



Board of Trustees Meeting

**The Westin Richmond
6631 West Broad St.
Richmond, VA 23230
Wednesday, 5/25/2022
8:30 - 9:30 AM ET**

I. Approve Minutes

- **April 19, 2022**

Board Minutes 4.19.22 - Page 2

II. Election of Board Vice Chair

III. Committee Assignments

VRS Board of Trustees and Committee Assignments - Page 12

IV. Report of the Chief Investment Officer Search Committee

Report of the CIO Search Committee - Page 14

V. Closed Session

- **Closed Session for Personnel Discussion**

VI. Approval of Contract of Employment for Chief Investment Officer and Authorization for Chair to Sign on Behalf of Board

VII. Other Business

VIII. Adjournment

Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on April 19, 2022, in Richmond, Virginia with the following members participating:

Board members:

O’Kelly E. McWilliams, III, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
William A. Garrett
Dr. Susan T. Gooden, Ph.D.
W. Brett Hayes
Troilen G. Seward, Ed.S.

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair (by phone)

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Stephen Adelaar, John Alouf, Rory Badura, Parham Behrooz, Caroline Caldwell, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Barry Faison, Jon Farmer, Andy Feagans, Laurie Fennell, Brian Goodman, Katherine Grawe, JT Grier, Dane Honrado, KC Howell, Robert Irving, Kristina Koutrakos, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Walker Noland, Greg Oliff, Angela Payne, Vera Pleasants, Laura Pugliese, Steven Ramirez, Paula Reid, Mark Rein, Jummai Sarki-Hurd, Dan Schlussler, Jennifer Schoeller, Michael Scott, Jillian Sherman, Viet Tran, Korey Turner, Leslie Weldon, Dan Whitlock, Cindy Wilkinson, Nick Zizzo and Olga Zozulya.

Guests:

Elizabeth Myers, Office of the Attorney General; Jamie Bitz, Joint Legislative Audit and Review Commission; Adam Rosatelli, Senate Finance and Appropriations Committee; Andrea Peeks, House Appropriations Committee; Bea Snidow, Virginia Education Association; Erin Rodriguez, Auditor of Public Accounts; Emily Grimes, Department of Planning and Budget; Rebecca Stouffer, Gabriel, Roeder, Smith & Company; Michael Oak, McLagan; Lauren Albanese, Financial Investment News; David Barry, Markets Group; Kevin Alcala, Goldman Sachs; Glenn Bowen and Matt Larrabee, Milliman; Joe Ebisa, With Intelligence; and Jennifer O’Dell, Laborers International Union of North America.

The meeting convened at 1:00 p.m.

Opening Remarks

O’Kelly E. McWilliams, III, called the meeting to order and welcomed everyone to the April 19, 2022, meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Upon Ms. Seward's motion, with a second by Mr. Bennett, the VRS Board of Trustees approved the February 10, 2022, meeting minutes.

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), began his report by noting the IAC met on April 13, 2022, and that Ron Schmitz, Chief Investment Officer, provided an abbreviated report to the Committee covering asset allocation and tracking error as of September 30, 2021. The Committee then discussed current market conditions, received program reviews from staff, and discussed performance and results.

Report of the Chief Investment Officer

Ron Schmitz began his report by discussing market conditions related to the Russian invasion of Ukraine. He noted VRS had minimal portfolio exposure prior to the current situation and the value is expected to decrease over time. Next, Mr. Schmitz discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are all within Board-approved levels. Next, Mr. Schmitz discussed the New Investments and Terminations report, the Diverse Investment Manager Engagement (DIME) report, and the External Investment Manager Referral report.

Mr. McWilliams thanked Mr. Schmitz for his report.

Report of the Defined Contribution Plans Advisory Committee

The Board received the report of the Defined Contribution Plans Advisory Committee (DCPAC) and placed it on file.

WELCOME AND INTRODUCTION

Dr. Gooden welcomed and introduced Dr. Arun Muralidhar, the newest appointed member of the Committee. Dr. Muralidhar is the co-founder of M^{cube} Investment Technologies LLC. He is also co-founder and Client CIO of AlphaEngine Global Investment Solutions, an SEC registered investment advisor, a subsidiary of M^{cube}. He is filling the investment seat on the DCPAC.

