Chief Investment Officer's Letter

Virginia Retirement System

Charles W. Grant, CFA, Chief Investment Officer

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December 1, 2011

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

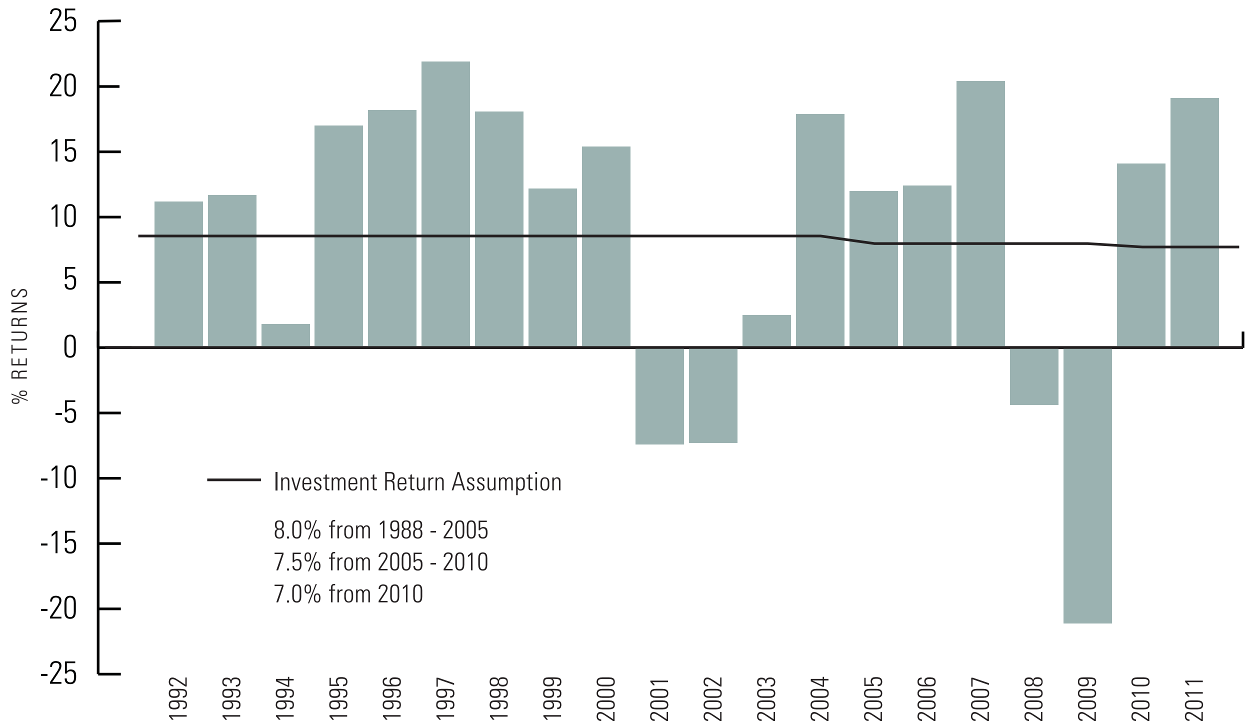
I am pleased to report that economic and financial market conditions were favorable for most of last year, and the VRS investment fund generated a 19.1% total return in fiscal 2011. This was the second consecutive above average annual return, following a 14.1% return in fiscal 2010. These strong results are gratifying, especially in light of our tilt to more conservative policies and strategies in recent years.

The portfolio's market value as of June 30, 2011 was $54.6 billion. After adjusting for net external cash flows, the strong cumulative return of the last two years has enabled the fund to effectively recover the market value decline suffered during the Financial Crisis and the Great Recession. The fund's record high quarterly valuation occurred in September 2007 at $59.4 billion. Since that date, the fund has paid out $4.5 billion more in benefits than contributions paid into the fund. In the absence of those net distributions from the fund, we estimate that the fund's market value on June 30, 2011 would have been $59.3 billion.

The graph on the next page shows the fund's annual returns for the last 20 years, along with the investment return assumption used for actuarial valuation purposes. As with any pension fund with significant equity exposure, the annual returns of the fund have been quite volatile, and they deviate significantly from the long-term return assumption. This short-term volatility is the price we must pay in order to gain exposure to investments that will provide long-term growth and positive real returns.

