Chief Investment Officer's Letter

Ronald D. Schmitz, Chief Investment Officer

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December 8, 2015

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

The year ended June 30, 2015, has been a bit of an enigma.

It has been a year of angst in the face of steady albeit not robust growth in Gross Domestic Product (GDP), especially in the U.S. Many have been fearful that the economy has not shown a higher level of growth. My favorite phrase uttered by pundits this past year is that "the economy is moving at stall speed." Consumers are consuming – but at a modest pace. Capital spending is occurring – but at a pace less robust than normal at this stage of recovery from a severe recession.

With U.S. economic indicators generally positive but at modest readings, the market has also been bi-modal: "a series of panic attacks followed by relief rallies," to steal a phrase used by Dr. Ed Yardeni, a prominent economist. Last summer, the fiscal year started off on a negative note in the global equity markets. A more benign environment followed during the winter and spring as stocks generated positive but modest returns. Then the fiscal year ended on a flat note. By early September, the slowdown in the Chinese economy had spooked global markets and we saw a 10% correction, followed by a slight recovery in a somewhat weak rally. More thoughts on our economic and market outlook to follow.

PERFORMANCE OVERVIEW

Against the backdrop described above, the VRS total fund generated a return of 4.7% against a benchmark return of 4.2%. This good relative performance has obviously occurred in an environment where investors have seen returns decline from the robust double-digit levels experienced in the previous two years.

Current year returns as well as longer-term performance appear in the table below:

Annualized Return for Periods Ended June 30, 2015

	10 Years	5 Years	3 Years	1 Year
VRS Total Fund	6.7%	10.3%	10.6%	4.7%
Benchmark*	6.1%	9.6%	9.9%	4.2%

** The benchmark is an asset class weighted set of indices based on the asset mix policy adopted by the Board of Trustees.*

Private market assets were the star performers for the year with real assets (real estate, natural resources and infrastructure) and private equity providing meaningfully higher returns than the traditional stock and bond asset classes. Real assets generated a return for the year of 11.8% − well ahead of its benchmark index return of 9.6%. Within the portfolio, privately held properties and other real assets performed quite well. Returns were hurt slightly by publicly held real estate securities.

Private equity also performed well, generating 8.3% for the year. This return was well ahead of the public equity portfolio return of 5.5%. However, the private equity return did fall short of its target index due to investments in the energy sector and in Europe.

The VRS public equity portfolio generated 5.5% as noted. This level of return was well ahead of the benchmark portfolio return of 3.9%. VRS benefited by strong relative performance in the non-U.S. segment of the portfolio while the U.S. holdings performed well in absolute terms, but lagged the benchmark slightly. A key reason for the overall strong performance was that, unlike private equity, the stock portfolio was underweight in energy exposure compared to the index.

Last year, I commented at some length about the Strategic Opportunities Portfolio (SOP) – a sleeve of the total fund that is earmarked for investments that have a non-traditional focus. The managers in this portfolio manage across multiple asset classes, rather than specialize in a single asset class or investment style. In addition, the SOP seeks managers that tend to look at risk in new and innovative ways. The portfolio is just in the early stages of assembly. But the results for fiscal year 2015 were encouraging. The SOP generated a 2.9% return versus its benchmark index return of 2.4%.

VRS is somewhat unusual compared to its peers in that it has a dedicated credit strategies portfolio, which is separate and distinguishable from the more common "Core Plus" approach in which managers mix investment-grade securities with high-yield bonds and emerging market debt in a single portfolio. Having a dedicated credit portfolio allows VRS to gain exposure to illiquid markets such as direct lending and distressed investments, and also allows the addition of convertible bonds, which are often overlooked in traditional bond portfolios. For fiscal year 2015 the portfolio generated a somewhat meager 1.1% return. This performance equals the benchmark when both returns are rounded to a single decimal point. But the portfolio only narrowly outperformed the index. This past year, many of the same concerns that afflicted the stock market were present in the credit markets, causing the unusual circumstance in which investment-grade credit mandates outperformed the higher-octane credit strategies. Over time, the VRS approach to credit has been quite profitable for the fund as returns have nearly equaled stock investments while outperforming traditional bond investments.

Rounding out the portfolio, fixed income generated a 1.9% return for the fiscal year. This was slightly ahead of the benchmark index, though this outperformance is lost when rounding to the nearest tenth of a percent. It was clearly a difficult time in the bond markets as central bank easing – at least in the U.S. – has come to a halt and most market-watchers are waiting for the Federal Reserve to begin raising interest rates.

In the longer-term (defined as 10 years), all asset classes have outperformed their respective indexes. In most cases, the portfolios also have performed at or above the targeted level of outperformance over the index set by the Board in its policy documents.

A LOOK AHEAD AT MARKETS AND THE ECONOMY

Looking ahead, we see a challenging environment. Europe is in the relatively early stages of its own efforts to deal with the combined economic and credit crisis from a few years ago. China's economic growth is definitely slowing considerably. And in the U.S., Federal Reserve watchers learned that the central bank would not raise interest rates for yet another quarter. All of these factors have the market on edge, as can be seen in the high level of daily volatility experienced in late August and early September.

The recent market sell-off is really, at its core, a reaction to China, the world's second-largest economy. Chinese developments are indeed noteworthy: a stock market bubble has burst and the economy is slowing well beyond what most had predicted. The "known unknowns" (with apologies to Donald Rumsfeld, former secretary of defense) are that China's growth is slowing. But is China facing a slowdown or a hard landing? The resultant pressure on commodity prices is good for consumers on the one hand, but will commodity-producing companies and countries face potential defaults due to revenue declines? This concern, in turn, puts pressure on emerging economies and currencies. Might we experience an emerging markets crisis?

No wonder investors are not in a festive mood. We have had (and may still be having) our panic attack. But is there hope for a relief rally? Consider: China is really a non-factor for U.S. corporate profitability. About 2% of S&P 500 revenues come from China, which leads to this interesting statistic put forth by Goldman Sachs: a 1% drop in the growth of Chinese GDP (a measure of economic health) translates into a .06% drop in U.S. GDP.

The market crashes and credit turmoil in 1998 and 2008, respectively, were really insolvency crises, triggered by enormous piles of debt. Conversely, China is a net creditor, not a debtor. And emerging economies today have sizable U.S. dollar reserves unlike the deficits that were the norm in 1998. The ingredients for a full-blown crisis do not seem to be in place.