INVESTMENTS

Staff provided a brief review of the VRS DC plan positions in Russian markets.

Performance Reports

Staff provided an overview of the February 28, 2022 performance reports to the DCPAC, including the unbundled DC plans investment options and the bundled TIAA investment menu in the Retirement Choice (RC) contract for ORPHE.

Callan 2022 Defined Contribution Trends Survey Highlights

Staff provided an overview of highlights from the Callan 2022 DC Trends survey, which was included in the meeting materials Appendix for the Committee to review. The Callan 2022 DC Trends survey

results represented 101 large DC plan sponsors that span a range of industries across corporate, tax-exempt, and government organizations.

CEM Survey Update

Staff advised that they are still reviewing CEM's benchmarking service and will provide an update at a future meeting.

ADMINISTRATION

Administrative Reports and Communication Update

Staff provided an overview of the DC plans, as well as an update on administrative reports for the fourth quarter of 2021. An overview of assets and accounts across the various contribution plans, as well as participant trends and the impact of various plan initiatives was also provided. Staff shared with the Committee an analysis and overview of efforts related to the fourth quarter focus on improving asset allocation. Staff also shared an overview of the Optional Retirement Plan for Public Appointees (ORPPA).

ORPHE Update

Staff provided an overview of ORPHE reports for the fourth quarter of 2021, including plan assets and accounts, and provider election data. Staff also provided an update on outreach activities and education initiatives.

DC Plans Consultant RFP Update

Staff provided an update on the DC Plans Consultant RFP. Proposals received in response to the Consultant RFP were reviewed, and contract negotiations are in progress.

OTHER BUSINESS

DCPAC Charter and Responsibilities Overview

Staff reviewed the Committee charter and specific Committee responsibilities.

VRS Legislative Package

Staff reviewed DC plan-related legislation that passed during the 2022 regular session of the General Assembly, including the Board of Trustees-requested legislative proposal that will separate the Board-certified defined benefit employer contribution rates from the statutory estimated defined contribution employer contribution rates.

DCPAC Appointment

Staff informed the Committee of the request for reappointment of Ravindra Deo, Brenda Madden, and Edward N. (Ned) Smither, each to a two-year term ending June 20, 2024. Their current term expires June 20, 2022.

Recommend RBA for reappointment of DCPAC Members.

The Committee recommended approval of the following action to the Administration and Personnel Committee. The Administration and Personnel Committee will provide their recommendation to the Board.

Request for Board Action: *The Board reappoints Ravindra Deo, Brenda Madden, and Edward N. Smither to the Defined Contribution Plans Advisory Committee (DCPAC), for a two-year term ending June 20, 2024.**

**The Board considered the action during the report of the Administration and Personnel Committee.*

DISCUSSION OF NEW IDEAS

No new business was brought before the Committee.

2022 MEETINGS

Dr. Gooden confirmed the remaining DCPAC meeting dates in 2022, all at 1:00 p.m.:

- Thursday, June 2nd
- Thursday, September 8th
- Thursday, December 1st

Additionally, the ORPHE Annual Employer Update will be scheduled for the fall and will appear on the DCPAC agenda as an upcoming event. This is not a DCPAC meeting; however, members may attend if interested.

Mr. McWilliams thanked Dr. Gooden for her report.

Report of the Audit and Compliance Committee

The Board received the report of the Audit and Compliance Committee and placed it on file.

APPROVAL OF MINUTES

Mr. Montgomery began his report by advising the Committee approved the minutes of its December 6, 2021 meeting.

AUDIT REPORTS

The Committee received one audit report:

- The review of VRS' *Conformance with VITA's Security Program* determined as of January 1, 2022 VRS' Security Policies and Standards partially conform with VITA's mandatory Information Technology security program as updates to VRS' policies and standards were underway to address recent changes, but not yet adopted. There were no formal recommendations as a result of the current review.