On an annualized basis, the fund has generated an 8.6% return over the last 20 years. It is important to note that this period was characterized by a number of factors that were favorable for financial market returns, including declining inflation, declining interest rates, rising leverage and generally higher than average economic growth. Looking forward, these conditions are not expected to return for the foreseeable future. In fact, the global economy continues to carry a high debt load, and we are expecting a sustained period of deleveraging and slower than normal growth, along with a continuation of the periodic bouts of high market volatility. In light of these conditions, and in recognition that cash flow and liquidity requirements are expected to increase in the years ahead coincident with an increase in retirees, we have tried to be realistic in setting our return expectation, which is currently 7%.

VRS FISCAL YEAR RETURNS



Investor sentiment was extremely volatile last year. The equity market moved sharply higher during the first 10 months of the fiscal year, fueled in part by a massive liquidity injection that resulted from the Federal Reserve's program to purchase Treasury bonds. At the same time, corporate earnings continued to rebound from the sharp declines experienced in the recession, further stoking the rally. As we approached year end, it became clear that the Federal Reserve would not immediately continue the bond purchase program, and sovereign balance sheet problems and resulting fiscal pressures came back into focus, both in Europe and in the United States. The growth and earnings outlook deteriorated significantly in the last quarter of the year, as investors recognized that policy options at this stage were more limited.

Public equity was our top performing asset class in fiscal 2011 with a return of 27.2%. While this return lagged our benchmark by a small margin, we are more than satisfied with the degree to which we kept pace with the strong market, given that we have shifted a significant portion of the equity portfolio into more protected strategies in recent years. We have increasingly found value in strategies that favor higher quality companies, lower volatility portfolio structures and partially hedged equity mandates. This positioning has resulted in lower volatility than the broad market and a better risk adjusted return, yet we still expect to capture the full market return over the complete market cycle. In addition, last year we continued to shift assets into various equity strategies managed by our internal equity team, which celebrated its 10-year anniversary of delivering outstanding results across a range of equity mandates.

The commercial real estate portfolio was our second strongest performer last year with a 23.2% total return, exceeding the policy benchmark by 400 basis points. Public real estate securities rallied strongly with a return of 33.1%, while private real estate also rebounded with a 20.9% return for the year. The value increase in fiscal 2011 was driven primarily by improvements in capital market pricing rather than improving real estate fundamentals. Private real estate is a lagging sector, so while other sectors have seen an earnings recovery, real estate earnings are just now beginning to increase off the trough. Due in part to this lag, real estate returns have been weak over the last few years, but over the last 10 years, commercial real estate has been a strong performer for VRS. Over that period, the program has delivered an annualized return of 9.0%, and it has provided good cash flow and diversification benefits.

Private equity investments delivered a return of 17.6% in fiscal 2011, and cash flow distributions from the program exceeded $1 billion. Not unexpectedly for a period of unusually high public equity returns, the program's market value return lagged its public market benchmark by a significant margin. Private equity valuations are generally much more sticky than public equity prices, and over the last year, general partners were somewhat slow to mark up their portfolios given the high degree of economic uncertainty. Over the long-term, private equity returns will be driven by the operating metrics of the underlying companies and ultimate exit prices and distributions. We believe the private equity portfolio is well positioned and will continue to generate a meaningful realized return premium over the public markets.

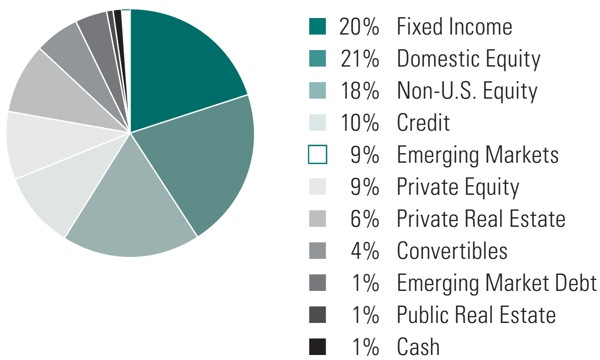
Our credit strategies program continued to perform well with a 14.7% return last year. After seven years of a dedicated effort in credit-related strategies, the program has proven to be very successful for VRS. As an asset class, we believe credit has very interesting characteristics. When compared to higher quality bonds, the return premium is significant while the increase in risk is only moderate, especially if risk is viewed as defaults net of recoveries, rather than market volatility. On the other hand, when comparing credit-related opportunities to stocks, credit offers significantly lower market risk, while providing a reasonable chance to earn equity-like returns over the long term. On balance, this asset class looks very attractive on a risk-adjusted basis, and we have used credit strategies as substitutes for both equity and higher quality bonds at various points in the market cycle. Since inception of this program, credit has outperformed both stocks and bonds.

