plan Investment Belief Statements, implementing the VRS Investment Leverage Policy, approving the FY2024 Defined Benefit Plan Allocation, and approving the Public Equity, Multi-Asset Public Strategies, Dynamic Strategies, Risk-Based Investments, and Leverage benchmarks.

Mr. Andrews thanked Mr. Junkin for his report.

Upon a motion by Mr. Montgomery, with a second by Senator Bell, the VRS Board of Trustees approved the following actions as a block as they are interrelated:

RBA: Approve Revised Defined Benefit Plan Investment Policy Statement

Request for Board Action 2023-11-25: The VRS Board of Trustees approves the revised Defined Benefit Plan Investment Policy Statement.

RBA: Approve Revised Defined Benefit Plan Investment Belief Statements

Request for Board Action 2023-11-26: The VRS Board of Trustees approves the revised Defined Benefit Plan Investment Belief Statements.

RBA: Approve VRS Investment Leverage Policy

Request for Board Action 2023-11-27: The VRS Board of Trustees approves the VRS Investment Leverage Policy.

RBA: Approve FY24 DB Plan Asset Allocation

Request for Board Action 2023-11-28: The VRS Board of Trustees approves the FY2024 Defined Benefit Plan Strategic Asset Allocation and Allowable Ranges and the removal of hedge funds policy limit.

RBA: Approve Public Equity, MAPS, DStrat, RBI, and Leverage Benchmarks

Request for Board Action 2023-11-29: The VRS Board of Trustees approves the recommended benchmarks for Public Equity, MAPS, Dynamic Strategies, Risk-Based Investments, and Leverage. In addition, the VRS Board of Trustees approves granting the Chief Investment Officer flexibility in implementing the Public Equity benchmark.

CEM Cost Effective Analysis of VRS Investment Program

Chris Doll of CEM Benchmarking, Inc., presented the results of the Investment Benchmarking Analysis for the five-year period ending December 31, 2022. Mr. Doll advised that VRS' five-year and ten-year performance placed VRS in the positive value-added, low-cost quadrant of the cost effectiveness chart. Specifically, for the five-year period, the VRS net value added was 223 basis points and the cost savings was 7 basis points. For the ten-year period, the VRS net value added was 140 basis points and the cost savings was 6 basis points. Mr. Doll also noted that the analysis suggests VRS saves approximately \$58 million annually by managing a portion of the funds in-house versus managing those funds externally.

Mr. Andrews thanked Mr. Doll for his presentation and praised the Investment staff for their efforts to continue delivering a positive value added at a lower cost.

Report of the Benefits and Actuarial Committee

The Benefits and Actuarial Committee met on November 16, 2023, and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its October 18, 2023, meeting.

2023 ACTUARIAL VALUATION RESULTS FOR POLITICAL SUBDIVISION RETIREMENT PLANS, THE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP), LOCAL HEALTH INSURANCE CREDIT (HIC), AND THE LINE OF DUTY ACT (LODA) FUND

Jim Anderson and Becky Stouffer from the VRS plan actuary, Gabriel, Roeder, Smith & Company (GRS), presented the June 30, 2023, actuarial valuation results for the Political Subdivision Retirement Plans, the Virginia Local Disability Program (VLDP), the Local Health Insurance Credit (HIC), and the Line of Duty

Act (LODA) fund. The VRS actuary conducts annual valuations as of the close of the fiscal year (June 30). In odd-numbered years the valuations are used to establish employer contribution rates. The results in even-numbered years are shared with the Board of Trustees to inform the Board of any emerging trends or indications of the magnitude and direction of contribution rates.

Key points from the political subdivision retirement plans, local HIC and VLDP presentation include:

- The June 30, 2023, valuations are used to set the contribution rates for fiscal years 2025 and 2026.
- Unfunded liability as of June 30, 2023, was re-amortized over a 20-year period, collapsing bases created from 2013-2023 into one new base for each plan.
- Pension rates no longer contain an estimate of the DC hybrid employer contributions, representing only the defined benefit portion.
- Pension rates decreased from the prior rate setting for 182 of the 594 local plans or approximately 31% of employers. For 223 employers, or nearly 38%, the rates will increase by less than 1.0% of covered payroll, and for the remaining 189 employers, or 31% of employers, rates are expected to increase over 1.0% of covered payroll compared to the prior rate setting.
- HIC employer rates for 160 of the 234 employers, nearly 70%, will remain unchanged from the prior rate setting due to funding levels triggering plan surcharges, which keep funding at the prior higher rate until a certain funded status is achieved. While funded statuses are improving, over half of the local HIC plans are still below 50% funded.
- VLDP rates for both Teachers and Political Subdivision plans decreased slightly from the prior rate setting due to favorable plan experience.

Ms. Stouffer next provided the results for the Line of Duty Act (LODA) Fund.

Key points from the LODA fund presentation include:

- The LODA plan is a pay-as-you-go plan that must collect the required funds to pay benefits expected to be incurred over the coming year.
- LODA fund premiums are inherently expected to increase each rate setting as the primary benefit is health insurance coverage, which is expected to increase each year.

While the proposed two-year rate for LODA increases from \$830.00 to \$995.00 per FTE, this is below the projected rate from last year due to lower than expected healthcare cost increases along with favorable demographic experience.

Mr. Andrews thanked Mr. Anderson and Ms. Stouffer for their presentation and turned the floor back over to Mr. Bennett for the remainder of his report. Mr. Andrews next thanked GRS and the VRS staff actuaries for their hard work in developing, validating and delivering the results.

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

RBA: Certify the Contribution Rates for Political Subdivision Retirement Plans, the Health Insurance Credit for Certain Political Subdivisions, the Virginia Local Disability Program and the Line of Duty Act Fund, Effective for FY 2025 and FY 2026

***Request for Board Action 2023-11-30:** The VRS Board of Trustees certifies the Contribution Rates for Political Subdivision Retirement Plans, the Health Insurance Credit for Certain Political Subdivisions, the Virginia Local Disability Program and the Line of Duty Act Fund, Effective for FY 2025 and FY 2026.*

INFORMATION ITEM

2024 Committee Meeting Schedule:

- February 7 at 1:00 p.m.
- April 17 at 1:00 p.m.
- June 12 at 1:00 p.m.
- October 16 at 1:00 p.m.
- November 14 at 10:00 a.m.

Corporate Governance Report

Next, Dan Whitlock, Director of Global Equity Public Management, presented the Corporate Governance Report. He began by thanking David Cotter, Cindy Wilkinson and Stephen Adelaar for their contributions and input. Mr. Whitlock reviewed the FY 2023 Corporate Governance Report and provided an overview of the Proxy Voting and Litigation Policy to the Board.

