

Chief Investment Officer's Letter



Charles W. Grant, CFA, Chief Investment Officer

P.O. Box 2500 • 1200 East Main Street
Richmond, Virginia 23218-2500

Toll Free: 1-888-VARETIR (827-3847) • TDD: 804-344-3190

December 3, 2009

To the Members of the Board of Trustees and Participants of the Virginia Retirement System:

Fiscal 2009 was a difficult year for the economy, the financial markets and the VRS investment portfolio. As a long-term investor, VRS maintains significant exposure to corporate equity and debt, as well as commercial real estate. All of these markets declined materially last year, resulting in a one-year investment return of -21.1%. Our relative returns also suffered, as the fund moderately underperformed the policy benchmarks established by the Board of Trustees. Overall, the decline in performance was in line with many other large pension funds and long-term investors.

The following table shows annualized total fund performance for various timeframes along with intermediate and long-term policy benchmarks:

	PERIODS ENDING JUNE 30, 2009			
	1 Year	3 Years	5 Years	10 Years
Total Fund	-21.1	-3.2	2.7	3.2
Intermediate Benchmark	-20.1	-3.6	2.0	2.4
Long-Term Benchmark	-17.0	-3.6	0.6	1.1

The economy entered a recession in late 2007 and is only now beginning to show signs of growth. The length and depth of this recession will make it one of the worst since the Great Depression, and the impact on business and consumer activity has been severe. In addition to the sharp contraction on Main Street, a financial crisis developed in late 2008 and early 2009 as uncertainty over mounting residential real estate losses led to a lack of confidence in financial counterparties. This crisis of confidence precipitated a “run on the bank” at several large financial firms, most notably Lehman Brothers, which failed on September 14, 2008. In this environment of economic distress on Main Street and systemic crisis on Wall Street, all risk premiums rose dramatically, and the only assets that produced attractive returns were very high quality bonds.

The fund’s public equity program returned -28% last year, while private equity holdings returned -21.8%. Active equity portfolio managers generally underperformed the broad market, as the extreme anti-risk and anti-leverage environment punished many securities with good long-term value. The equity program also suffered due to an opportunistic investment into distressed financial stocks that proved to be early. Private equity holdings performed moderately better, but these companies are illiquid and difficult to value. Only time and future realizations will tell how well they perform.

Our credit strategies portfolio, which is viewed as a substitute to public equity, held up relatively well with a -7.7% return. These credit-related investments provided some degree of cushion during the dramatic market downturn, while generating significant income and cash flow to the fund. This program maintained a relatively conservative portfolio structure during this period and outperformed its benchmark and public equities by a wide margin.

Commercial real estate investments returned -28.3% and significantly underperformed the program benchmark, which is an un-investable index of core commercial real estate. Within the real estate program, private real estate held up moderately better than public real estate, owing primarily to the lagged nature of the private real estate cycle.

The only VRS investment program posting positive returns last year was the fixed income program, which returned 4.6%. While the return was positive, the program underperformed the benchmark due to its higher concentration in non-government bonds. The portfolio remains very high quality, and we expect it to perform well over the next few years.

It is not unusual for VRS to periodically underperform relative to policy benchmarks; in fact, historically we have only outperformed in approximately six out of every 10 years. We believe the fund is well-positioned to recapture this relative value over the next several years.

The Board of Trustees, the Investment Advisory Committee and the investment staff have deliberated extensively over the last year to discuss the unique nature of this economic and market cycle and to reaffirm our long-term investment plan. Government policy makers have done a good job restoring order and liquidity to the financial markets, but the cost has been high, and the long-term effects of these policies are not clear. An overleveraged private sector is being replaced by an overleveraged public sector, and we are wary of potential headwinds to growth and risks to continued price stability.