Our high grade fixed income portfolio also continued to perform well last year, returning 5.8% and beating its benchmark by over 200 basis points. During the year, we built upon a strategy of harvesting gains in the externally managed core plus portfolios and moving more assets into the lower risk internally managed bond portfolio. The internal fixed income team has generated an impressive record of delivering attractive returns over the last 15 years, and they have done so at very low cost to VRS. Partially offsetting this shift to lower risk strategies, we have continued to look for more concentrated and opportunistic strategies to employ with external specialty managers. As an example, last year we initiated a significant investment program in emerging market debt, an asset class that we believe offers attractive yields, an improving credit story, and an opportunity for exposure to currencies which are expected to strengthen over the next five to 10 years.

Looking ahead we remain concerned about persistent fiscal imbalances in the developed world and the lack of any credible long-term plan to achieve a healthy equilibrium. Policy-makers face significant challenges with limited options for a quick fix. If there is any good news in the heightened market volatility and the renewed economic and financial market weakness, it is that policy-makers will become more focused on developing good policies. I believe this discussion has begun in earnest, and while it may take time, this is a good thing for the long-run health of the economy and the financial markets.

These are challenging times in which to manage a large public pension plan. It is tempting to stretch for higher returns in order to help offset current funding gaps and future contribution rates, but economic and financial market imbalances have led to increased uncertainty and a higher probability of short-term market value losses. In managing the fund, we have to strike a balance between pursuing investments that are expected to have higher long-term returns with our ability to absorb short-term market value declines and the resulting impact on the fund's funded status and contribution rates. In order to determine the best policies and strategies to use going forward, VRS employs a deliberative process to regularly re-examine our asset-liability and cash flow position, our risk tolerance, and forward looking opportunities and risks in the capital markets. The following pie chart shows our asset allocation mix as of June 30, 2011.

ASSET ALLOCATION MIX
AS OF JUNE 30, 2011



More broadly, institutional investment management is undergoing profound change. The traditional approach of setting a static long-term investment policy and striving to beat capitalization weighted market benchmarks is being questioned by many thoughtful professionals. Much has been written in the press about the "New Normal" environment for the economy and the financial markets. I believe that institutional investors are also facing a new operating environment full of questions about how best to invest in such volatile times when plan sponsors are under such stress. Alternative philosophies and approaches, such as absolute return investing, liability driven investing and other forms of risk-adjusted investment objectives, are starting to take hold among institutional investors. I am not certain how this will shake out in the years ahead, but I suspect that large pension plans will begin to think about their own individual circumstances and adopt and manage toward customized mandates that fit their own unique objectives and risk tolerance. I do believe that investors will increasingly need to ignore, as much as possible, the short-term noise and volatility of the markets, and try to focus on the fundamental characteristics of their assets and the dividend and interest paying ability of their stocks and bonds. All of this will require much good judgment from trustees, staff and investment advisers, and I am confident that VRS is well positioned to navigate these changes in the years ahead.

This will be my last annual letter as Chief Investment Officer of VRS. It has been a great honor and privilege to serve as CIO. I have been fortunate to have the support of a talented investment team, which I believe is VRS's greatest asset. I am grateful for the advice and counsel of the Investment Advisory Committee, a group that includes some of Virginia's best investors. I am deeply appreciative of the partnership that I have had with VRS Director Bob Schultze and his entire team, who have been so helpful to the Investments Department. Finally, I sincerely appreciate the support and confidence placed in me by the Board of Trustees over many years.