Further, optimists will point out the fact that the U.S. economy is moving along nicely, thank you. Forward earnings projections for the S&P 500 rose in the summer. July job openings increased as well. Globally, we look at Europe and see slow growth, yet no serious signs of weakness. The same can be said of Japan, though recent economic releases regarding industrial production have declined a bit, continuing a pattern of economic growth that has come in fits and starts.

September and October are historically bad for the stock market on average. That may be the case again this year. We certainly feel less positive about the environment than we did in our reports to you in recent years. But we do believe that as of this writing, Main Street may be doing better than Wall Street. Therefore, we do not see a reason for panic.

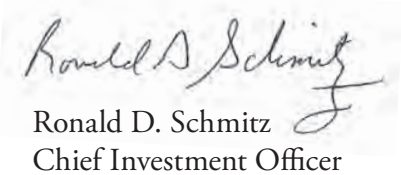
A FINAL THOUGHT

The VRS Board and staff may have what looks to some to be a reasonably aggressive portfolio – given fairly high equity and private market exposure (and correspondingly low investment-grade bond exposure). But we have put together strategies within the asset classes that are somewhat defensive. That is, our goal is to participate in bull-market environments while providing some downside protection in bear markets. That does not mean that we will avoid temporary drawdowns in a negative market. Instead, our market value adjustments should be lower in magnitude than the market, thereby mitigating the impact on funded ratio and future contributions needed to pay for retirement benefits.

Stated another way, the Board has adopted what it believes is the best investment policy that will ensure the long-term health of the retirement system. This means exposure to "risk assets" like stocks. Such assets can and do decline in value in the short term. But in the long run, the return per unit of risk is a good trade-off for employees and employers in the system.

As is normally the case, the Board works with staff and an outside investment consultant and actuary to perform periodic risk-tolerance studies. We last did this in 2012. And we anticipate the start of a new study in late 2015 or early 2016. This effort may or may not alter the Board's current target investment policy. We will, of course, report to you on that matter in next year's letter.

Sincerely,



Ronald D. Schmitz
Chief Investment Officer

The Investment Section provides detailed information regarding the structure of the investment portfolio. This information includes performance, 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, allowing 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. The 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.

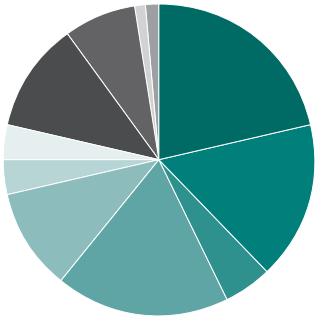
The Chief Investment Officer has been delegated authority by the Board to allocate the System's investments within the approved asset allocation policy and within the Board-approved active risk budget. The total fund active risk budget describes the degree of tolerance for yearly variation in the fund's performance relative to the Total Fund VRS Custom 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 Total Fund VRS Custom 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 long-term investment goals.

The asset allocation mix of the VRS fund as of June 30, 2015, is shown in Figure 3.1:

FIGURE 3.1: ASSET ALLOCATION MIX

AS OF JUNE 30, 2015



Public Equity
- 21.5% Domestic Equity
- 16.5% Non-U.S. Equity
- 4.8% Emerging Market Equity

Investment-Grade Fixed Income
- 18.1% Fixed Income

Credit Strategies
- 10.7% Credit
- 3.6% Convertibles
- 3.5% Emerging Market Debt

Real Assets
- 11.4% Real Assets

Private Equity
- 7.4% Private Equity

Strategic Opportunities
- 1.2% Strategic Opportunities

Cash
- 1.3% Cash

FIGURE 3.2: INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR THE PERIOD ENDING JUNE 30, 2015

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	4.7%	10.6%	10.3%
VRS Custom Benchmark[1]	4.2%	9.9%	9.6%
2. Total Public Equity			
VRS	5.5%	15.0%	13.1%
Custom Benchmark[2]	3.9%	13.9%	12.1%
3. Total Investment-Grade Fixed Income			
VRS	1.9%	2.2%	4.1%
Custom Benchmark[3]	1.9%	1.8%	3.4%
4. Total Credit Strategies			
VRS	1.1%	7.8%	7.8%
Custom Benchmark[4]	1.1%	6.5%	6.8%
5. Total Real Assets			
VRS	11.8%	12.2%	14.3%
Custom Benchmark[5]	9.6%	10.7%	12.5%
6. Total Private Equity			
VRS	8.3%	14.2%	14.2%
Custom Benchmark[6]	11.0%	15.9%	15.4%
7. Total Strategic Opportunities			
VRS	2.9%	n/a	n/a
Custom Benchmark[7]	2.4%	n/a	n/a

Investment return calculations were prepared using a time-weighted return methodology based on market value, net of investment expenses.

FIGURE 3.2: INVESTMENT PERFORMANCE SUMMARY, cont.

[1] *The VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.*

[2] *Effective July 2009, the Public Equity Custom Benchmark is risk-adjusted. Effective April 2010, the risk-adjusted benchmark is based on the MSCI ACWI IMI Index with the Developed Market Currencies 50% Hedged customized for the VRS dividend withholding tax rates.*

[3] *Effective July 2014, the Investment-Grade Fixed Income Custom Benchmark consists of the Barclays Capital U.S. Aggregate Index.*

[4] *Effective July 2012, the Credit Strategies Custom Benchmark is the weighted average of the Citigroup Broad Investment Grade Index (10%), the Bank of America Merrill Lynch BB-B Constrained Index (20%), the S&P Performing Loan Index (30%), the Emerging Market Debt Custom Benchmark (20%), and the Bank of America Merrill Lynch All U.S. Convertibles Index (20%). For the four years prior to July 2012, the risk-adjusted benchmark is the weighted average of the Bank of America Merrill Lynch U.S. High Yield BB-B Constrained Index and the Bank of America All Convertibles Index.*

[5] *Effective July 2014, the Real Assets Custom Benchmark is the market value weighted blend of the Total Real Estate Benchmark, of which 85% is the NCREIF Private Real Estate Benchmark (ODCE Index (net) lagged by three months) and 15% is the Total REIT Benchmark (FTSE/EPRA/NAREIT Developed REIT Index) and the Other Real Assets Custom Benchmark (the CPI-U Index plus 400 basis points per annum lagged by three months) with modified benchmarking for Other Real Assets during the increased allocation period.*

