



Administration, Finance and Talent Management Committee Meeting
VRS, 1111 E. Main St., 3rd Floor Board Room
Thursday, 2/8/2024
10:00 AM - 12:00 PM ET

I. Approve Minutes

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II. RBA - Approve Revised Education and Development for Investment Professionals Policy

RBA - Tuition Reimbursement and Tenure Agreement - Repayment - Page 7

Investments Education and Development Policy - Redline - Page 9

III. RBA – Approve Revised Proxy Voting and Litigation Policy

RBA - Approving Litigation Policy - Page 14

Litigation Policy - Redline - Page 16

Proxy Voting Policy - Redline - Page 24

IV. RBA – Approve Revised Investment Professionals’ Pay Plan & DCIP

RBA - Amended Investment Pay Plan & DCIP - Page 32

VRS 2023 Investment Professionals Pay Plan Redline - Page 34

VRS - Restated DCIP - Redline - Page 55

McLagan - VRS Investment Team Comp Review - Page 80

Minutes

A regular meeting of the Virginia Retirement System Administration, Finance and Talent Management Committee was held on September 20, 2023, with the following members participating:

A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
Michael P. Disharoon

Board members present:
John M. Bennett

VRS Staff:

Patricia Bishop, Michael Cooper, Juanita Cribbs, Robert Irving, LaShaunda King, Curt Mattson, Emily Trent, Matt Priestas, Paula Reid, Mark Rein, Cindy Wilkinson, Leslie Weldon, Josh Fox, Jeanne Chenault, Scott Weaver, Jennifer Schreck and Andrew Junkin.

The meeting convened at 1:05 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the September 20, 2023, meeting of the Administration, Finance and Talent Management Committee.

Approval of Minutes

Following a motion by Mr. Montgomery, with a second by Mr. Bennett, the Committee approved the minutes of its June 13, 2023, meeting.

Review Attainment of FY 2023 Agency Performance Outcomes (APOs) and Operational Measures

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2023 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had six APOs for the fiscal year, with a target of completing at least five. Staff met this goal by successfully completing all six APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate. Mr. Cooper noted that while not meeting the call abandonment rate target for the year, the agency's recent SMS surveying data indicates an overwhelmingly positive customer experience for those communicating with the customer contact center.

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Attainment of FY 2023 APOs and Operational Measures

Request for Board Action: *The VRS Board of Trustees approves (i) the attainment of FY 2023 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

Mr. Andrews thanked Mr. Cooper for his presentation.

Review Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2023.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Approve Lump-Sum Performance Bonuses for Eligible Administrative Employees and Investment Department Operations and Administration Employees

Request for Board Action: *The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

Mr. Andrews thanked Ms. Reid for her presentation.

Budget Update (Year End Results and Biennium Budget Proposal)

Mr. Cooper presented the FY 2023 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$9.94 million, which will be returned to the Fund. Mr. Cooper next provided an update on the agency’s FY 2024 budget, noting that expenses to date are in line with budgeted amounts. Next, Mr. Cooper provided a detailed review of the agency’s FY 2025-2026 biennium budget proposal. Following discussion on the proposals with the Committee members, a request for board action was considered.

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Authorize Budget Request to the Department of Planning and Budget

Request for Board Action: *The VRS Board of Trustees authorizes staff to request spending authority from the Department of Planning and Budget and legislature, as applicable, to execute planned initiatives for the next two fiscal years.*

Mr. Andrews thanked Mr. Cooper for his presentation.

Reappointment of Investment Advisory Committee (IAC) Members

Andrew Junkin, Chief Investment Officer, informed the Committee of two IAC members due for reappointment. Mr. Junkin indicated that Hance West and Nan Leake have been active and engaged participants of the IAC and each are willing to continue their service on the IAC.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the Committee recommended approval of the action to the full Board of Trustees:

RBA: Reappointment of IAC Members

Request for Board Action: *The Board reappoints William "Hance" West and Nancy G. Leake to the Investment Advisory Committee, each for a two-year term ending December 31, 2025.*

Mr. Andrews thanked Mr. Junkin for his presentation.

Approve Revised Pay Plans

Ms. Reid advised the Committee that the Governor has approved the 2023 Appropriation Act, which includes a 2% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth's pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well.

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the Committee recommended approval of the action to the full Board of Trustees:

RBA – Approve Revised Pay Plans

Request for Board Action: *The Board approves an amended Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan and Investment Professionals' Pay Plan, effective December 10, 2023.*

Mr. Andrews thanked Ms. Reid for her presentation.

Informational Item (Internal Audit Director's Performance Review)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance at its September 20, 2023, meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

Compensation and Benefits (Closed Session)

Mr. Montgomery moved, with a second by Mr. Bennett, that the Administration, Finance and Talent Management Committee of the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act to discuss the compensation and benefits of specific employees pursuant to the personnel exemption at *Code of Virginia* § 2.2-3711(A)(1).

Upon return to open meeting, Mr. Montgomery moved, with a second by Mr. Bennett, the following resolution:

WHEREAS, the Administration, Finance and Talent Management Committee of the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, *Code of Virginia* § 2.2-3712 requires a certification by this Committee that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Committee certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Committee.

The Committee approved the resolution upon the following roll call vote:

Mr. Bennett: Aye
Mr. Montgomery: Aye
Mr. Disharoon: Aye
Mr. Andrews: Aye

RBA: Approve FY 2023 Incentive Pay for Investment Professionals

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the Committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: The VRS Board of Trustees approves payment of an incentive amount of approximately \$9,164,370.33 for FY 2023 to VRS investment professionals as authorized by the *Investment Professionals' Pay Plan*.

RBA: Approve Performance Bonus and Supplemental Payment to the VRS Director as Authorized in the 2023 Appropriations Act

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the Committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 16, 2023, and supplemental payment of \$89,250.00 made on December 1, 2023, as authorized in the 2023 Appropriation Act.*

Adjournment

There being no further business and following a motion by Mr. Montgomery, with a second by Mr. Bennett, the Committee agreed to adjourn the meeting at 3:12 p.m.

Chair

Date



Authorize Repayment Agreements for Tuition Reimbursements under the Education and Development for Investment Professionals Policy.

Requested Action

The VRS Board of Trustees amends the Education and Development for Investment Professionals Policy (Policy), effective February 8, 2024, to authorize the Chief Investment Officer to approve repayment agreements for the repayment of tuition reimbursement under the Policy.

Rationale for Requested Action

The Virginia Retirement System (VRS) is committed to supporting employee education activities to improve the knowledge and abilities of its staff. VRS maintains policies related to financial support for education of its employees. For investment department staff, VRS adheres to the Education and Development for Investment Professionals Policy (Policy). The Policy outlines the process for requesting, approving, and reimbursing allowable expenses for training, tuition reimbursement and attainment of professional designations. Additionally, the Policy supports the retention of current investment professionals and attraction of new talent.

The Policy authorizes the VRS Chief Investment Officer (CIO) to approve tuition reimbursement for investment professionals unless the estimated cost exceeds \$100,000. When the estimated cost of tuition-related expenses exceeds \$100,000, the Administration, Finance and Talent Management Committee, acting on behalf of the VRS Board of Trustees (Board), must review and approve the request.

In addition, when reimbursable expenses exceed \$100,000, the requesting investment professional must enter a tenure agreement with VRS and the tenure agreement must provide for at least 48 months of continued employment after the investment professional completes his or her course of study. When reimbursable expenses are \$100,000 or less, the CIO determines the need for a tenure agreement and the length of such agreement on a case-by-case basis.

The Policy further requires an investment professional to repay VRS if (i) he or she prematurely ends the course of study or (ii) does not continue employment with VRS for the agreed upon period of time after completing the course of study. Currently, the Policy provides that the investment professional must make repayment of the prorated amount due within 30 days of the date of their separation.

The amendments to the Policy gives the CIO the discretion to approve a written repayment agreement as an alternative to the current 30-day repayment requirement, specifically allowing that an investment professional may make repayments “in accordance with the terms of a written repayment agreement approved by the CIO.”

There are also amendments that make certain non-substantive editorial changes to the Policy.

A redlined version of the Policy is attached.

Authority for Requested Action

Code of Virginia § 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1 of the *Code of Virginia*. Section 51.1-124.24(A) permits the Board to employ a CIO to direct, manage, and administer the investment department.

Section V. (B)(14) of the Board’s Governance Policy delegates authority to the CIO for developing, implementing, and supervising plans, policies, standards, programs, and services for investment personnel. This RBA authorizes the CIO to proceed with an action that requires prior Board approval pursuant to the Policy.

The above action is approved.

A. Scott Andrews, Chairman
VRS Board of Trustees

Date

Education and Development for Investment Professionals

Policy Objective

The Virginia Retirement System (VRS) is committed to supporting employee education activities so that employees can fully contribute their talents to achieve the Investment Department's business objectives and to provide employees with lifelong learning. This policy establishes the process for requesting, approving, and reimbursing allowable expenses for training, tuition reimbursement, and attainment of professional designations. Additionally, the policy supports the retention of current investment professionals and attraction of new talent.

The basis for decisions to approve education and development opportunities include an assessment of the job relatedness, the benefit to the employee and to the agency, costs, funding, job performance, and/or staffing considerations.

Training

Training includes participation in conferences, seminars, workshops, and classes that do not generally result in certification or receipt of a grade. ~~The~~ VRS generally pays for the costs of these activities in advance.

An employee must complete a Travel/Training/Tuition Reimbursement Request and Cost Estimate to request training and must obtain approval by his/her supervisor prior to enrolling in a class.

An employee who does not enroll or voluntarily withdraws from a training program without appropriate notification may be required to repay the agency.

Tuition Reimbursement

~~The~~ VRS provides for reimbursement for individual college classes offered by an accredited college or university or undergraduate or graduate degree programs. The course will generally result in the receipt of a grade, academic credits, certification, or license. An employee may request tuition reimbursement once he/she has satisfactorily completed the first six months of employment with VRS.

An employee must complete a Travel/Training/Tuition Reimbursement Request and Cost Estimate to request tuition reimbursement and must obtain approval by his/her supervisor prior to enrolling for a course. The Chief Investment Officer must also approve an employee's request to obtain a degree.

An employee must receive a grade of "C" or better for undergraduate classes and a grade of "B" or better for graduate level courses to receive reimbursement or equivalent grades in graduate programs such as Superior Pass (SP)-4.0, High Pass (HP)-3.5 or Pass (P)-3.0.

After successful completion of a course or billing point of a degree program, the employee must complete a **Miscellaneous Expense Reimbursement Form** and attach proof of expenses (includes books and study guides) and grade received. ~~The~~VRS reimburses on a semester basis, at the end of class grading periods or at billing points of a degree program.

The following expenses are not eligible for tuition reimbursement:

- Expenses or fees associated with non-traditional programs such as a college level equivalency program (CLEP) for which accelerated credits are earned
- Expenses for which an employee receives other sources of funding, such as grants or scholarships
- Recreational and transcript fees
- Fees for dropped classes
- Mileage
- Courses taken on an audit basis

Reimbursement for an out-of-state degree program will be limited to the highest tuition charged by an in-state college or university for a similar program unless the Chief Investment Officer (CIO) approves an exception.

If the total cost of tuition and reimbursable expenses authorized in this policy or contained in a tenure agreement exceeds \$100,000, then the Administration ~~and~~ **Personnel (A&P), Finance and Talent Management (AFT)** Committee of ~~the~~ VRS Board of Trustees must review and approve the request and tenure agreement.

The need for a tenure agreement (see attached sample) and the length of such agreement will be determined on a case by case basis. However, a tenure agreement is required if the total projected expenses exceed \$100,000. The length of tenure agreements will be at least for forty-eight (48) months when the reimbursable expenses exceed \$100,000. Otherwise, an evaluation will be made by the Chief Investment Officer with input from the employee's direct supervisor and will include consideration of the following:

- the estimated total cost to complete the particular program/degree in relation to the total compensation paid; and,
- the estimated time to complete the program/degree.

If an employee voluntarily leaves ~~the~~ VRS prior to completing the employment obligation or ~~the~~ VRS terminates employment for cause, he/she must repay ~~the~~ VRS on a prorated basis for the amount of tuition reimbursement received. The employee must

repay the prorated amount (i) within 30 days from the date of separation or (ii) in accordance with the terms of a written repayment agreement approved by the CIO.

The provisions of the Internal Revenue Code covering Employer-Provided Educational Assistance allow employers to reimburse tax-free up to \$5,250 per calendar year. Any reimbursements in excess of this limit may have to be included in the employee's taxable income. However, if the expenses associated with an MBA or other degree program qualify as "working condition fringe benefits" under Section 132 of the Internal Revenue Code of 1986, as amended, such qualified expenses should not be treated as income to the employee and should not be included on the employee's Form W-2.

Professional Designations

~~The~~ VRS provides for payment of related expenses to obtain the Certified Financial Analyst designation or other job related professional designations.

An employee must complete a **Travel/Training/Tuition Reimbursement Request and Cost Estimate** to request payment for certification enrollment and should obtain approval by his/her supervisor prior to enrolling in a certification program. The agency will pay in advance for required costs, such as course fees, registration fees, books/study guides and exam fees.

If an employee receives a non-passing grade, the agency will not pay for re-enrollment costs until the employee successfully passes the program examination.

Exceptions

The CIO will review and approve educational situations not covered in this policy. However, the CIO may present the exceptional request to the ~~A&P committee~~ **AFT Committee** for review and approval, if the CIO deems it appropriate to do so.

The CIO has the discretion to approve time out of the office for professional designation preparation and college/university course work, as warranted, or Investment Department supervisors can approve leave requests for educational pursuits.

VRS Degree Reimbursement Program Employment Tenure Agreement

This Agreement, made and entered into this ____ day of _____, is by and between the Virginia Retirement System (herein referred to as VRS) and _____, (herein referred to as Employee).

The Employee is enrolled in the following degree program:

_____ at the following accredited college/university:

_____ and is expected to complete his/her study by:

Upon registration for each enrollment period, the Employee will provide documentation of enrollment in a degree program.

~~The~~ VRS agrees to pay the full tuition and related costs for the program, estimated to be \$_____, which includes books, class materials, lodging and meals while attending _____. The payments will be paid directly to the Employee, after the Employee submits a Travel/Training/Tuition Reimbursement Request and Cost Estimate and a Miscellaneous Reimbursement/Payment request.

~~The~~ VRS maximum reimbursement for tuition and air travel costs to the Employee is \$_____. [The tuition amounts above \$5,250 each calendar year and the air travel reimbursements amounts will not be taxable income reported on the Employee's W-2 forms as they will be treated as a working condition fringe benefit under § 132 of the Internal Revenue Code of 1986, as amended.]

Upon completion of study for a given enrollment period, the Employee will provide VRS with documentation for course(s) grades and payment. To qualify for reimbursement, the Employee must have passed the class with a grade of "C" or better if it is an undergraduate level course, and a grade of "B" or better is a graduate level course or equivalent grades in graduate programs such as Superior Pass (SP)-4.0, High Pass (HP)-3.5 or Pass (P)-3.0.

For any course that the Employee does not attain at least a pass (P) or higher, the Employee shall be liable to ~~the~~ VRS for reimbursement of the corresponding tuition and related costs. The Employee must reimburse ~~the~~ VRS for such course before the start of the next term or before the graduation date, if the unsatisfactory grade occurs in the final term.

The tuition and related costs do not include travel to and from the residential sessions, a laptop computer, a personal Internet service provider (ISP), visas, or vaccinations. [However, ~~the~~ VRS agrees to pay the air travel costs to and from the residential sessions. Air travel bookings and reimbursement for the air travel must comply with the VRS travel policy and the Employee must file a Travel Expense Reimbursement Request.]

The Employee agrees to work for ~~the~~ VRS for a minimum of four years, after completing the course of study. In the event the Employee voluntarily leaves employment of ~~the~~ VRS, or ~~the~~ VRS terminates employment for cause, prior to completing the four-year tenure agreement, the Employee must repay ~~the~~ VRS on a prorated basis (1/48th per month) for each month remaining in the four-year tenure agreement. If the Employee voluntarily leaves VRS employment or ~~the~~ VRS terminates employment for cause, during the course of study the full amount of reimbursements is due. The repayment must be made within 30 days from date of separation, and may be deducted from any payments due the employee from VRS (i.e. leave pay-outs, refunds, etc.)

By affixing their signatures, respectively, the Employee and the VRS Chief Investment Officer agree to the provisions of this agreement.

Employee

Date

VRS Chief Investment Officer

Date



**Adopt Separate Proxy Voting Policy and
Litigation Policy to Replace
Current Proxy Voting and Litigation Policy**

Requested Action

The Board replaces the existing Proxy Voting and Litigation Policy with two separate policies: (i) Proxy Voting Policy and (ii) Litigation Policy.

Rationale for Requested Action

The Board's Proxy Voting and Litigation Policy currently governs two different subject matters: (i) proxy voting and (ii) the conduct of litigation by the Board. Having separate policies governing each subject matter provides greater visibility for the provisions of each policy and will facilitate any future amendments to the policies.

The separate Proxy Voting Policy contains no substantive changes from the current portions of the Proxy Voting and Litigation Policy that the Board has established to govern proxy voting.

The separate Litigation Policy makes numerous non-substantive technical and clarifying amendments to ensure that the language used in the Policy is consistent throughout.

In addition, there are several substantive changes made to the Litigation Policy designed to streamline the process for approving decisions to participate in litigation.

The revised Litigation Policy will allow the Director and the Chief Investment Officer (CIO) to approve participation in a particular case when there is not time to bring the matter before the Board for a decision. Under the current policy, such approval must be granted by the Director, CIO, and Board Chair.

In addition, the revised Litigation Policy eliminates the requirement to provide a summary of the decision to participate in a case at the next Board meeting. The Board will still receive a summary of the action from the Director at the time the decision is made by the Director and the CIO. This change will eliminate the need for the Board to go into closed session for purposes of receiving a litigation update when the Board has already been provided the relevant information.

The Administration, Finance and Talent Management Committee reviewed the revised Proxy Voting Policy and Litigation Policy and recommends their approval to the entire Board.