ANNUAL REPORT ON CODE OF ETHICS

The Internal Audit Director noted the Internal Audit department's adherence to the VRS Code of Ethics, Institute of Internal Auditors' Code of Ethics, and similar frameworks required by professional designations and memberships.

The Chief Operating Officer and the Regulatory and Legal Officer provided annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct for monitoring compliance, as

required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for their respective programs.

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2021

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2021, the mid-point of the fiscal year.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

It was noted there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General during the period of November 1, 2021 through January 31, 2022.

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' plan actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2022.

Management's Quarterly Travel Expense and Per Diem Report

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

Next Committee Meeting Date

The Committee's next meeting is scheduled for Thursday, June 16, 2022 at 2 p.m.

Mr. McWilliams thanked Mr. Montgomery for his report.

Report of the Benefits and Actuarial Committee

The Board received the reports of the Benefits and Actuarial Committee regarding its April 6, 2022 and April 19, 2022 meetings and placed them on file.

APPROVAL OF MINUTES

Chief Garrett began his April 6 report by noting the Committee approved the minutes of its February 9, 2022, meeting.

ACTUARIAL FIRMS FINALIST INTERVIEWS – CLOSED SESSION

The Committee went into closed session to conduct interviews of the actuarial firm finalists.

Upon return to open meeting, the Committee agreed to meet on April 19th at 10:30 a.m. to continue deliberations related to the actuarial firm finalists and make a recommendation to the full Board of Trustees.

INFORMATION ITEM

2022 B&A Committee Meeting Schedule:

- April 19 at 10:30 a.m.
- October 17 at 1:00 p.m.
- November 14 at 1:00 p.m.

The June meeting has been cancelled as there are no action items for the Committee to consider.

Next, Chief Garrett presented the Committee's report of its April 19, 2022 meeting.

APPROVAL OF MINUTES

The Committee approved the minutes of its April 6, 2022 meeting.

ACTUARIAL SERVICES – CLOSED SESSION

The Committee held a closed session to continue discussions of the actuarial firm finalists.

Upon returning to open session, Chief Garrett moved, with a second by Mr. Bennett, that the VRS Board of Trustees approve the following action:

Request for Board Action 2022-04-05: *The Virginia Retirement System Board of Trustees accepts the recommendation of the Benefits and Actuarial Committee for Gabriel, Roeder, Smith & Company to serve as the Board of Trustees' plan actuary for all actuarial services, including long-term care, subject to negotiation of a contract.*

INFORMATION ITEM

2022 B&A Committee Meeting Schedule:

- October 17 at 1:00 p.m.
- November 14 at 1:00 p.m.

Mr. McWilliams thanked Chief Garrett for his report.

Report of the Administration and Personnel Committee

The Board received the report of the Administration and Personnel Committee and placed it on file.

APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the minutes of its February 8, 2022 meeting.

APPROVE REVISED INVESTMENT PROFESSIONALS' PAY PLAN

Paula Reid, Human Resources Director, introduced Michael Oak of McLagan who presented the results of his firm's review of the Investment Professionals' Pay Plan. In particular, the firm reviewed the competitiveness of pay levels relative to their Board-approved targeted pay positioning.

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

Request for Board Action 2022-04-07: The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan ("Pay Plan").

REAPPOINTMENT OF DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE MEMBERS

Trish Bishop, Director, advised the Committee that three current members of the Defined Contribution Plans Advisory Committee (DCPAC) are eligible for reappointment. Mr. Ravi Deo, Ms. Brenda Madden and Mr. Ned Smither have expressed interest in continuing to serve.

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

Request for Board Action 2022-04-06: The Board reappoints Ravindra Deo, Brenda Madden, and Edward N. (Ned) Smither to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2024.

BUDGET UPDATE

Jonathan Farmer, Budget and Performance Reporting Manager, presented an update on the agency's budget. Mr. Farmer reviewed the agency's expenditures through February 28, 2022 and outlined anticipated spending through the remainder of the fiscal year. Mr. Farmer indicated that VRS is currently on track to finish the year with a surplus of approximately \$8.6 million.