Sincerely,

C. Grant

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, 2011 is shown in Figure 3.1:

FIGURE 3.1 – ASSET ALLOCATION MIX

AS OF JUNE 30, 2011

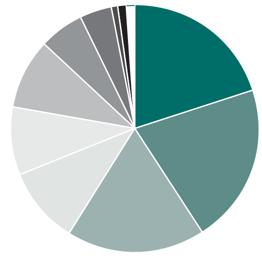


FIGURE 3.2 – INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR THE PERIOD ENDING JUNE 30, 2011

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	19.1%	2.4%	4.3%
Total Fund Intermediate Benchmark	19.4%	3.2%	4.3%
2. Total Public Equity			
VRS	27.2%	1.7%	3.2%
Custom Benchmark	27.8%	2.5%	3.4%
3. Total Fixed Income*			
VRS	5.9%	8.1%	7.3%
Custom Benchmark	3.8%	6.6%	6.7%
4. Total Credit Strategies			
VRS	14.7%	8.9%	7.0%
Custom Benchmark	16.1%	8.1%	6.7%
5. Total Real Estate			
VRS	23.2%	-3.6%	2.9%
Custom Benchmark	19.2%	-2.0%	3.6%
6. Total Private Equity			
VRS	17.6%	2.6%	10.5%
Custom Benchmark	19.9%	6.1%	5.6%

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

**Includes emerging market debt allocations initiated in April 2011.*

Portfolio Highlights

PUBLIC EQUITY

The market value of the Total Public Equity Program as of June 30, 2011 was $26.1 billion, representing approximately 48% of the total fund. Forty-four percent was invested in Domestic Equity and 56% in International Equity. Fourteen percent was invested in passive strategies, and 35% was managed internally. The objective of the portfolio is to exceed the risk-adjusted return of the Custom Benchmark over longer-term periods, net of all costs. At fiscal year end, the Custom Benchmark was comprised of 43.6% of the MSCI U.S. Investible Market Index (IMI), 43.1% of the MSCI World excluding U.S. IMI (50% hedged) and 13.3% in the MSCI Emerging IMI.

The Total Public Equity Program underperformed the Custom Benchmark during the fiscal year by 0.6%. During the year, the U.S. benchmark was up 32.7%, the Non-U.S. Developed (50% hedged) benchmark was up 23.2% and the Emerging Markets benchmark was up 27.5%. Public markets were up around the world as the economic recovery progressed.

The Total Public Equity Program is dominated by traditional, long-only strategies (86.0% of program, or $22.5 billion). The program also employs traditional long-short strategies (1.5% of program, or $0.3 billion) and equity-oriented hedge fund strategies (12.5% of program, or $3.3 billion).

FIGURE 3.3 – TOTAL PUBLIC EQUITY PROGRAM BENCHMARKS

Benchmark Category	VRS Return	Benchmark Return	VRS Weight	Benchmark Weight
U.S. Active Standard	32.50%	31.40%	22.61%	22.09%
U.S. Active Small Cap	41.05%	39.98%	3.50%	4.03%
U.S. Passive	30.77%	30.92%	1.57%	1.57%
Non-U.S. Developed Small Cap	30.52%	28.94%	4.37%	3.46%
Non-U.S. Developed Standard	23.62%	22.43%	17.96%	23.93%
Emerging	29.11%	27.51%	15.41%	10.34%
Global	24.62%	26.78%	22.10%	22.10%
Hedge Funds	21.50%	27.78%	12.48%	12.48%
Total Program	**27.20%**	**27.80%**	**100.00%**	**100.00%**

One-year weights and returns ending June 30, 2011.

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
Consumer Discretionary	11.91%	10.83%
Consumer Staples	9.65%	8.78%
Energy	10.83%	11.13%
Financials	16.83%	20.10%
Health Care	10.65%	8.53%
Industrials	9.81%	11.88%
Information Technology	13.81%	11.64%
Materials	8.17%	9.31%
Telecommunication Services	5.03%	4.10%
Utilities	3.31%	3.70%
	100.00%	**100.00%**

Regions	VRS	Strategic Benchmark
North America	50.44%	48.35%
Europe/Middle East/Africa	25.07%	27.70%
Asia Pacific	20.34%	21.14%
Latin and South America	4.15%	2.81%
	100.00%	**100.00%**

Based on Barra's classification of sectors and regions.

The top 10 holdings in the Total Public Equity Program comprised 6.8% of the program at fiscal year end. In comparison to last year, three companies fell from the list. Samsung, Shell and Vodafone were replaced with Johnson & Johnson, Gazprom and Chevron.