[6] *Effective July 2013, the Private Equity Custom Benchmark is the MSCI ACWI IMI Index with the Developed Market Currencies 50% Hedged customized for the VRS dividend withholding tax rates lagged by three months plus 250 basis points per annum with modified benchmarking during the increased allocation period.*

[7] *Effective January 2015, the Strategic Opportunities Portfolio Custom Benchmark is the market value weighted average of the benchmarks of the mandates within the program.*

Portfolio Highlights

PUBLIC EQUITY

The market value of the Total Public Equity Program, including rebalance equity exposure, as of June 30, 2015, was $29.1 billion, representing approximately 43% of the total fund. Fifty percent was invested in domestic equity and 50% in international equity. Five percent was invested in passive strategies, and 36% was managed internally. The objective of the portfolio is to exceed the Custom Benchmark over longer-term periods, net of all costs. At fiscal year-end, the Custom Benchmark was comprised of 51.6% of the MSCI U.S. Investible Market Index (IMI), 37.7% of the MSCI World excluding U.S. IMI (50% hedged) and 10.7% in the MSCI Emerging IMI.

The Total Public Equity Program is dominated by traditional, long-only strategies (80.2% of program, or $23.3 billion). The program also employs traditional long-short strategies (2.0% of program, or $0.6 billion) and equity-oriented hedge fund strategies (17.7% of program, or $5.2 billion).

The Total Public Equity portfolio strategic sectors and region weights are as follows:

FIGURE 3.3: CUSTOM BENCHMARK SECTORS AND REGIONS

Strategic Sectors	VRS	Strategic Benchmark
Consumer Discretionary	14.25%	13.10%
Consumer Staples	8.68%	8.84%
Energy	4.59%	6.91%
Financials	21.24%	22.01%
Health Care	12.51%	12.08%
Industrials	12.28%	11.31%
Information Technology	13.95%	13.78%
Materials	4.66%	5.59%
Telecommunication Services	4.33%	3.33%
Utilities	3.51%	3.05%
	100.00%	100.00%

Regions	VRS	Strategic Benchmark
North America	55.40%	54.89%
Europe/Middle East/Africa	22.38%	23.98%
Asia Pacific	20.60%	19.72%
Latin and South America	1.62%	1.41%
	100.00%	100.00%

Based on Barra's classification of sectors and regions and excludes cash.

The top 10 holdings in the Total Public Equity Program comprised 6.9% of the program at fiscal year-end.

Four companies, Roche Holdings, Exxon, Samsung Electronics and Hewlett-Packard, were replaced by Comcast Corp., JPMorgan Chase, Valeant Pharmaceuticals and Allergan on this year's schedule.

FIGURE 3.4: PUBLIC EQUITY – TOP 10 EXPOSURES

AS OF JUNE 30, 2015

Company	Fair Value	Shares
Apple Inc.	$ 320,995,307	2,559,261
Microsoft Corp.	298,806,321	6,767,980
Wells Fargo	235,203,271	4,182,135
Google, Inc.	216,001,796	406,848
Johnson & Johnson	194,200,471	1,992,617
Verizon Communications	159,118,276	3,413,823
Comcast Corp.	157,713,004	2,623,192
JPMorgan Chase & Co.	152,250,800	2,246,913
Valeant Pharmaceuticals	152,234,252	685,952
Allergan PLC	134,787,245	444,168

Aggregated various share classes based on parent company.

FIXED INCOME

VRS invests a portion of its portfolio in fixed income investments to reduce total fund volatility, produce income and provide for some protection in the event of a deflationary environment. The market value of the Fixed Income Program as of June 30, 2015, was $12.3 billion, representing 18.1% of the total fund.

The Fixed Income Program is internally invested in a diversified portfolio of high-quality assets, such as government securities, corporate securities and mortgage-backed securities. The objective of the program is to exceed the return of the Barclay's U.S. Aggregate Index, while staying in compliance with risk limits. For fiscal year 2015, the return of the program was 1.9% versus a return of 1.9% for the benchmark.

FIGURE 3.5: FIXED INCOME PORTFOLIO BY SECTOR ALLOCATION

AS OF JUNE 30, 2015

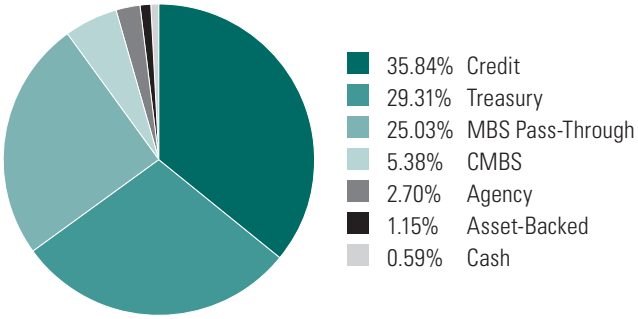


FIGURE 3.6: FIXED INCOME PORTFOLIO BY CREDIT QUALITY BREAKDOWN

AS OF JUNE 30, 2015

Source: Moody's Credit Rating Service

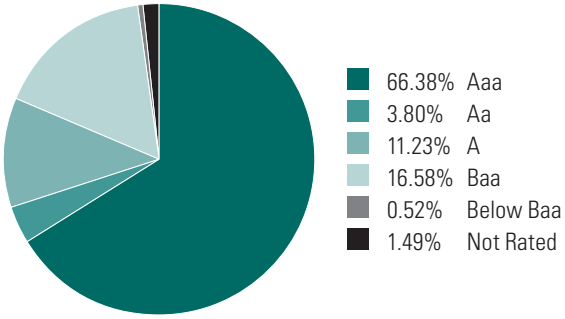


FIGURE 3.7: FIXED INCOME – TOP 10 HOLDINGS BY MARKET VALUE

AS OF JUNE 30, 2015

Security	Par Value	Fair Value
TREASURY NOTE	300,000,000.00	300,068,058.18
TREASURY NOTE	192,000,000.00	194,615,306.09
TREASURY NOTE	165,000,000.00	164,861,796.22
FHLMC MBS	164,443,685.00	163,806,856.81
TREASURY BOND	145,000,000.00	160,311,822.28
TREASURY NOTE	150,000,000.00	150,326,552.05
TREASURY NOTE	135,700,000.00	141,407,767.54
TREASURY NOTE	129,000,000.00	128,498,936.66
TREASURY NOTE	122,375,000.00	120,291,568.60
TREASURY NOTE	103,000,000.00	103,156,612.72