We remain committed to a long-term orientation toward our investment strategy; the fund is expected to pay pension benefits for the next 80-plus years. Our approach is to give careful consideration to the combined effect of the current market price and reasonable expectations about future growth, and then allocate our assets accordingly. Currently, we are maintaining an opportunistic overweight position in credit-related securities that we believe will generate equity-like returns but with significantly lower risk. In addition, over the next year we will be implementing a global public equity benchmark and program structure that moderately increases our non-U.S. public equity holdings, in both developed and emerging markets. This policy change will enable the fund to benefit from a higher level of growth expected in non-U.S. markets, particularly the emerging markets, as well as further diversify the fund and help protect against the potential for a further decline in the dollar.

The portfolio is positioned to perform well over the intermediate and longer-terms, but we are not likely to return to the period of extremely high returns of several years ago. We expect a continuation of the deleveraging environment and only moderate economic growth over the next few years, with a possibility that the economy will face another downturn when stimulus policies are withdrawn. Despite these challenges, we believe the markets are priced such that the current portfolio should be able to deliver a reasonable return of 7% to 8% over the next five to 10 years, albeit with a high level of volatility.

The last year has been challenging and I want to thank the investment staff for their hard work and commitment to VRS. I also want to thank the members of the Investment Advisory Committee who share their time and knowledge with VRS. Finally, I want to thank the Board of Trustees for their guidance and support. The investment staff appreciates their confidence, and we will continue to diligently execute the investment plan and seek attractive risk-adjusted returns for the fund.

Respectfully submitted,



Charles W. Grant, CFA
Chief Investment Officer

The Investment Section provides detailed information regarding the performance of the commingled investment pool. This information includes asset allocations, portfolio highlights, a list of VRS' money managers and public equity commissions for the fiscal year. The section also presents the System's investment management fees and expenses and an investment summary.

Investment Account

The VRS Board of Trustees has fiduciary responsibility to invest the fund solely in the interest of the beneficiaries of the System. As established by the *Code of Virginia*, “the Board shall invest the assets of the Retirement System with the care, skill, prudence, and due diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.”

Benefit payments are projected to occur over a long period of time. This allows VRS to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the VRS investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the VRS balance sheet in order to estimate the potential impact of various asset class mixes on key measures of total plan risk including the resulting estimated impact on funded status and contribution rates.

The Chief Investment Officer has been delegated authority by the Board to allocate the System's investments within the approved asset allocation policy and within the Board-approved active risk budget. The total fund active risk budget describes the degree of tolerance for yearly variation in the fund's performance relative to the Intermediate Term Benchmark. The primary risk measure used for this purpose is Total Fund Tracking Error, calculated as the standard deviation of the difference between the fund's return and the return of the Intermediate Term Benchmark. From this measure, probability estimates can be derived to help the Board estimate the risk of underperforming the benchmark by certain margins.

The investment staff manages the VRS portfolio on a day-to-day basis according to policies and guidelines established by the Board. The staff manages assets on a direct basis and through outside investment managers. Managers employ both active and passive investment strategies. The Board has established various performance benchmarks to serve as tools for measuring progress toward the achievement of intermediate and longer-term investment goals.

The asset allocation mix of the VRS fund as of June 30, 2009 is shown in Figure 3.1:



FIGURE 3.1 – ASSET ALLOCATION MIX

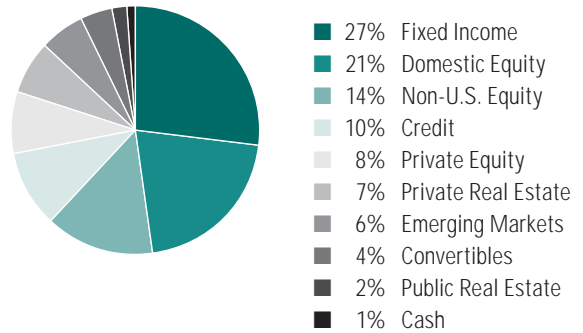


FIGURE 3.2 – INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR THE PERIOD ENDING JUNE 30, 2009