FIGURE 3.5 – PUBLIC EQUITY: TOP 10 EXPOSURES

AS OF JUNE 30, 2011

Company	Market Value	Shares
Exxon Mobil Corporation	$ 246,206,694	3,025,396
Apple Inc.	236,922,805	705,821
Microsoft Corporation	174,997,792	6,730,684
Johnson & Johnson	173,725,514	2,611,628
Petrobras	165,699,949	5,251,293
Gazprom	160,108,589	10,997,491
J.P. Morgan Chase & Co.	159,556,936	3,897,336
Pfizer Incorporated	158,274,531	7,683,230
Chevron	147,202,536	1,431,374
Google, Inc.	141,752,271	279,933

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 $11.7 billion was invested in fixed income assets, representing 21% of the VRS portfolio. Of this amount, approximately 93% was invested in investment grade fixed income strategies, and 7% was invested in emerging market fixed income assets.

The objective of the investment grade portion of the 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 objective of the emerging market portion of the program is to maximize the return (net of all costs) relative to the emerging market fixed income benchmark, while staying in compliance with risk limits. The investment grade portion of the fixed income program return was 5.8%, and the benchmark return was 3.7% for the fiscal year. The emerging market portion of the fixed income program was a new program that was started late in the fiscal year. To date, we have been pleased with the performance of the emerging market debt portfolio.

In the U.S., the yield curve steepened over the course of the last fiscal year as policy makers took steps to stimulate growth in the economy. The Federal Reserve Bank undertook measures, such as QE2 and continuing to keep the Fed Funds Rate in a zero to 0.25% range, to keep interest rates at levels intended to stimulate borrowing and increase home ownership. During the fiscal year, two-year interest rates decreased by 14 basis points to 0.46%, and ten-year interest rates increased by 23 basis points to 3.16%. Very liquid spread sectors (MBS and Agencies) were mixed for the fiscal year, while credit-sensitive and less liquid sectors (Corporate Bonds and CMBS) all strengthened as investors shifted into higher yielding securities.

FIGURE 3.6 – FIXED INCOME PORTFOLIO BY SECTOR ALLOCATION

AS OF JUNE 30, 2011

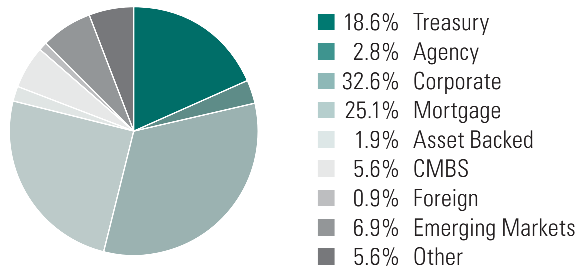


FIGURE 3.7 – FIXED INCOME PORTFOLIO BY CREDIT QUALITY BREAKDOWN

AS OF JUNE 30, 2011

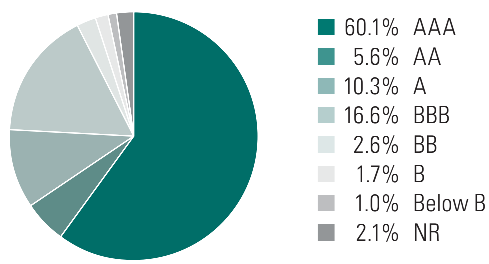


FIGURE 3.8 – FIXED INCOME: TOP 10 HOLDINGS BY MARKET VALUE

AS OF JUNE 30, 2011

Par	Security Description	Market Value
$ 226,300,000	FHLMC Gold 4.000% due 07/01/41	$ 226,087,278
181,410,000	US Treasury Notes 1.250% due 04/15/14	183,976,952
165,000,000	US Treasury Notes 2.000% due 01/31/16	168,230,700
150,000,000	US Treasury Notes 2.625% due 12/31/14	158,125,500
140,000,000	US Treasury Notes 2.375% due 03/31/16	144,842,600
130,000,000	US Treasury Notes 2.375% due 09/30/14	136,060,600
125,000,000	US Treasury Notes 2.125% due 12/31/15	128,341,250
115,000,000	US Treasury Notes 3.125% due 05/15/19	118,732,900
100,000,000	US Treasury Notes 1.125% due 12/15/12	101,126,000
100,000,000	US Treasury Notes 3.875% due 08/15/40	91,588,000

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.

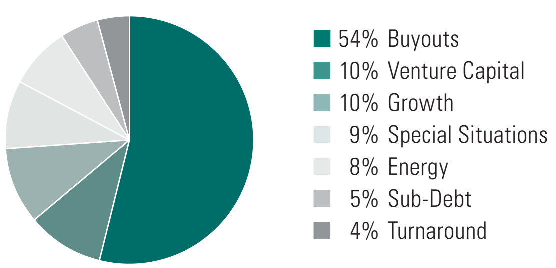
PRIVATE EQUITY

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 2011 was 17.6%. On a dollar-weighted or IRR basis, the private equity one-year return was 17.2% as of March 31, 2011.