Redlined versions of the two policies are attached to this RBA.

Authority for Requested Action

Section 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1 of the *Code of Virginia*.

The above action is approved.

A. Scott Andrews, Chairman
VRS Board of Trustees

Date

BOARD OF TRUSTEES' ~~PROXY VOTING AND~~ LITIGATION POLICY

GUIDING PRINCIPLE

The guiding principle for the Virginia Retirement System's ("VRS") proxy voting and litigation activity is fiduciary responsibility, only taking actions that are in the best interest of the plan's participants and beneficiaries.

I. POLICY STATEMENT

A. ~~PROXY VOTING~~

~~It is the policy of VRS to review all proxy issues carefully and to vote them in the best interest of the participants and beneficiaries of the fund. The Board should review a report on VRS proxy voting from time to time, which includes an evaluation of any outside Proxy Voting Service Provider.~~

B.A. VRS AS LONG-TERM INVESTOR

VRS should act like an owner of companies in which it invests by encouraging long-term value creation. However, the costs of becoming an active investor must be considered. VRS should always seek cost-effective means for acting as an owner. VRS can share the costs of any shareholder activism litigation by joining organizations made up of other similar institutional investors who are also concerned about creating and improving economic value for shareholders.

C.B. LITIGATION

Other than cases brought under the Virginia Administrative Process Act,¹ the most common type of litigation that affects VRS directly is securities litigation class actions for investments in which VRS has incurred a loss. From time to time,² other types of litigation will arise, including cases where VRS is a defendant and cases brought under the Virginia Fraud Against Taxpayers Act (*Code of Virginia* § 8.01-216.1 et seq.). While VRS acknowledges that there are situations that may give rise to a fiduciary duty to pursue legal action on its own to recover on a claim, VRS also places significant weight on the fact that most (if not all) of these domestic claims will be prosecuted by class action attorneys on behalf of a multitude of institutional investors,³ whether or not VRS undertakes an active role involvement in the litigation. Consequently, the default position for VRS in connection with domestic securities litigation is to simply file claims in connection with the settlement of securities litigation class action matters based on VRS holdings in the affected securities.

¹ Article V, section A (20) of the Board Governance Policy delegates authority to the Director to issue final case decisions regarding applications for disability retirement and other matters that have been appealed pursuant to the Administrative Process Act.

VRS will consider ~~an active role~~ involvement in securities litigation typically in those cases where (i) VRS has experienced a significant loss related to illegal conduct, fraud, or willful wrongdoing, (ii) active involvement could provide added value to VRS (e.g., in the form of a higher recovery than if VRS was not involved), either in the specific case or on a longer-term, portfolio-wide basis, or (iii) in the case of foreign litigation ~~where~~, active involvement is the only avenue for recovery. For the purposes of this policy and as a general guideline, a loss is significant when it exceeds three basis points of the total fund value ("Loss Threshold"). The decision to ~~take an active role~~ become actively involved in any securities litigation requires a balancing of the costs and benefits involved.

1. Domestic Securities Litigation

In considering whether to ~~take an active role~~ become actively involved in domestic securities litigation, VRS ~~should~~ will also assess the long-term consequences of litigation as well as the impact of litigation on staff productivity. VRS will appoint outside counsel with expertise in securities litigation to assist in determining whether fraud or willful wrongdoing has occurred in connection with the acquisition or ownership of its investments. Outside counsel will identify significant cases that should be brought to the Board's attention and, if the Board decides to ~~take an active role~~ become actively involved in the case, ~~to~~ will help evaluate an appropriate litigation strategy.²

2. Foreign Securities Litigation

The landscape of United States securities laws drastically changed with the Supreme Court decision in *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010). Under *Morrison*, investors no longer have the protection of the U.S. securities laws if the securities were purchased on a foreign exchange. After the *Morrison* decision, it is no longer possible to pursue a recovery in securities litigation in a foreign jurisdiction as a "free rider" as part of a class action, and an affirmative decision to participate in the class is typically required. Generally, in cases pending in foreign jurisdictions, VRS will only consider recovery methods that do not involve any risk that VRS would be liable for any expenses if the litigation were unsuccessful. For example, in most cases, VRS would not consider pursuing recovery in a foreign jurisdiction where the losing party in litigation pays the prevailing party's fees and costs. However, VRS ~~might~~ will consider such foreign litigation if there was-is insurance or other indemnification protections in place to cover the potential "loser pays" liability.

3. Other Litigation

On relatively rare occasions, other types of litigation affect VRS that are not related to securities litigation for investments in which VRS has incurred a loss. For example, VRS may be a defendant in litigation, and the outcome of the litigation could affect the assets in the trust fund. While these types of cases are relatively rare and arise under unique facts and circumstances, the

² See "Selection of Counsel" in section II(C)(2).

same guiding principle applies to the strategic decisions that may be involved in their resolution.

III. **GUIDELINES**

A. ~~PROXY VOTING~~

~~VRS should contract out the development of proxy voting positions to a Proxy Voting Service Provider. The decision by VRS staff to hire an outside Proxy Voting Service Provider should be based on a thorough review of the provider's proxy voting policies. These proxy voting policies must be based on sound economic analysis and research of proxy issues and driven solely by the objective of enhancing and protecting shareholder returns. VRS staff should review and evaluate the Proxy Voting Service Provider used by VRS from time to time.~~

~~Generally, VRS policy mandates that the Proxy Voting Service Provider vote all proxies. Exceptions to this policy include commingled or mutual funds where proxy policies are part of the fund documentation and certain separate accounts where proxy voting is part of the firm's investment strategy. VRS staff should review the proxy voting policies of such managers for overall reasonableness and should use the results of this review as a manager evaluation criterion.~~

~~VRS staff should provide to the Board from time to time a review and evaluation of the VRS Proxy Voting Service Provider.~~

B.A. **VRS AS LONG-TERM INVESTOR**

It is expected that VRS will align itself with certain oversight organizations with an eye toward creating and improving economic value for shareholders. This will provide VRS with access to multiple, cost-effective tools for promoting good corporate governance at portfolio companies and for monitoring regulatory organizations such as the Securities and Exchange Commission. Moreover, membership will provide information and analysis about potential litigation, corporate governance issues, and best practices and solutions going forward.

C.B. **LITIGATION**

1. Filing Proofs of Claim

The VRS custodial bank is responsible for filing all proofs of claim, including the necessary supporting documents and information, in every securities class action pending in the U.S. in which VRS has an interest (the "Claims Filing"). To memorialize the custodian's Claims Filing responsibilities, the Chief Investment Officer ("CIO") shall prepare and revise, as appropriate, a statement of work to be included with the custodial agreement setting out formal Claims Filing procedures for the custodial bank to follow. These procedures shall include:

- i. Identifying and reviewing all class action recoveries for which VRS is eligible (whether by settlement or trial);
- ii. Providing timely notice of each settlement recovery, with sufficient time to allow VRS to opt out;

- iii. Filing complete and accurate proof of claim forms in a timely fashion on behalf of VRS;
- iv. Providing quarterly reports regarding these efforts; ~~and~~
- v. Providing quarterly reports identifying all securities litigation proceeds recovered by VRS directly or on its behalf.

Alternatively, the VRS Board may elect to use a third-party vendor to be responsible for the Claims Filing activities.

2. Selection of Counsel

VRS has undertaken an open procurement process to select a number of outside counsel firms to provide legal advice related to investments and has entered into contractual agreements with each of the firms. Pursuant to this policy, VRS staff is authorized to select which of these firms ~~should~~ will assist with a specific action depending on the facts and circumstances of each case. Criteria may include the firm's expertise in a particular area of law, the firm's analysis of a specific case, the firm's fee structure, or the firm's recommended strategy.

3. Class Actions - Securities Listed on a Domestic Exchange

The Board desires to create an evaluation policy that provides guidance regarding when and how VRS will become actively involved in domestic securities litigation, including seeking lead plaintiff status. The VRS Board adopts this policy to place itself, the CIO and the Director, with the advice of counsel, in the best position to identify, protect, and serve the best interests of VRS.

The following is an outline of the procedures to assist in decisions regarding domestic securities litigation issues.

i. Monitoring and Evaluation Procedures

VRS may retain a vendor specializing in identifying and analyzing potential and existing securities cases to perform this function, and to report its findings on a timely basis. VRS also retains law firms as outside counsel to monitor and advise VRS of recently -filed class actions that appear to have merit and for which VRS has sustained a loss that (i) exceeds its Loss Threshold or (ii) is substantial and involves unique factors justifying the involvement of VRS regardless of the Loss Threshold.

When a case meets the Loss Threshold for active ~~management involvement by VRS~~, VRS staff, in consultation with the eOffice of the Attorney General ("OAG") and outside counsel, shall evaluate whether the class action is meritorious and deserves closer examination. The evaluation shall include a review of available information regarding the lawsuit before considering whether to seek lead plaintiff status or embark on some other active claim management strategy (e.g., opting out of the class and pursuing a separate claim).

ii. Decision-making Process

Absent a loss exceeding the Loss Threshold or unusual and compelling circumstances, the VRS Board will not consider pursuing any active claim management strategy for any given case without the concurrence of ~~the Office of the Attorney General ("OAG")~~. VRS staff should work with outside counsel to evaluate securities litigation options available to VRS on a case-by-case basis. VRS may also engage other vendors to monitor and identify potential securities litigation cases. These outside entities should forward material pertaining to such cases to VRS for further review and evaluation under the guidance contained in this policy.

The VRS Board will only consider ~~taking an active role becoming actively involved~~ in domestic securities litigation in accordance with the "Monitoring and Evaluation Procedures" described above.

If these initial criteria are met, VRS staff should coordinate its analysis with outside counsel to ensure that the situation meets the VRS criteria. If so, VRS staff and outside counsel should forward relevant information and a recommended course of legal action to VRS investment staff for review and evaluation consistent with the guidance contained in this policy. Following this review and evaluation, VRS staff should only forward a recommendation to pursue legal action to the VRS Board for those cases that are considered appropriate under this policy. A case that does not exceed the Loss Threshold is presumed not to be an appropriate case to forward to the VRS Board absent unusual or compelling circumstances.

In most cases, decisions regarding whether to become actively involved a given domestic securities case must be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified and provided a summary of the action taken by the Director and CIO as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. This procedure may also be used for other time-sensitive decisions related to securities litigation where it is deemed in the best interests of the plan to do so, to the extent such decisions are in conformance with this policy.

If the VRS Board (or its designees under this policy) approves a recommendation to ~~pursue an active role become actively involved~~ in a given domestic securities case, VRS will work with outside counsel to pursue an agreed-upon litigation or active claim management strategy.

The VRS Board should receive an annual report on the total asset recoveries from securities litigation received during the year, including a status report on any litigation in which VRS is the lead plaintiff.

iii. Settlement or Other Disposition/Resolution

In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with~~ the Director and CIO, ~~and with the advice of counsel, is authorized to make the decision.~~ The VRS Board shall be notified and provided a summary of the action taken by the Director and CIO as soon as practicable upon the exercise of such authority; ~~and the VRS Board shall receive a summary of the action at its next regular meeting.~~

4. **Class Actions - Securities Listed on a Foreign Exchange**

Given the ~~new realities~~structure of global securities litigation after *Morrison*, VRS must ~~adapt to the new challenges of monitoring~~ its portfolio to ensure that opportunities to recover assets based on securities fraud are not lost. This includes the analysis of whether to participate in an action in a foreign jurisdiction or to bring a state law action.

i. Participation in a Foreign Action

Unlike the class action process in the United States where investors can remain absent, receive notice of a settlement, and then decide to file a proof of claim or opt-out of the class action case, foreign actions generally require investors to join as named plaintiffs or "opt-in" at the commencement of the case. This "opt-in" process will require affirmative decisions by VRS early in the process to join the case (and sometimes prior to the case being filed) to recover anything on its losses.

~~There are select foreign jurisdictions such as Australia, Japan and possibly other emerging jurisdictions where participation is very similar to the claims filing process in domestic actions. For example,~~ In general, VRS will only participate in foreign securities litigation when participation does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful (i.e.e.g., no "loser pays" rule or the "loser pays" risk is assumed by a third party), and VRS could assume a passive role in its participation in the case after an initial filing of transactional data supporting the VRS claim. Under those circumstances, the Loss Threshold does not come into play as the only way for VRS to participate in a foreign case to maximize its potential recovery on actionable losses is to take affirmative action.

~~In the case of jurisdictions (such as Australia and Japan) where participation in a foreign action does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful,~~ VRS staff should obtain assurances and recommendations from its outside counsel and the OAG in the review and evaluation of foreign actions ~~in those jurisdictions~~. In cases where there is no risk that VRS will be liable for expenses in the event of a loss, the decision to participate in a foreign action may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the

Director and CIO, ~~and with the advice of counsel, is authorized to make the decision to participate in a foreign action.~~ The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting.~~ Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.

ii. Participation in State Law Actions

Another option that is sometimes available with a foreign loss is to bring an action under state law in the United States. Because there are numerous issues that must be considered beforehand, the VRS Board should consider an action under state law only under very rare circumstances and after extensive consultation with staff, OAG, and outside counsel. In most cases, decisions regarding bringing a state law action related to a given foreign case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision.~~ The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting.~~

iii. Settlement or Other Disposition/Resolution

In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such settlement or other disposition, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision.~~ The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting.~~

iv. Monitoring Procedures

VRS recognizes the importance of developing a protocol to stay informed and make prudent decisions relating to its involvement in foreign actions. VRS will use outside counsel and other entities to assist in monitoring foreign actions. This will ensure that VRS has the greatest possible visibility into applicable deadlines so VRS can make a timely and informed decision on whether to participate in a given foreign action and in what manner such participation will occur.

The VRS Board should receive an annual report on the total asset recoveries from foreign

securities litigation received during the year.

5. Other Litigation

In all other types of litigation, with the exception of cases under the Administrative Process Act, such as those cases where VRS is a defendant and settlement negotiations may be ongoing, VRS staff will submit recommendations for actions (e.g., approval of a settlement), in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with~~ the Director and CIO, ~~and~~ with the advice of counsel, ~~are~~ authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting~~. Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.

III. INTERPRETATION ~~interpretation~~

The Board of Trustees intends that this Policy should be construed broadly to provide the flexibility necessary for VRS to take immediate action where it is required to protect the best interests of the Fund's members, retirees and beneficiaries. In all cases, any such action must be reported to the Board at the earliest practicable opportunity and the Board shall receive a summary ~~ized of the action at the next regular meeting of the Board~~.

BOARD OF TRUSTEES' PROXY VOTING ~~AND LITIGATION~~ POLICY

GUIDING PRINCIPLE

The guiding principle for the Virginia Retirement System's ("VRS") proxy voting ~~and litigation activity~~ is fiduciary responsibility, only taking actions that are in the best interest of the plan's participants and beneficiaries.

I. POLICY STATEMENT

A. PROXY VOTING

It is the policy of VRS to review all proxy issues carefully and to vote them in the best interest of the participants and beneficiaries of the fund. The Board should review a report on VRS proxy voting from time to time, which includes an evaluation of any outside Proxy Voting Service Provider.

B. VRS AS LONG-TERM INVESTOR

VRS should act like an owner of companies in which it invests by encouraging long-term value creation. However, the costs of becoming an active investor must be considered. VRS should always seek cost-effective means for acting as an owner. VRS can share the costs of any shareholder activism by joining organizations made up of other similar institutional investors who are also concerned about creating and improving economic value for shareholders.

~~C. LITIGATION~~

~~Other than cases brought under the Virginia Administrative Process Act,[†] the most common type of litigation that affects VRS directly is securities litigation class actions for investments in which VRS has incurred a loss. From time to time other types of litigation will arise, including cases where VRS is a defendant and cases brought under the Virginia Fraud Against Taxpayers Act (*Code of Virginia* § 8.01-216.1 et seq.). While VRS acknowledges that there are situations that may give rise to a fiduciary duty to pursue legal action on its own to recover on a claim, VRS also places significant weight on the fact that most (if not all) of these domestic claims will be prosecuted by class action attorneys on behalf of a multitude of institutional investors, whether or not VRS undertakes an active role. Consequently, the default position for VRS in connection with domestic securities litigation is to simply file claims in connection with the settlement of securities litigation class action matters based on VRS holdings in the affected securities.~~

~~[†] Article V, section A (2) of the Board Governance Policy delegates authority to the Director to issue final case decisions regarding applications for disability retirement and other matters that have been appealed pursuant to the Administrative Process Act.~~

~~VRS will consider an active role in securities litigation typically in those cases where (i) VRS has experienced a significant loss related to illegal conduct, fraud, or willful wrongdoing, (ii) active involvement could provide added value to VRS (e.g., in the form of a higher recovery than if VRS was not involved), either in the specific case or on a longer-term, portfolio-wide basis, or (iii) in the case of foreign litigation where active involvement is the only avenue for recovery. For the purposes of this policy and as a general guideline, a loss is significant when it exceeds three basis points of the total fund value ("Loss Threshold"). The decision to take an active role in any securities litigation requires a balancing of the costs and benefits involved.~~

~~In considering whether to take an active role in securities litigation, VRS should also assess the long-term consequences of litigation as well as the impact of litigation on staff productivity. VRS will appoint outside counsel with expertise in securities litigation to assist in determining whether fraud or willful wrongdoing has occurred in connection with the acquisition or ownership of its investments. Outside counsel will identify significant cases that should be brought to the Board's attention and, if the Board decides to take an active role in the case, to help evaluate an appropriate litigation strategy.²~~

~~The landscape of United States securities laws drastically changed with the Supreme Court decision in *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010). Under *Morrison*, investors no longer have the protection of the U.S. securities laws if the securities were purchased on a foreign exchange. After the *Morrison* decision, it is no longer possible to pursue a recovery in securities litigation in a foreign jurisdiction as a "free rider" as part of a class action, and an affirmative decision to participate in the class is typically required. Generally, in cases pending in foreign jurisdictions, VRS will only consider recovery methods that do not involve a risk that VRS would be liable for any expenses if the litigation were unsuccessful. For example, in most cases, VRS would not consider pursuing recovery in a foreign jurisdiction where the losing party in litigation pays the prevailing party's fees and costs. However, VRS might consider such foreign litigation if there was insurance in place to cover the potential "loser pays" liability.~~

~~On relatively rare occasions, other types of litigation affect VRS that are not related to securities litigation for investments in which VRS has incurred a loss. For example, VRS may be a defendant in litigation, and the outcome of the litigation could affect the assets in the trust fund. While these types of cases are relatively rare and arise under unique facts and circumstances, the same guiding principle applies to the strategic decisions that may be involved in their resolution.~~

IL GUIDELINES

A. PROXY VOTING

VRS should contract out the development of proxy voting positions to a Proxy Voting Service Provider. The decision by VRS staff to hire an outside Proxy Voting Service Provider should be based on a thorough review of the provider's proxy voting policies. These proxy voting policies must be based on sound economic analysis and research of proxy issues and driven solely

²See "Selection of Counsel" in section II(C)(2).

by the objective of enhancing and protecting shareholder returns. VRS staff should review and evaluate the Proxy Voting Service Provider used by VRS from time to time.