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

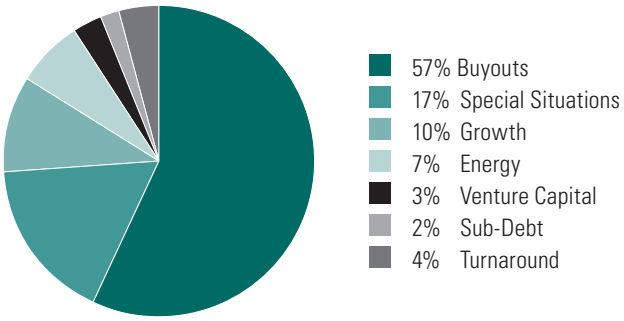
VRS invests in private equity to achieve returns greater than those available in the public equity markets. Specifically, the program seeks to outperform the Morgan Stanley Capital International – All Country World Index (MSCI ACWI) by 2.5% per year. Program returns are calculated on both a time-weighted basis and a dollar-weighted or internal rate-of-return (IRR) basis. On a time-weighted basis, the program return for fiscal year 2015 was 8.3%. On a dollar-weighted or IRR basis, the private equity one-year return was 8.5% as of March 31, 2015.

As of June 30, 2015, the carrying value of the program was approximately $5.1 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, 2015



REAL ASSETS

A portion of the VRS portfolio is invested in real assets to help diversify the total fund by providing exposure to asset classes and sectors that offer low historical correlations with the public markets and with the additional objectives of generating competitive risk-adjusted returns, significant operating cash flows and inflation linkages. The portfolio continued to grow in fiscal year 2015, producing an 11.8% return and outperforming the benchmark by 220 basis points. The private real estate portfolio delivered a 15.6% return while the real estate investment trusts (REITs) produced a

total return of 1.2%. Investments in infrastructure, natural resources and timberland produced a 3.9% return for the fiscal year.

The percentage of the total fund represented by the real assets portfolio increased over the course of the year from 10.5% to 11.4%, due primarily to new fundings as well as asset income and appreciation. At fiscal year-end, the portfolio was composed of approximately 71% private real estate, 10% REITs, 10% infrastructure, 6% timberland, and 3% energy and mining. Portfolio leverage as a percentage of total real assets was 31.6% as of June 30, 2015.

FIGURE 3.9: REAL ASSETS BY SECTOR

AS OF JUNE 30, 2015

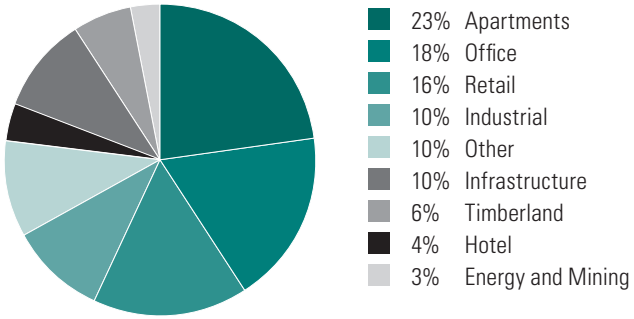
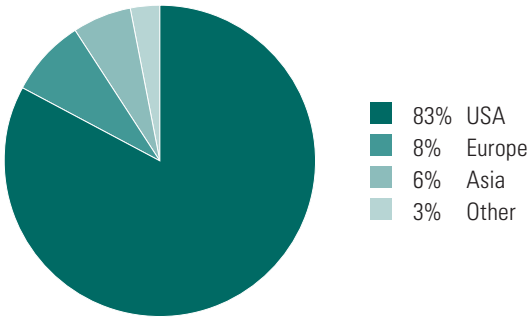


FIGURE 3.10: REAL ASSETS BY GEOGRAPHIC REGION

AS OF JUNE 30, 2015

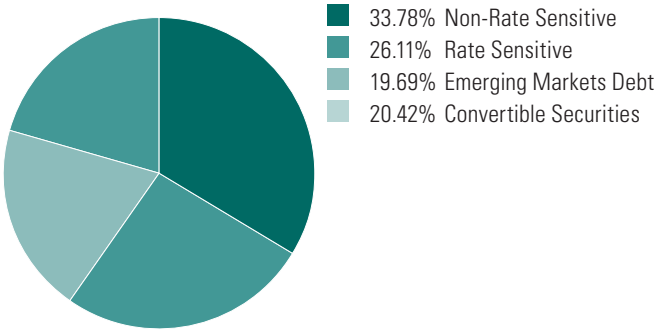


CREDIT STRATEGIES

VRS allocates a portion of the portfolio to credit-related investments. The Credit Strategies program provides an alternative arena for generating attractive returns for the plan. The objectives of the program are to provide attractive returns relative to the Custom Credit Strategies benchmark, to provide higher levels of income and to provide diversification benefits to the plan. For the fiscal year, the program returned 1.1%, while the program's custom benchmark returned 1.1%.

FIGURE 3.11: CREDIT STRATEGIES PROGRAM

AS OF JUNE 30, 2015



STRATEGIC OPPORTUNITIES PORTFOLIO

The Board of Trustees approved the Strategic Opportunities Portfolio on January 1, 2013, to manage strategies that staff believes would add value to the total fund but would otherwise not fit in individual program mandates or benchmarks. As of June 30, 2015, the portfolio had a market value of $818 million and is invested in two multi-asset class public investments funds, a multi-asset public investments separate account, two multi-asset class private investments funds and a commercial real estate mortgage separate account. During the fiscal year, it returned 2.9% against the program's custom benchmark, which returned 2.4%.

MORE INFORMATION

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

VRS Money Managers

The diversified investment structure as of June 30, 2015, is reflected in the following tables, which list VRS managers by investment program and style.