He advised that Institutional Shareholder Services, Inc. (ISS) continues to provide proxy research and implementation services for VRS. Mr. Whitlock advised during 2023, VRS adopted the ISS Global Board-Aligned Voting Policy and discussed the guidelines. The VRS staff reviewed and evaluated these services and determined that ISS continues to meet the needs of VRS. Lastly, Mr. Whitlock provided an overview on VRS securities litigation and investment organizations.

Mr. Andrews thanked Mr. Whitlock for his presentation.

Report of the Director

Trish Bishop, VRS Director, began her report with an update on the agency roadmap for FY 2024, noting all projects are progressing as planned, as well as a review of New Coverage Elections. Next, Ms. Bishop announced that VRS received the Public Pension Standards Award for Funding and Administration for the 20th consecutive year from the Public Pension Coordinating Council.

Ms. Bishop then made the following announcements to the Board:

- VRS' Conor Shapiro won the 2023 Annual Virginia State Employee Tennis Tournament, competing in the Advanced Singles division.
- The VRS 3rd Annual CVC 5K was held on October 28, 2023, in Henrico. It raised \$900 for the 2023 Commonwealth of Virginia (CVC) campaign. VRS ranked eighth among all participating agencies that contributed to the 2022 CVC campaign.

-
- VRS held its annual celebration of Diwali, one of India’s biggest and most important festivals, on November 14th, during which staff enjoyed learning more about the meaning of Diwali and partaking in celebratory events.
 - The Agency Annual Meeting will be held at the Greater Richmond Convention Center on December 13, 2023, to celebrate annual achievements and present awards.

Mr. Andrews thanked Ms. Bishop for her report.

As a reminder, Mr. Andrews advised the Board the Defined Contribution Plans Advisory Committee meets next at 1 p.m. on November 30, 2023. The Audit and Compliance Committee meets at 10 a.m. on December 7, 2023, followed by the Board meeting at 1 p.m. In addition, the Annual Agency Meeting and Breakfast will be held on December 13, 2023, from 8:30 – 11:30 a.m. at the Greater Richmond Convention Center.

Adjournment

Following a motion by Mr. Montgomery, with a second by Mr. Bell, the VRS Board of Trustees agreed to adjourn the meeting.

There being no further business, the meeting concluded at 2:49 p.m.

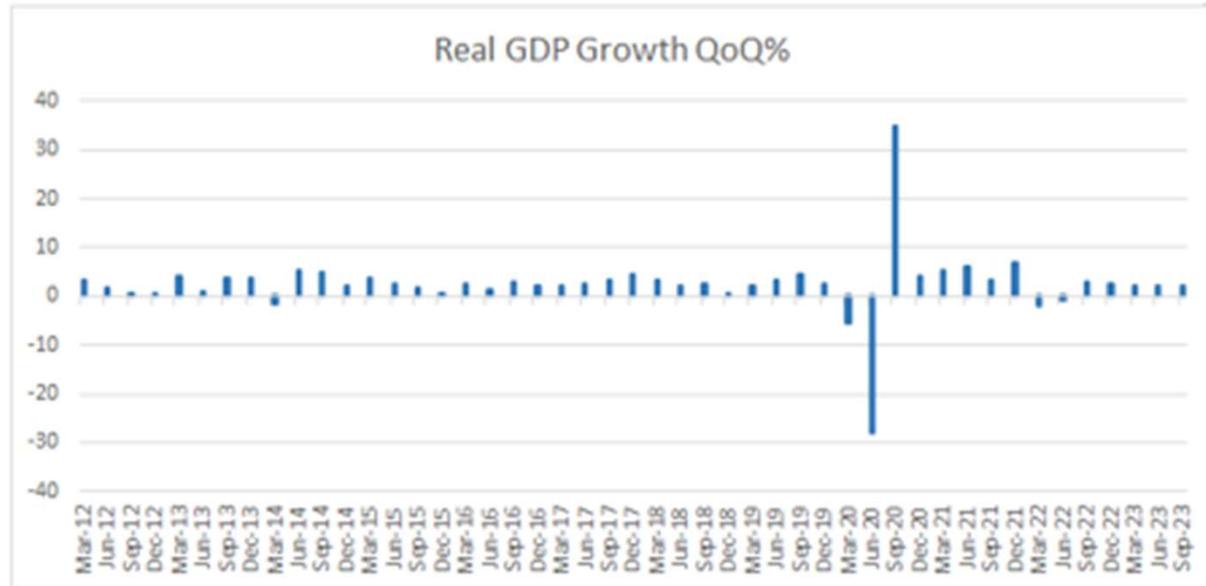
Chair

Secretary

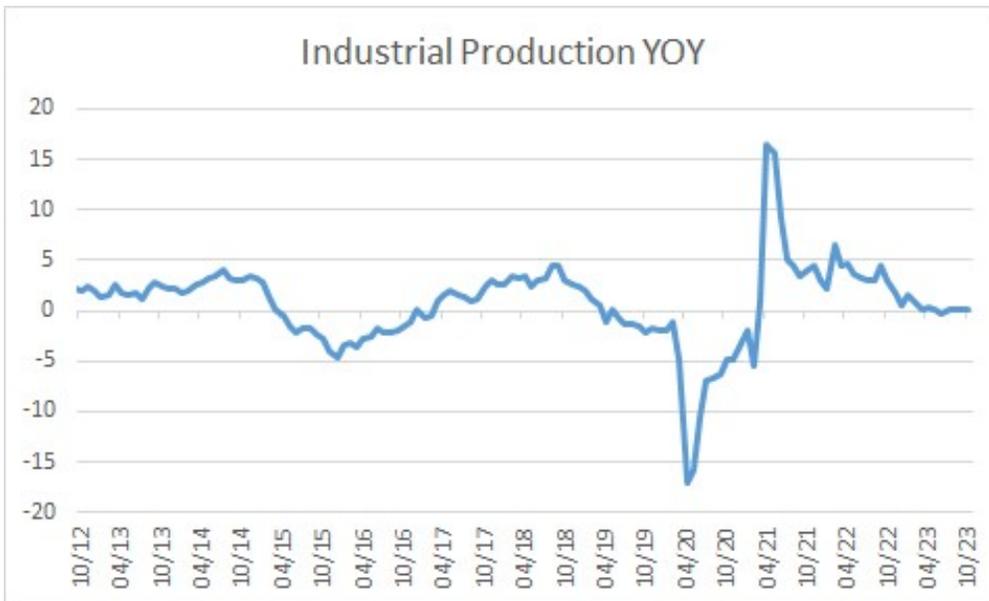
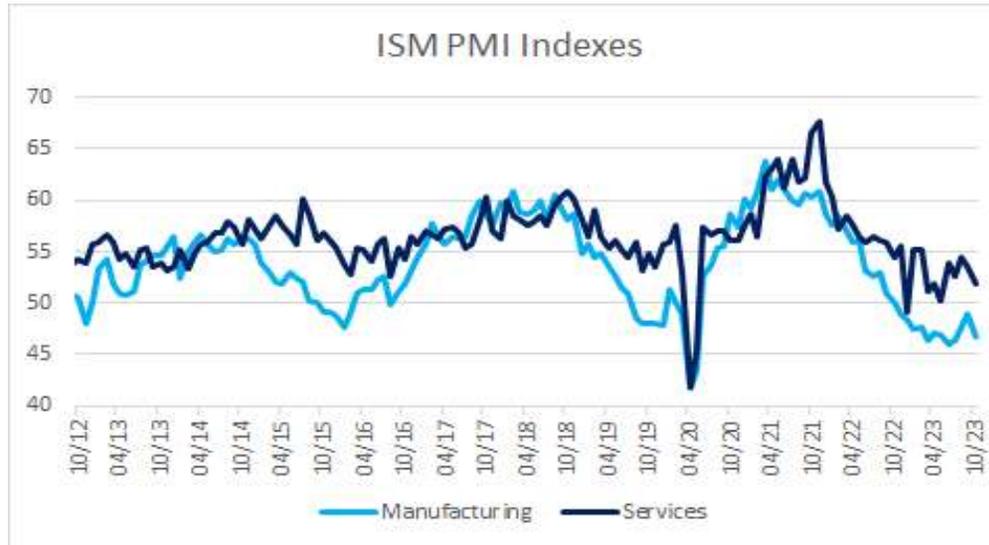
Chief Investment Officer Report Market Review – December 2023 Andrew Junkin