Generally, VRS policy mandates that the Proxy Voting Service Provider vote all proxies. Exceptions to this policy include commingled or mutual funds where proxy policies are part of the fund documentation and certain separate accounts where proxy voting is part of the firm's investment strategy. VRS staff should review the proxy voting policies of such managers for overall reasonableness and should use the results of this review as a manager evaluation criterion.

VRS staff should provide to the Board from time to time a review and evaluation of the VRS Proxy Voting Service Provider.

B. **VRS AS LONG-TERM INVESTOR**

It is expected that VRS will align itself with certain oversight organizations with an eye toward creating and improving economic value for shareholders. This will provide VRS with access to multiple, cost-effective tools for promoting good corporate governance at portfolio companies and for monitoring regulatory organizations such as the Securities and Exchange Commission. Moreover, membership will provide information and analysis about corporate governance issues, best practices and solutions going forward.

~~C. **LITIGATION**~~

~~1. **Filing Proofs of Claim**~~

~~The VRS custodial bank is responsible for filing all proofs of claim, including the necessary supporting documents and information, in every securities class action pending in the U.S. in which VRS has an interest (the "Claims Filing"). To memorialize the custodian's Claims Filing responsibilities, the Chief Investment Officer ("CIO") shall prepare and revise, as appropriate, a statement of work to be included with the custodial agreement setting out formal Claims Filing procedures for the custodial bank to follow. These procedures shall include:~~

- ~~i. Identifying and reviewing all class action recoveries (whether by settlement or trial)~~
- ~~ii. Providing timely notice of each settlement recovery, with sufficient time to allow VRS to opt out~~
- ~~iii. Filing complete and accurate proof of claim forms in a timely fashion on behalf of VRS~~
- ~~iv. Providing quarterly reports regarding these efforts~~
- ~~v. Providing quarterly reports identifying all securities litigation proceeds recovered by VRS directly or on its behalf~~

~~Alternatively, the VRS Board may elect to use a third-party vendor to be responsible for the Claims Filing activities.~~

~~2. **Selection of Counsel**~~

~~VRS has undertaken an open procurement process to select a number of outside counsel firms to provide legal advice related to investments and has entered into contractual agreements with each of the firms. Pursuant to this policy, VRS staff is authorized to select which of these firms should assist with a specific action depending on the facts and circumstances of each case. Criteria may include the firm's expertise in a particular area of law, the firm's analysis of a specific case, or the firm's recommended strategy.~~

~~3. —~~ **Class Actions — Securities Listed on a Domestic Exchange**

~~The Board desires to create an evaluation policy that provides guidance regarding when and how VRS will become actively involved in domestic securities litigation, including seeking lead plaintiff status. The VRS Board adopts this policy to place itself, the CIO and the Director, with the advice of counsel, in the best position to identify, protect, and serve the best interests of VRS.~~

~~The following is an outline of the procedures to assist in decisions regarding domestic securities litigation issues.~~

~~i. —~~ Monitoring and Evaluation Procedures

~~VRS may retain a vendor specializing in identifying and analyzing potential and existing securities cases to perform this function, and to report its findings on a timely basis. VRS also retains law firms as outside counsel to monitor and advise VRS of recently filed class actions that appear to have merit and for which VRS has sustained a loss that (i) exceeds its Loss Threshold or (ii) is substantial and involves unique factors justifying the involvement of VRS regardless of the Loss Threshold.~~

~~When a case meets the Loss Threshold for active management, VRS staff, in consultation with the office of the Attorney General ("OAG") and outside counsel, shall evaluate whether the class action is meritorious and deserves closer examination. The evaluation shall include a review of available information regarding the lawsuit before considering whether to seek lead plaintiff status or embark on some other active claim management strategy (e.g., opting out of the class and pursuing a separate claim).~~

~~ii. —~~ Decision-making Process

~~Absent a loss exceeding the Loss Threshold or unusual and compelling circumstances, the VRS Board will not consider pursuing any active claim management strategy for any given case without the concurrence of the Office of the Attorney General ("OAG"). VRS staff should work with outside counsel to evaluate securities litigation options available to VRS on a case-by-case basis. VRS may also engage other vendors to monitor and identify potential securities litigation cases. These outside entities should forward material pertaining to such cases to VRS for further review and evaluation under the guidance contained in this policy.~~

~~The VRS Board will only consider taking an active role in litigation in accordance with~~

the "Monitoring and Evaluation Procedures" described above.

~~If these initial criteria are met, VRS staff should coordinate its analysis with outside counsel to ensure that the situation meets the VRS criteria. If so, VRS staff and outside counsel should forward relevant information and a recommended course of legal action to VRS investment staff for review and evaluation consistent with the guidance contained in this policy. Following this review and evaluation, VRS staff should only forward a recommendation to pursue legal action to the VRS Board for those cases that are considered appropriate under this policy.~~

~~In most cases, decisions regarding a given case must be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. This procedure may also be used for other time-sensitive decisions related to securities litigation where it is deemed in the best interests of the plan to do so, to the extent such decisions are in conformance with this policy.~~

~~If the VRS Board (or its designees under this policy) approves a recommendation to pursue an active role in a given case, VRS will work with outside counsel to pursue an agreed-upon litigation or active claim management strategy.~~

~~The VRS Board should receive an annual report on the total asset recoveries from securities litigation received during the year, including a status report on any litigation in which VRS is the lead plaintiff.~~

~~iii. Settlement or Other Disposition/Resolution~~

~~In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting.~~

~~4. Class Actions – Securities Listed on a Foreign Exchange~~

~~Given the new realities of global securities litigation after *Morrison*, VRS must adapt to the new challenges of monitoring its portfolio to ensure that opportunities to recover assets based~~

~~on securities fraud are not lost. This includes the analysis of whether to participate in an action in a foreign jurisdiction or to bring a state law action.~~

~~i. Participation in a Foreign Action~~

~~Unlike the class action process in the United States where investors can remain absent, receive notice of a settlement, and then decide to file a proof of claim or opt-out of the class case, foreign actions generally require investors to join as named plaintiffs or "opt-in" at the commencement of the case. This "opt-in" process will require affirmative decisions by VRS early in the process to join the case (and sometimes prior to the case being filed) to recover anything on its losses.~~

~~There are select foreign jurisdictions such as Australia, Japan and possibly other emerging jurisdictions where participation is very similar to the claims filing process in domestic actions. For example, participation does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful (i.e., no "loser pays" rule or the risk is assumed by a third party), and VRS could assume a passive role in its participation in the case after an initial filing of transactional data supporting the VRS claim. Under those circumstances, the Loss Threshold does not come into play as the only way for VRS to participate in a foreign case to maximize its potential recovery on actionable losses is to take affirmative action.~~

~~In the case of jurisdictions (such as Australia and Japan) where participation in a foreign action does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful, VRS staff should obtain assurances and recommendations from its outside counsel and the OAG in the review and evaluation of foreign actions in those jurisdictions. In cases where there is no risk that VRS will be liable for expenses in the event of a loss, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision to participate in a foreign action. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.~~

~~ii. Participation in State Law Action~~

~~Another option that is sometimes available with a foreign loss is to bring an action under state law in the United States. Because there are numerous issues that must be considered beforehand, the VRS Board should consider an action under state law only under very rare circumstances and after extensive consultation with staff, OAG, and outside counsel. In most cases, decisions regarding bringing a state law action related to a given foreign case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is~~

~~authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting.~~

~~iii. Settlement or Other Disposition/Resolution~~

~~In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such settlement or other disposition, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting.~~

~~iv. Monitoring Procedures~~

~~VRS recognizes the importance of developing a protocol to stay informed and make prudent decisions relating to its involvement in foreign actions. VRS will use outside counsel and other entities to assist in monitoring foreign actions. This will ensure that VRS has the greatest possible visibility into applicable deadlines so VRS can make a timely and informed decision on whether to participate in a given foreign action and in what manner such participation will occur.~~

~~The VRS Board should receive an annual report on the total asset recoveries from foreign securities litigation received during the year.~~

~~5. Other Litigation~~

~~In all other types of litigation, with the exception of cases under the Administrative Process Act, such as those cases where VRS is a defendant and settlement negotiations may be ongoing, VRS staff will submit recommendations for actions (e.g., approval of a settlement), in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.~~

~~6. Interpretation~~

~~The Board of Trustees intends that this Policy should be construed broadly to provide the flexibility necessary for VRS to take immediate action where it is required to protect the best interests of the Fund's members, retirees and beneficiaries. In all cases, any such action must be reported to the Board at the earliest practicable opportunity and summarized at the next regular meeting of the Board.~~



Approve changes to Investment Professionals' Pay Plan and the Defined Contribution Incentive Plan.

Requested Action

The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan ("Pay Plan"), effective February 10, 2024, and an amended Defined Contribution Incentive Plan (DCIP), effective July 1, 2023.

Description/Background

The VRS Board of Trustees approved the current Pay Plan on September 21, 2023, effective December 10, 2023, and the current DCIP on September 22, 2022, effective January 1, 2023.

Rationale for Requested Action

The proposed amendments to the DCIP make technical amendments to remove references to a position that no longer exists at VRS (Chief Managing Director), add references to a Deputy Chief Investment Officer (Deputy CIO), and make other clarifying amendments proposed by outside counsel to update existing provisions to align with the provisions of the SECURE 2.0 Act, including increasing contribution limits and cash-out amounts and updating language regarding required minimum distributions and withdrawals without tax penalties.

The proposed amendments to the DCIP are made retroactive to the beginning of the DCIP plan year, which began on July 1, 2023.

The proposed amendments to the Pay Plan make several changes.

First, the amendments make the provisions of the Pay Plan consistent with the terms of the DCIP and federal contribution limits, providing that any portion of an incentive award for the Chief Investment Officer (CIO) that cannot be contributed to the DCIP due to Internal Revenue Code contribution limits will be contributed to the § 415(m) plan.

Second, based on recommendations contained in the McLagan Investment Compensation Program Review dated January 2024, the amendments make changes to the Pay Plan to better align with market data. The changes include:

- Increasing the salary range for the CIO.
- Including a description of and salary range for a Deputy CIO position in the event such a position is added at a later date for succession management purposes.

Finally, there are numerous non-substantive editorial amendments made throughout the Pay Plan to standardize and update the language of the DCIP and Pay Plan.

Outside benefits counsel and VRS staff collaborated on the amended and restated Pay Plan and DCIP.

Redlined versions of the revised Pay Plan and DCIP are attached.

Authority for Requested Action

Code of Virginia § 51.1-124.22(A)(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



**VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN**

Effective ~~December~~February 10-10, 20234

OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees ([Board](#)) has designed this [Investment Professionals' Pay Plan \(Plan\)](#) after working with an independent compensation consultant. In addition, the Board has adopted benchmarks, recommended by an independent investment consultant, to be used as part of this [pay Plan](#).

This [Pay Plan](#) includes three core elements:

- Base Salary (described in Section I [of this document](#))
- Incentive Pay [Plan](#) (described in Section II)
- Deferred Compensation Plan for VRS [Investment Management](#) Personnel (DCPIP) (described in Section III)

Overall, this [pay Plan](#) is designed to:

- Attract, motivate, and retain skilled investment professionals by offering competitive compensation opportunities.
- Directly align compensation with long-term, superior relative and absolute investment performance.
- Reinforce risk management priorities and standards.
- Attract and retain senior investment professionals by deferring a portion of incentive compensation on a tax-deferred basis.
- Benefit all stakeholders – VRS' beneficiaries, VRS' employees, and Virginia's taxpayers – through a compensation plan that is clear, aligned with performance, competitive and cost effective.

Importantly, this [pay Plan](#) anchors on two broad and long-standing philosophical principles:

1. VRS should pay base salaries consistent with the 75th percentile of a peer group of other leading public funds. The primary guidelines for determining VRS' leading public fund peer group will be (1) funds of similar size (AUM) as VRS and (2) funds with significant (>25%) assets managed internally. Additional criteria the Board may consider is asset allocation / diverse portfolio similar to VRS, degree of delegation to the [Chief Investment Officer \(CIO\)](#) and staff, use of outside investment consultants, and Board pay decision making authority.
2. VRS should provide incentive compensation opportunities such that, in combination with base salary, total compensation levels approximate the median (50th percentile) of a blended group weighted 75% to the total compensation levels of leading peer group public funds and 25% to the total compensation levels of a broad range of private-sector firms that employ investment professionals.

I. Base Salary

SALARY RANGES

This [pay Plan](#) establishes a salary range for each job class taking into account its relative importance to VRS and the salaries paid for comparable types of jobs in other leading public funds.

Minimum, midpoint, and maximum salary rates define the salary range for each job class/position. The midpoint of each job class/position approximates the 75th percentile of salaries of a peer group of leading public pension funds. Actual salaries can be higher or lower than the midpoint depending on factors such as job performance, professional education and certifications, the willingness to assume new and higher-level duties and responsibilities, the ability to learn quickly and apply new knowledge and skills, being a team player, and the length of time in the position.

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Each position's salary range includes a defined:

- **Minimum** - the lowest base salary paid for a job within the job class/position.
- **Midpoint** - represents the market salary paid to a fully qualified employee, who has the institutional knowledge and practical experience to fulfill independently all of the responsibilities of the job/position.
- **Maximum** - the highest salary rate for the job class/position.

Grade	Position	Salary Range (\$ Thousands)		
		Min (\$)	Mid (\$)	Max (\$)
10 11	Chief Investment Officer	\$365,479	\$483,557	\$607,257
		\$373,000	\$498,000	622,000
10	Deputy Chief Investment Officer	\$338,000	\$450,000	\$563,000
9	Managing Director	\$309,252	\$410,461	\$511,671
8	Program Director	\$264,270	\$354,234	\$444,198
7	Director – Strategy, Research, Risk and/or Investment Decision Support	\$230,533	\$309,252	\$387,970
6	Senior Portfolio Manager	\$230,533	\$309,252	\$387,970
5	Portfolio Manager	\$179,928	\$241,779	\$303,629
4	Senior Investment Officer	\$151,815	\$202,419	\$253,292
3	Investment Officer	\$118,078	\$157,437	\$196,797
2	Senior Investment Analyst	\$89,964	\$118,078	\$146,192
1	Investment Analyst	\$73,096	\$95,587	\$118,078

In considering the above salary range, it important to note the following:

- **Market Pay Reviews:** The VRS normally conducts a comparative market total pay study generally every two to three years to ensure competitiveness of the salary and incentive structures. Typically, the VRS conducts the study in the 1st quarter of the calendar year with an effective date of July 1 (the beginning of the fiscal year).
- **Changes in Salary Ranges:** The Board must approve changes to the salary scale and incentive structure.

Salary Adjustments

Oversight & Administration

VRS will implement pay actions consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, consistent with the Code of Virginia and the Appropriation Act. The ~~Chief Investment Officer (CIO)~~ approves salary adjustments for individual investment professionals and, as described later in ~~this document~~ the Plan, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

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Merit Increases

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees' pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their

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base salary for that performance cycle. Performance cycles are on a fiscal year basis (July 1 through June 30) and typically begin with an effective date of performance plans in the first quarter of the new fiscal year.

- The CIO will receive base salary increases as approved by the VRS Board ~~of Trustees~~ and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board ~~of Trustees~~.

Starting Salaries

The starting salary for a new employee considers the rates presently paid to other employees in the department and those in the same job class (when applicable), the candidate's education, skills, work experience, and salary history. The starting salary normally does not exceed the salary grade midpoint.

Reallocation

Reallocation occurs when a job classification is reviewed by Human Resources, and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

In-grade Adjustments

In-grade adjustments occur to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, obtainment of a degree or certification, or significant increases in responsibilities within the job class. Unless the CIO authorizes an exception, adjustments will not exceed a 10% increase.

Promotions

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation). Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

Downward Assignment

Downward adjustment occurs when an employee changes positions whether voluntarily, or because of unsatisfactory performance, resulting in a downward change in job class. A reduction in salary may occur based on a review of the salary and range and the circumstances associated with the downward move. In downward assignments, an individual's salary cannot exceed the maximum of the new salary range.

II. Incentive Pay ~~Plan~~

PLAN ADMINISTRATION

The VRS Board of Trustees, ~~as the~~ Plan Administrator, administers incentive pay under the Plan through the Administration, Finance and Talent Management (AFT) Committee, ~~administers the Incentive Plan (Plan)~~ and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supports ~~ive of~~ the ~~pay P~~plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this ~~P~~plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.

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- Consistent with the preceding paragraph, payment of incentives under this ~~P~~plan is not guaranteed.

The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible ~~for incentive pay under the to participate in this incentive P~~plan, provided they:

- Are active VRS employees.
- Work for VRS at least forty hours per week. Plan participants who work less than full-time may be eligible to receive a prorated incentive payment. Wage employees are not eligible to participate in the ~~P~~plan.
- Receive an individual performance evaluation of at least "meets expectations" for the relevant performance year (i.e., the year preceding the normally scheduled year of payment).
- Remain in compliance with the VRS Investment Department Code of Ethics and Standards of Professional Conduct Policy.