PUBLIC EQUITY MONEY MANAGERS

External Managers – Top 10 Managers	Style Description
Acadian Asset Management	Emerging, Non-U.S. Small
Ariel	Global
Arrowstreet Capital	Global
Baillie Gifford	Global
Epoch	Global
J.P. Morgan	U.S. Large Cap
LSV Asset Management	Global, Non-U.S. Small
Nordea	Global
Select	U.S. Small Cap
TimesSquare	U.S. Small Cap

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

Top 10 Equity Hedge Funds	Style Description
Blue Ridge, LP	Long/Short
Cevian	Long/Short
Clough	Long/Short
Glenhill Capital	Long/Short
Kylin	Long/Short
Lansdowne Partners	Long/Short
Maverick Capital	Long/Short
New Mountain Capital	Long/Short
Theleme	Long/Short
ValueAct Capital	Long/Short

FIXED INCOME

Internal Portfolios	Style Description
VRS Securitized	Mortgage and other Asset-Backed Securities
VRS Credit	High-Quality Corporates
VRS Government	Treasuries, Agencies and other Government-Related

PRIVATE EQUITY – TOP 10 MANAGERS	Style Description
Grosvenor	Customized Separate Account
TPG	Buyout
Hellman and Friedman	Buyout
TA Associates	Growth
Apax	Buyout
Natural Gas Partners	Energy
Olympus Partners	Buyout
Charterhouse Capital	Buyout
Nordic Capital	Buyout
First Reserve	Energy

CREDIT STRATEGIES – TOP 10 MANAGERS	Style Description
Advent Capital	Convertibles
Beach Point Capital Management	Distressed, Leveraged Loans, Opportunistic
BlueBay Asset Management	Emerging Markets Debt
Oaktree Capital Management	Convertibles, Distressed, High-Yield, Mezzanine
Pacific Investment Management Company	Emerging Markets Debt, High-Yield, Investment-Grade
Payden & Rygel	Emerging Markets Debt
Prudential	High-Yield, Investment-Grade, Mezzanine
Solus Alternative Asset Management	Hedge Fund, Opportunistic
Western Asset Management	Emerging Markets Debt
Zazove Associates	Convertibles

STRATEGIC OPPORTUNITIES PORTFOLIO	Style Description
AQR	Multi-Asset Class Public Investments
Bridgewater	Multi-Asset Class Public Investments
Carlyle	Multi-Asset Class Private Investments
KKR	Multi-Asset Class Private Investments
VPCM	Commercial Real Estate Mortgage Investments
Windham	Multi-Asset Class Public Investments

REAL ASSETS – TOP 10 MANAGERS	Style Description
Blackstone Real Estate Partners	Core, Enhanced Core, Opportunistic Real Estate & REITs
Clarion Partners	Enhanced Core Real Estate
Hancock Natural Resource Group	Global Timberland
Industry Funds Management	Infrastructure
J.P. Morgan Asset Management, Inc.	Core Real Estate
LaSalle Investment Management	Core & Opportunistic Real Estate
Molpus Woodlands Group	U.S. Timberland
Morgan Stanley	Core, Enhanced Core, Opportunistic Real Estate & International REITs
Prudential Real Estate Investors	Core & Enhanced Core Real Estate
VRS – Internal Equity Management	U.S. REITs

Public Equity Commissions

AS OF JUNE 30, 2015

Broker	Commission
Credit Suisse, New York (CSUS)	$ 1,105,387.35
Investment Technology Group, New York	$ 847,010.51
Merrill Lynch Intl. London Equities	$ 692,251.82
Instinet Europe Limited, London	$ 578,760.42
Morgan Stanley & Co., Inc., New York	$ 516,636.95
Goldman Sachs & Co., New York	$ 450,707.75
Merrill Lynch Pierce Fenner Smith Inc., New York	$ 400,262.06
ITG Inc., New York	$ 374,250.53
Deutsche Bank Secs., Inc., New York (NWSCUS33)	$ 316,438.69
Citigroup Global Markets, Inc., New York	$ 295,284.32
Deutsche Bank Intl. Eq., London (DEUTGB22EEQ)	$ 259,586.07
UBS Securities LLC, Stamford	$ 231,569.35
Investment Technology Group Ltd., Dublin	$ 165,469.66
Loop Capital Markets, Jersey City	$ 163,269.88
Merrill Lynch Gilts Ltd., London	$ 153,300.88
J.P. Morgan Secs., Ltd., London	$ 142,617.12
Sanford C. Bernstein & Co., New York	$ 130,683.98
Jefferies & Co., Inc., New York	$ 127,960.48
SG Sec. (London) Ltd., London	$ 118,842.41
HSBC Bank PLC (Midland Bank)(JAC), London	$ 110,159.84
UBS Warburg, London	$ 107,410.85
J.P. Morgan Clearing Corp., New York	$ 105,339.05
Pershing LLC, Jersey City	$ 100,930.34
Other Brokers	$ 3,862,452.90
Total FY 2015	**$ 11,356,583.21**

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

(EXPRESSED IN THOUSANDS)

	Assets Under Management	Management Fees and Expenses
Management Fees:		
Internally Managed Assets	$ 22,752,476	$ –
Domestic Managers	2,280,009	17,945
Non-U.S. Equity Managers	5,194,581	16,764
Global Equity Managers	4,937,350	28,165
Fixed Income Managers	1,880,802	258
Credit Strategies Managers	7,736,142	52,162
Real Assets Managers	7,780,995	73,771
Alternative Investment Managers	8,229,707	83,567
Hedge Fund Managers	6,711,031	87,173
Strategic Opportunities Portfolio*	117,728	2,814
Total Management Fees	**67,620,821**	**362,619**
Portfolio Oversight	–	28,104
Miscellaneous Fees and Expenses:		
Custodial Fees	–	4,500
Legal Fees	–	862
Other Fees and Expenses	–	2,275
Total Miscellaneous Fees and Expenses	–	**7,637**
Total Defined Benefit Investment Expenses	**$ 67,620,820**	**$ 398,360**
Total Defined Contribution Investment Expenses	**23,253**	**631**
Total	**$ 67,644,074**	**$ 398,991**

** The assets within the Strategic Opportunities Portfolio include an Active Currency Overlay program.*

The related fee is based on the managers' notional account values.

Investment Summary: Defined Benefit Plans

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 Judicial Retirement System, the Group Life Insurance Fund and the Retiree Health Insurance Credit Fund into a common investment pool. The common investment pool of the pension trust funds and other trust funds held the following composition of investments at June 30, 2015 and 2014.