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	-21.1%	-3.2%	2.7%
Total Fund Intermediate Benchmark	-20.1%	-3.6%	2.0%
2. Total Public Equity			
VRS	-28.0%	-7.1%	0.8%
Custom Benchmark	-26.3%	-6.7%	0.8%
3. Total Fixed Income			
VRS	4.6%	5.6%	4.6%
Custom Benchmark	7.1%	7.0%	5.3%
4. Total Credit Strategies			
VRS	-7.7%	0.0%	2.5%
Custom Benchmark	-11.1%	-0.9%	2.2%
5. Total Real Estate			
VRS	-28.3%	-2.6%	7.3%
Custom Benchmark	-19.8%	0.6%	8.4%
6. Total Private Equity			
VRS	-21.8%	6.0%	13.3%
Custom Benchmark	-35.7%	-11.0%	-2.0%

Investment return calculations were prepared using a time-weighted return methodology.

Portfolio Highlights

PUBLIC EQUITY

The market value of the Total Public Equity Program as of June 30, 2009 was \$18.0 billion, representing approximately 42% of the total fund. Fifty-four percent was invested in Domestic Equity and 46% in International Equity. Nineteen percent was invested in passive strategies, and 24% was managed internally. The objective of the portfolio is to exceed the return of the Custom Benchmark over three- and five-year periods, net of all costs. At fiscal year end, the Custom Benchmark was comprised of 54.4% Russell 3000, 34.1% of the MSCI World excluding U.S. IMI (50% hedged) and 11.5% in the MSCI Emerging IMI index.

The Total Public Equity Program underperformed the Custom Benchmark during the fiscal year by 1.7%. During the year, the Russell 3000 was down 26.6%, the Non-U.S. Developed (50% hedged) benchmark was down 29.9% and the Emerging Markets benchmark was down 26%. Public markets were down around the world as a result of the weakening economy.

The Total Public Equity Program is dominated by traditional, long-only strategies (82% of program, or \$14.7 billion). The program also employs traditional long-short strategies (3.8% of program, or \$0.7 billion) and equity-oriented hedge fund strategies (14.2% of program, or \$2.6 billion).

FIGURE 3.3 – TOTAL PUBLIC EQUITY PROGRAM BENCHMARKS

Benchmark Category	VRS Return	Benchmark Return	VRS Weight	Benchmark Weight
Russell 1000	-26.81%	-26.69%	15.44%	15.44%
Russell 2000	-23.01%	-25.01%	4.21%	4.21%
Russell Special Small Cap	-26.10%	-27.83%	2.94%	2.85%
S&P 500	-30.67%	-26.21%	14.29%	15.25%
Non-U.S. Developed Small Cap	-30.77%	-26.95%	3.36%	1.84%
Non-U.S. Developed Standard	-32.44%	-29.93%	11.75%	14.61%
Emerging	-24.60%	-26.01%	13.75%	11.54%
Global	-31.45%	-28.35%	20.01%	20.01%
Hedge Funds	-19.37%	-22.09%	14.25%	14.25%
Total Program	-28.02%	-26.32%	100.00%	100.00%

One-year weights and returns ending June 30, 2009.

There were some differences among the Total Public Equity portfolio versus the Custom Benchmark based on sectors and region weights:

FIGURE 3.4 – CUSTOM BENCHMARK SECTORS AND REGIONS

Sectors	VRS	Strategic Benchmark	Regions	VRS	Strategic Benchmark
Consumer Discretionary	10.06%	9.52%	North America	68.14%	72.42%
Consumer Staples	8.48%	9.43%	Europe/Middle East/Africa	11.97%	11.76%
Energy	11.20%	11.29%	Asia Pacific	15.96%	13.06%
Financials	18.14%	18.72%	Latin and South America	3.93%	2.76%
Health Care	11.00%	10.31%			
Industrials	9.88%	10.71%		100.00%	100.00%
Information Technology	15.74%	13.68%			
Materials	6.04%	7.08%			
Telecommunication Services	5.36%	4.67%			
Utilities	4.10%	4.59%			
	100.00%	100.00%			

Based on Barra's classification of sectors and regions.