As of June 30, 2011, the carrying value of the program was approximately $4.8 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 sub-class was as follows:

FIGURE 3.9 – PRIVATE EQUITY PROGRAM

AS OF JUNE 30, 2011



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 generates operating cashflows and has a low historical correlation with the public markets. After producing a -28.3% return for fiscal year 2009, the portfolio stabilized in fiscal year 2010 (total return of 1.5%) and rebounded with a 23.2% return, outperforming the benchmark by 4.0% for fiscal year 2011. Our REITs produced a total return of 33.1% while the private asset portion of the portfolio delivered a 20.9% return for the fiscal year.

The percentage of the total fund represented by the real estate portfolio increased slightly over the course of the year from 6.5% to 6.8% due to rebounding values and new fundings. At fiscal year end, the portfolio was composed of approximately 19% REITs and 81% private accounts. Portfolio leverage as a percentage of total real estate assets was 43% as of March 31, 2011.

FIGURE 3.10 – REAL ESTATE BY PROPERTY TYPE

AS OF MARCH 31, 2011

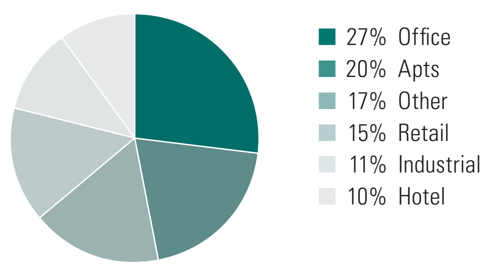
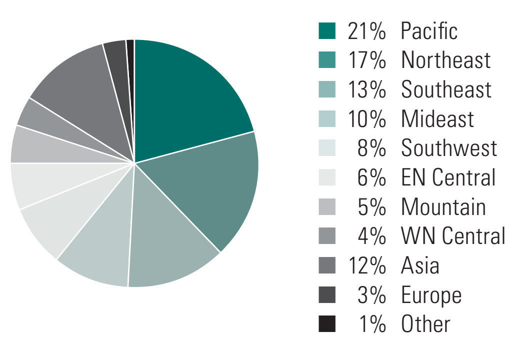
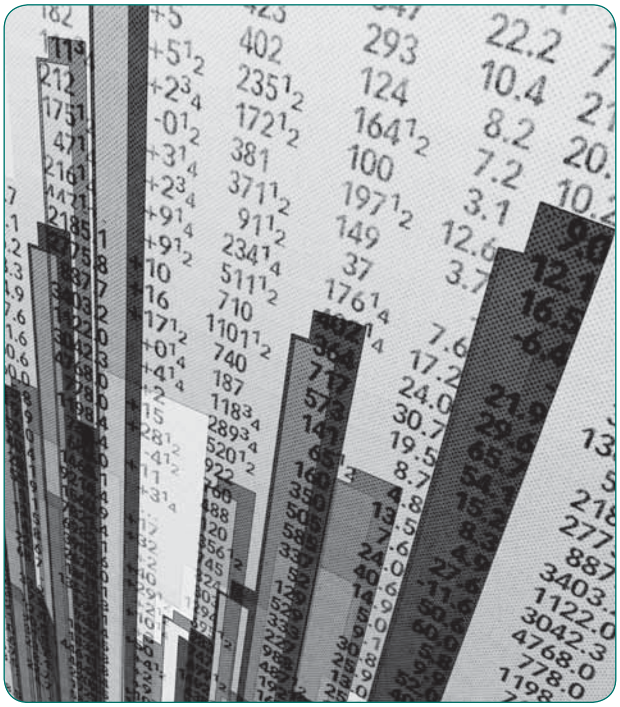