(EXPRESSED IN THOUSANDS)

	2015 Fair Value	Percent of Total Value	2014 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	$ 4,576,496	6.72%	$ 4,123,513	6.14%
Mortgage Securities	3,496,782	5.13%	4,074,000	6.06%
Corporate and Other Bonds	12,933,907	18.99%	11,773,556	17.52%
Total Bonds and Mortgage Securities	**21,007,185**	**30.84%**	**19,971,069**	**29.72%**
Common and Preferred Stocks	**23,686,079**	**34.77%**	**24,853,391**	**36.99%**
Index and Pooled Funds				
Equity Index and Pooled Funds	6,978,380	10.24%	6,167,946	9.18%
Fixed Income Commingled Funds	745,010	1.09%	659,415	0.98%
Total Index and Pooled Funds	**7,723,390**	**11.34%**	**6,827,361**	**10.16%**
Real Assets – Private Assets	**6,983,580**	**10.25%**	**6,173,539**	**9.19%**
Private Equity	**8,154,219**	**11.97%**	**8,941,188**	**13.31%**
Short-Term Investments				
Treasurer of Virginia – LGIP Investment Pool	283,998	0.42%	267,722	0.40%
TBC Pooled Employee Trust Fund	222,015	0.33%	30,858	0.05%
Foreign Currencies	66,368	0.10%	116,495	0.17%
Total Short-Term Investments	**572,381**	**0.84%**	**415,075**	**0.62%**
Total Investments	**$ 68,126,834**	**100.00%**	**$ 67,181,623**	**100.00%**

Description of Hybrid Defined Contribution Plan

Defined contribution plan assets for Hybrid Retirement Plan members are maintained in two separate accounts. The Hybrid 401(a) account contains the hybrid plan member and employer mandatory contributions and the employer match on the voluntary member contributions. The Hybrid Deferred Compensation Plan (457) contains the hybrid plan member's voluntary member contributions. The schedule below shows the assets in each investment option and the accumulated plan assets in each option.

HYBRID PARTICIPANT ACCOUNT PLAN ASSETS BY FUND OPTION

AS OF JUNE 30, 2015

Fund Name	Hybrid 401(a)	Hybrid 457	Total
Retirement Portfolio	$ 245,992	$ 44,187	$ 290,179
Target Date 2020 Portfolio	907,400	295,821	1,203,221
Target Date 2025 Portfolio	1,300,051	478,998	1,779,049
Target Date 2030 Portfolio	1,657,220	378,483	2,035,703
Target Date 2035 Portfolio	1,921,881	791,503	2,713,384
Target Date 2040 Portfolio	1,991,326	488,293	2,479,619
Target Date 2045 Portfolio	2,309,136	478,145	2,787,281
Target Date 2050 Portfolio	3,043,108	601,684	3,644,792
Target Date 2055 Portfolio	4,865,306	400,547	5,265,853
Target Date 2060 Portfolio	50,183	8,757	58,940
Money Market Fund	83,415	11,892	95,307
Stable Value Fund	17,716	41,418	59,134
Bond Fund	20,454	15,392	35,846
Inflation-Protected Bond Fund	4,373	4,574	8,947
High-Yield Bond Fund	12,978	23,379	36,357
Stock Fund	185,909	174,905	360,814
Small/Mid-Cap Stock Fund	85,817	104,592	190,409
International Stock Fund	43,685	44,414	88,099
Emerging Markets Stock Fund	27,603	26,064	53,667
Global Real Estate fund	36,723	29,518	66,241
VRS Investment Portfolio	–	–	–
Self-Directed Brokerage	–	–	–
Total Plan Assets	**$ 18,810,276**	**$ 4,442,566**	**$ 23,252,842**

Description of Defined Contribution Plan Investment Options

Participants with the System's Hybrid Retirement Plan benefit structure have access to a number of core investment options for their Hybrid Plan contributions. These options are intended to provide participants with a variety of investment choices while controlling the costs associated with those choices. In addition to the option-specific annual operating expense detailed in the Investment Option Performance Summary, participants pay an annual record-keeping fee of $30.50 that is deducted from their accounts on a monthly basis (approximately $2.54 per month). If participants participate in more than one Commonwealth of Virginia plan, then only one annual fee of $30.50 is applied. At June 30, 2015, the plans provided the following core investment options to plan participants.

DO-IT-FOR-ME FUNDS

Retirement Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes.

U.S. Bonds–51.3% U.S. Large-Cap Stocks–19.3% International Stocks–10.8%
U.S. Inflation-Index Bonds–8.8% U.S. Small/Mid-Cap Stocks–5.5%
Commodities–3.8% Developed Real Estate–0.5%

Target Date 2020 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Bonds–40.8% U.S. Large-Cap Stocks–24.2% International Stocks–15.2%
U.S. Inflation-Index Bonds–6.8% U.S. Small/Mid-Cap Stocks–6.4%
Commodities–3.7% Developed Real Estate–3.0%

Target Date 2025 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Bonds–31.3% U.S. Large-Cap Stocks–28.6% International Stocks–18.6%
U.S. Small/Mid-Cap Stocks–7.2% Developed Real Estate–5.3%
U.S. Inflation-Index Bonds–5.0% Commodities–4.0%

Target Date 2030 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–32.9% U.S. Bonds–22.3% International Stocks–22.1%
U.S. Small/Mid-Cap Stocks–7.9% Developed Real Estate–7.4%
Commodities–4.1% U.S. Inflation-Index Bonds–3.3%

Target Date 2035 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–37.0% International Stocks–25.3% U.S. Bonds–13.5%
Developed Real Estate–9.6% U.S. Small/Mid-Cap Stocks–8.6%
Commodities–4.1% U.S. Inflation-Index Bonds–1.9%

Target Date 2040 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–39.7% International Stocks–28.3%
Developed Real Estate–11.9% U.S. Small/Mid-Cap Stocks–9.4%
U.S. Bonds–5.8% Commodities–4.2% U.S. Inflation-Index Bonds–0.7%

Target Date 2045 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–40.5% International Stocks–29.8%
Developed Real Estate–13.2% U.S. Small/Mid-Cap Stocks–10.1%
Commodities–4.4% U.S. Bonds–1.8% U.S. Inflation-Index Bonds–0.2%

Target Date 2050 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–40.7% International Stocks–30.1% Developed Real Estate–13.5%
U.S. Small/Mid-Cap Stocks–10.2% Commodities–4.4% U.S. Bonds–1.1%

Target Date 2055 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–40.7% International Stocks–30.1% Developed Real Estate–13.5%
U.S. Small/Mid-Cap Stocks–10.2% Commodities–4.4% U.S. Bonds–1.1%

Target Date 2060 Portfolio: The investment objective of the portfolio is to provide for retirement outcomes consistent with investor preferences throughout the savings and drawdown phase based on quantitatively measured risk that investors, on average, may be willing to accept. In pursuit of that objective, the portfolio will be broadly diversified across global asset classes, with asset allocations becoming more conservative over time.