The top 10 holdings in the Total Public Equity Program comprised 6.7% of the program at fiscal year end. In comparison to last year, five companies fell from the list. Conocophillips, General Electric, AT&T Inc., Wal-Mart Stores and Johnson & Johnson were replaced with J.P. Morgan, Apple, Royal Dutch Shell, Petrobras and Google.

FIGURE 3.5 – PUBLIC EQUITY: TOP 10 EXPOSURES

Company	Market Value	Shares
Exxon Mobil Corporation	\$ 211,332,939	3,022,929
Microsoft Corporation	154,196,056	6,487,003
J.P. Morgan Chase & Co.	118,277,279	3,467,525
Apple Inc	116,838,499	820,322
Procter & Gamble	103,122,423	2,018,051
Royal Dutch Shell	102,106,227	4,073,570
Chevron Corporation	100,764,023	1,520,966
Pfizer Incorporated	99,011,314	6,600,754
Petrobras	97,031,810	3,335,965
Google, Inc.	96,126,831	228,010

Aggregated various share classes based on parent company. VRS maintains a complete list of portfolio holdings.

FIXED INCOME

VRS invests a portion of its portfolio in fixed income investments in order to reduce total fund volatility, produce income and provide for some protection in the event of a deflationary environment. At year end, approximately \$10.9 billion was invested in fixed income assets, representing 26% of the VRS portfolio. Of this amount, approximately 58% was invested actively using outside managers, and 42% was invested in a more “risk-controlled” style (75% of this style is managed internally).

The objective of the entire program is to maximize the return (net of all costs) relative to the Citigroup Broad Investment Grade Index, while staying in compliance with risk limits. The fixed income program return was 4.59% for the fiscal year.

The yield curve continued to steepen over the last fiscal year as the Federal Open Market Committee (FOMC) continued its aggressive rate policy. This policy, coupled with the unprecedented stimulus programs, such as the Troubled Asset Relief Program (TARP), caused market participants to be simultaneously worried about near-term deflation and long-term inflation. During the fiscal year, two-year rates decreased by 151 basis points to 1.11%, and 10-year rates decreased by 43 basis points to 3.54%. The very liquid spread sectors (MBS and Agencies) tightened over the course of the year. The credit-sensitive and less liquid sectors (Corporate Bonds and CMBS) widened significantly over the year. However, even these two sectors had meaningfully tightened from their very wide levels in November 2008.

FIGURE 3.6 – FIXED INCOME: TOP 10 HOLDINGS BY MARKET VALUE

AS OF JUNE 30, 2009

Par	Security Description	Market Value
\$ 100,000,000	FNMA 6.00% 30-Year MBS	\$ 104,156,000
100,000,000	FHLMC 4.00% 15-Year MBS	100,039,000
100,000,000	U.S. Treasury Notes 1.375% due 05/15/2012	99,497,000
80,100,000	FNMA 5.00% 30-Year MBS	81,552,213
55,400,000	FHLMC 5.50% 30-Year MBS	56,975,576
56,715,000	U.S. Treasury Notes 2.625% due 06/30/2014	56,910,383
53,500,000	FHLB Disc Note due 08/03/2009	53,493,937
53,110,000	General Electric Corp. 2.125%	52,804,618
50,000,000	Bank of America Var Rate 3-Year ABS	50,473,000
45,020,400	U.S. TIPS 0.875% due 04/15/2010	45,044,711

VRS maintains a complete list of portfolio holdings.

