
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on November 15, 2022, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair

Joseph W. Montgomery, Vice Chair

Hon. J. Brandon Bell, II (*entered at 1:13 p.m.*)

John M. Bennett

William A. Garrett (*attended remotely from Manassas, VA under § 2.2-3708.3(B)(4)*)

Dr. Susan T. Gooden, Ph.D.

W. Brett Hayes

Lindsey K. Pantele (*attended remotely from Henrico, VA under § 2.2-3708.3(B)(4)*)

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Andrew Junkin, Advait Apte, Rory Badura, Parham Behrooz, Kevin Bliss, Caroline Cardwell, Jeanne Chenault, Michael Cooper, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Barry Faison, Jonathan Farmer, Laurie Fennell, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Walker Noland, Greg Oliff, Angela Payne, Steven Ramirez, Paula Reid, Dan Schlussler, Jillian Sherman, Rob Voeks, Leslie Weldon, Dan Whitlock, Cindy Wilkinson and Steve Woodall.

Guests:

Mike Heale, CEM Benchmarking, Inc; Jim Anderson, Becky Stouffer and Kurt Dosson, Gabriel, Roeder, Smith & Company; Lauren Albanese, Financial Investment News; John Kevin Balaod, With Intelligence; Taylor Benson, BlackRock; Jamie Bitz, Joint Legislative Audit and Review Commission; Igor DeOlivia and Brian Deveney, Auditor of Public Accounts; Justin Flores, Private Equity Stakeholder Project; Rob Kozlowski, Pensions & Investments; Alex Meyer, Goldman Sachs; and Elizabeth Myers, Office of the Attorney General.

The meeting convened at 1:00 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the November 15, 2022, meeting of the Virginia Retirement System Board of Trustees. The Board then held a moment of silence for those affected by the recent tragedy at the University of Virginia.

After noting the meeting was being held in accordance with § 2.2-3708.3(B)(4) of the *Code of Virginia* and the VRS Remote Meeting Attendance Policy, Mr. Andrews took a roll call for attendance*:

Mr. Montgomery: Present

Mr. Bennett: Present

Mr. Garrett: Present

Dr. Gooden: Present

Mr. Hayes: Present
Ms. Pantele: Present
Mr. Andrews: Present

**Mr. Bell was not present for the roll call.*

Approval of Minutes

Following a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the minutes from its October 18, 2022, meeting upon the following roll call vote*:

Mr. Montgomery: Aye
Mr. Bennett: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

**Mr. Bell was not present for this vote.*

Report of the Chief Investment Officer

Ron Schmitz, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund portfolio and tracking error, concluding that risk measures are within Board-approved levels. Next, Mr. Schmitz discussed the New Investments and Terminations report. Last, Mr. Schmitz noted that the Investment staff was evaluating two potential benchmark changes and would be presenting those to the IAC at its November meeting and would follow up with the Board at its December meeting.

Mr. Andrews thanked Mr. Schmitz for his report.

CEM Cost Effective Analysis of VRS Investment Program

Mike Heale of CEM Benchmarking, Inc., presented the results of the Investment Benchmarking Analysis for the five-year period ending December 31, 2021. Mr. Heale 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 100 basis points and the cost savings was 6 basis points. For the ten-year period, the VRS net value added was 65 basis points and the cost savings was 5 basis points.

Mr. Heale also noted that the analysis suggests VRS saves approximately \$61 million annually by managing a portion of the funds in-house versus managing those funds externally.

Mr. Andrews thanked Mr. Heale 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 VRS Board of Trustees received the report of the Benefits and Actuarial Committee and placed it on file.

APPROVAL OF MINUTES

Mr. Bennett, Committee Vice Chair, began his report by noting the Committee approved the minutes of its October 17, 2022, meeting.

GABRIEL, ROEDER, SMITH & COMPANY (GRS) 2022 ACTUARIAL VALUATION RESULTS FOR POLITICAL SUBDIVISION RETIREMENT PLANS, THE VIRGINIA SICKNESS AND DISABILITY PROGRAM (VSDP), THE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP), THE LOCAL HEALTH INSURANCE CREDIT (HIC) PLANS, 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, 2022, actuarial valuations for the Political Subdivision Plans, the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC) Plans 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.

Similar to the state-wide pension plans, despite lower-than-expected returns for fiscal year 2022, recognition of prior investment gains led to improved funded status for the political subdivision pension plans in aggregate on an actuarial asset basis. Fiscal year 2022 also included higher than expected cost-of-living increases and pay increases for political subdivision plans in aggregate which led to higher-than-expected liabilities.

