



## APPROVED BY THE BOARD OF TRUSTEES: EFFECTIVE JANUARY 2, 2020\*

This Investment Policy Statement has been adopted by the VRS Board of Trustees (Board) to provide guidelines for the investment offerings provided to participants of the Optional Retirement Plan of the Commonwealth of Virginia for Employees of Institutions of Higher Education (ORPHE) when a bundled plan construct is utilized. The purpose of the plan is set forth in the Plan Document and Master Trust, which are accessible on the VRS website at [varetire.org](http://varetire.org). Bundled plans use the same company for investments, recordkeeping, enrollment and marketing services. A bundled plan provider's investment platform may include the provider's proprietary investment options as well as non-proprietary options.

### 1. Investment Objectives

In a defined contribution (DC) investment program, each participant has his or her own risk tolerance, time horizon and investment objectives. Participants are responsible for their own investment decisions. To help meet these varying needs, the VRS ORPHE seeks to provide participants with an array of investment choices across a range of asset classes, risk levels, and investment strategies so they can construct and/or invest in portfolios that address their individual needs, and do so using investment vehicles and structures that provide competitive risk-adjusted returns at a reasonable cost within a bundled plan construct.

The Board recognizes that DC plan participants have varying levels of investment knowledge and/or interest in actively managing their investments, and therefore may desire investment alternatives in addition to those offered as part of a core investment lineup. To meet this need, a self-directed brokerage account (SDBA) is made available to self-designated knowledgeable investors who are willing to accept all risks, costs, and operational rules and procedures related to participating in a SDBA.

### 2. Decision Making

The Board is responsible for the following:

- Selection of the plan default investment option. (Appendix 1)
- Within the fund lineup, included asset classes. (Appendix 2)
- Whether to offer a Self-Directed Brokerage Account (SDBA). (Appendix 3)
- Whether individual investment advice will be provided and the terms on which it will be available to participants.

(Continued)

Beyond these guidelines, the Board delegates to the Chief Investment Officer (CIO) all other investment decisions related to the ORPHE as it relates to the bundled plan structure. The CIO or a designee will report regularly to the Defined Contribution Plans Advisory Committee (DCPAC) and Board on the status and investment results of the investment program. Included in such reporting will be performance benchmarks selected by the CIO to appropriately measure or compare the risk and investment objectives of the various investment options.

In carrying out its fiduciary duty to oversee DC investments, the Board will consider advice and recommendations provided by the DCPAC. The specific duties and responsibilities of the DCPAC are described in the DCPAC Charter.

Additionally, the Board developed a set of twelve Defined Contribution Plans Investment Belief Statements intended to help guide the strategic management of the VRS DC investment program.

### **3. Plan Level Policies**

The CIO shall work with the VRS Director and the DCPAC relative to hiring and terminating a bundled plan provider. The CIO has full authority to select or eliminate fund options within a bundled plan provider's investment program using reasonable processes and to negotiate or renegotiate investment fees. The CIO shall also develop procedures for appropriate mapping of bundled plan assets and/or funds as situations arise. Mapping means the transfer of assets from a discontinued investment option or terminated provider to another investment option or provider under the ORPHE. The CIO works with the Director to coordinate implementation relating to changes to the bundled plan investment program and may consult with the DCPAC as needed.

The CIO is responsible for ensuring that adequate due diligence is being performed in the evaluation of potential and existing investments, and that all investment activity will be in compliance with applicable regulatory requirements.

### **4. Trading Restrictions and Redemption Fees**

The Board and the bundled plan provider(s) may impose restrictions and/or fees that discourage investment trading that could have an adverse impact on the management of a fund, other participants, or clients of the provider companies.

## 5. Best Execution

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

## 6. Use of Consultants/Service Providers

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

## 7. Code of Ethics

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

**Default Investment Option  
Effective January 2, 2020  
Appendix 1**

TIAA-CREF Program: BlackRock LifePath Index Funds

**Asset Classes: Investment Options  
Effective November 14, 2013  
Appendix 2**

Investment options shall represent the broad asset classes available in the capital markets to the extent they are practical and, when prudent, certain sub-asset classes. From time to time additional asset classes may be added, or existing asset classes may be deleted in order to maintain an array of investment options that address participants' changing needs or changes in the investment industry.

The Board notes that due to the nature of the bundled plan structure investment decisions are limited to investment options that are, or can be made, available on a provider's investment platform. It is possible that bundled plan constraints may limit the scope of investment options available to participants, limit access to more attractive options within the asset classes and limit the extent to which negotiations can be made relative to investment management and investment related fees.

The Board delegates to the CIO decisions as to 1) whether a fund investment option shall utilize a passive or active investment strategy or a combination of both; 2) whether a fund should exhibit a large, mid, or small capitalization structure or a combination thereof; 3) whether a fund should exhibit a growth, value, blended style, or targeted volatility orientation; 4) whether a fund should have a single investment manager or use multiple investment managers or firms and; 5) whether a fund invests in a single asset class or more than one asset class.

The following asset class categories are considered for possible inclusion in the plan:

**Capital Preservation**

- Money Market
- Stable Value
- Fixed Annuity

**Fixed Income**

- Investment grade (short-term, intermediate, long-term)
- Inflation-Protected
- High-Yield
- International/Global

**Global Public Equity**

- U.S. Equity
- Non-U.S. Developed Equity
- Emerging Equity

**Real Estate (public & private)****Asset Allocation**

- Target Date
- Risk Based

*(Continued)*

**Asset Classes: Investment Options**  
**Effective November 14, 2013**  
**Appendix 2** *(continued)*

The Board expects asset allocation funds to be diversified portfolios. These portfolios may include exposure to various sub-segments of the broad asset classes as well as to alternative asset classes as determined by the provider company using reasonable optimization techniques to measure the risk/reward trade off. Asset classes used within asset allocation funds may include: large cap domestic equity, small/mid cap domestic equity, international equity, emerging market equity and debt, domestic core fixed income, high-yield bonds, inflation-protected securities, international/global fixed income, commodities, real estate and cash. An asset allocation fund is not required to include each of these asset classes and may include other asset classes. Glide paths for target date portfolios shall be based on sound investment theory and investment methodology as well as reasonable capital market assumptions. A glide path represents the changes made to the asset allocation mix over time as the target date approaches. There is a higher equity allocation in the longer dated portfolios because of the long-term investment time horizon. Over time, the equity allocation decreases as the investment time horizon decreases.



**Self-Directed Brokerage Account  
Effective February 9, 2017  
Appendix 3**

A Self-Directed Brokerage Account (SDBA) is made available through the plan's bundled provider(s) and is not contracted for separately. A bundled plan provider may change its SDBA provider from time to time.

The SDBA is available for self-designated knowledgeable investors who acknowledge and understand the SDBA's operational rules and procedures as well as the risks and costs associated with the investments allowed in the SDBA. Subject to limitations imposed by the SDBA provider, allowable investments include mutual funds, exchange traded funds (ETFs) and individual securities. Participants must complete the SDBA enrollment materials prior to investing the SDBA.