FIGURE 3.11 – REAL ESTATE BY GEOGRAPHIC REGION

AS OF MARCH 31, 2011



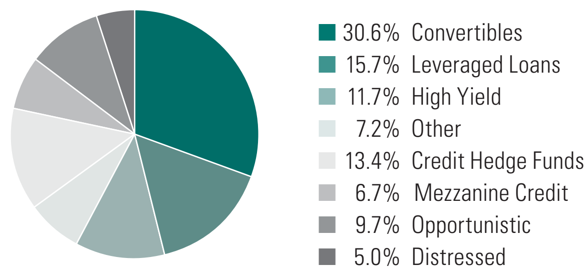


CREDIT STRATEGIES

VRS allocates a portion of the portfolio to credit-related investments. The Credit Strategies program is utilized opportunistically to provide an alternative arena for generating attractive risk adjusted returns. The objectives of the program are to provide returns that are competitive with the forward looking expectations of the areas from where funding has been drawn, to provide higher levels of income, and to provide diversification benefits to the plan. For the fiscal year, the program returned 14.7%, while the program's custom benchmark returned 16.1%.

FIGURE 3.12 – CREDIT STRATEGIES

AS OF JUNE 30, 2011



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, 2011 is reflected in the following tables, which list VRS managers by investment program and style.

PUBLIC EQUITY

External Managers – Top 10 Managers	Style Description
T. Rowe Price	Global, Emerging Markets
GMO	U.S. Large, Emerging Markets
Acadian Asset Management	Non-U.S. Small, Emerging Markets
Arrowstreet Capital	Global
BlackRock	Global
Nordea	Global
AllianceBernstein	Global
The Boston Company	Emerging Markets
LSV Asset Management	Non-U.S. Small
Relational	U.S. Large

Internal Portfolios	Style Description
Dogwood	Non-U.S. Large
Mobjack	U.S. Large
Potomac	U.S. Large
Matoaka	Non-U.S. Large
Madison	U.S. Large
Afton	U.S. Small

Hedge Funds – Top 10 Managers	Style Description
ValueAct Capital	Long/Short
Blue Ridge, LP	Long/Short
Maverick Capital	Long/Short
Lansdowne Partners	Long/Short
New Mountain Capital	Long/Short
Theleme	Long/Short
TPG-Axon Partners	Long/Short
Clough	Long/Short
Clovis Capital	Long/Short
Pennant	Long/Short

FIXED INCOME

External Managers – Top 10 Managers	Style Description
State Street Global Advisors	IG Credit/External Passive
PIMCO (Credit/EMD/Bank Loans)	Opportunistic/External Active
Western Asset Management	Core/External Active
Wellington	Core/External Active
BlackRock	Core/External Active
Prudential	Opportunistic/External Active

FIXED INCOME, continued

External Managers	Style Description
Bridgewater	Opportunistic/External Active
Payden & Rygel	EMD/External Active
Smith Breeden	Core/External Active
Agincourt	Core/External Active

Internal Portfolio	Style Description
VRS Core	Core/Internal Active

PRIVATE EQUITY – TOP 10 MANAGERS	Style Description
Credit Suisse	Customized Separate Account
Hellman and Friedman	Buyout
Summit Partners	Growth & Sub-Debt
TPG	Buyout
Welsh, Carson, Anderson and Stowe	Buyout & Sub-Debt
Nordic Capital	Buyout
First Reserve	Energy
Apax Partners	Buyout
Charterhouse	Buyout
TA Associates	Growth & Sub-Debt

CREDIT STRATEGY – TOP 10 MANAGERS	Style Description
Anchorage Advisors, LLC	Credit Hedge Fund
Beach Point Capital Management	Leveraged Loans, Opportunistic, Distressed
King Street Capital Management, LLC	Credit Hedge Fund
Oaktree Capital Management	Mezzanine, Convertibles, High Yield, Distressed
Prudential	High Yield and Mezzanine
Stone Harbor Investment Partners	High Yield
Solus Alternative Asset Management LP	Credit Hedge Fund and Opportunistic
Western Asset Management	Leveraged Loans
York Capital Management	Credit Hedge Fund
Zazove Associates	Convertibles and Other

REAL ESTATE – TOP 10 MANAGERS	Style Description
Prudential Real Estate Investors	Core Enhanced
Morgan Stanley	Core & Opportunistic, Global REITs
Blackstone Real Estate Partners	Opportunistic
JP Morgan Investment Management, Inc.	Core
ProLogis	Enhanced Core & Opportunistic
Urdang Securities Management, Inc.	Global REITs
TA Associates Realty	Core
Security Capital Research & Management, Inc.	Core
AMLI Residential Properties	Core
Angelo Gordon & Co.	Core