U.S. Large-Cap Stocks–40.7% International Stocks–30.1% Developed Real Estate–13.5%
U.S. Small/Mid-Cap Stocks–10.2% Commodities–4.4% U.S. Bonds–1.1%

DO–IT–FOR–ME FUNDS

Money Market Fund: Seeks to provide a high level of current income as is consistent liquidity and stability of principal.

Government Agency Debt–55.6% Government Agency Repurchase Agreements–44.4%

Stable Value Fund: Seeks to provide safety of principal while earning a reasonable level of interest income consistent with an underlying portfolio of short to intermediate duration high-quality fixed-income (bond) securities, and liquidity to accommodate participant transactions.

Agency MBS–22.8% Corporates–21.9% Asset-Backed–17.1% Cash/Equivalents–13.0% U.S. Treasury/Agency–8.6% CMBS–6.7%
Other U.S. Government–6.4% Taxable Municipals–3.4% Municipal MBS–0.1%

Bond Fund: Seeks to track the performance of the Barclays Aggregate Bond Index. The Index is an unmanaged index that represents the broad U.S. investment grade bond market and is comprised of U.S. treasury securities, government agency bonds, corporate bonds, mortgage-backed securities, asset-backed securities and a small amount of foreign bonds traded in the U.S.

Treasury–36.4% Mortgages–27.6% Industrials–14.4% Financials–7.8%
Non-U.S. Credit–5.2% Agencies–2.8% CMBS–2.0% Utilities–1.8%
Taxable Municipals–0.9% Asset-Backed Securities–0.6% Hybrid ARM–0.3% Cash–0.2%

Inflation-Protected Bond Fund: Seeks to track the performance of the Barclays U.S. Treasury Inflation-Protected Securities Index. The Index is an unmanaged index that represents the U.S. Treasury Inflation-Protection Securities (TIPS) market. The index includes investment grade TIPS with one or more years to final maturity.

U.S. Treasury–100.0%

High-Yield Bond Fund: Seeks to achieve returns that exceed, over time, its benchmark, the Bank of America (BofA) Merrill Lynch U.S. High-Yield BB-B Rated Constrained Index. The Index is an unmanaged index of BB-B rated securities that caps any single issuer exposure to 2.00%. The index is indicative of the higher quality high-yield bond market.

Communications–21.1% Consumer Non-Cyclical–18.2% Consumer Cyclical–16.4%
Energy–10.3% Technology–9.8% Capital Goods–9.4% Basic Industry–5.3%
Financial/REIT–4.2% Other/Cash–2.7% Transportation–1.7% Utilities–0.9%

Stock Fund: Seeks to track the performance of the Standard & Poor's 500 Index. The Index is an unmanaged index that represents the broad large capitalization U.S. stock market and is comprised of 500 widely held U.S. stocks chosen by Standard & Poor's.

Information Technology–19.5% Financials–16.6% Health Care–15.5% Consumer Discretionary–12.8%
Industrials–10.1% Consumer Staples–9.4% Energy–7.9% Materials–3.1%
Utilities–2.8% Telecommunications Services–2.3%

Small/Mid-Capitalization Stock Fund: Seeks to track the performance of the Russell 2500 Index. The Index is an unmanaged index that represents the broad middle to smaller capitalization U.S. stock market.

Financials–24.2% Information Technology–15.2% Consumer Discretionary–14.8%
Industrials–14.7% Health Care–13.1% Materials–6.0% Energy–4.4%
Utilities–4.0% Consumer Staples–2.9% Telecommunication Services–0.7%

International Stock Fund: Seeks to track the performance of the Morgan Stanley Capital International World ex-U.S. (MSCI World ex-U.S.) Index. The Index is an unmanaged index that is comprised of foreign stocks representing companies located in Canada and in developed countries across Western Europe and the Pacific Rim.

Financials–27.2% Consumer Discretionary–12.6% Industrials–12.2% Health Care–10.9%
Consumer Staples–10.4% Materials–7.6% Energy–6.6%
Telecommunication Services–4.6% Information Technology–4.5% Utilities–3.4%

Emerging Markets Stock Fund: Seeks to track the performance of the Morgan Stanley Capital International Emerging Markets (MSCI Emerging Markets) Index. The Index is an unmanaged index that is comprised of foreign stocks representing companies located in 26 emerging markets.

Financials–29.7% Information Technology–17.9% Consumer Discretionary–9.0% Energy–8.4%
Consumer Staples–8.1% Telecommunication Services-7.3% Industrials–6.9%
Materials–6.9% Utilities–3.3% Health Care–2.5%

Global Real Estate Fund: Seeks to track the performance of the FTSE EPRA/NAREIT Developed Index. This Index is an unmanaged index designed to reflect the performance of listed real estate companies worldwide including the U.S.

Retail REITs–23.0% Diversified REITs–12.2% Office REITs–12.1%
Diversified Real Estate Activities–12.0% Residential REITs–9.7%
Real Estate Operating Companies–7.9% Health Care REITs–6.8% Specialized REITs–6.0%
Industrial REITs–4.9% Hotel & Resort REITs–4.3% Real Estate Development–0.8%
Health Care Facilities–0.2% Asset Management & Custody Banks–0.1%

VRS Investment Portfolio (VRSIP): Seeks to maximize return while managing risk within an acceptable range. Due to the long-term nature of the defined benefit plan's liabilities, the horizon for investment decisions is generally defined as 10 years or longer.

Domestic Equity–21.5% Fixed Income–18.1% Non-U.S. Equity–16.5% Real Assets–11.4% Credit–10.7% Private Equity–7.4%
Emerging Market Equity–4.8% Convertibles–3.6% Emerging Market Debt–3.5% Cash–1.3% Strategic Opportunities–1.2%

DO-IT-MYSELF FUNDS

Self-Directed Brokerage Account (SDBA): Allows investors to select from thousands of publicly traded mutual funds, exchange-traded funds (ETFs) and individual securities in addition to the available core investment options. The SDBA option is offered through TD Ameritrade. The SDBA option is for knowledgeable investors who acknowledge and understand the risks and costs associated with the investments contained in this option. In addition to the annual recordkeeping fee and operating expenses, this option is subject to transaction fees charged by TD Ameritrade and investment management related fees and expenses for the funds or investments selected. ICMA-RC charges a $50 setup fee when a member establishes a SDBA and deducts the fee from the member's ICMA-RC account.