Economic Growth - Quarterly



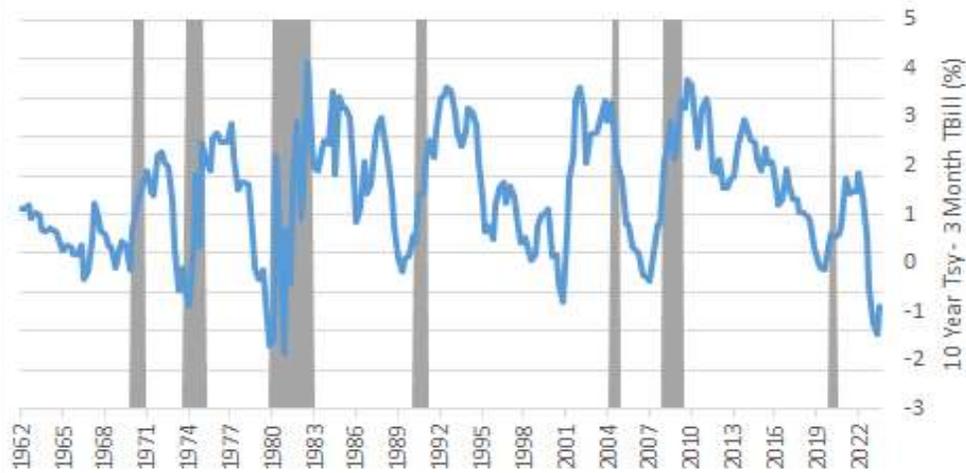
Business Activity



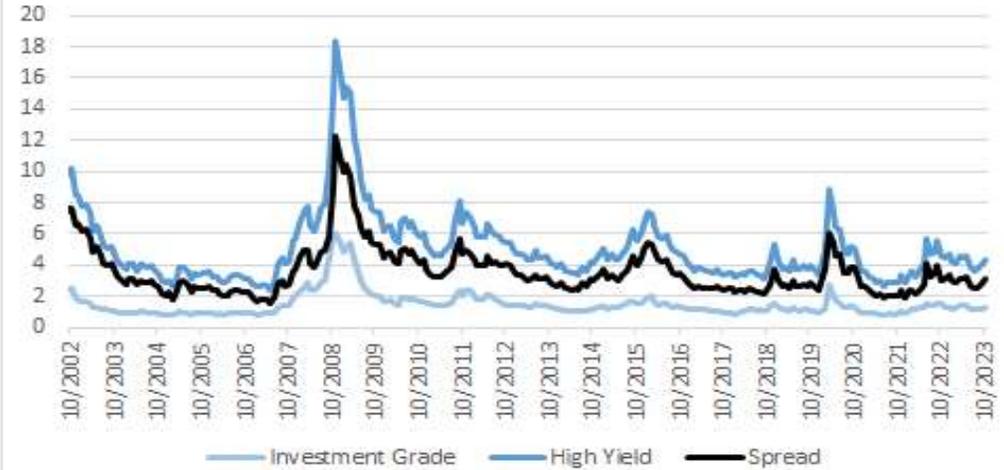
Data Source: Bloomberg

Risk Monitor

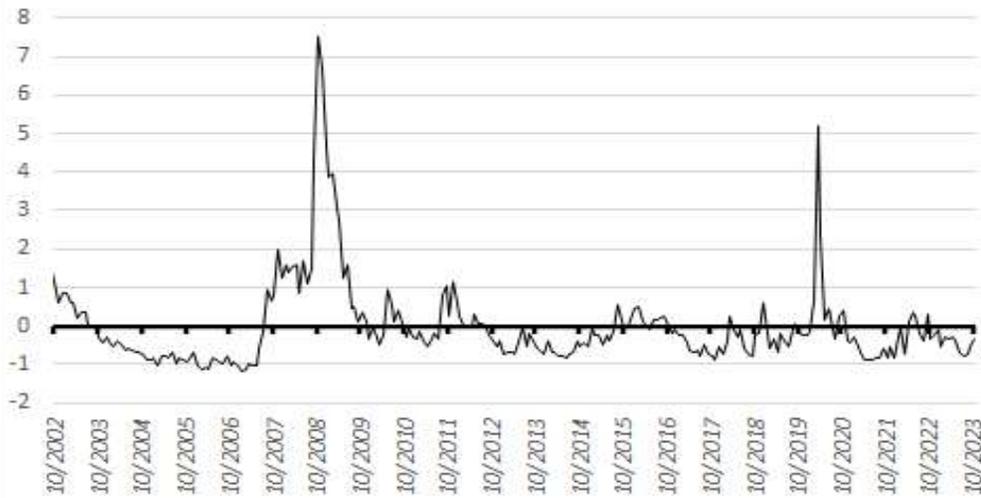
Yield Curve Slope vs Recessions



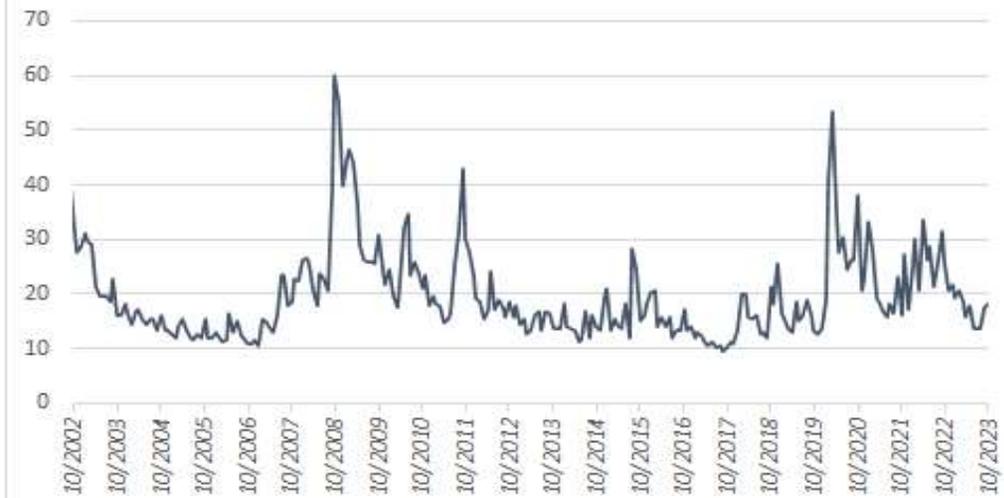
Credit Benchmarks



St Louis Fed Financial Stress Index

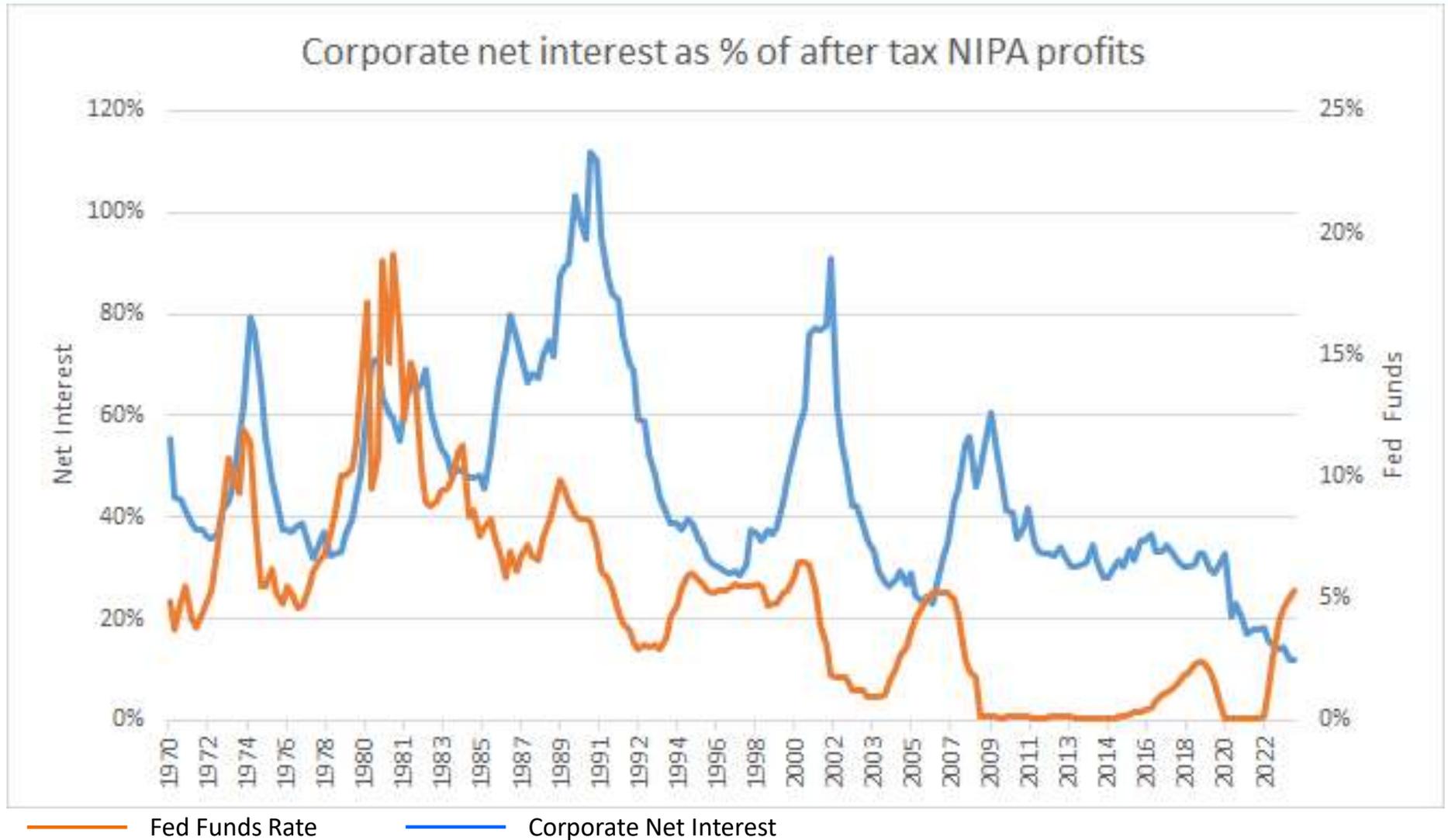