FIGURE 3.7 – FIXED INCOME PORTFOLIO

AS OF JUNE 30, 2009

Sector Allocation

Sector	% Portfolio
Treasury	10.0%
Agency	5.0%
Corporate	42.0%
Mortgage	30.0%
Asset Backed	2.0%
CMBS	3.0%
Foreign	0.0%
Other	8.0%
Total	100.0%

Credit Quality Breakdown

Rating	% Portfolio
AAA	44.7%
AA	4.0%
A	16.7%
BBB	14.0%
BB	2.1%
B	1.2%
Below B	1.2%
NR	16.1%
Total	100.0%

SHORT-TERM INVESTMENTS

Generally, VRS desires to remain fully invested at all times and seeks to minimize its holdings of cash investments. Temporary cash balances are invested in short-term money market instruments with the goal of maintaining high credit quality and liquidity.

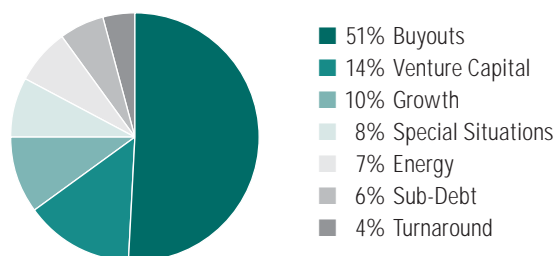
PRIVATE EQUITY

VRS invests in private equity in order to achieve returns greater than those available in the public equity markets. Specifically, the program seeks to outperform the Russell 3000 Index by 2.5% per year. Program returns are calculated on both a time-weighted basis and a dollar-weighted or internal rate-of-return (IRR) basis. On a time-weighted basis, the program return for FY 2009 was -21.8%. On a dollar-weighted or IRR basis, the private equity one-year return was -20.3%, as of June 30, 2009. Though negative, both return metrics significantly outperformed the Russell 3000 benchmark. Returns in private equity were affected by both the economic recession and the retrenchment of the credit markets.

As of June 30, 2009, the carrying value of the program was approximately \$3.6 billion. Most of the program is invested in limited partnerships. Sectors in which the program invests include leveraged buyouts, venture capital, growth, sub-debt, turnaround, energy and special situations. The Private Equity Program's market value by subclass was as follows:

FIGURE 3.8 – PRIVATE EQUITY PROGRAM

AS OF JUNE 30, 2009



REAL ESTATE

A portion of the portfolio is invested in real estate to help diversify the total fund by providing exposure to an asset class that has a low historical correlation with the public markets. The economic downturn, however, also has had an impact on commercial real estate. The portfolio produced a -28.3% return for the fiscal year, underperforming its benchmark by 8.5%. A REIT market correction resulted in a -37.8% return in VRS' REIT portfolio, while the private asset portion of the portfolio delivered a -25.4% return. Since real estate is a lagging sector, additional private real estate valuation declines are expected in FY 2010.

Over the course of the year, the percentage of the total fund represented by the real estate portfolio increased from 7.4% to 8.5% due to new investments in commercial real estate, debt strategies and value declines in the total fund. At fiscal year end, the portfolio was composed of approximately 15% REITs and 85% private accounts. Portfolio leverage as a percentage of total real estate assets was 44% as of June 30, 2009.

FIGURE 3.9 – REAL ESTATE BY PROPERTY TYPE
AS OF JUNE 30, 2009

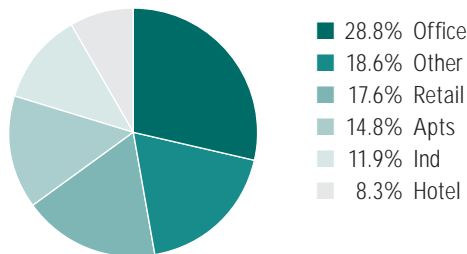
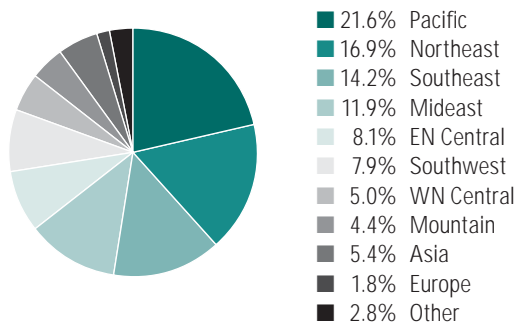