Chief Investment Officer

Deputy Chief Investment Officer

Managing Director – Portfolio Solutions Group

Managing Director – Private Market Assets and Defined Contribution (DC)~~C~~ Plans

Managing Director – Public Market Assets

Program Director

Director – Strategy, Research, Risk and/or Investment Decision Support

Senior Portfolio Manager

Portfolio Manager

Senior Investment Officer

Investment Officer

Senior Investment Analyst

Investment Analyst

The CIO will determine the design of the incentive ~~pay plan~~ structure for the positions supporting the ~~Defined Contribution~~DC Plans, with both quantitative and qualitative elements.

Generally, employees on an approved leave of absence are considered active employees. The CIO will resolve all questions regarding eligibility, or in the case of the CIO, eligibility will be determined by the Board.

Participation in this Plan in any one year does not confer the right to participate in this Plan in any other year or to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

OVERALL INCENTIVE PLAN MECHANICS

As described in more detail throughout this document, under the terms of this Plan:

Investment Professionals' Pay Plan**Effective ~~December~~ February 10, 2024**

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.

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- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
 1. Total Fund relative investment performance
 2. Asset Class relative investment performance
 3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
 4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.
- Each participant's preliminary award would equal the sum of all of their performance adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute return. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +9.75%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for a return less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.
- ~~50% of eligible senior staff members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute return.~~
- ~~All other awards paid in cash.~~

Generally, a participant must be employed on the date of payment of the award. However, see INCENTIVE PLAN PROVISIONS, *Termination of Employment Due to Death, Disability or Retirement*.

INCENTIVE OPPORTUNITIES

Incentive opportunities will vary by position based on multiple criteria:

- The position's potential effect on the VRS' investment performance.
- Competitive market pay requirements.
- Internal equity considerations.
- Other factors determined by the CIO or, in the case of the ~~Chief Investment Officer~~'s position, by VRS' Board.

Actual awards can vary based on performance.

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For the fiscal year ending June 30, 2023, and all subsequent years, unless as otherwise determined, the Plan’s incentive opportunities are as follows:

Incentive Levels	
VRS Position	Incentive ¹ (% Salary)
Chief Investment Officer	70 ²
<u>Deputy Chief Investment Officer</u>	<u>65²</u>
Managing Director – Portfolio Solutions Group	65 ²
Managing Director – Private Market Assets and DC Plans	65 ²
Managing Director – Public Market Assets	65 ²
Program Director	60 ²
Director – Strategy, Research, Risk and/or Investment Decision Support	50
Senior Portfolio Manager	50
Portfolio Manager	40
Senior Investment Officer	30
Investment Officer	30
Senior Investment Analyst	20
Investment Analyst	10

¹Performance-adjusted preliminary awards can vary from zero to two times the incentive.

²A portion, up to 50%, of the positions’ earned incentives is subject to mandatory deferral.

INCENTIVE WEIGHTINGS

Each participant’s incentive award will be weighted or allocated to separate, stand-alone Plan components. Importantly, all participants have a portion of their incentive opportunities weighted:

- To the Total Fund Plan component – which helps reinforce the importance of collective success as measured by the Total Fund’s relative investment results.
- To the Qualitative Plan component – this helps reinforce achievement of specific initiatives and professional development.

Described below are the specific Plan weightings and the approach for determining awards under each of these Plan components.

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Incentive Weightings by Plan Component					
VRS Position	Total Fund %	Asset Class Multipliers %	Asset Class %	Qualitative %	Total
		(% of total incentive weighted to each component)			
Chief Investment Officer ¹	60	20 ¹		20	100
<u>Deputy Chief Investment Officer</u>	<u>60</u>	<u>20¹</u>		<u>20</u>	<u>100</u>
Managing Director – Portfolio Solutions Group	60	20 ¹		20	100
Managing Director – Private Market Assets and DC Plans	40	40 ²		20	100
Managing Director – Public Market Assets	40	40 ³		20	100
Program Director	30	50 ⁴	50	20	100
Director – Strategy, Research, Risk and/or Investment Decision Support	30	50 ⁴		20	100
Senior Portfolio Manager	20		60	20	100
Portfolio Manager	20		60	20	100
Senior Investment Officer	20	60 ⁴	60	20	100
Investment Officer	20	60 ⁴	60	20	100
Senior Investment Analyst	20	30 ⁴	30	50	100
Investment Analyst	20	30 ⁴	30	50	100

¹Average multiplier based on the multipliers of all asset classes under the incumbent’s purview.

²The MD Private Market Assets and DC Plans average multiplier is based on the multipliers of private market asset classes under the incumbent’s purview.

³The MD Public Market Assets average multiplier is based on the multipliers of the public market asset classes under the incumbent’s purview.

⁴These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

QUANTITATIVE PLAN COMPONENTS

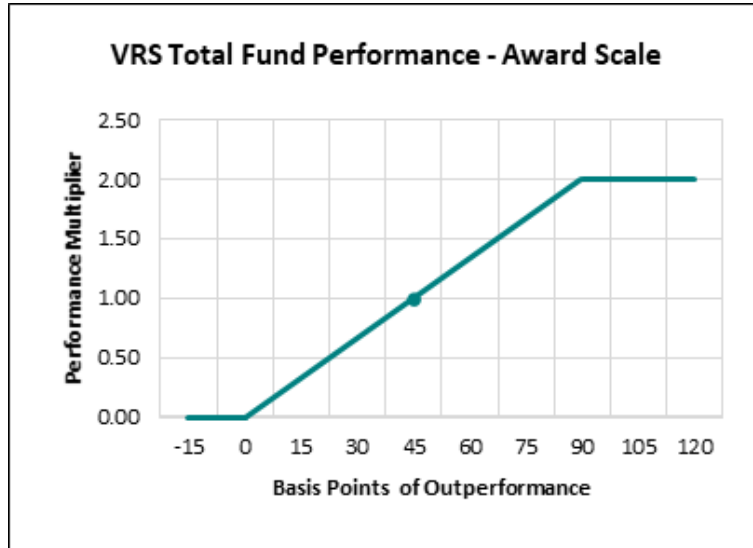
These Plan components link participants’ incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 50%).

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and miscellaneous fees.
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS’ relative investment performance:
 - Equals zero or less (i.e., no relative value added), then the VRS Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
 - Equals 45 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
 - Equals 90 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
 - Is anywhere between zero and 90 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.

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Note: The Board approved the Verus recommended excess return objective (45 basis points) for the Total Fund at the June 15, 2020 meeting with an effective date of July 1, 2020. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (30 basis points) to be used until June 30, 2020, and the new excess return objective (45 basis points) to be used from July 1, 2020 onward.



- Selected participants whose responsibilities span multiple asset classes may have a portion of their incentive weighted to a component that is determined based on the average multipliers of asset classes they support. The intent of this Plan component is to recognize and reward superior relative investment performance, regardless of the level of the associated assets.

The Board is responsible for setting the basis point outperformance standards for the Total Fund. The CIO is responsible for setting the basis point outperformance standards for individual asset classes, subject to the Board's final review and approval.

QUALITATIVE PLAN COMPONENT

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion. The CIO obtains input from applicable senior staff regarding individual performance levels to help determine the qualitative rating. The qualitative rating is separate and distinct from the individual's annual performance evaluation rating requirement for plan eligibility. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this Plan component will reflect:

- Position and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:
 - Building an effective organization
 - Enhancing investment excellence
 - Developing staff

The Board will annually determine the CIO's qualitative incentive multiplier after assessing attainment of the qualitative performance objectives, considering input and recommendations provided by the AFT Committee.

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DETERMINING PRELIMINARY AWARDS

After the end of each fiscal year, a preliminary award will be determined for each Plan participant by aggregating all of their performance multiplier-adjusted weighted Plan components. In particular:

- Performance multipliers will be determined for each Plan component based on actual results.
- Preliminary payouts under each weighted Plan component will be determined by multiplying the incentive dollars weighted to that component by the associated performance multiplier.
- Total preliminary awards would be determined by adding up all of that participant’s weighted Plan components.

Illustrated below is this approach for a position with an incentive of \$80,000.

Plan Component	Weighted Portion of Incentive		Performance Multiplier	=	
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

Preliminary Award **\$91,200**

DETERMINING FINAL AWARDS

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant’s preliminary award, up or down, based on VRS’ one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

Scenario #1: The Total Fund’s One-Year Absolute Return Is +5%

Plan Component	Weighted Portion of Incentive		Performance Multiplier	=	Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

Preliminary Award **\$91,200**
 X no adjustment **0%**

Final Award **\$91,200**

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Scenario #2: The Total Fund's One-Year Absolute Return Is 9.75%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return
Less Assumed Rate of Return **103%**

Final Award \$93,936

Scenario #3: The Total Fund's One-Year Absolute Return Is -15%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return **85%**

Final Award \$77,520

PAYING OUT FINAL AWARDS

Board Review

Prior to payout of any and/or all awards, the CIO will present a schedule of aggregate incentives to the Board of Trustees, through the AFT Committee, in advance. This report will include, in aggregate, the awards, the multipliers awarded for each component, the actual dollar awards earned for each component and the total awards. Internal Audit and Human Resources will review the calculations. As requested by the AFT Committee, the CIO will provide additional information prior to the Board approving the payout of any and/or all awards.

Final Award Payout

Final awards will be paid out as follows:

- For ~~VRS' most eligible senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid the CIO, Deputy CIO, Managing Directors, and Program Directors~~, 50% of ~~the~~ total award amounts up to the ~~specified~~ Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be ~~deferred contributed to~~ the DCIP plan. ~~For the CIO only, any portion of this amount that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan.~~ All other amounts are paid in cash. See Section III ~~of this document describes the terms of the § 415(c)(1)(A) plan.~~
- For all other Plan participants, awards are paid 100% in cash.
- _____

Timing of Cash Payouts

When the Board approves incentive awards, the VRS will make payments between July 1 and December 31 after VRS' fiscal year end.

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INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this pay plan:***
 - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
 - Promoted employees and employees who transfer into another position covered in this ~~pay~~ Plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage for each position held during the fiscal year.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of “Does Not Meet Expectations” are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). Notwithstanding any other provision of this Plan, the incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the AFT Committee for the CIO’s position, participants who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the Plan.
- ***Clawback:*** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

III. Defined Contribution Incentive Plan for VRS ~~Investment Management~~ Personnel (DCPIP)

PARTICIPATION

~~The DCIP is plan-covers, in relevant part, the VRS investment professionals who are members of the Investment Management Committee, which currently include the at or above the level of Program Director. Such positions currently include meet the definition of eligible participant. “Eligible participants” in the DCIP are the CIO, Chief Managing Director, Deputy CIO, Managing Directors, and Program Directors, including Research.~~ The Board retains the discretion to ~~modify and~~ amend, at any time, the positions that are eligible to participate in the ~~DCIP is plan~~.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- ~~Deferrals into Contributions to this plan-DCIP~~ only occur in years when VRS’ Board decides, at its full and complete discretion, to allow payment of incentive awards.
- ~~Commencing with (and including fiscal 2013), i~~n years when VRS’ Board decides to pay incentive awards, 50% of ~~the participants’~~ final awards up to specified IRC § 415(c)(1)(A) limits will be ~~deferred-contributed to into this plan the DCIP for each eligible participant. For the CIO only, any portion of the incentive award that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan.~~ All other amounts are paid in cash.

INVESTMENT RETURN

~~Participants’ Eligible participants’~~ deferred accounts in the DCPIP and, if applicable, the § 415(m) plan, will earn an “investment return” (positive or negative) equaling the current annual rate of return of the VRS Fund.

However, upon attaining age 55, the DCPIP permits ~~members of the Investment Management Committee~~ eligible participants who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion (but not all) of their account to into the Virginia Cash

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Match Plan. This transfer right allows ~~DCPIP eligible~~ participants in the DCIP at who are age 55 or older at any time after attaining age 55, to direct their own investments among the select any combination of the investment options then offered by available under the Virginia Cash Match Plan. Notwithstanding the transfer right, ~~members of the Investment Management Committee eligible participants at age 55 or older~~ must leave at least a minimal balance amount in their DCPIP account in order to keep the , to avoid having to re-open the account open for future contributions. The VRS Defined Contribution Plan Administrator will assist eligible participants with these transfers.

The CIO cannot transfer funds from the § 415(m) plan to the Virginia Cash Match Plan because the § 415(m) plan is a non-qualified "excess benefit plan" not permitted to be held in trust for the exclusive benefit of the plan participants.

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FUND TRANSFERS AND DISTRIBUTIONS

~~Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.~~

~~The eligible participant's DCIP account accumulated DCPIP trust balances will be distributed to the eligible participant as soon as administratively practicable following the last day of the quarter in which the eligible participant terminates employment with the Commonwealth of Virginia. The eligible participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust plan or IRA, or a combination of both. All payouts/distributions/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment distribution/rollover.~~

~~The distribution of the balance CIO's account in the § 415(m) plan will be made in cash to the Participant CIO within 180 days of the CIO's termination of employment, and is not eligible for rollover.~~

~~For any eligible participant who transferred a portion of their DCIP account to the Virginia Cash Match Plan, the terms of the Cash Match Plan will govern distributions.~~

All applicable laws and regulations will govern the creation, funding, and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer, which will control over any inconsistencies or discrepancies with this summary.

TAXATION

Taxation of the ~~amount~~ contributions to the DCPIP and § 415(m) plans is deferred until distribution from the respective plan.

IV. Other Compensation Plan Information

Competitive Pay Increases

Competitive pay increases are an option available to retain a highly valued employee who has received a job offer from another employer. Requests for competitive pay increases should take into consideration the employee's experience, level of education, performance and contribution to the agency, and the salaries of other employees in comparable jobs. A written job offer must be received to provide a competitive pay increase.

Sign-on Bonuses

Investment professionals hired at the VRS may be eligible for sign-on bonuses, as described in the VRS Employee Sign-on Bonus Program Policy.

Relocation Expenses

Investment professionals hired at the VRS may be eligible for reimbursement of relocation expenses, if approved by the CIO. The reimbursement of the expenses must comply with the Department of Accounts Moving and Relocation Policy.

Employment at Will

The investment employees covered by this ~~policy~~ Plan are exempt from the provisions of the Virginia Personnel Act and employment in these positions is at will. Just as the employee retains the right to resign at any time, the VRS has a similar right to end at will employment with or without cause. An at-will employee does not serve an introductory period. An at-will employee is not eligible to use the agency's grievance procedure to resolve employment disputes.

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Investment employees covered by this ~~policy~~Plan are eligible for all other employment benefits and subject to agency policies that do not contradict their "at will" status.

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409A Compliance

The intent of the Board is that payments and benefits under this Plan either comply with Section 409A of the Internal Revenue Code and applicable guidance issued thereunder ("Code Section 409A") or qualify for an exemption from Code Section 409A and, accordingly, all provisions of this Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. The Board shall not take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A to the extent Code Section 409A applies to such payment or benefit. Notwithstanding any of the provisions of this ~~pay-plan~~ Plan, the Board shall not be liable to the employee if any payment or benefit which is to be provided pursuant to this Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

CLASS STRUCTURE

The following descriptions are the summaries of VRS' investment professional job classes/positions:

Chief Investment Officer

The CIO manages and directs investment programs, determines appropriate program structure, implementation, and monitoring. The CIO/~~Chief Managing Director~~ manages investment professionals who are directly responsible for internal and external investment programs. The CIO heads the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The CIO/~~Chief Managing Director~~ collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

Deputy Chief Investment Officer

The Deputy CIO assists the CIO in managing and directing investment programs, determines appropriate program structure, implementation, and monitoring. The Deputy CIO manages investment professionals who are directly responsible for internal and external investment programs. The Deputy CIO is a member of the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The Deputy CIO collaborates with the CIO and the VRS Board-appointed Investment Advisory Committee (IAC).

Managing Director

The Managing Director is a senior investment position reporting directly to the CIO. This position serves on the Investment Executive and Management Committees. The Executive Committee is a department wide resource to the CIO for management and administrative issues. The Management Committee participates in asset allocation and manager/fund allocation decisions.

Program Director

The Program Director has deep asset class knowledge and carries full managerial responsibility for a VRS investment program, including all internally and externally managed assets. The Program Director may also support multiple asset classes. The Program Director participates on the Investment Management Committee and regularly presents information to the IAC and the Board. The Program Director, as applicable, operates within an explicit risk budget and has investment performance objectives that are regularly measured. The Program Director has full responsibility for negotiating on behalf of VRS.

Director - Strategy, Research, Risk and/or Investment Decision Support

Strategy – The position within Strategy identifies and evaluates relative value-based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2)

Investment Professionals' Pay Plan

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analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The position within Research has responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

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Risk – The position within Risk has responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of a diverse collection of strategies designed to have low or negative correlation to other VRS asset classes.

Investment Decision Support – The position within Investment Decision Support has responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development, and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

Senior Portfolio Manager

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers. The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience, and sustained performance for the incumbents.

Portfolio Manager

The Portfolio Manager provides critical input to strategy development and is responsible for the more complicated and higher risk investments. The Portfolio Manager may delegate to the Senior Investment Officer certain portions of the investment program. The Portfolio Manager will begin to negotiate terms on behalf of VRS. The Portfolio Manager, from time to time, makes presentations and recommendations to the Management Committee, and perhaps the IAC and Board.

The Portfolio Manager supporting the ~~Defined Contribution~~DC Plans is a senior investment position reporting directly to the Managing Director - Private Market Assets and DC Plans. This position provides critical input to the design, implementation, and monitoring of all investment related aspects of the VRS ~~defined-contribution~~DC ~~Plans~~Plans (DC). Responsibilities include (1) evaluation and selection of new investment strategies, managers and/or funds, (2) negotiating terms on behalf of VRS, (3) monitoring and management of relationships with existing ~~defined-contribution~~DC investment managers, (4) implementing investment policy as determined by the VRS Board, (5) presenting to the Defined Contribution Plans Advisory Committee and the Board, and (6) any other projects or duties relating to the ~~defined-contribution~~DC ~~Plans~~Plans program as may be assigned from time to time.