The HIC plans for political subdivisions as well as the state-funded HIC plans for Constitutional Officers, Social Services Employees, and Registrars all had an increase in funded status and a slight decrease in contribution rates. Due to a recently implemented allocation methodology for the HIC benefits, the HIC plans for political subdivisions saw an increase in liability, however it was offset by unrecognized gains from the prior valuation. The new methodology allocates a prorated portion of HIC liability to each employer a member worked for that offered the HIC benefit.

VSDP and VLDP each had a slight decrease in plan funded status mainly due to slight differences in application of the actuarial funding method used by GRS. This also led to slightly lower contribution rates for each plan compared to the 2021 valuation.

GRS then presented information on the Line of Duty Act Fund (LODA). 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. With a notable decrease in the covered headcount as well as an expected increase in plan claims, GRS, working with VRS staff, recommended an increase in the LODA premium to \$830.00 per FTE beginning

July 1, 2023. The increase in the rate was set to cover FY 2024 costs, including a one-month reserve for incurred but not reported claims (IBNR).

RBA: Accept the Plan Actuary's Valuations as of June 30, 2022, for the Political Subdivision Retirement Plans; the Health Insurance Credit (HIC) Plans for Political Subdivisions; the State-Funded HIC for Constitutional Officers, Social Services Employees and Registrars; the Virginia Sickness and Disability Program, including the Self-Funded Long-Term Care; and the Virginia Local Disability Program, including the Self-Funded Long-Term Care.

Request for Board Action 2022-11-26: The Virginia Retirement System Board of Trustees accepts the June 30, 2022, Actuarial Valuations conducted by the VRS plan actuary, Gabriel, Roeder, Smith & Company, for the Political Subdivision Retirement Plans; the Health Insurance Credit (HIC) Plans for Political Subdivisions; the State-Funded HIC for Constitutional Officers, Social Services Employees and Registrars; the Virginia Sickness and Disability Program, including the Self-Funded Long-Term Care; and the Virginia Local Disability Program, including the Self-Funded Long-Term Care.

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

Mr. Montgomery: Aye

Mr. Bell: Aye

Mr. Bennett: Aye

Mr. Garrett: Aye

Dr. Gooden: Aye

Mr. Hayes: Aye

Ms. Pantele: Aye

Mr. Andrews: Aye

RBA: Accept revised LODA premium for FY 2024 as recommended by the Plan Actuary, effective July 1, 2023.

Request for Board Action 2022-11-27: The Board accepts the increased FY 2024 premium for the Line of Duty Death and Health Benefits Trust Fund (the LODA Fund) as recommended by the Plan Actuary for FY 2024.

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

Mr. Montgomery: Aye

Mr. Bell: Aye

Mr. Bennett: Aye

Mr. Garrett: Aye

Dr. Gooden: Aye

Mr. Hayes: Aye

Ms. Pantele: Aye

Mr. Andrews: Aye

INFORMATION ITEMS

Review of Stress Test and Sensitivity Analysis Report

Rory Badura, Senior Staff Actuary, presented the findings of the VRS Stress Test and Sensitivity Analysis Report. He noted that the report is based on the June 30, 2021, actuarial valuation and analyzes the potential effect on plan funding over the next several years and contains various adverse economic scenarios that illustrate impacts of higher inflation and continued market volatility. The report focuses on adverse events as they better highlight areas of risk.

Confirmed 2023 B&A Committee Meeting Schedule:

The Committee reviewed its 2023 meeting schedule.

Mr. Andrews thanked Mr. Bennett for his report. Mr. Andrews next thanked GRS and the VRS staff actuaries for ensuring a smooth transition and their hard work in developing, validating and delivering the results.

Review Revised Governance Policy and Committee Charters (2nd Review)

Next, Cindy Wilkinson, Director of Policy, Planning and Compliance, reviewed the revisions to the Board's governance policy and committee charters to implement the Board's approval of changing the name of the Administration and Personnel Committee to the Administration, Finance and Talent Management Committee (AFT).

RBA: Amend Board governance documents to reflect the renaming of the Administration and Personnel Committee to the Administration, Finance and Talent Management Committee.

Request for Board Action 2022-11-28: The Virginia Retirement System Board of Trustees approves amendments to its Governance Policy; the Administration and Personnel Committee charter; the Audit and Compliance Committee charter; and, the Code of Ethics and Conduct to accommodate the change in the name of the Administration and Personnel Committee to the Administration, Finance and Talent Management Committee.