FIGURE 3.10 – REAL ESTATE BY GEOGRAPHIC REGION
AS OF JUNE 30, 2009

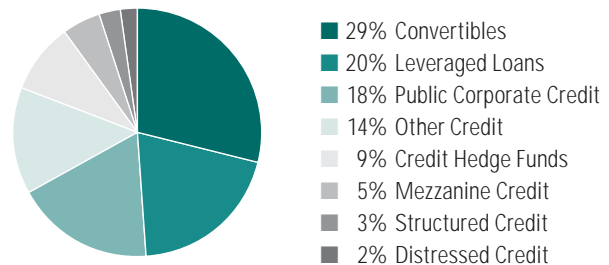


CREDIT STRATEGIES

VRS allocates a portion of the portfolio to credit-related investments. This allocation is an alternative to investing in equity securities. Investments in this program are primarily debt instruments that are intended to provide diversification benefits, higher levels of income and lower volatility as compared to equities. Over the course of the fiscal year, the program returned -7.7%, while the program's custom benchmark returned -11.1%, and the custom benchmark for the VRS Public Equity program returned -26.3%.

Credit markets faced significant stress during the fiscal year. In the first half of the year, both security prices and liquidity levels fell dramatically, while defaults and expected default levels climbed. In the second half of the fiscal year, credit markets experienced some improvement. As liquidity started to return to these markets, spread levels began contracting and security prices rebounded off of their low levels. Although there has been some improvement, credit markets remain challenged, and anticipated default rates remain elevated.

FIGURE 3.11 – CREDIT STRATEGIES
AS OF JUNE 30, 2009



MORE INFORMATION

A complete list of the investment portfolio is available upon request. Address requests to the Investment Compliance Officer, Virginia Retirement System, P.O. Box 2500, Richmond, VA 23218-2500.

VRS Money Managers

The diversified investment structure as of June 30, 2009 is reflected in the following tables, which list VRS managers by investment program and style.

PUBLIC EQUITY MONEY MANAGERS

External Managers	Style Description
Acadian Asset Management	U.S. Large, Non-U.S. Small & Emerging Markets
AllianceBernstein	Global
Aronson + Johnson + Ortiz	U.S. Small
Arrowstreet Capital	Global
BlackRock	Global
GMO	Emerging Markets
J.P. Morgan	U.S. Large
LSV Asset Management	Non-U.S. Small
Relational Investors	U.S. Large
Russell Investment Group	U.S. Large
Select Equity Group	U.S. Small
T. Rowe Price	Emerging Markets & Global
The Boston Company	Emerging Markets
TimesSquare Capital Management	U.S. Small

Internal Portfolios	Style Description
Afton	U.S. Small
Dogwood	Non-U.S. Large
Emerging Market Swap	Emerging Markets
Madison	U.S. Large
Potomac	U.S. Large
Russell 2000 Synthetic	U.S. Small
York	U.S. Large

Hedge Funds – Top 10 Managers	Style Description
Blue Ridge, LP	Long/Short
Buckingham Capital	Long/Short
Elliott International	Long/Short
Glenhill Capital	Long/Short
Ironbound Partners	Long/Short
Lansdowne Partners	Long/Short
Maverick Capital	Long/Short
New Mountain Capital	Long/Short
TPG-Axon Partners	Long/Short
ValueAct Capital	Long/Short

FIXED INCOME MANAGERS

External Managers	Style Description
Agincourt	Core/External Active
BlackRock	Core/External Active
Prudential	Core/External Active
Smith Breeden	Core/External Active
Wellington	Core/External Active
Western Asset Management	Core/External Active
Bridgewater	Pure Alpha/External Active
PIMCO	IG Credit/External Active
ING Clarion	CMBS/External Active
State Street Global Advisors	IG Credit/External Passive
Barclays Global Investors	Active Currency
First Quadrant	Active Currency