ADMINISTRATION CLASSIFICATION AND COMPENSATION STUDY UPDATE

Ms. Reid updated the Committee on the ongoing review of the Administration Pay Plan. VRS is working with CBIZ Compensation Consulting who is reviewing the administration staff's job descriptions and compensation. The review is expected to be completed later this year.

Report of the Chief Investment Officer Search Committee

The Board received the report of the Chief Investment Officer (CIO) Search Committee and placed it on file.

APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the minutes of its February 15 and 22; March 1, 8, 15, 22, 29, 30 and 31; and April 12 and 13 meetings.

INTERVIEWS – CLOSED SESSION

The Committee went into closed session during its March 30 and 31; and April 12, 13 and 19 meetings to discuss various candidates and conduct candidate interviews.

INFORMATION ITEM

Upcoming CIO Search Committee Meeting Schedule:

- April 26, 2022
- Staff will be polling for the Committee's availability for upcoming meeting dates, as needed.

Lastly, Mr. McWilliams noted the members of the Committee:

- John M. Bennett
- Michael P. Disharoon
- William A. Garrett
- Lawrence E. Kochard
- Joseph W. Montgomery
- Troilen G. Seward
- O'Kelly E. McWilliams, III

Operational Update Series: VRS Coverage Process

Trish Bishop, VRS Director, introduced Andy Feagans, Employer Representative Program Manager, who presented an overview of the VRS Coverage Process. Mr. Feagans advised that "benefit coverage" refers to the retirement benefits provided by VRS, and that the *Code of Virginia* mandates benefits for certain employers such as state agencies, public colleges and universities, and school divisions. Other employers, such as political subdivisions, may elect to participate in VRS and make benefit elections. In addition, the *Code* establishes the Board's authority to administer the retirement system and the employer's responsibility to administer the benefits provided.

Mr. Feagans reviewed the various plans, programs and enhanced benefits available, as well as the benefit election process for employers wanting to participate in VRS. Employers are supplied with a comprehensive manual that contains an overview of VRS agency policies and procedures, a history of benefit coverage and frequently asked questions.

Mr. McWilliams thanked Mr. Feagans for his presentation.

Report of the Director

Ms. Bishop began her report by reviewing the New Coverage Elections and announced that, as of 2022, VRS is now the 17th largest public or private pension system in the United States. Next, Ms. Bishop provided an update on the agency roadmap for FY 2022 and noted that all projects are progressing as planned, apart from the Cloud Migration project. Staff will continue to monitor these projects and provide updates as they become available.

LEGISLATIVE UPDATE

Next, Michael Cooper, Chief Operating Officer, provided an update on VRS-related legislation presented in the 2022 General Assembly session.

Ms. Bishop then provided the Board with the following updates:

- The annual Board Retreat will be held on May 25 at the Westin Richmond Hotel.
- Barry Faison will remain with VRS until January 2023 to assist with the transition of a new Chief Financial Officer (CFO).

RETURN TO OFFICE UPDATE

Paula Reid, Director of Human Resources, provided an update on the agency's plan to return to the office. Ms. Reid advised that beginning April 26, the hybrid work model will be implemented in which staff will return to the building on Tuesdays and Wednesdays, and work remotely on Mondays, Thursdays, and Fridays. Agency leadership developed this approach that promotes the importance of VRS culture and employee collaboration to meet business needs, while supporting staff's desire to maintain the flexibility of remote work.

FY 2022 APO UPDATE

Mark Rein, Chief Technology Officer, provided an update on the Cloud Migration project to the Board. Mr. Rein advised that originally VRS planned a full migration to the public cloud (Azure); however, through ongoing due diligence and consultation with third-party experts, staff determined that Hyper Converged Infrastructure (HCI) is the best approach for VRS.

HCI offers increased built-in, end-to-end security at a lower total cost in ownership with a high return on investment. At this time, staff are identifying equipment, licensing and professional service needs, and evaluating backup and recovery software requirements. Lastly, Mr. Rein advised that VRS has re-baselined and developed requirements to create a private cloud environment that supports target business outcomes and meeting or exceeding operational service level agreements.