Senior Investment Officer

The Senior Investment Officer has higher level monitoring responsibilities that tend to involve higher risk and strategies that are more complicated. Some Senior Investment Officers may have day-to-day responsibilities for managing internal portfolios, subject to risk limits prescribed by the program director. The Senior Investment Officer will increasingly become involved in strategy development and formal recommendations to the Program Director.

Investment Officer

The Investment Officer, in addition to analytical responsibilities, may have direct responsibility for monitoring some portion of the existing portfolio, or some strategies or managers under consideration in the future. Such assignments will typically be in lower risk and less complicated strategies. The Investment Officer may continue to be involved in monitoring, compliance, and administration, but will also begin to make formal investment recommendations to the Program Director.

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Senior Investment Analyst

The Senior Investment Analyst performs various types of analysis at the direction of more senior staff members. Analyst activities are geared around providing support for senior staff members more directly involved in the decision-making process. Such activities will include research, reporting, monitoring, compliance, and administration.

Investment Analyst

The Investment Analyst assists other investment professionals in their daily operations, including investment research and analysis, trading, and portfolio management. Analysts follow and report current market information relating to assigned sectors of the market. In addition, the Analyst conducts independent research on various topics, performs data maintenance, integrity, and report generation tasks.

**DEFINED CONTRIBUTION INCENTIVE PLAN
FOR VRS PERSONNEL**

Amended and Restated Effective ~~January~~ March 1, 2023 ~~2024~~ July 1, 2023

4853-3240-2847.14851-6974-2586.3

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**DEFINED CONTRIBUTION INCENTIVE PLAN
FOR VRS PERSONNEL**

ARTICLE I.
ESTABLISHMENT AND RESTATEMENT OF PLAN

Section 1.01. Plan Establishment and History.

(a) Pursuant to the Section 51.1-124.22.A.11 the Code of Virginia ("Va. Code"), the Board of Trustees of the Virginia Retirement System ("Board") established the Defined Contribution Incentive Plan for VRS Personnel ("Plan"), effective July 1, 2002, in order to provide retirement benefits for eligible employees.

(b) The Plan is, and is intended to remain, a defined contribution plan qualified under Code Section 401(a) and a profit sharing plan within the meaning of Code Section 401(a)(27), with contributions made without regard to profits. The Plan is a governmental plan within the meaning of Code Section 414(d) and Section 3(32) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). As a governmental plan, ERISA does not apply.

(c) The Plan was most recently amended and restated effective ~~May 1, 2013~~ January 1, 2023, ~~and was amended three times thereafter.~~

Section 1.02. Plan Restatement.

(a) The Plan is now being amended and restated effective ~~January~~ March ~~July~~ 1, 2023.

(b) Except as otherwise specifically provided herein, the Plan as hereinafter set forth establishes the rights and obligations with respect to individuals who are Employees on and after ~~January~~ March ~~July~~ 1, 2023, and to transactions under the Plan on and after ~~January~~ March ~~July~~ 1, 2023. The rights and benefits, if any, of individuals who are not Employees on or after ~~January~~ March ~~July~~ 1, 2023, shall be determined in accordance with the terms and provisions of the Plan that were in effect on the date of their Severance from Employment, except as otherwise specifically provided herein or in a subsequent amendment.

ARTICLE II.
CONSTRUCTION AND DEFINITIONS

Section 2.01. Construction and Governing Law.

(a) This Plan shall be interpreted, enforced, and administered in accordance with the Code and, when not inconsistent with the Code, or expressly provided otherwise herein, the Va. Code without regard to conflict of law principles.

(b) Words used herein in the masculine gender shall be construed to include the feminine gender where appropriate, and *vice versa*, and words used herein in the singular or plural shall be construed as being in the plural or singular, where appropriate, and *vice versa*.

(c) The headings and subheadings in the Plan are inserted for convenience of reference only and are not to be considered in the construction of any provision of the Plan.

(d) If any provision of the Plan shall be held to violate the Code or be illegal or invalid for any other reason, that provision shall be deemed to be null and void, but the invalidation of that provision shall not otherwise impair or affect the Plan.

(e) In resolving any conflict between provisions of the Plan and in resolving any other uncertainty as to the meaning or intention of any provision of the Plan, the interpretation that causes the Plan to (i) constitute a qualified plan under the provisions of Code Section 401 with the earnings of the Trust exempt from income tax under Code Section 501, (ii) constitute a profit sharing plan within the meaning of Code Section 401(a)(27), (iii) be a governmental plan as defined in ERISA Section 3(32) and Code Section 414(d), and (iv) comply with all applicable requirements of the Code, shall prevail over any different interpretation.

Section 2.02. Definitions. When the initial letter of a word or phrase is capitalized herein, the meaning of such word or phrase shall be as follows:

(a) "Account" means the separate account maintained for each Participant to reflect his or her interest under the Plan attributable to his or her Employer Contributions pursuant to Section 4.01.

(b) "Administrator" means VRS; provided, however, that to the extent that VRS has delegated any of its responsibilities as Administrator to any other person or persons, the term Administrator shall be deemed to refer to that person or persons. The VRS Director shall serve as the chief administrative officer of the Plan.

(c) "Agent" means a service provider selected by the Administrator, in its sole and absolute discretion, to provide services under the Plan.

(d) "Annual Addition" means the annual addition as defined in Code Section 415(c) and as modified in Code Sections 415(l)(1) and 419A(d)(2). In general, Code Section 415(c) defines annual addition as the sum of the following amounts credited to a Participant's accounts for the Limitation Year under this Plan and any other defined contribution plan maintained by the Employer:

- (1) Employee contributions;
- (2) Employer contributions, including Employer Contributions under Section 4.01;
- (3) forfeitures;
- (4) amounts allocated to an individual medical account, as defined in Code Section 415(l)(2), which is part of a pension or annuity plan maintained by the Employer or a Related Employer, or both, as applicable; and

(5) mandatory employee contributions to a defined benefit plan maintained by the Employer unless the contributions are picked up by the Employer pursuant to Code Section 414(h)(2).

Annual Additions shall not include transfer contributions or rollover contributions.

(e) "Applicable Form" means the appropriate form as designated and furnished by the Administrator or the Agent to make any election or provide any notice required by the Plan. In those circumstances where a written election or consent is not required by the Plan or the Code, the Administrator and/or the Agent may prescribe an electronic or telephonic form in lieu of or in addition to a written form.

(f) "Beneficiary" means any person, company, trustee, or estate designated by the Participant on the Applicable Form to receive any benefits payable under the Plan in the event of the Participant's death. If the designated primary or contingent Beneficiary does not survive the Participant or there is no Beneficiary designated, the Participant's Beneficiary shall be determined in accordance with Va. Code Section 51.1-162, as follows: (i) the Participant's surviving Spouse, or if none; (ii) the Participant's children and descendants of deceased children, per stirpes, or if none; (iii) the Participant's parents equally if both living, or if none; (iv) the duly appointed executor or administrator of the Participant's estate, or if none; (v) the next of kin entitled to inherit under the laws of the Participant's domicile at the time of death. If a Beneficiary survives the Participant but dies before the entire Account has been distributed, then the unpaid balance of the Account shall be distributed to the Beneficiary's estate. Beneficiary also means an alternate payee within the meaning of Code Section 414(p)(8).

(g) "Board" means the Board of Trustees of the Virginia Retirement System.

(h) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(i) "Commonwealth" means the Commonwealth of Virginia and an agency or instrumentality thereof.

(j) "Cost-of-Living Adjustment" means the cost-of-living adjustment prescribed by the Secretary of the Treasury under Code Section 401(a)(17) or 415(d) for any applicable year.

(k) "Effective Date" of the Plan means July 1, 2002, and of this amendment and restatement means ~~January March~~ July 1, 2023.

(l) "Eligible Employee" means an Employee who is employed by VRS and is (i) the Director of VRS or (ii) a member of the Investment Management Committee. As of the Effective Date of this amendment and restatement, the Investment Management Committee includes the (i) Chief Investment Officer, (ii) Deputy Chief Investment Officer, (iii) ~~the Chief Managing Director~~, (iii) ~~Managing Directors~~, and (iv) (ivii) Program Directors, ~~including Research~~.

(m) "Employee" means any common law employee employed by an Employer. An Employee does not include an independent contractor.

(n) "Employer" means the Commonwealth.

(o) "Employer Contributions" mean the contributions made to the Plan by the Employer on behalf of a Participant pursuant to Section 4.01.

(p) "Excess Annual Additions" mean that portion of a Participant's Employer Contributions to the Plan and contributions to another 401(a) defined contribution plan maintained by the Employer or a Related Employer for a Limitation Year which exceeds the limits of Code Section 415.

(q) "Excess Benefit Plan" means the qualified governmental excess benefit arrangement under Code Section 415(m) that is described in Article XIV.

(r) "Excess Contribution" means, with respect to a Participant, the Employer contributions that would have been made for a 415(m) Participant to a 401(a) Plan for a Plan Year, but could not be made because of the application of Code Section 415(c).

(s) "HEART" means the Heroes Earnings Assistance and Relief Tax Act of 2008, as amended from time to time.

(t) "Incentive Compensation" means the incentive award approved under the Virginia Retirement System Investment Professionals' Pay Plan, as amended from time to time, or such other applicable authority, for a Plan Year.

(u) "Limitation Year" means the Plan Year.

(v) "Participant" means any Eligible Employee who is or may become eligible to receive a benefit of any type under the Plan. A Participant shall also mean, when appropriate to the context, a former Eligible Employee who is eligible to receive a benefit of any type under the Plan.

(w) "Plan" means the Defined Contribution Incentive Plan for VRS Personnel, as amended from time to time.

(x) "Plan Compensation" means all compensation as defined in Code Section 415(c)(3). In general, Code Section 415(c)(3) defines compensation as all of an Employee's wages as defined in Code Section 3401(a) for the purposes of income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)); provided, however, Plan Compensation shall also include the amount of any elective deferrals, as defined in Code Section 402(g)(3), and any amount contributed or deferred by the Employer at the election of the Employee and which is not includible in the gross income of the Employee by reason of Code Section 125, 403(b), 132(f)(4), 401(k), or 457(b). Plan Compensation for a Plan Year includes compensation paid by the later of (i) two and one-half months after an Employee's Severance from Employment, or (ii) the end of the Plan Year that includes the date of the Employee's Severance from Employment, if:

(1) the payment is regular compensation for services during the Employee's regular working hours, or compensation for services outside the Employee's regular

working hours (*e.g.*, overtime or shift differential), commissions, bonuses, or other similar payments and the payment would have been paid to the Employee prior to a Severance from Employment if the Employee had continued in employment with the Employer; or

(2) the payment is for unused accrued bona fide sick, vacation, or other leave, but only if the Employee would have been able to use the leave if the Employee had continued in employment.

Plan Compensation does not include any amounts "picked up" by the Employer within the meaning of Code Section 414(h). Plan Compensation for any Plan Year shall not exceed the limits under Code Section 401(a)(17) increased by the Cost-of-Living Adjustment.

(y) "Plan Year" means the 12 month period beginning July 1.

(z) "Related Employer" means the Employer and any other entity which is under common control with the Employer under Code Section 414(b), (c) or (m). For this purpose, the Board shall determine which entities are Related Employers based on a reasonable, good faith standard and taking into account the special rules applicable under Notice 89-23, 1989-1 C.B. 654.

(aa) "Section" means, when not preceded by the word Code, a section of the Plan.

(bb) "Severance from Employment" means the complete termination of the employment relationship between the Employee, the Employer, and any employer who participates in a retirement plan established under Chapters 1, 2, 2.1, or 3 of Title 51.1 of the Va. Code.

(cc) "Spouse" means the person to whom the Participant is legally married under federal law.

(dd) "Trust" means the Trust for the Defined Contribution Incentive Plan for VRS Personnel, which may incorporate one or more qualified trusts under Code Section 401(a), custodial accounts treated as qualified trusts under Code Section 401(f), and/or annuity contracts treated as qualified trusts under Code Section 401(f), established under the Plan to hold Plan assets.

(ee) "Trust Fund" means the assets of the Plan held pursuant to the terms of the Plan and the Trust.

(ff) "Trustee" means the trustee or any successor trustee designated and appointed by VRS, and includes a custodian of a custodial account or an insurer of an annuity contract under Code Section 401(f).

(gg) "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended from time to time.

(hh) "Valuation Date" means the last day of each calendar quarter of the Plan Year and such other date or dates as the Administrator may designate.

- (ii) "Va. Code" means the Code of Virginia, as amended from time to time.
- (jj) "Vested" means the interest of the Participant or Beneficiary in his or her Accounts which is unconditional, legally enforceable, and nonforfeitable at all times.
- (kk) "VRS" means the Virginia Retirement System.
- (ll) "401(a) Plan" means this Plan and all other tax-qualified defined contribution plans under Code Section 401(a) maintained by the Employer,
- (mm) "415(m) Account" means the separate bookkeeping account maintained for each 415(m) Participant reflecting his or her interest under the Excess Benefit Plan attributable to Excess Contributions.
- (nn) "415(m) Participant" means an Eligible Employee or former Eligible Employee who has an 415(m) Account balance under the Excess Benefit Plan. Effective June 30, 2013, the individual serving as Chief Investment Officer is the only 415(m) Participant. No other Participant is or may become a 415(m) Participant.

ARTICLE III.
ELIGIBILITY AND PARTICIPATION

Section 3.01. Participation.

- (a) An Eligible Employee who is a Participant on the day before the Effective Date of this amended and restated Plan shall continue to be a Participant on the Effective Date.
- (b) An Employee who becomes an Eligible Employee on or after the Effective Date of this amended and restated Plan shall become a Participant in the Plan on the date he or she becomes an Eligible Employee.
- (c) VRS shall notify the Eligible Employee of his or her eligibility to participate in the Plan. To become a Participant under the Plan, an Eligible Employee must complete the Applicable Forms, which may include enrollment, beneficiary designation, and investment election forms, and return them to the Administrator or Agent, as applicable.

Section 3.02. Cessation of Contributions. A Participant shall cease to be eligible for Employer Contributions under the Plan when (i) he or she is no longer an Eligible Employee or (iii) the Plan is terminated.

Section 3.03. Reemployment. A former Eligible Employee who subsequently becomes an Eligible Employee again shall participate in the Plan as described in Section 3.01.

ARTICLE IV.
CONTRIBUTIONS

Section 4.01. Employer Contributions.

(a) The Employer shall make an Employer Contribution to the Plan on behalf of each Participant for the Plan Year as follows:

(1) Except as provided in subparagraph (2), a Participant shall receive an Employer Contribution to his or her Account each Plan Year equal to the sum of (i) a specified percentage of the Incentive Compensation determined for such Participant by the Board for such Plan Year and (ii) any additional amount determined by the Board to be made on behalf of such Participant; provided, however, that if the Board does not specify a percentage under (i) for a Plan Year, the Employer Contribution shall be 50% of the Incentive Compensation.

(2) A Participant who is the Director of VRS shall receive an Employer Contribution to his or her Account each Plan Year in an amount to be determined by the Board in its sole and absolute discretion from time to time as allowed by applicable law.

(b) Employer Contributions for any Plan Year shall be subject to the limit under Code Section 401(a)(17), as increased by the Cost-of-Living Adjustment, if applicable.

(c) Employer Contributions shall be paid to the Plan by the Employer within the time required by law for the Plan Year during which they are being made. Employer Contributions shall be allocated to each Participant's Account as of the date made to the Plan, but no later than the last day of the Plan Year.

Section 4.02. Transfer Contributions. The Plan shall not accept transfer contributions of any kind.

Section 4.03. Rollover Contributions. The Plan shall not accept rollover contributions of any kind.

Section 4.04. Expenses of Plan. All reasonable expenses of administering the Plan shall be charged against and paid from the Participant's Accounts, subject to the terms of the Trust, unless paid by the Employer or VRS. The Administrator shall have the right to allocate expenses associated with maintaining the Accounts of terminated Employees to such Accounts, even if no expenses are allocated to the Accounts of active Employees, in accordance with rules promulgated by the Internal Revenue Service.

ARTICLE V. **LIMITATIONS ON CONTRIBUTIONS**

Section 5.01. Code Section 415(c) Limits.

(a) Notwithstanding any provision of the Plan to the contrary, Annual Additions to the Plan and any other Code Section 401(a) plan maintained by the Employer or a Related Employer for a Participant in a Limitation Year shall not exceed the limitations set forth in Code Section 415(c).

(b) The Code Section 415(c) limit for any Limitation Year is the lesser of:

(1) \$66,000 for 2023 and 691,000 for 2024~~2~~, increased by the Cost-of-Living Adjustment thereafter; or

(2) 100% of the Participant's Plan Compensation for the Limitation Year.

Section 5.02. Excess Annual Additions.

(a) If as of the end of the Plan Year, the Annual Additions allocated to any Participant's Account exceed the limitations of this Article V, the Excess Annual Additions will be corrected as permitted under the Employee Plans Compliance Resolution System (or similar Internal Revenue Service correction program).

(b) If a Participant has Excess Annual Additions for a Plan Year, an adjustment to comply with this Article shall be made as soon as administratively possible, but no later than the time permitted under Internal Revenue Service guidance: (i) first, to all plans not hereinafter described; (ii) second, to any profit sharing plan (such as this Plan) that does not provide matching contributions based on the employee's elective deferrals to a 403(b) or 457(b) plan that is required to be aggregated with this Plan; (iii) third, to any profit sharing plan providing matching contributions based on the employee's elective deferrals to a 403(b) or 457(b) plan that is required to be aggregated with this Plan (such as the Virginia Cash Match Plan); (iv) fourth, to any money purchase pension plan that is required to be aggregated with this Plan; (v) fifth, to any target benefit plan that is required to be aggregated with this Plan; (vi) sixth, to any welfare benefit fund and individual medical benefit account; and (vii) seventh, to any defined benefit plan requiring mandatory employee contributions that is required to be aggregated with this Plan.

(c) If a Participant is a participant in two or more plans of the same type described in paragraph (b), the adjustment provided for in paragraph (b) to such plans shall be made to contributory plans or aspects thereof first, and then to non-contributory plans or aspects thereof.