CBOE Volatility Index



Data Source: Bloomberg

Corporate Net Interest Costs Stable

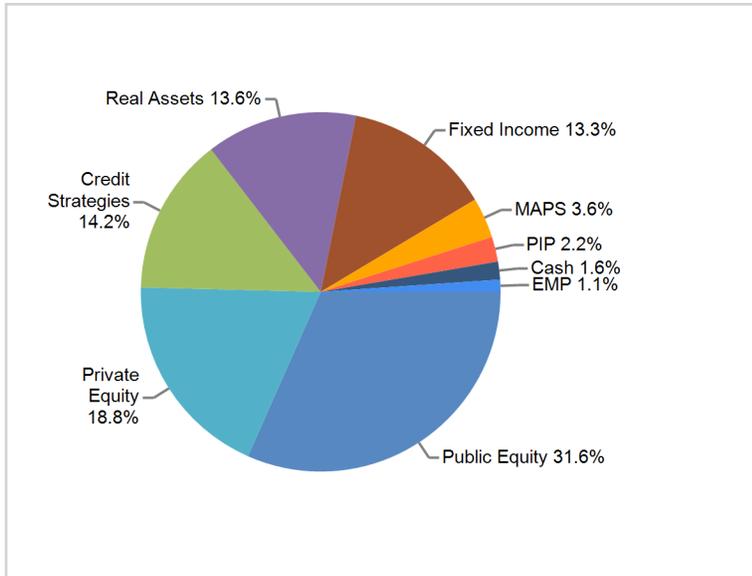


Data Source: Bloomberg

Asset Allocation Report

September 30, 2023

For Internal Investment Purposes Only



Tracking Error	
3Yr-Total Fund:	2.54%
3Yr-Total Public:	1.67%
5Yr-Total Fund:	2.28%
5Yr-Total Public:	1.53%