Internal Portfolio	Style Description
VRS Internal	Core/Internal Active

PRIVATE EQUITY – TOP 10 MANAGERS

	Style Description
Credit Suisse	Customized Separate Account
Hellman and Friedman	Buyout
Welsh, Carson, Anderson and Stowe	Buyout & Sub-Debt
Summit Partners	Growth & Sub-Debt
Apax Partners	Buyout
Madison Dearborn	Buyout
Charterhouse Capital Partners	Buyout
Texas Pacific Group	Buyout
TA Associates	Growth & Sub-Debt
First Reserve	Energy

CREDIT STRATEGY MANAGERS

	Style Description
Anchorage Advisors, LLC	Long Short Credit & Opportunity Fund
Angelo Gordon	Distressed Credit
Babson Capital	Mezzanine Credit
Beach Point Capital Management	Bank Loans, High Yield Credit, Distressed
BlackRock Kelso Capital	Bank Loans & Mezzanine Credit
Hyperion Brookfield Asset Management	Structured Credit
King Street Capital Management, LLC	Opportunity Fund
Oaktree Capital Management	Mezzanine Credit, Convertibles, Public High Yield, Distressed Credit

Pacific Investment Management	Bank Loans
Post Advisory Group	Public High Yield Credit
Prudential	High Yield Credit & Mezzanine Credit
Stone Harbor Investment Partners	Public High Yield Credit
Solus Alternative Asset Management LP	Opportunity Fund
Western Asset Management	Bank Loans
Zazove Associates	Convertibles

REAL ESTATE MANAGERS

Public Real Estate Securities	Style Description
Morgan Stanley	REIT Portfolio
Internal-Monroe	REIT Portfolio
Urdang Securities Management, Inc.	REIT Portfolio
Private Real Estate	Style Description
Angelo Gordon & Co.	Core
ING Clarion Capital	Core
J.P. Morgan Asset Management	Core
Morgan Stanley	Core
Security Capital Research & Management, Inc.	Core
TA Associates Realty	Core
AvalonBay Communities, Inc.	Enhanced Core
CIM Group	Enhanced Core
Guggenheim Partners	Enhanced Core
Koll Bren Schreiber	Enhanced Core
Liquid Realty Partners	Enhanced Core
ProLogis	Enhanced Core
Prudential Real Estate Investors	Enhanced Core
AMB Investment Management, Inc.	Opportunistic
Blackstone Real Estate Partners	Opportunistic
Capmark Investments	Opportunistic
Colonnade Properties	Opportunistic
JER Partners	Opportunistic
Koll Bren Schreiber	Opportunistic
Lazard Frères Real Estate Investors	Opportunistic
Morgan Stanley	Opportunistic
Oaktree Capital Management	Opportunistic
Penwood Real Estate Investment Management, Inc.	Opportunistic