ARTICLE VI.
ACCOUNTING

Section 6.01. Participant Accounts. The Administrator or Agent shall establish and maintain adequate records to reflect the Accounts of each Participant and Beneficiary. Credits and charges shall be made to such Accounts to reflect additions, distributions, and withdrawals, and to reflect gains or losses pursuant to the terms of the Trust. The maintenance of individual Accounts is for accounting purposes only, and a segregation of Plan assets to each Account shall not be required. Participants do not have the right to direct the investment of their Accounts under the Plan.

Section 6.02. Valuation. As of each Valuation Date, the Trustee shall determine the fair market value of the Trust Fund. Based on the valuation of the Trustee, the Administrator shall determine the value of the Account of each Participant.

Section 6.03. General Statement of Method of Account Valuations. The value of the Account of a Participant as of each Valuation Date shall be equal to the value of the Account as of the preceding Valuation Date less any payments from the Account since the preceding

Valuation Date, plus the amount of any Employer Contributions allocated to the Account since the preceding Valuation Date, and plus or minus the applicable adjustments under Section 6.04.

Section 6.04. Adjustment of Accounts on Valuation Date. The Account of each Participant shall be adjusted as of each Valuation Date in accordance with the provisions of this Section.

(a) The Trustee shall determine the fair market value of the Trust Fund as of each Valuation Date by a method uniformly applied. For purposes of this Section, the determination of fair market value shall be subject to the following rules:

(1) The current fair market value shall exclude any Employer Contributions allocated since the prior Valuation Date.

(2) The fair market value as of the immediately preceding Valuation Date shall include Employer Contributions allocated as of such date but shall exclude benefits paid and withdrawals made from the Trust Fund during the period beginning with the preceding Valuation Date and ending with the current Valuation Date.

(b) The increase or decrease, if any, in the Trust Fund shall be equal to the difference between the value of the Trust Fund as of the current Valuation Date and the value of the Trust Fund as of the immediately preceding Valuation Date.

(c) As of the close of business on each Valuation Date, the Administrator shall allocate the increase or decrease, as the case may be, of the Trust Fund to the Accounts of the Participants in the Trust Fund, each Account being treated separately, in the same proportion that the balance of each Account of a Participant in the Trust Fund as of the close of business on the immediately preceding Valuation Date bears to the balance of all Accounts of all Participants in the Trust Fund as of the close of business on the immediately preceding Valuation Date.

(d) For purposes of the preceding allocations, the balance of the Account of a Participant as of the preceding Valuation Date shall be equal to his or her respective balance as of the immediately preceding Valuation Date reduced by any payments or withdrawals since such date.

(e) If the Administrator determines in making any valuation, allocation or adjustments to a Participant's Account that the strict application of this Section will not produce an equitable and non-discriminatory allocation among the Participant Accounts, the Administrator may modify its procedures under this Section for purposes of achieving an equal and non-discriminatory allocation under the Plan.

Section 6.05. Value of Accounts. The value of an Account as of any date shall be the value of the Account after all adjustments and allocations as of the Valuation Date on or immediately before such date, increased by the amount of any Employer Contributions allocated to the Account after the prior Valuation Date and reduced by the amount of any payments or withdrawals made from the Account after the prior Valuation Date.

Section 6.06. Participant Statements. The Administrator or the Agent shall provide to each Participant a statement reflecting the value of the Participant's Account within a reasonable period after each reporting period, but no less than annually. All reports to Participants shall be based on the fair market value of investments credited to their Accounts as of the reporting dates.

ARTICLE VII. **TRUST**

Section 7.01. Trust Fund. All Employer Contributions under the Plan shall be transferred to the Trustee to be held in Trust as part of the Trust Fund in accordance with the provisions of the Plan and the Trust, as applicable. All assets held in connection with the Plan, including all Employer Contributions, all property and rights acquired or purchased with such amounts, and all income attributable to such amounts, property or rights, shall be held in, managed, invested and distributed in Trust as part of the Trust Fund, in accordance with the provisions of the Plan. All benefits under the Plan shall be distributed solely from the Trust Fund, and the Employer and/or VRS shall have no liability for any such benefits other than the obligation to make Employer Contributions as provided in the Plan.

Section 7.02. Trust Status. The Trust Fund shall be held in Trust for the exclusive benefit of Participants and Beneficiaries under the Plan in accordance with Code Section 501(a). No part of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants and their Beneficiaries, and for defraying the reasonable expenses of the Plan and Trust. The Trust is exempt from tax pursuant to Code Sections 401(a) and 501(a).

ARTICLE VIII. **DISTRIBUTIONS**

Section 8.01. Commencement and Form of Distributions.

(a) A Participant or Beneficiary, as applicable, shall receive a lump sum distribution of his or her Vested Account as soon as administratively practicable following the last day of the quarter in which Participant has a Severance from Employment.

(b) Notwithstanding paragraph (a), a distribution may be delayed for a reasonable period in the event that the recipient cannot be located or is not competent to receive the benefit payment, there is a dispute as to the proper recipient of the benefit payment, additional time is needed to complete the Plan valuation adjustments and allocations, or additional time is necessary to properly explain the recipient's distribution options.

Section 8.02. Mandatory Cash-Out. A lump sum payment of the Participant's Account may be made without the consent of the Participant if his or her Account balance exceeds \$1,000 but does not exceed \$5,000 (\$7,000 effective January 1, 2024), provided that such distribution shall be made in a direct rollover to an individual retirement plan designated by the Administrator, unless the Participant elects to have such distribution paid directly to an eligible retirement plan specified by the Participant in a direct rollover or to receive the distribution directly in a lump sum. Any lump sum payments made under this Section 8.02 shall be made in a uniform and nondiscriminatory manner. This Section does not apply to an individual who is not a Participant.

Section 8.03. Required Minimum Distribution Rules.

(a) The provisions of this Section 8.03 take precedence over any inconsistent provisions of the Plan. ~~All distributions under this Plan shall be made in accordance with a reasonable good faith interpretation of Code Section 401(a)(9) and the regulations promulgated thereunder, including the incidental death benefit rules under Code Section 401(a)(9)(G) and the changes under the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, SECURE 2.0 of 2022, and Treasury Regulation Sections 1.401(a)(9)-1 through -9, as each may be amended from time to time. All distributions under this Plan shall be made in accordance with Code Section 401(a)(9) and the regulations promulgated thereunder, including the incidental death benefit rules under Code Section 401(a)(9)(G), and the changes under the Setting Every Community Up for Retirement Enhancement Act of 2019, and any regulatory guidance issued thereunder, and shall comply with rules under this Section 8.03.~~

(b) Distributions may only be made over one of the following periods (or a combination thereof):

- (1) The life of the Participant;
- (2) The life of the Participant and a designated individual Beneficiary;
- (3) A period certain not extending beyond the life expectancy of the Participant;

or

(4) A period certain not extending beyond the joint and last survivor life expectancy of the Participant and designated individual Beneficiary.

(c) A Participant's Accounts shall be distributed to the Participant beginning no later than April 1 of the calendar year following the calendar year ~~following the later in which the Participant attains age 70½ (age 72 for distributions required to be made after December 31, 2019, with respect to a Participant who would have attained age 70½ after December 31, 2019) or, if later, April 1 of (i) the calendar year in which the Participants attains his or her applicable age within the meaning of Code Section 401(a)(9)(C)(v) or (ii) following the calendar year in which that~~ the Participant has a Severance from Employment.

(d) The Administrator or its Agent shall calculate the amounts required to be distributed to a Participant under this Section and notify such Participant of such distributions prior to the date distributions must begin.

~~Notwithstanding anything in this Section 8.03 to the contrary, for 2020 or such longer period as provided in legislation modifying or extending the Coronavirus Aid, Relief, and Economic Security Act of 2020, the minimum distribution requirements will be satisfied for 2020 as provided in this paragraph. Effective March 27, 2020, or as soon as administratively practicable thereafter, a Participant or Beneficiary who would have been required to receive a required minimum distribution in 2020 (or paid in 2021 for the 2020 calendar year for a Participant with a required beginning date of April 1, 2021) but for the enactment of Code Section 401(a)(9)(I) ("2020 RMDs") and who would have satisfied that requirement by receiving distributions that are (i) equal to the 2020 RMDs, or (ii) one~~

~~or more payments (that include the 2020 RMDs) in a series of substantially equal periodic payments made at least annually and expected to last for the life (or life expectancy) of the Participant, the joint lives (or joint life expectancies) of the Participant and the Beneficiary, or for a period of at least 10 years ("Extended 2020 RMDs"), will receive this distribution unless the Participant or Beneficiary chooses not to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to stop receiving the distribution described in the preceding sentence. In addition, 2020 RMDs and Extended 2020 RMDs will not be treated as eligible rollover distributions in 2020.~~

Section 8.04. Additional Tax on Early Withdrawals.

(a) Generally, and except as described in paragraph (b), if a Participant receives any amount under the Plan, his or her tax for the taxable year in which such amount is received is increased by an amount equal to ten percent (10%) of the portion of such amount which is includible in gross income. Such amount shall be included in gross income to the extent allocable to income on the Trust and shall not be included in gross income to the extent allocable to the investment in the Trust as provided in Code Section 72(e)(2)(b).

(b) The penalty described in paragraph (a) generally does not apply to any distribution (i) made on or after the date on which the Participant attains age 59½, (ii) made on or after the death of the Participant, (iii) attributable to the Participant becoming disabled within the meaning of Code Section 72(m)(7), (iv) which is part of a series of substantially equal periodic payments made (not less frequently than annually) for the life or life expectancy of the Participant or the joint lives (or joint life expectancies) of such Participant and his or her designated Beneficiary, (v) made to a Participant after Severance from Employment following the attainment of age 55, (vi) which is a qualified reservist distribution within the meaning of Code Section 72(t)(2)(G)(iii), (vii) made pursuant to a qualified domestic relations order, (viii) that is a qualified birth or adoption distribution, (ix) that is a terminal illness distribution, (xii) that is for deductible medical expenses, or (xiii) or (vii) any other circumstance permitted by the Code or the Internal Revenue Service.

Section 8.05. Transfers from the Plan.

(a) The Plan shall permit a transfer a portion of a Participant's Account (but not all of the Participant's Account) from the Plan to the Virginia Cash Match Plan if (i) the Participant has obtained age 55 and (ii) the Participant has established an account under the Commonwealth of Virginia 457 Deferred Compensation Plan. The transferred amounts shall be held in the Virginia Cash Match Plan in the Participant's Account undersuch plan.

(b) The transfer shall satisfy such rules and policies established by the Administrator.

ARTICLE IX.
LOANS

Loans are not permitted under the Plan.

ARTICLE X.
VESTING

Section 10.01. Vesting. A Participant shall be 100% Vested in his or her Accounts at all times.

Section 10.02. Felony Convictions.

(a) Notwithstanding Section 10.01, if a Participant (i) is convicted of a felony and (ii) his or her Employer determines that the felony arose from misconduct occurring on or after July 1, 2011, in any position in which the Participant was covered for retirement purposes under any retirement system administered by the Board, the Participant shall forfeit his or her Employer Contribution Account. Such forfeiture shall occur following the Employer's notification to VRS that a felony conviction arising from such misconduct has been obtained and the administrative process as set forth in Va. Code Section 51.1-124.13 has concluded.

(b) Forfeitures arising under paragraph (a) shall be allocated to a forfeiture account under the Plan, and shall be used to reduce Plan expenses.

ARTICLE XI.
ROLLOVERS FROM THIS PLAN

Section 11.01. Definitions for this Article. For purposes of this Article, the following definitions shall apply.

(a) "Direct Rollover" means an Eligible Rollover Distribution that is paid directly to an Eligible Retirement Plan for the benefit of the Distributee.

(b) "Distributee" means a Participant, the Spouse of the Participant, or the Participant's former Spouse who is the alternate payee under a qualified domestic relations order as defined in Code Section 414(p), and a Participant's non-Spouse Beneficiary, any of whom is eligible to receive a distribution from the Plan.

(c) "Eligible Retirement Plan," as defined under Code Section 402(c)(8)(B), means:

- (1) an individual retirement account described in Code Section 408(a);
- (2) an individual retirement annuity (other than an endowment contract) described in Code Section 408(b);
- (3) any annuity plan described in Code Section 403(a);
- (4) a plan described in Code Section 403(b);
- (5) a qualified plan described in Code Section 401(a);

(6) a Code Section 457(b) eligible deferred compensation plan which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state;

(7) a Roth individual retirement account described in Code Section 408A(e) provided the Distributee's adjusted gross income does not exceed any limit applicable under federal law for the tax year in which the distribution occurs; and

(8) a SIMPLE IRA described in Code Section 408(p)(1), provided that the rollover contribution is made after the two year period described in Code Section 72(t)(6).

In the case of a distribution to a non-Spouse Beneficiary, an Eligible Retirement Plan means the plans described in subparagraphs (1) and (2) only, to the extent consistent with the provisions of Code Section 402(c)(11) and any successor provisions thereto or additional guidance issued thereunder.

(d) "Eligible Rollover Distribution," as defined in Code Section 402(f)(2)(A), means any distribution of all or any portion of the balance to the credit of the Distributee under the Plan, excluding the following:

(1) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of 10 years or more;

(2) any distribution to the extent such distribution is required under Code Section 401(a)(9);

(3) the portion of any distribution that is not includible in gross income; however, a portion of a distribution will not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions that are not includible in gross income, although such portion may be transferred only to an individual retirement account or annuity described in Code Section 408(a) or (b) or to a qualified retirement plan described in Code Section 401(a) that agrees to separately account for amounts so transferred (and earnings thereon), including separately accounting for the portion of the distribution that is includible in gross income and the portion of the distribution that is not so includible;

(4) any distribution which is made upon the financial hardship of the Participant; and

(5) other items designated by regulations, or by the Commissioner in revenue rulings, notices, or other guidance, as items that do not constitute an eligible rollover distribution.

Section 11.02. Direct Transfer of Eligible Rollover Distribution. A Distributee may elect on an Applicable Form to have an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan as specified by the Distributee in a Direct Rollover, at the time and in the manner

prescribed by the Administrator. An Eligible Rollover Distribution that is paid to an Eligible Retirement Plan in a Direct Rollover is excludable from the Distributee's gross income under Code Section 402; provided, however, if any portion of such Eligible Rollover Distribution is subsequently distributed from the Eligible Retirement Plan, that portion shall be included in gross income to the extent required under Code Section 402, 403, or 408.

Section 11.03. Mandatory Withholding of Eligible Rollover Distributions.

(a) If the Distributee of an Eligible Rollover Distribution does not elect to have the Eligible Rollover Distribution paid directly from the Plan to an Eligible Retirement Plan in a Direct Rollover pursuant to Code Section 401(a)(31), the Eligible Rollover Distribution shall be subject to a mandatory 20% federal income tax withholding under Code Section 3405(c). Only that portion of the Eligible Rollover Distribution that is not paid directly from the Plan to an Eligible Retirement Plan in a Direct Rollover shall be subject to the mandatory withholding requirement under Code Section 3405(e), and only to the extent such amount would otherwise be includible in the Distributee's taxable gross income.

(b) If a Distributee elects to have an Eligible Rollover Distribution paid to the Distributee, the distribution may be excluded from the gross income of the Distributee provided that said distribution is contributed to an Eligible Retirement Plan no later than the 60th day following the day on which the Distributee received the distribution.

(c) If the Plan distribution is not an Eligible Rollover Distribution, said distribution shall be subject to the elective withholding provisions of Code Section 3405(a) and (b).

Section 11.04. Explanation of Plan Distribution and Withholding Requirements.

(a) Not fewer than 30 days nor more than 180 days before an Eligible Rollover Distribution, the Administrator shall provide each Distributee a written explanation as required under Code Section 402(f), which explains the rules:

(1) under which a Distributee may elect to have an Eligible Rollover Distribution paid in a Direct Rollover to an Eligible Retirement Plan;

(2) that require the withholding of tax on an Eligible Rollover Distribution if it is not paid in a Direct Rollover to an Eligible Retirement Plan;

(3) that provide that a distribution shall not be subject to tax if the distribution is rolled over to an Eligible Retirement Plan within 60 days after the date the Distributee receives the distribution; and

(4) if applicable, certain special rules regarding taxation of the distribution as described in Code Sections 402(d) and (e).

(b) Notwithstanding paragraph (a), a distribution may begin fewer than 30 days after the notice discussed in the preceding sentence is given, provided that the Administrator clearly informs the Participant that he or she has a right to a period of at least 30 days after receiving the

notice to consider the decision of whether or not to elect a distribution and the Participant, after receiving a notice, affirmatively elects a distribution.

ARTICLE XII.
ADMINISTRATION OF THE PLAN

Section 12.01. Authority of the Administrator. The Administrator is responsible for performing the duties required for operation of the Plan. The Administrator shall have all power necessary or convenient to enable it to exercise its authority under the Plan. In connection therewith, the Administrator may provide rules and regulations, not inconsistent with the provisions hereof, for the operation and management of the Plan, and may from time to time amend or rescind such rules or regulations. The Administrator is authorized to accept service of legal process for the Plan.

Section 12.02. Powers of the Administrator. The Administrator shall have the power and discretion to construe and interpret the Plan, including any ambiguities, to determine all questions of fact or law arising under the Plan, and to resolve any disputes arising under and all questions concerning administration of the Plan. The Administrator may correct any defect, supply any omission or reconcile any inconsistency in the Plan in such manner and to such extent as the Administrator may deem expedient and, subject to the Plan's claims procedures, the Administrator should be the sole and final judge of such expediency. Benefits under the Plan shall be paid only if the Administrator decides in its discretion that the Participant or Beneficiary is entitled to them.

Section 12.03. Delegation by Administrator. The Administrator may delegate to an individual, committee, or organization to carry out its fiduciary duties or other responsibilities under the Plan. Any such individual, committee, or organization delegated fiduciary duties shall be a fiduciary until the Administrator revokes such delegation. A delegation of the Administrator duties or responsibilities may be revoked without cause or advance notice. Such individual, committee, or organization shall have the same power and authority with respect to such delegated fiduciary or other responsibilities as the Administrator has under the Plan.