	<u>Current \$Bil</u>	<u>Current Weight</u>	<u>Policy Weight</u>	<u>Variance</u>	<u>Allowable Range</u>		<u>Internal %</u>
Total Fund	104.0						27.6%
Public Equity	32.9	31.6%	34.0%	-2.4%	-5%	+5%	47.6%
Fixed Income	13.8	13.3%	15.0%	-1.7%	-3%	+5%	94.9%
Credit Strategies	14.7	14.2%	14.0%	0.2%	-5%	+5%	
Real Assets	14.1	13.6%	14.0%	-0.4%	-5%	+5%	
Private RE	9.3	9.0%					
Other RA	0.0	0.0%					
Private Equity	19.5	18.8%	16.0%	2.8%	-5%	+5%	
MAPS	3.8	3.6%	4.0%	-0.4%	-2%	+2%	
DSTRAT	1.7	1.6%					
RBI	2.1	2.0%					0.1%
PIP	2.3	2.2%	2.0%	0.2%	-2%	+2%	
EMP	1.1	1.1%	0.0%	1.1%		+3%	
Cash	1.7	1.6%	1.0%	0.6%	-1%	+4%	

<u>High-Level Exposure</u>	<u>Current \$Bil</u>	<u>Current Weight</u>	<u>Policy Weight</u>	<u>Variance</u>	<u>Allowable Range</u>	
Total Equity	52.4	50.4%	50.0%	0.4%	-10%	10%
Fixed Income + Cash	15.5	14.9%	16.0%	-1.1%	-4%	9%

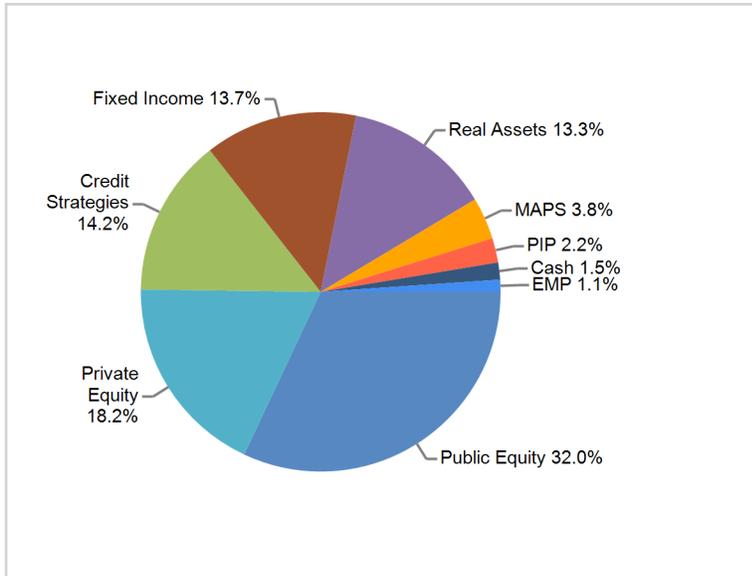
	<u>Current \$Bil</u>	<u>Current Weight</u>	<u>Policy Limit</u>
Hedge Funds	9.6	9.2%	15.0%

* Total Fund includes the following amt held by the Treasurer of VA: \$ 54 million

• The values shown for each asset class on this report may differ from the VRS Monthly Performance Report due to adjustments related to derivative positions in the Rebalance Account, pending transactions, and certain accruals. The values on this report are a more descriptive representation of the Virginia Retirement System's true economic exposure to each asset class.(6 adjustments applied)

*Total Fund and Total Public annualized tracking error is calculated using compounded quarterly returns as of 9/30/2023

* Differences in totals are due to rounding.



Tracking Error	
3Yr-Total Fund:	2.54%
3Yr-Total Public:	1.67%
5Yr-Total Fund:	2.28%
5Yr-Total Public:	1.53%

	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range	Internal %
Total Fund	105.9					28.8%
Public Equity	33.9	32.0%	34.0%	-2.0%	-5% +5%	48.7%
Fixed Income	14.5	13.7%	15.0%	-1.3%	-3% +5%	95.4%
Credit Strategies	15.1	14.2%	14.0%	0.2%	-5% +5%	
Real Assets	14.0	13.3%	14.0%	-0.7%	-5% +5%	
Private RE	9.3	8.8%				
Other RA	4.7	4.5%				
Private Equity	19.3	18.2%	16.0%	2.2%	-5% +5%	
MAPS	4.0	3.8%	4.0%	-0.2%	-2% +2%	
DSTRAT	1.7	1.6%				6.6%
RBI	2.3	2.2%				0.5%
PIP	2.3	2.2%	2.0%	0.2%	-2% +2%	
EMP	1.1	1.1%	0.0%	1.1%	+3%	
Cash	1.6	1.5%	1.0%	0.5%	-1% +4%	

High-Level Exposure	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range
Total Equity	53.2	50.2%	50.0%	0.2%	-10% 10%
Fixed Income + Cash	16.2	15.2%	16.0%	-0.8%	-4% 9%

	Current \$Bil	Current Weight	Policy Limit
Hedge Funds	9.5	9.0%	15.0%

* Total Fund includes the following amt held by the Treasurer of VA: \$ 395 million

• The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class (5 adjustments applied)

*Total Fund and Total Public annualized tracking error is calculated using compounded quarterly returns as of 9/30/2023

* Differences in totals are due to rounding.