Public Equity Commissions

AS OF JUNE 30, 2009

Broker	Commission	Broker	Commission
Investment Technology Group, New York	\$ 3,663,797	Lehman Bros. International, London	\$ 237,394
Goldman Sachs & Co., New York	2,279,433	SG Americas Securities LLC, New York	210,332
Credit Suisse, New York	2,091,216	Merrill Lynch Gilts Ltd., London	206,231
Merrill Lynch Pierce Fenner Smith, Inc., New York	1,012,921	MacQuarie Securities Ltd., Hong Kong	200,494
Deutsche Bank Securities, Inc., New York	853,303	Calyon Securities, New York	192,957
Morgan Stanley & Co., Inc., New York	844,886	SG SEC Ltd., London	188,049
ITG Inc., New York	825,891	Nomura Securities International, Inc., New York	170,952
Goldman Sachs Execution & Clearing, New York	780,274	Deutsche Bank International Equities, London	170,699
UBS Securities LLC, Stamford	572,881	SG Securities, Hong Kong	167,094
Citigroup Global Markets, Inc., New York	542,905	Bernstein Sanford C & Co., New York	161,082
Instinet Corp., New York	524,465	Banc of America Securities LLC, Charlotte	140,456
Instinet Europe Limited, London	486,866	Barclays Capital LE, Jersey City	134,767
Pershing LLC, Jersey City	476,625	National Finl Services Corp., New York	130,735
Morgan JP Securities, Inc., New York	394,646	ITG Canada Corp., Toronto	120,526
J.P. Morgan Clearing Corp., New York	373,961	Liquidnet Inc., Brooklyn	111,415
Merrill Lynch Pierce Fenner, Wilmington	366,766	Daiwa Securities Amer. Inc., New York	110,016
Citigroup Global Markets Ltd., London	349,411	Goldman Sachs International, London	109,776
Weeden & Co., New York	315,887	Instinet Pacific Ltd., Hong Kong	108,433
UBS Equities, London	307,499	DSP Merrill Lynch Ltd., Mumbai	106,620
Merrill Lynch International London Equities	287,710	Wells Fargo Securities LLC, Charlotte	106,228
Citigroup Global Markets/Salomon, New York	272,053	Pershing Securities Ltd., London	102,926
Credit Suisse (Europe), London	247,547	Lehman Bros. Inc., New York	100,215
Jefferies & Co., Inc., New York	247,031	Other Brokers	4,843,281
		Total	\$ 26,248,652

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

	Assets Under Management*	Management Fees and Expenses
External Management:		
Domestic Managers	\$ 2,294,085	\$ 22,910
Non-U.S. Equity Managers	2,739,938	22,841
Global Equity Managers	3,569,506	13,564
Fixed Income Managers	14,692,550	14,891
Credit Strategies Managers	5,166,919	39,525
Real Estate Managers	3,379,938	31,492
Private Equity Managers	3,794,814	70,460
Hedge Fund Managers	3,232,274	38,229
Internal Management	4,186,946	15,839
Miscellaneous Fees and Expenses:		
Custodian Fees	-	3,971
Legal Fees	-	219
Other Fees and Expenses	-	479
Total	\$ 43,056,970	\$ 274,420

*Does not include short-term investments managed by the Treasurer of Virginia and the VRS Master Custodian.

Investment Summary

In accordance with Section 51.1-124.31 of the *Code of Virginia* (1950), as amended, the Board of Trustees has pooled substantially all assets of the Virginia Retirement System, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, the Judicial Retirement System, the Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund into a common investment pool. The common investment pool of the pension trust funds and other employee benefit trust funds held the following composition of investments at June 30, 2009 and 2008:

(EXPRESSED IN THOUSANDS)

	2009 Fair Value	Percent of Total Value	2008 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	\$ 1,649,485	3.82%	\$ 2,309,199	4.09%
Mortgage Securities	3,262,361	7.56%	4,763,028	8.43%
Corporate and Other Bonds	13,714,295	31.77%	8,872,739	15.71%
Total Bonds and Mortgage Securities	18,626,141	43.15%	15,944,966	28.23%
Common and Preferred Stocks	12,098,525	28.03%	18,925,101	33.51%
Index and Pooled Funds:				
Equity Index and Pooled Funds	3,892,160	9.02%	11,941,641	21.14%
Fixed Income Commingled Funds	1,811,139	4.20%	1,896,865	3.36%
Total Index and Pooled Funds	5,703,299	13.22%	13,838,506	24.50%
Real Estate – Private Real Estate	2,834,191	6.57%	2,865,510	5.07%
Private Equity	3,794,814	8.79%	4,430,403	7.85%
Short-Term Investments:				
Treasurer of Virginia – LGIP Investment Pool	21,641	0.05%	241,275	0.43%
TBC Pooled Employee Trust fund	5,671	0.01%	1,955	0.00%
Foreign Currencies	78,790	0.18%	228,744	0.41%
Total Short-Term Investments	106,102	0.24%	471,974	0.84%
Total Investments	\$ 43,163,072	100.00%	\$ 56,476,460	100.00%