Section 12.04. Employment of Consultants. The Administrator may employ one or more persons to render advice with regard to its responsibilities under the Plan.

ARTICLE XIII.
REQUESTS FOR INFORMATION AND OTHER CLAIMS PROCEDURES

Section 13.01. Requests for Information Concerning Eligibility, Participation and Contributions. Requests for information concerning eligibility, participation, contributions, or any other aspects of the operation of the Plan, and service of legal process, should be in writing and directed to the Administrator of the Plan.

Section 13.02. Requests for Information Concerning the Trust. Requests for information concerning the Trust and its terms, conditions, and interpretations thereof, claims thereunder, and any requests for review of such claims, should be in writing and directed to the Administrator of the Plan.

Section 13.03. Processing of Claims. Claims under the Plan shall be processed in a manner consistent with the Virginia Administrative Process Act, Va. Code Section 2.2-4000 *et seq.*

ARTICLE XIV.
QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENT

Section 14.01. General.

(a) The Excess Benefit Plan is intended to be a portion of the Plan that is a qualified excess benefit arrangement within the meaning of Code Section 415(m)(3) and an exempt governmental deferred compensation plan described in Code Section 3121(v)(3). Code Sections 83, 402(d), 409A, 457(a), and 457(f) shall not apply to the Excess Benefit Plan. The sole purpose of the Excess Benefit Plan is to provide for contributions that would have been made to a 401(a) Plan absent the limitations of Code Section 415(c).

(b) No election is provided at any time to a 415(m) Participant, directly or indirectly, to defer compensation under the Excess Benefit Plan, and no employee pre-tax or after-tax contributions may be made to or under the Excess Benefit Plan at any time.

(c) Under no circumstances shall Excess Contributions under the Excess Benefit Plan be credited to the Plan or paid from the Trust. The Excess Benefit Plan shall be and remain unfunded, and amounts credited to a Participant's 415(m) Account shall be payable from the Employer's general assets only. The Excess Benefit Plan constitutes an unsecured promise by the Employer to make benefit payments in the future from its general assets.

Section 14.02. Eligibility and Participation.

(a) The Chief Investment Officer is the only Participant eligible to participate in the Excess Benefit Plan.

(b) The Chief Investment Officer shall automatically participate in the Excess Benefit Plan for a Plan Year if the Board determines there is an Excess Contribution for the Plan Year.

Section 14.03. Contributions and Vesting.

(a) The Board shall make an Excess Contribution for each 415(m) Participant to the Excess Benefit Plan not later than the latest date on which contributions could be made to the 401(a) Plan for such Plan Year to which the Excess Contribution relates.

(b) A 415(m) Participant is 100% Vested in his or her 415(m) Account at all times.

Section 14.04. 415(m) Accounts. The Administrator or Agent shall establish and maintain adequate records to reflect the 415(m) Accounts of each 415(m) Participant. The 415(m) Account shall reflect the record of the 415(m) Participant's interest under this Excess Benefit Plan attributable to Excess Contributions made by the Board and the earnings and losses thereon. The maintenance of individual accounts is for accounting purposes only, and a segregation of Excess

Benefit Plan assets to each 415(m) Account shall not be required. 415(m) Participants do not have the right to direct the investment of their 415(m) Accounts under the Excess Benefit Plan.

Section 14.05. Distributions on Account of Severance from Employment. A Participant's 415(m) Account shall be distributed in a single lump sum payment within 180 days after the Participant's Severance from Employment. The amount to be distributed to the Participant shall be determined based on the value of the Participant's 415(m) Account as determined on the last day of the quarter in which the Participant has a Severance from Employment with the Employer.

Section 14.06. Distributions Upon Participant's Death. In the event that the 415(m) Participant dies before receiving a distribution of the amount credited to his or her 415(m) Account, such amount shall be distributed in a single lump sum payment within 180 days of the Participant's death to the Participant's Beneficiary. The amount to be distributed to the Participant's Beneficiary shall be determined based on the value of the Participant's 415(m) Account as determined on the last day of the quarter in which the Participant died.

Section 14.07. Expenses of Excess Benefit Plan. All reasonable expenses of administering the Excess Benefit Plan shall be charged against and paid from 415(m) Participants' 415(m) Accounts, unless paid by the Employer.

ARTICLE XV. **AMENDMENT AND TERMINATION**

Section 15.01. Amendment and Termination. While it is expected that the Plan shall continue indefinitely, the Commonwealth reserves the right to amend, freeze, or terminate the Plan, or to discontinue any further Employer Contributions to the Plan at any time. The Board may, consistent with Va. Code Section 51.1-124.22.A.11, make any amendment to the Plan, provided that no such amendment shall reduce, suspend or terminate the accrued benefits otherwise payable to a Participant or Beneficiary hereunder as of the date of such amendment. To the extent required by the exclusive benefit rule, any amendment shall not be effective to the extent that the amendment has the effect of causing any Plan assets to be diverted to or inure to the benefit of the Employer, or to be used for any purpose other than providing benefits to Participants and Beneficiaries and defraying reasonable expenses of administering the Plan. Notwithstanding the foregoing, the Board hereby delegates to the VRS Director the right to modify, alter, or amend the Plan in whole or in part to make any technical modification, alteration or amendment which in the opinion of VRS' counsel is necessary to comply with federal law.

Section 15.02. Adverse Effects. Any amendment or termination of the Plan cannot adversely affect the benefits accrued by Participants prior to the date of amendment or termination. The Plan may not be amended in a manner that violates any provision of the Code.

Section 15.03. Distribution Upon Termination of the Plan. The Commonwealth has the right to completely terminate this Plan at any time and in its sole discretion. In such a case, VRS shall arrange for suitable distribution of Plan assets, including the possibility of transfer to another 401(a) plan or plans. The Trustee shall not be required to pay out any asset of the Trust Fund to Participants and Beneficiaries or a successor plan upon termination of the Trust until the

Trustee has received written confirmation from VRS (i) that all provisions of the law with respect to such termination have been complied with, and, (ii) after the Trustee has made a determination of the fair market value of the assets of the Plan, that the assets of the Plan are sufficient to discharge when due all obligations of the Plan required by law. The Trustee shall rely conclusively upon such written certification and shall be under no obligation to investigate or otherwise determine its propriety.

ARTICLE XVI.
MISCELLANEOUS

Section 16.01. Non-Alienation.

(a) A Participant's Account under the Plan shall not be liable for any debt, liability, contract, engagement, or tort of the Participant or his or her Beneficiary, nor subject to anticipation, sale, assignment, transfer, encumbrance, pledge, charge, attachment, garnishment, execution, alienation, or any other voluntarily or involuntarily alienation or other legal or equitable process, nor transferable by operation of law.

(b) Notwithstanding paragraph (a), the Plan shall comply with any judgment, decree or order ("domestic relations order") which establishes the right of an alternate payee within the meaning of Code Section 414(p)(8) to all or a portion of a Participant's benefit under the Plan to the extent that it is a "qualified domestic relations order" ("QDRO") under Code Section 414(p). The Administrator shall establish reasonable written procedures to determine whether a domestic relations order is a QDRO and to administer the distribution of benefits with respect to such orders, which procedures may be amended from time to time, and which shall be provided to Participants upon request. Notwithstanding any other provisions in the Plan, the Plan may make an immediate distribution to the alternate payee pursuant to a QDRO.

(c) Notwithstanding paragraph (a), the Plan shall offset from the benefit otherwise payable to a Participant or his or her Spouse such amounts as are permitted to be offset under a court order, civil judgment, or settlement agreement in accordance with Code Section 401(a)(13)(C).

(d) Notwithstanding paragraph (a), the Administrator may pay from Participant's or Beneficiary's Account under the Plan the amount that the Administrator finds is lawfully demanded under a levy issued by the Internal Revenue Service with respect to that Participant or Beneficiary or is sought to be collected by the United States Government under a judgment resulting from an unpaid tax assessment against the Participant or Beneficiary. Except in the case of an alternate payee within the meaning of Code Section 414(p)(8), under no circumstances may a payment under this paragraph (d) take place before a Participant has a Severance from Employment.

(e) Notwithstanding paragraph (a), pursuant to Va. Code Section 51.1-124.4(A), the Administrator shall honor any process for a debt to the Employer who has employed such person, and except for administrative actions pursuant to Chapter 19 (Section 63.2-1900 *et seq.*) of Title 63.2 of the Va. Code or any court process to enforce a child or child and spousal support

obligation. Under no circumstances may a payment under this paragraph (e) take place before a Participant has a Severance from Employment.

Section 16.02. Military Service.

(a) Notwithstanding any provisions of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service shall be provided in accordance with USERRA, HEART, Code Section 414(u), and Code Section 401(a)(37). For purposes of this Section, "qualified military service" means any service in the uniformed services as defined in USERRA by any individual if such individual is entitled to reemployment rights under USERRA with respect to such service.

(b) If a Participant whose employment is interrupted by qualified military service or who is on a leave of absence for qualified military service under Code Section 414(u), timely resumes employment with the Employer in accordance with USERRA as an Eligible Employee, the Employer shall make the Employer Contributions that would have been made if the Participant had remained employed during the Participant's qualified military service. Contributions must be made no later than 90 days after the date of reemployment or when the Employer Contributions are normally due for the year in which the qualified military service was performed, if later.

(c) To the extent provided under Code Section 401(a)(37), in the case of a Participant whose employment is interrupted by qualified military service and who dies while performing qualified military service, the survivor of such Participant shall be entitled to any additional benefit (other than benefit accruals) provided under the Plan as if the Participant timely resumed employment in accordance with USERRA and then, on the next day, terminated employment on account of death.

(d) Differential wage payments within the meaning of Code Section 414(u)(12)(D) shall be treated as Plan Compensation under the Plan.

Section 16.03. Limitation of Rights and Obligations. Neither the establishment nor maintenance of the Plan, nor any amendment thereof, nor the purchase of any insurance contract, nor any act or omission under the Plan or resulting from the operation of the Plan shall be construed:

(a) as conferring upon any Participant, Beneficiary or any other person any right or claim against VRS, the Employer, the Administrator, or the Trust, except to the extent that such right or claim shall be specifically expressed and provided in the Plan;

(b) as a contract or agreement between VRS and/or the Employer and any Participant or other person; or

(c) as an agreement, consideration, or inducement of employment or as affecting in any manner or to any extent whatsoever the rights or obligations of VRS, the Employer, or any Employee to continue or terminate the employment relationship at any time.

Section 16.04. Federal and State Taxes. It is intended that Employer Contributions, plus any earnings thereunder, are excludable from gross income for federal and state income tax

purposes until paid to Participants or Beneficiaries. However, the Administrator does not guarantee that any particular federal or state income, payroll or other tax consequence will occur as a result of participation in this Plan.

Section 16.05. Erroneous Payments. If the Administrator or its Agent makes any payment that according to the terms of the Plan and the benefits provided hereunder should not have been made, the Administrator or its Agent may recover that incorrect payment, by whatever means necessary, whether or not it was made due to the error of the Administrator or its Agent, from the person to whom it was made or from any other appropriate party. For example, if any such incorrect payment is made directly to a Participant, the Administrator or its Agent may deduct it when making any future payments directly to that Participant.

Section 16.06. Payments to Minors or Incompetents. If a Participant or Beneficiary entitled to receive any benefits hereunder is a minor or is determined to be legally incapable of giving valid receipt and discharge for such benefits by a court or by the Administrator, benefits shall be paid to such person as the Administrator may designate for the benefit of such Participant or Beneficiary. Such payments shall be considered a payment to the Participant or Beneficiary and shall, to the extent made, be deemed a complete discharge of any liability for such payments under the Plan.

Section 16.07. Missing or Lost Participants. In the event that the Administrator does not have current contact information for or is unable to identify a Participant or Beneficiary under the Plan, the Administrator shall make reasonable attempts to determine the address and identity of the Participant or Beneficiary entitled to benefits under the Plan. A reasonable attempt to locate a missing or lost Participant or Beneficiary shall include (i) providing notice to the Participant at the Participant's last known address via certified mail; (ii) determining whether the Employer's records or the records of another plan maintained by the Employer has a more current address for the Participant; (iii) attempting to contact any named Beneficiary of the Participant; and (iv) searching for the missing Participant via free electronic search tools, such as Internet search engines, public record databases, obituaries, and social media. If such search methods are unsuccessful, based on the facts and circumstances, the Administrator may use other search methods, including using Internet search tools, commercial locator services, credit reporting agencies, information brokers, investigation databases, and analogous services that may involve charges. The Administrator may charge missing Participants and Beneficiaries reasonable expenses for efforts to find them. In the event that the Administrator is unable to locate a Participant or Beneficiary entitled to benefits under the Plan, the Trustee shall continue to hold the benefits due to such person under the Plan.

Section 16.08. No Reversion. Under no circumstances or conditions will any Employer Contributions revert to, be paid to, or inure to the benefit of, directly or indirectly, VRS or the Employer, but shall be held for the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying the reasonable expenses of administering the Plan. However, if Employer Contributions are made by VRS or the Employer by mistake of fact, these amounts and, if applicable, any interest earned therein, may be returned to VRS or the Employer, as applicable, within one year of the date that they were made.

Section 16.09. Claims of Other Persons. The provisions of the Plan will not be construed as giving any Participant or any other person, firm, or corporation, any legal or equitable right against VRS or the Employer, its officers, employees, or directors, except the rights as specifically provided for in this Plan or created in accordance with the terms and provisions of this Plan.

Section 16.10. Counterparts. The Plan may be executed in any number of counterparts, each of which shall be deemed to be an original. All counterparts shall constitute but one and the same instrument and shall be evidenced by any one counterpart.

IN WITNESS WHEREOF, the Board has caused this amended and restated Plan to be adopted as of the Effective Date.

**BOARD OF TRUSTEES OF THE
VIRGINIA RETIREMENT SYSTEM**

By: _____

Printed Name: A. Scott Andrews

Title: Chair, VRS Board of Trustees

Date: ~~September 22, 2022~~ February 8, 2024



Investment Compensation Program Review

January 2024

Competitive Market Trends in Asset Management

Public Funds

- In 2022 salaries and total cash compensation increased approximately +5% at median
- Many funds continue to struggle with recruiting efforts and losing talent to private sector firms
- Public and political scrutiny over pay intensifies. Bonus paying funds continue to be in the spotlight
- 2023 salaries increased more than in previous years with ~+5% increases across pay bands

Private Sector

- YE 2022:
 - Revenues, profits, & C&B fell from 2021's high-water-marks
 - For high earners, the largest year-over-year decline in pay since 2008
 - For 85% of EE's w/total comp <\$250K, pay was up. YE 2021 salary increases saved the day
- 2023's Math: Flat Revenues + Rising Costs (C&B up -> salaries + benefits; Non-C&B up (G&A expenses) + Desire to Protect Margins = Incentive Pools Down ~5%
- 2023's Management Actions:
 - Cost discipline intensifies, especially about headcount:
 - Legacy businesses are squeezed (RIFs, attrition, early retirements)
 - Growth focuses on strategic hires and new initiatives (alts, data/AI)
 - Firms' approach to change varies widely (aggressively leaning in; cautiously resisting)
- 2023's Mood:
 - Kumbaya is strained as:
 - Resources are squeezed and workloads increase
 - Pay is expected to fall for a second year, with no relief in sight for 2024
 - “We're tired, but the grass is brown everywhere”

Introduction & Methodology

- Virginia Retirement System Board of Trustees (“VRS”) asked McLagan to assess the competitiveness of VRS’ investment professionals’ pay levels versus their Board-approved targeted pay positioning. Specifically, for:
 - Salaries, VRS targets the 75th percentile of leading public pension funds.
 - Target total compensation, VRS targets market median total cash (weighted 75% to leading public pension funds and 25% to a broad range of private sector firms).
- In reviewing its current pay levels, VRS would like to ensure that it continues to:
 - Attract, motivate and retain its skilled investment professionals.
 - Benefit all stakeholders through a compensation plan that is clear, aligned with performance, competitive and cost effective.
 - Directly align compensation with long-term investment performance.
- To complete this review, McLagan:
 - Reviewed background materials provided by VRS (e.g., plan documents, updated survey matches, etc.).
 - Assembled pay data from McLagan’s proprietary *2023 Investment Management Surveys* for VRS’ long-standing blended peer group (weighted 75% to leading public funds and 25% to a broad range of private sector firms).

Pay Level Analysis

▪ **Base Salary**

- In aggregate, VRS’ base salary spend for 48 investment professionals of \$10.9M was positioned 6% below the targeted \$11.6M 75th percentile.

	VRS Inv Prof		Targeted Pay Positioning	Competitive Market Leading Public Funds - Salary			VRS Variance vs. Targeted Positioning
	# of Incs	Salary		25th	50th	75th	
Base Salary	48	\$10,869	75th %ile Public Funds	\$9,129	\$10,102	\$11,579	-6%

▪ **Target Total Compensation**

- VRS’ aggregate \$16M target total compensation (i.e., base salary + target incentives) was positioned 11% below the targeted \$17.9M median total cash.

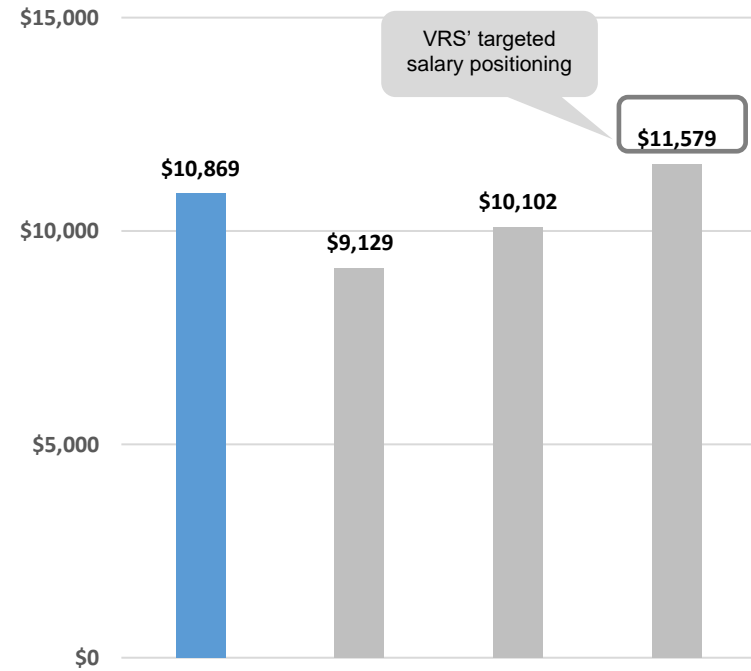
	VRS Inv Prof		Targeted Pay Positioning	Competitive Market PF / Priv Sect Blend - T. Cash			VRS Variance vs. Targeted Positioning
	# of Incs	Target T. Comp		25th	50th	75th	
Target Total Comp	48	\$15,952	Med 75% / 25% Blend T. Cash	\$13,220	\$17,858	\$25,504	-11%

Note: VRS targets total compensation (salary + cash incentives + deferral) at the median (50th percentile) total cash compensation (salary + cash incentives) of the public fund / private sector blend.