PERFORMANCE SUMMARY

**Rolling Periods Ending
September 30, 2023**



TOTAL FUND PERFORMANCE

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
Total Public Equity Strategies	7.7	6.2	8.2	19.9	-2.5	-3.2	-2.5	8.5	32,892
<i>Benchmark</i>	7.7	6.5	7.3	20.7	-3.3	-4.2	-3.3	9.8	
Total Fixed Income	2.0	1.3	-3.9	2.3	-2.9	-2.4	-2.9	-0.4	13,797
<i>Benchmark</i>	1.2	0.2	-4.9	1.5	-3.0	-2.5	-3.0	-0.8	
Total Credit Strategies	6.1	6.6	7.9	9.7	3.1	2.2	3.1	8.3	14,521
<i>Benchmark</i>	4.8	4.3	3.6	11.1	1.9	-0.1	1.9	7.6	
Total Real Assets	9.6	7.9	10.6	-1.0	-0.8	-0.7	-0.8	-2.5	14,133
<i>Benchmark</i>	7.5	5.8	7.3	-4.5	-1.2	-0.4	-1.2	-5.7	
Total Private Equity	15.9	17.0	21.4	5.8	2.2	2.3	2.2	6.7	19,528
<i>Benchmark</i>	11.7	10.0	11.5	16.7	6.0	5.9	6.0	24.8	
Total Private Investment Partnerships	n/a	9.2	14.0	4.9	1.7	1.7	1.7	4.9	2,337
<i>Benchmark</i>	n/a	7.2	8.4	7.2	2.1	1.7	2.1	7.9	
Total Multi-Asset Public Strategies	n/a	4.1	6.2	11.0	0.8	0.0	0.8	6.0	3,787
<i>Benchmark</i>	n/a	4.5	3.5	10.9	-0.2	-1.2	-0.2	6.0	
Total Fund	7.7	7.5	8.9	9.3	-0.2	-0.6	-0.2	5.1	104,010
<i>VRS Custom Benchmark</i>	6.6	5.7	5.6	11.6	-0.5	-0.9	-0.5	7.8	

**10-Year Performance
Indexed to 100**



Effective July 2013, the VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

The VRS Cash Account, the Treasurer Short-Term Investment Account, the VRS Rebalancing Account, transition activity and accounts with market values of less than \$1 million are included in the Total Fund's market value. Differences in market value totals are due to rounding.

Total Fund Tracking Error

Figure 1: Policy Tracking Error Rolling Three Year - Plan (as of 09/30/2023)

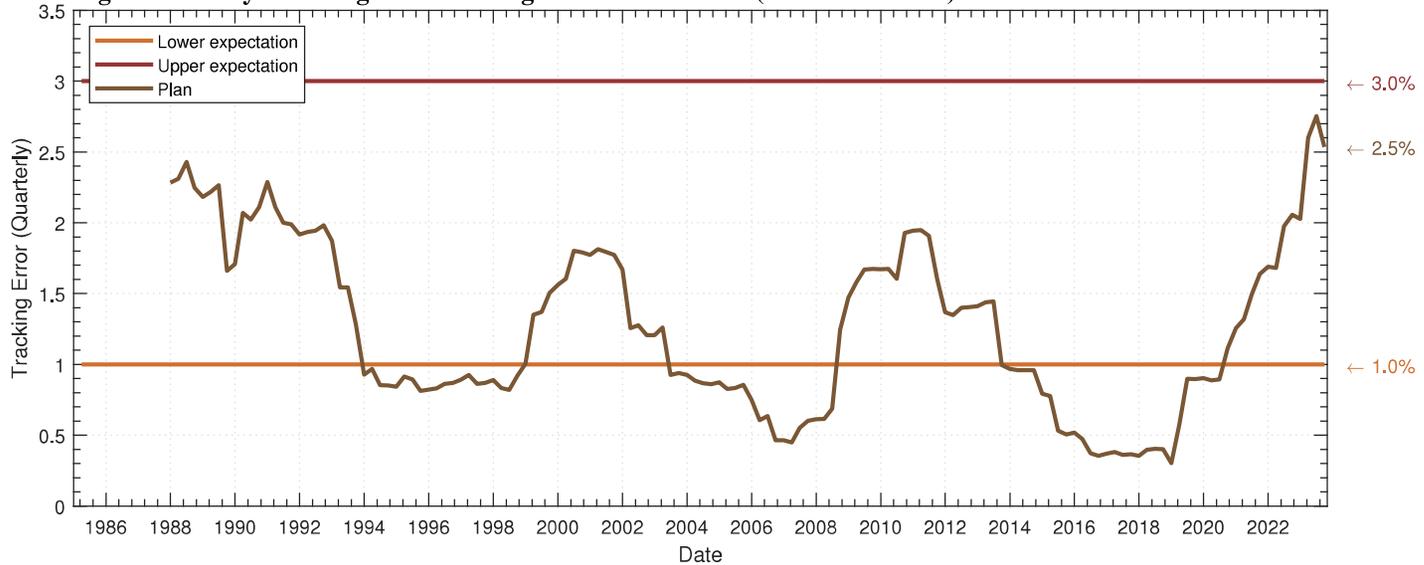


Figure 2: Policy Tracking Error Rolling Five Year - Plan (as of 09/30/2023)



The VRS Defined Benefit Plan Investment Policy Statement established the total fund tracking error range as the allowable observed tracking error calculated quarterly using 5 years of history.

Program	Action	Effective Date	Commitment/ Current Value	Funding/ Defunding Period	Description
Credit Strategies	Hired	11/22/2023	\$200 million	4 years	Ares Credit Secondaries – A closed-end fund investing in a diversified portfolio of secondary credit fund interests.

Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on November 30, 2023, at 1:00 p.m. and took up the following matters:

WELCOME AND INTRODUCTION

Senator Bell welcomed Committee members, Board members, agency officials, representatives from stakeholder groups, and other members of the public joining in person and through electronic means, to the DCPAC.

ADMINISTRATION

Administrative Reports and Communication Update

Staff provided an update on administrative reports for the third quarter of 2023. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives. Staff shared with the Committee an overview of efforts related to its TPA annual service reviews, plan adoption updates, SECURE 2.0 updates and communications campaign highlights.

ORPHE Update

Staff provided an overview of ORPHE reports for the third quarter of 2023, including plan assets and accounts.

ORPHE Employer Update Report

Mr. Larson provided an overview of the ORPHE Annual Employer Update hosted by VRS on September 19, 2023. He noted that 27 participating institutions were represented.

DC Plans Recordkeeper RFP Update

Staff provided an update on the record keeper transition. VRS is still working with Voya on the contract. The employer transition website is live and will be promoted soon. The participant website will launch in Summer 2024.

Annual Administrative Expense Reports

Staff provided an overview of the administrative expense report and annual cost update for FY 2023, as required by the DCPAC Charter. The report provided both direct and indirect costs associated with administering VRS' Defined Contribution Plans. Total administrative costs related to participants and

expenditures for FY 2023 were provided, along with a cost trend analysis over the five-year period from FY 2019 to FY 2023.

INVESTMENTS

Performance Reports

Staff provided an overview of the October 31, 2023 investment performance reports for the unbundled DC plans and the TIAA (RC contract) ORPHE. Staff highlighted areas where passively managed investment option performance for the longer dated return series was 10 basis points or more above benchmark performance. Staff shared with the Committee major sources of differences between passively managed indexed fund and benchmark performance. Actively managed and capital preservation funds' performance was highlighted as appropriate.