Mr. Cooper added that Agency Performance Outcome (APO) #1 is being adjusted to reflect the new approach as described by Mr. Rein. He noted that the APO will be updated to incorporate the greater effort and work volume required, and the revised APO will be provided at the Administration and Personnel Committee meeting in June.

Mr. McWilliams thanked Mr. Rein and Mr. Cooper for the updates.

Other Business

Lastly, Mr. McWilliams noted the following meeting schedule:

- CIO Search Committee – April 26 at 10:00 a.m.
- Board Retreat – May 25 at 10:00 a.m.
- Defined Contribution Plans Advisory Committee – June 2 at 1:00 p.m.
- Administration and Personnel Committee – June 14 at 1:00 p.m.
- Audit and Compliance Committee – June 16 at 2:00 p.m.
- Board of Trustees – June 23 at 1:00 p.m.

Adjournment

There being no further business and following a motion by Mr. Montgomery, with a second by Chief Garrett, the VRS Board of Trustees agreed to adjourn the meeting at 2:32 p.m.

Vice Chair

Secretary

**Proposed VRS Board of Trustees and Committee Assignments
(Effective May 25, 2022)**

VRS Board of Trustees
A. Scott Andrews, Chair Joseph W. Montgomery J. Brandon Bell, II John M. Bennett Michael P. Disharoon William A. Garrett Susan T. Gooden, Ph.D. W. Brett Hayes Troilen G. Seward, Ed.S.
Administration and Personnel Committee
A. Scott Andrews, Chair Joseph W. Montgomery W. Brett Hayes Troilen G. Seward, Ed.S.
Audit and Compliance Committee
Joseph W. Montgomery, Chair W. Brett Hayes A. Scott Andrews
Benefits and Actuarial Committee
William A. Garrett, Chair John M. Bennett Michael P. Disharoon
Defined Contribution Plans Advisory Committee
J. Brandon Bell, II, Chair Susan T. Gooden, Ph.D., Vice Chair Ravindra A. Deo Shannon T. Irvin Rick Larson Brenda O. Madden David A. Winter

**Proposed VRS Board of Trustees and Committee Assignments
(Effective May 25, 2022)**

Investment Policy Committee
A. Scott Andrews, Chair Joseph W. Montgomery J. Brandon Bell, II John M. Bennett Michael P. Disharoon William A. Garrett Susan T. Gooden, Ph.D. W. Brett Hayes Troilen G. Seward, Ed.S.
Investment Advisory Committee
Lawrence E. Kochard, Ph.D., Chair William “Hance” West, Vice Chair Deborah Allen Hewitt, Ph.D. Michael Beasley Theodore Economou Thomas S. Gayner Nancy G. Leake W. Bryan Lewis Rod Smyth

Notes:

- 1. By charter, the Board chair appoints Board members to each committee.*
- 2. By charter, the Board chair and vice chair shall serve in the respective position for the Administration and Personnel Committee and Investment Policy Committee.*
- 3. For all committees other than the Administration and Personnel Committee and Investment Policy Committee, the committee chair is appointed by the Board chair, subject to approval by the Board.*
- 4. The DCPAC vice chair shall be the Board member sitting on the DCPAC who is not the chair.*
- 5. For all committees other than the Administration and Personnel Committee, DCPAC and Investment Policy Committee, the vice chair is elected by the committee members.*

Report

The Chief Investment Officer Search Committee met on April 26, 2022 and May 2, 2022. The VRS CIO search recruitment team from Korn Ferry has participated in each meeting. This report covers both meetings.

APPROVAL OF MINUTES

The Committee approved the minutes of its April 19 and April 26, 2022, meetings.

INTERVIEWS – CLOSED SESSION

The Committee went into closed session during its April 26 and May 2 meetings to discuss various candidates and conduct candidate interviews.

Upon return to open meeting, on May 2, the Committee unanimously approved a motion to authorize the Chair to negotiate a contract with the selected candidate for Chief Investment Officer, the terms and conditions of which are to be ratified by the Board at a subsequent meeting.

Submitted to the Board of Trustees on May 25, 2022.

A. Scott Andrews, Chair
Chief Investment Officer Search Committee