Upon a motion by Mr. Montgomery, with a second by Mr. Hayes, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Montgomery: Aye

Mr. Bell: Aye

Mr. Bennett: Aye

Mr. Garrett: Aye

Dr. Gooden: Aye

Mr. Hayes: Aye

Ms. Pantele: Aye

Mr. Andrews: Aye

Mr. Andrews thanked Ms. Wilkinson for her presentation.

Report of the Director

Trish Bishop, VRS Director, began her report with an update on the agency roadmap for FY 2023, 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 19th consecutive year from the Public Pension Coordinating Council.

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

- The Joint Legislative Audit and Review Commission (JLARC) will meet on December 12, 2022, and, while not presenting, VRS representatives will be available to respond to questions.
- The annual Code of Ethics and Standards of Conduct training will be distributed to the Board electronically in December.
- As required by the 2022 Appropriation Act, VRS will be presenting the Return-to-Work Report to the General Assembly by December 15th. The report includes an overview of the Internal Revenue Service laws and regulations regarding return to work, an analysis of Virginia's return-to-work provisions compared to other public pension plans, and an actuarial analysis of potential modifications to the provisions.
- The Agency Annual Meeting will be held at the Greater Richmond Convention Center on December 14, 2022, to celebrate annual achievements and present awards.
- VRS was featured in a recent article by Pensions & Investments Magazine after receiving the 2022 Art Caple President's Award for Excellence for the SmartStep Campaign from the National Association of Government Defined Contribution Administrators.
- VRS held its annual celebration of Diwali, India's biggest and most important festivals, on October 26th, during which staff enjoyed food and other items.
- VRS ranked fifth among all participating agencies that contributed to the 2021 Commonwealth of Virginia Campaign (CVC) campaign, with over \$53,000 in donations. The 2022 CVC Campaign is in progress and has raised more than \$6,800 to date.

Lastly, Ms. Bishop noted the confirmed 2023 Board and committee schedules are now available.

Mr. Andrews thanked Ms. Bishop for her report.

Other Business

Mr. Andrews reviewed the upcoming meeting schedule:

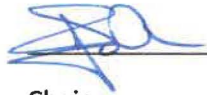
- Investment Advisory Committee – November 30 at 9:00 a.m.
- Defined Contribution Plans Advisory Committee – December 1 at 1:00 p.m.
- Audit and Compliance Committee – December 8 at 10:00 a.m.
- Administration, Finance and Talent Management Committee – December 8 at 11:45 a.m.
- Board of Trustees – December 8 at 1:00 p.m.

Adjournment

Following a motion by Mr. Montgomery, with a second by Mr. Bell, the VRS Board of Trustees agreed to adjourn the meeting upon the following roll call vote:

Mr. Montgomery: Aye
Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Garrett: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

There being no further business, the meeting concluded at 2:20 p.m.



Chair

12/8/2022 *Patricia Bishop*
12/8/2022

Secretary

Report

The Benefits and Actuarial Committee met on November 14, 2022, and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its October 17, 2022, meeting.

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GRS will also deliver an abbreviated version of their presentation to the full Board of Trustees.

The Committee recommended approval of the following actions to the full Board of Trustees:

Request for Board Action: *The Virginia Retirement System Board of Trustees accepts the June 30, 2022 Actuarial Valuations conducted by the VRS plan actuary, Gabriel, Roeder, Smith & Company, for the Political Subdivision Retirement Plans; the Health Insurance Credit (HIC) Plans for Political Subdivisions; the State-Funded HIC for Constitutional Officers, Social Services Employees and Registrars; the Virginia Sickness and Disability Program (VSDP) including Self-Funded Long-Term Care; and the Virginia Local Disability Program (VLDP), including Self-Funded Long-Term Care.*

Request for Board Action: *The Board accepts the increased FY 2024 premium for the Line of Duty Death and Health Benefits Trust Fund (the LODA Fund) as recommended by the Plan Actuary for FY 2024.*

INFORMATION ITEM

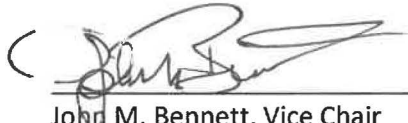
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Confirmed 2023 B&A Committee Meeting Schedule:

The Committee reviewed its 2023 meeting schedule.

Submitted to the Board of Trustees on November 15, 2022.



John M. Bennett, Vice Chair
Benefits and Actuarial Committee