Investment Option Performance Summary: Defined Contribution Plans

AS OF JUNE 30, 2015 (RETURNS GREATER THAN ONE YEAR ARE ANNUALIZED)

DO-IT-FOR-ME PATH: TARGET DATE PORTFOLIOS

Investment Options	1 Year	3 Years	5 Years	Total Annual Operating Expenses As a %	Total Annual Operating Expenses Per $1,000
Retirement Portfolio	1.20%	5.80%	7.15%	0.08%	$0.80
Custom Benchmark[1]	1.16%	5.75%	7.11%		
Target Date 2020 Portfolio	1.34%	7.57%	8.83%	0.08%	$0.80
Custom Benchmark[1]	1.25%	7.50%	8.77%		
Target Date 2025 Portfolio	1.45%	8.58%	9.70%	0.08%	$0.80
Custom Benchmark[1]	1.33%	8.52%	9.62%		
Target Date 2030 Portfolio	1.57%	9.50%	10.45%	0.08%	$0.80
Custom Benchmark[1]	1.42%	9.42%	10.35%		
Target Date 2035 Portfolio	1.62%	10.30%	11.14%	0.08%	$0.80
Custom Benchmark[1]	1.51%	10.22%	11.01%		
Target Date 2040 Portfolio	1.72%	11.05%	11.75%	0.09%	$0.90
Custom Benchmark[1]	1.56%	10.96%	11.60%		
Target Date 2045 Portfolio	1.72%	11.73%	12.30%	0.09%	$0.90
Custom Benchmark[1]	1.55%	11.63%	12.14%		
Target Date 2050 Portfolio	1.62%	12.31%	12.80%	0.09%	$0.90
Custom Benchmark[1]	1.48%	12.22%	12.64%		
Target Date 2055 Portfolio	1.46%	12.82%	13.10%	0.09%	$0.90
Custom Benchmark[1]	1.32%	12.73%	12.92%		
Target Date 2060 Portfolio	N/A	N/A	N/A	0.09%	$0.90
Custom Benchmark[1]	N/A	N/A	N/A		

HELP-ME-DO-IT PATH: INDIVIDUAL OPTIONS

Investment Options	1 Year	3 Years	5 Years	Total Annual Operating Expenses as a %	Total Annual Operating Expenses Per $1,000
Money Market Fund	0.00%	0.02%	0.09%	0.10%	$1.00
Benchmark: Barclays 3-Month Treasury Bill Index					
Yield as of June 30, 2015, was 0.03%	0.03%	0.08%	0.10%		
Stable Value Fund	1.45%	1.73%	2.09%	0.30%	$3.00
Custom Benchmark[2]					
Yield as of June 30, 2015, was 1.50%	1.48%	1.20%	1.19%		

HELP-ME-DO-IT PATH: INDIVIDUAL OPTIONS, cont.

Investment Options	1 Year	3 Years	5 Years	Total Annual Operating Expenses as a %	Total Annual Operating Expenses Per $1,000
Bond Fund	1.94%	1.94%	3.41%	0.04%	$0.40
Benchmark: Barclays Aggregate Bond Index	1.86%	1.83%	3.35%		
Inflation-Protected Bond Fund	-1.72%	-0.71%	3.34%	0.04%	$0.40
Benchmark: Barclays U.S. Treasury Inflation-Protected Securities Index	-1.73%	-0.76%	3.29%		
High-Yield Bond Fund	1.06%	6.70%	8.49%	0.39%	$3.90
Benchmark: BofA Merrill Lynch U.S. High-Yield BB-B Constrained Index	0.70%	6.76%	8.32%		
Stock Fund	7.52%	17.37%	17.38%	0.01%	$0.10
Benchmark: S&P 500 Index	7.42%	17.31%	17.34%		
Small/Mid-Cap Stock Fund	6.04%	18.75%	17.78%	0.04%	$0.40
Benchmark: Russell 2500 Index[3]	5.92%	18.66%	17.71%		
International Stock Fund	-5.05%	11.44%	9.38%	0.06%	$0.60
Benchmark: MSCI World ex-U.S. Index[4]	-5.28%	11.15%	9.05%		
Emerging Markets Stock Fund	-5.32%	3.28%	3.62%	0.14%	$1.40
Benchmark: MSCI Emerging Markets Index	-5.12%	3.71%	3.68%		
Global Real Estate Fund	0.21%	9.18%	14.63%	0.12%	$1.20
Benchmark: FTSE EPRA/NAREIT Developed Index[5]	-0.36%	8.69%	14.44%		
VRS Investment Portfolio (VRSIP)	4.73%	10.65%	10.35%	0.56%	$5.60
VRS Custom Benchmark[6]	4.22%	9.93%	9.61%		

[1] *Benchmarks are calculated using blended returns of third-party indices that proportionately reflect the respective weightings of the Portfolios' asset classes. Weightings are adjusted quarterly to reflect the Portfolios' asset allocation shifts over time. Indices currently used to calculate the custom benchmarks are S&P 500 Index, Dow Jones U.S. Completion Total Stock Market Index, MSCI ACWI ex-U.S. IMI Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Treasury Inflation-Protected Securities Index, FTSE EPRA/NAREIT Developed Index and the Bloomberg Commodity Index Total Return.*

[2] *The benchmark represents the hypothetical return generated by the monthly yield of actively traded U.S. Treasuries with a three-year maturity plus an annualized spread of 0.50% and representative of the Fund's expected return profile, given its mandate and book value accounting treatment.*

[3] *Effective July 2012, the performance benchmark is the Russell 2500 Index. Prior to July 2012, the performance benchmark was the Russell Small Cap Completeness Index. The benchmark returns are linked.*

[4] *Effective July 2012, the performance benchmark is the MSCI World ex-U.S. Index. Prior to July 2012, the performance benchmark was the MSCI EAFE Index. The benchmark returns are linked.*

[5] *Effective July 2012, the performance benchmark is FTSE EPRA/NAREIT Developed Index. Prior to July 2012, the performance benchmark was the Dow Jones U.S. Select REIT Index. The benchmark returns are linked.*

[6] *The VRS Custom Benchmark is a blend of the asset class benchmarks at policy weights.*