Overview – Base Salaries and Target Total Comp

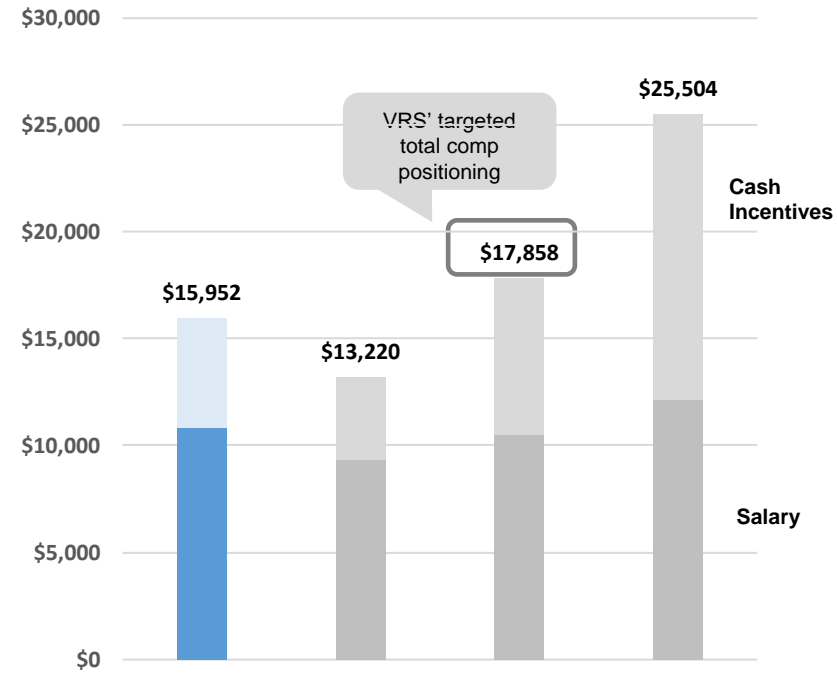
Aggregate spend for 48 VRS incumbents

VRS' Salaries vs. Leading Public Funds



	VRS	Leading Public Funds		
		25th	50th	75th
Salary	\$10,869	\$9,129	\$10,102	\$11,579
Variance		19%	8%	-6%

VRS' Target Total Comp vs. 75/25 Blend



	VRS	75th Pub Fund / 25% Priv Sect T. Cash		
		25th	50th	75th
Salary	\$10,869	\$9,353	\$10,538	\$12,179
Cash Incentive	\$5,083	\$3,866	\$7,320	\$13,325
Total Cash	\$15,952	\$13,220	\$17,858	\$25,504
Variance		21%	-11%	-37%

* VRS' data includes salary + cash incentives + deferred award.

Pay Level Analysis

Base Salaries

- In aggregate, VRS' salary spend is positioned 6% below the 75th percentile of other leading public funds. 67% of staff are paid below the 75th percentile.
- Aggregate salary spend for most VRS levels fall within ~10% of the targeted 75th percentile.

VRS Investment Management	Salary	# EEs Matched	Leading Public Funds Base Salary			Positioning vs 75th Percentile		VRS vs 75th
			25th	50th	75th	% Under	% Over	
Chief Investment Officer	\$450	1	\$439	\$525	\$631	100%	0%	-29%
Managing Director	1,185	3	885	1,005	1,185	33%	67%	0%
Program Director	2,174	7	1,833	2,051	2,427	100%	0%	-10%
Director	1,138	4	822	925	1,046	25%	75%	9%
Senior Portfolio Manager	285	1	217	239	280	0%	100%	2%
Portfolio Manager	3,835	17	3,218	3,489	3,978	59%	41%	-4%
Senior Investment Officer	191	1	153	171	199	100%	0%	-4%
Investment Officer	1,269	10	1,274	1,370	1,481	90%	10%	-14%
Senior Investment Analyst	91	1	93	100	110	100%	0%	-18%
Investment Analyst	251	3	196	226	241	33%	67%	4%
Total	\$10,869	48	\$9,129	\$10,102	\$11,579	67%	33%	-6%

Base Salaries + Target Incentives

- In aggregate, VRS' target total compensation spend fell 11% below the median of the 75/25 blended peer group (with 60% of incumbents below the targeted median).
- It is important to note that all positions have the opportunity to earn more than median compensation for maximum levels of performance.

VRS Investment Management	T. Comp	# EEs Matched	Blended Peer Group T. Cash			Positioning vs 50th Percentile		VRS vs 50th
			25th	50th	75th	% Under	% Over	
Target Total Comp								
Chief Investment Officer	\$765	1	\$676	\$875	\$1,257	100%	0%	-13%
Managing Director	1,955	3	1,627	2,610	3,839	100%	0%	-25%
Program Director	3,445	7	2,928	4,513	6,412	100%	0%	-24%
Director	1,708	4	1,236	1,570	2,147	25%	75%	9%
Senior Portfolio Manager	428	1	354	494	698	100%	0%	-13%
Portfolio Manager	5,369	17	4,285	5,301	8,228	29%	71%	1%
Senior Investment Officer	248	1	212	267	344	100%	0%	-7%
Investment Officer	1,650	10	1,588	1,857	2,164	90%	10%	-11%
Senior Investment Analyst	109	1	98	115	130	100%	0%	-6%
Investment Analyst	276	3	218	256	284	0%	100%	8%
Total	\$15,952	48	\$13,220	\$17,858	\$25,504	60%	40%	-11%

Pay Level Analysis

VRS Midpoints

- While the previous pages focused on actual salaries and incentive opportunities, the below analysis focuses on VRS' target midpoints.
- Most targeted salary midpoints are currently above the public fund 75th percentile.
- Most targeted total compensation midpoints are within 10% of the blended public fund and private sector median total cash.

Position	# of Incs.	Salary Grade	Base Salary			Sal + Target Incentive			
			Current Mid	Pub Fund 75th Sal	Variance %	% Sal	Current Mid	75/25 Med T. Cash	Variance %
Chief Investment Officer	1	10	474	631	-25%	70%	806	875	-8%
Managing Director	3	9	402	395	2%	65%	664	870	-24%
Program Director	7	8	347	347	0%	60%	556	645	-14%
Director	4	7	303	261	16%	50%	455	393	16%
Senior Portfolio Manager	1	6	303	280	8%	50%	455	494	-8%
Portfolio Manager	17	5	237	234	1%	40%	332	312	6%
Senior Investment Officer	1	4	198	199	0%	30%	258	267	-3%
Investment Officer	10	3	154	148	4%	30%	201	186	8%
Senior Investment Analyst	1	2	116	110	5%	20%	139	115	20%
Investment Analyst	3	1	94	80	16%	10%	103	85	21%

Note: Market values (pub fund 75th & 75/25 median) represent averages for multi-incumbent positions.

VRS' Current and Proposed Salary Ranges

- To remain competitive with other leading public funds, McLagan proposes the below changes to VRS' salary structure:
 - No changes to existing grades aside from CIO
 - Adjust CIO range to more closely align with market data

Grade	Position	PF 75th %ile	Proposed Salary Range		
			Min	Mid	Max
11	Chief Investment Officer	\$631	\$373	\$498	\$622
10	Deputy CIO	450	338	450	563
9	Managing Director	395	303	402	502
8	Program Director	347	259	347	435
7	Director	261	226	303	380
6	Senior Portfolio Manager	280	226	303	380
5	Portfolio Manager	234	176	237	298
4	Senior Investment Officer	199	149	198	248
3	Investment Officer	148	116	154	193
2	Senior Investment Analyst	110	88	116	143
1	Investment Analyst	80	72	94	116

VRS' Proposed Salaries & Target Total Comp

- Incorporating VRS' current target incentives (as a percent of salary) and proposed salary ranges, VRS' target total compensation range is largely in line with the 75/25 median of market total cash values.

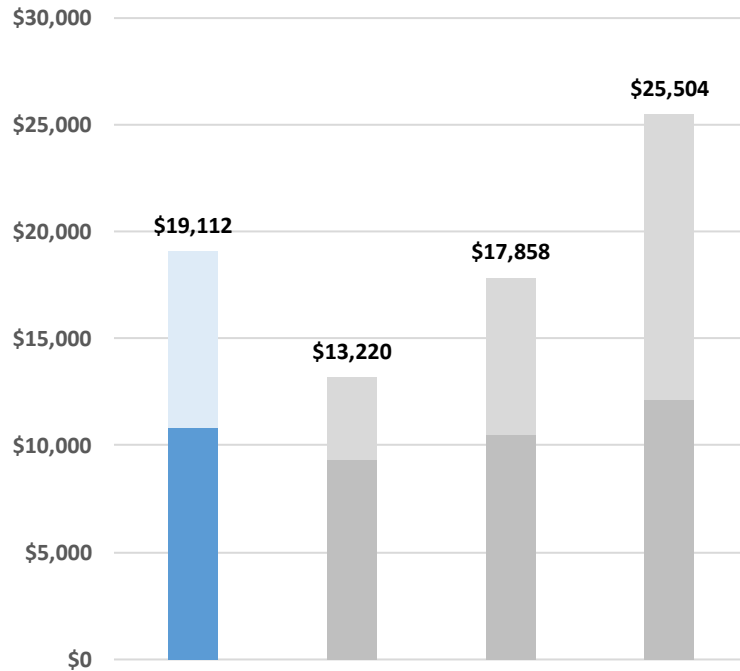
Position	Salary Grade	VRS - Proposed Salary Range		
		Minimum	Midpoint	Maximum
Chief Investment Officer	11	373	498	622
Managing Director	9	303	402	502
Program Director	8	259	347	435
Director	7	226	303	380
Senior Portfolio Manager	6	226	303	380
Portfolio Manager	5	176	237	298
Senior Investment Officer	4	149	198	248
Investment Officer	3	116	154	193
Senior Investment Analyst	2	88	116	143
Investment Analyst	1	72	94	116

Sal + Target Incentive						
Incentive % Sal	Target T. Comp Range			75/25		
	Minimum	Midpoint	Maximum	Median T. Cash	Variance \$	Variance %
70%	635	846	1,058	875	29	-3%
65%	500	664	828	870	206	-24%
60%	415	556	697	645	89	-14%
50%	339	455	571	393	-62	16%
50%	339	455	571	494	39	-8%
40%	247	332	417	312	-20	6%
30%	193	258	323	267	9	-3%
30%	150	201	251	186	-15	8%
20%	106	139	172	115	-24	20%
10%	79	103	127	85	-18	21%

Appendix I

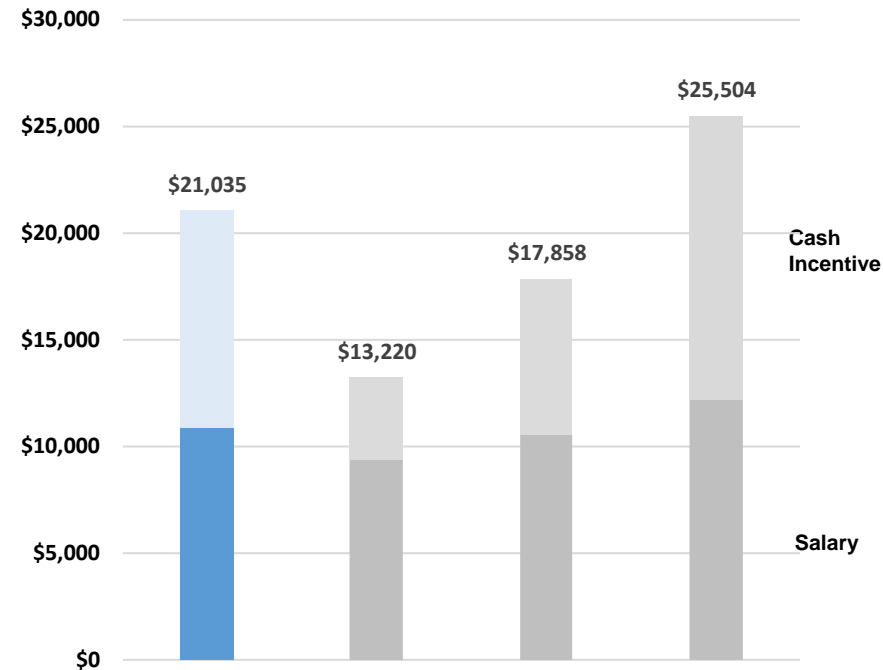
Overview – Maximum and Actual Total Compensation (vs. Mkt T. Cash)

VRS' Actual Total Comp vs. 75/25 Blend



	VRS	75th Pub Fund / 25% Priv Sect T. Cash		
		25th	50th	75th
Salary	\$10,869	\$9,353	\$10,538	\$12,179
Cash Incentive	\$8,243	\$3,866	\$7,320	\$13,325
Total Cash	\$19,112	\$13,220	\$17,858	\$25,504
Variance		45%	7%	-25%

VRS' Max Total Comp vs. 75/25 Blend



	VRS	75th Pub Fund / 25% Priv Sect T. Cash		
		25th	50th	75th
Salary	\$10,869	\$9,353	\$10,538	\$12,179
Cash Incentive	\$10,166	\$3,866	\$7,320	\$13,325
Total Cash	\$21,035 *	\$13,220	\$17,858	\$25,504
Variance		59%	18%	-18%

* VRS' data includes salary + cash incentives + deferred award.

Base Salaries + Maximum Incentives

- Consistent with its pay philosophy, all VRS positions have the opportunity to earn above-median pay for superior performance (e.g., all incentive components at maximum). As with previous years, VRS' \$21M maximum total compensation falls between the \$17.9M median and \$25.5M 75th percentile.

VRS Investment Management	T. Comp	# EEs Matched	Blended Peer Group T. Cash			Positioning vs 50th Percentile		VRS vs 50th
			25th	50th	75th	% Under	% Over	
Maximum Total Comp								
Chief Investment Officer	\$1,080	1	\$676	\$875	\$1,257	0%	100%	23%
Managing Director	2,725	3	1,627	2,610	3,839	33%	67%	4%
Program Director	4,716	7	2,928	4,513	6,412	29%	71%	5%
Director	2,277	4	1,236	1,570	2,147	0%	100%	45%
Senior Portfolio Manager	570	1	354	494	698	0%	100%	16%
Portfolio Manager	6,903	17	4,285	5,301	8,228	0%	100%	30%
Senior Investment Officer	306	1	212	267	344	0%	100%	14%
Investment Officer	2,030	10	1,588	1,857	2,164	30%	70%	9%
Senior Investment Analyst	127	1	98	115	130	0%	100%	10%
Investment Analyst	302	3	218	256	284	0%	100%	18%
Total	\$21,035	48	\$13,220	\$17,858	\$25,504	13%	88%	18%

Base Salaries + Actual Earned Incentives

- Based on actual earned incentives, VRS' \$19.1M total compensation spend is about 7% above the \$17.9M median reflecting that for these 48 incumbents, actual payouts were above target and below maximum levels.

VRS Investment Management	T. Comp	# EEs Matched	Blended Peer Group T. Cash			Positioning vs 50th Percentile		VRS vs 50th
			25th	50th	75th	% Under	% Over	
Actual Total Comp								
Chief Investment Officer	\$878	1	\$676	\$875	\$1,257	100%	0%	0%
Managing Director	2,505	3	1,627	2,610	3,839	100%	0%	-4%
Program Director	4,425	7	2,928	4,513	6,412	100%	0%	-2%
Director	2,009	4	1,236	1,570	2,147	25%	75%	28%
Senior Portfolio Manager	467	1	354	494	698	100%	0%	-5%
Portfolio Manager	6,250	17	4,285	5,301	8,228	12%	88%	18%
Senior Investment Officer	292	1	212	267	344	0%	100%	9%
Investment Officer	1,871	10	1,588	1,857	2,164	40%	60%	1%
Senior Investment Analyst	117	1	98	115	130	0%	100%	2%
Investment Analyst	299	3	218	256	284	0%	100%	17%
Total	\$19,112	48	\$13,220	\$17,858	\$25,504	40%	60%	7%

Leading Public Funds Peer Group

Fund	Total AUM (as of 12/31/22)
CA Public Employees' Retirement Sys	\$444.7
CA State Teachers' Retirement Sys	302.1
New York State & Local Retirement Sys	242.3
State of Wisconsin Investment Board	225.6
Teacher Retirement Sys of Texas	200.0
State Board of Administration of Florida	177.7
Washington State Investment Board	149.3
New York State Teachers' Retirement Sys	128.1
Ohio Public Employees Retirement System	123.8
Michigan State Retirement Systems	92.6
State Teachers Retirement Sys of Ohio	88.0
CO Public Employees' Retirement Assoc.	55.4
75th Percentile	\$229.8
Median	163.5
25th Percentile	116.0
Virginia Retirement System	\$100.3

Private Sector Firm Summary

All Private Sector Firms				
	# of Firms	AUM		
		25th	50th	75th
Banks	43	\$21.1	\$61.5	\$254.6
Insurance Companies	64	27.6	71.6	157.8
Advisory Firms	155	14.6	55.4	183.5
Endowments, Foundations & Corporate Plan Sponsors	88	2.8	6.8	15.1
All Private Sector Firms	350	\$7.4	\$31.7	\$123.3