Staff informed the Committee that as a result of VRS' participation in BlackRock's Proxy Voting Choice Program, VRS recently transitioned to an ISS proxy voting policy that aligns with that used for the VRS defined benefit plan for those BlackRock funds offered through the unbundled DC plans and the TIAA (RC contract) ORPHE.

CEM Defined Contribution Plans Survey

Staff reviewed the CEM DC Plans 2022 survey results, which was comprised of 99 corporate and 23 public plans representing \$1.2 trillion in assets. Staff informed the Committee that the survey results included the unbundled DC Plans supplemental 457 Deferred Compensation Plan, in addition to the bundled TIAA program for ORPHE. Staff noted that the TIAA information was based solely on the TIAA RC contract. Staff included the CEM DC Survey Reports in the Appendix for the Committee to review.

OTHER BUSINESS

Code of Ethics

Staff informed the Committee that an email notification would be forthcoming that includes instructions for completing the review and affirmation of the Board of Trustees' Code of Ethics and Conduct, an annual requirement of VRS advisory committee members. Staff shared that Committee members will be able to electronically sign and submit the affirmation statement.

Discussion of New Ideas

No new business was brought before the Committee.

2024 MEETINGS

The Committee is scheduled to meet on the following dates in 2024, all at 1:00 p.m.:

- Thursday, March 14th
- Thursday, May 23rd
- Thursday, September 12th
- Thursday, December 5th

There was no other business to come before the Committee.

Submitted to the Board of Trustees on December 7, 2023.

J. Brandon Bell, Chair
Defined Contribution Plans Advisory Committee

Report

The Audit and Compliance Committee met on December 7, 2023. Mr. Montgomery welcomed committee members, Board members, agency officials, representatives from stakeholder groups and other members of the public joining in person and through electronic means. The committee discussed the following:

APPROVAL OF MINUTES

The committee approved the minutes of its September 20, 2023 meeting.

EXIT ON THE AUDITOR OF PUBLIC ACCOUNTS (APA) 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The APA informed the committee the audit work over the 2023 VRS Annual Comprehensive Financial Report (ACFR) was in its final stage. Upon completion, the APA anticipates issuing an unmodified opinion on VRS' financial statements. They noted their companion "Report on Internal Controls and Compliance" would be issued next month (January).

ENTRANCE WITH THE APA REGARDING EMPLOYER ASSURANCES (GASB 68 AND 75)

The APA then provided the committee with an overview of its upcoming examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual comprehensive financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements:

- No. 68, which focuses on employer reporting over pension plans.
- No. 75, which deals with employer reporting over other post-employment benefit plans.

The APA anticipates issuing its opinions on these matters on or about June 30, 2024. The committee discussed with the APA, internal audit and management the cost effectiveness of providing employer assurances through this engagement.

AUDIT REPORTS

The committee received two audit reports.

- The review of *Global Public Equity – External Managers* determined VRS provides appropriate oversight and monitoring of the program. There were no formal recommendations as a result of this review.
- The review of *Refunds* concluded that overall, sufficient controls are in place to support refund processing and that the associated processes are working as expected. There were no formal recommendations as the result of this review; however, observations were noted within the conclusions section of the report.

QUALITY ASSURANCE REVIEW OF THE INTERNAL AUDIT DEPARTMENT

The Audit Director presented the results of the department's Annual Quality Assurance Improvement Program Review as of June 30, 2023, noting the review concluded there is reasonable assurance the VRS Internal Audit Department is generally operating in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The Audit Director highlighted the milestones for the upcoming updates to the Global Internal Audit Standards and the timing of the department's next external Quality Assurance Review.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

It was noted there was one Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of August 1, 2023, through October 31, 2023. The case was unfounded and closed.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

The committee received Management's Quarterly Travel Expense and Per Diem report.

CONFIRMATION OF 2024 MEETING SCHEDULE

The committee received confirmation of the 2024 VRS Board and Committee meeting dates. The committee's next meeting is scheduled for Wednesday, March 27, 2024 at 1 p.m.

Respectfully submitted to the Board of Trustees on December 7, 2023.

Joseph W. Montgomery, Chair
Audit and Compliance Committee



VRS Project Portfolio FISCAL YEAR 2024 November 30, 2023

Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- Project timeline
- N/S Not started

Agency Performance Objectives (APOs)	Strategic Alignment	Status	2023						2024							
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Customer Experience Enhancements: Call Management System (CMS) - Phase 1	Member, Retiree and Employer Education, Outreach and Partnership	●														
Customer Experience Enhancements: Voice of the Customer (VoC) Program – Phase 1	Member, Retiree and Employer Education, Outreach and Partnership	●														
Records Management Program – Phase 2 Implementation	Digital Transformation and Secure Service Delivery	●														
Hybrid Plan – Contribution Separation Legislation Implementation Phase 2	Superior Governance and Long-Term Financial Health	●														
Human Resource Information System (HRIS) Implementation – Phase 1	Organization Strength Culture and Engagement	●														
IT Initiatives ¹		Status	2023						2024							
Onboard and Operationalize Security MSP	Digital Transformation and Secure Service Delivery	●														
Implement Secure and Remote Support Solution	Technology Infrastructure	●														
Research and Replace Secure File Transfer System	Technology Infrastructure	●														
Migrate from Cisco to Teams Voice	Technology Infrastructure	●														
Implement Enterprise Identity and Access Management Solution	Digital Transformation and Secure Service Delivery	●														
Other Projects ²		Status	2023						2024							
Continue Agency Project Portfolio Process Enhancements	Superior Governance and Long-Term Financial Health	●														
Conduct Transition Activities to New DC/Hybrid Record Keeping Service Business Partner	Superior Governance and Long-Term Financial Health	●														
Lease Space Renewal	Superior Governance and Long-Term Financial Health	●														
Update VRS Optional Form Factors and Review Early Retirement Reduction Factors	Superior Governance and Long-Term Financial Health	●														
Legislation		Status	2023						2024							
HB2314 HIC Increase for State Retirees		●														
HB1789 HIC Increase for Constitutional Officers and Employees		●														
SB1403 Income Tax Subtraction; Professional Firefighter Pension		★														
SB1449 JRS		★														
HB1452 Add OAG Medical Fraud Investigators to LODA		★														
SB1411 RTW Law Enforcement Report		★														
HB1630/SB1289/SB1479 RTW Report		★														
Secure 2.0		N/S														
Operational/Ongoing Activities		Status	2023						2024							
COLA 2023		★														
FYE 2023		★														
EDGE		●														
Retirement Wave 2023		★														
Teacher Contracts		★														
MBPs		★														
Annual Code of Ethics Training		●														
Annual Security Awareness Training		●														
FOIA Training		N/S														
ACFR		●														
PAFR		●														
LODA Annual Report		●														
GASB 67		●														
GASB 68		N/S														
GASB 74		●														
GASB 75		N/S														
Actuarial Valuations		★														
myVRS Annual Updates		N/S														
Update Contribution Rates in VNAV		N/S														
1099/W2		N/S														

Operational/Ongoing Activities	Status	2023						2024						
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Annual Roadmap Review	N/S													
FYE 2024	N/S													
Retirement Wave 2024	N/S													
Commonwealth Bond Disclosure	N/S													
ORPHE Surcharge Billing for FY 2024	N/S													
Data Fixes	●													
ALM Backlog Prioritization	●													
Employer VNAV Security Review	N/S													
VRS Fund Sensitivity and Stress Testing Report for GA	N/S													
Legislation FY 2024	●													

¹Initiatives led directly by Technology Services.