Public Equity Commissions

AS OF JUNE 30, 2011

Broker	Commission
Investment Technology Group, New York	$ 2,506,383
Goldman Sachs & Co., New York	2,049,089
Credit Suisse, New York	1,156,352
Morgan Stanley & Co., Inc., New York	813,303
Deutsche Bank Securities, Inc. New York	734,142
Goldman Sachs Execution & Clearing, New York	491,839
Citigroup Global Markets, Inc., New York	399,698
Instinet Europe Limited, London	393,370
UBS Securities LLC, Stamford	346,596
Bernstein Sanford C & Co., New York	320,104
Merrill Lynch Pierce Fenner Smith, Inc., New York	311,941
Calyon Securities, New York	301,454
Instinet Corp., New York	291,335
Merrill Lynch Pierce Fenner, Wilmington	284,108
Credit Suisse (Europe), London	275,731
Nomura Securities Intl., Inc., New York	227,181
Citigroup Global Markets/Salomon, New York	223,500
J.P. Morgan Clearing Corp., New York	219,715
Citigroup Global Markets Ltd., London	210,498
J.P. Morgan Securities Ltd., London	204,156
J.P. Morgan Securities, Inc., Brooklyn	195,760
UBS Equities, London	190,446
Weeden & Co., New York	189,721
MacQuarie Securities (India) Pvt. Ltd., Mumbai	187,546
ITG, Inc., New York	186,878
Credit Lyonnaise Securities, Seoul	176,565
Barclays Capital LE, Jersey City	167,675
Merrill Lynch International London Equities	166,050
Pershing LLC, Jersey City	161,967
MacQuarie Securities Limited, Hong Kong	144,995
Morgan Stanley & Co., London	117,424
Citation Group/BCC Clearing, New York	115,863
J.P. Morgan Securities Asia Pacific, Hong Kong	112,757
SG Securities (London) Ltd., London	112,470
Jefferies & Co., Inc., New York	111,693
Liquidnet, Inc., Brooklyn	110,253
Deutsche Bank International EQ, London	104,489
Other Brokers	4,842,957
Total	**$ 19,156,003**

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011 (EXPRESSED IN THOUSANDS)

	Assets Under Management*	Management Fees and Expenses
External Management:		
Domestic Managers	$ 2,309,187	$ 11,740
Non-U.S. Equity Managers	5,211,523	30,260
Global Equity Managers	5,459,926	15,594
Fixed Income Managers	14,736,583	17,081
Credit Strategies Managers	5,735,782	49,096
Real Estate Managers	3,721,914	29,871
Private Equity Managers	4,859,467	68,743
Hedge Fund Managers	4,467,890	75,076
Internal Management	9,062,072	17,310
Miscellaneous Fees and Expenses:		
Custodian Fees	-	4,425
Legal Fees	-	385
Other Fees and Expenses	-	449
Total	**$ 55,564,344**	**$ 320,030**

**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, 2011 and 2010:

(EXPRESSED IN THOUSANDS)

	2011 Fair Value	Percent of Total Value	2010 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	$ 2,716,450	4.88%	$ 2,587,011	5.40%
Mortgage Securities	3,316,456	5.96%	2,485,042	5.18%
Corporate and Other Bonds	11,862,833	21.32%	12,071,853	25.19%
Total Bonds and Mortgage Securities	**17,895,739**	**32.16%**	**17,143,906**	**35.77%**
Common and Preferred Stocks	**21,238,020**	**38.18%**	**16,307,335**	**34.02%**
Index and Pooled Funds:				
Equity Index and Pooled Funds	6,134,348	11.03%	5,423,698	11.32%
Fixed Income Commingled Funds	1,892,753	3.40%	1,732,430	3.61%
Total Index and Pooled Funds	**8,027,101**	**14.43%**	**7,156,128**	**14.93%**
Real Estate	**3,111,418**	**5.59%**	**2,654,164**	**5.54%**
Private Equity	**5,194,663**	**9.34%**	**4,590,737**	**9.58%**
Short-Term Investments:				
Treasurer of Virginia – LGIP Investment Pool	24,679	0.04%	2,725	0.01%
TBC Pooled Employee Trust fund	44,128	0.08%	7,203	0.02%
Foreign Currencies	97,403	0.18%	61,600	0.13%
Total Short-Term Investments	**166,210**	**0.30%**	**71,528**	**0.16%**
Total Investments	**$ 55,633,151**	**100.00%**	**$ 47,923,798**	**100.00%**