²Other initiatives are led by other business units and supported by Technology Services.

Yellow Status Items

Item	Due Date	Comments

Red Status Items

Item	Due Date	Comments
N/A		

Realignments/Adjustments

Item	Due Date	Comments
N/A		

Director's Report

December 7, 2023

Trish Bishop, VRS Director



Honorable Mention in P&I Excellence & Innovation Awards



From *Pensions & Investments*:



The 2022 Hybrid Retirement Plan auto-escalation campaign was recognized with an honorable mention.



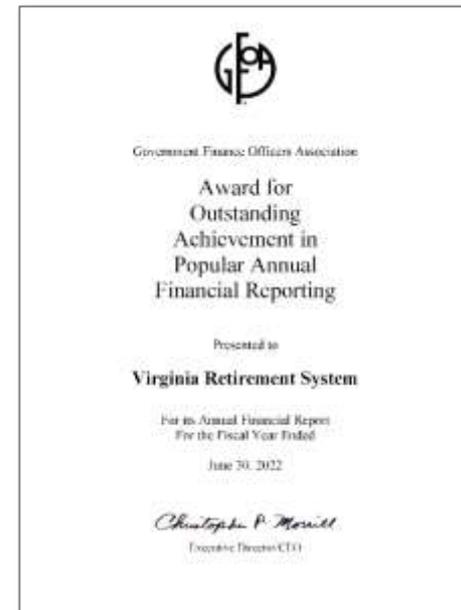
The campaign resulted in an opt-out rate of less than 1%!

GFOA Award for FY22 PAFR



VRS has received an Award for Outstanding Achievement in Financial Reporting for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2022, from the Government Finance Officers Association of the United States and Canada (GFOA).

This is the seventh consecutive award for the VRS PAFR!



- Conflict of Interest Act filings are due **February 1, 2024**, for the filing period covering January 1, 2023, through December 31, 2023.



- COIA Coordinator LaShaunda King will send an email with additional information in the coming weeks.
- A few reminders:
 - A \$250 late filing penalty is assessed if the deadline is missed.
 - ALL disclosures must be submitted electronically through the online filing system.
 - The Council will NOT accept any disclosures on paper or via email.



- Michael Cooper will send emails to Board and committee members with instructions on taking the Code of Ethics and Conduct online training.
- This self-guided training is completed by Board and committee members individually.
- Upon completion of the training, Board and committee members will electronically sign and return the affirmation statement.
- **Affirmation statements are due by December 22.**



jlarc.virginia.gov

- Monday, December 11, 2023
- 2 p.m.
- **VRS Oversight Report**

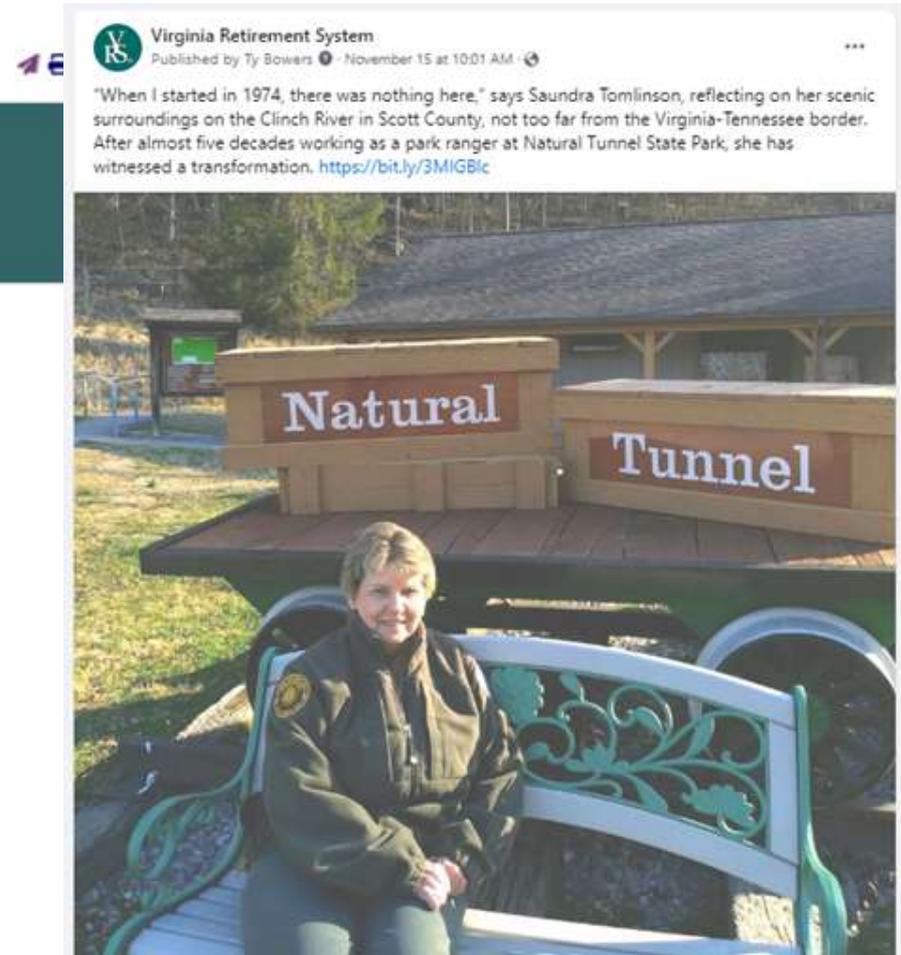
Member News Goes Viral

A Lifetime of Service: Sandra Tomlinson Marks 49 Years at State Park

November 2023



- More than **108,000** people viewed the post!
- 421 reactions, 38 comments and 26 shares.
- Most popular post we've ever produced.



Teamwork Makes the Dream Work!



Save the Date!

- **Wednesday, December 13**
- **8:30-11:30 a.m.**
- **Greater Richmond Convention Center**

Plan to attend this celebration of achievements and awards!

REMINDER: WEAR YOUR FAVORITE SPORTS TEAM ATTIRE!