



Virginia  
Retirement  
System

# Investments Report

FOR THE QUARTER ENDING  
SEPTEMBER 30, 2021





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VRS' Total Fund Return for the quarter ended September 30 was 2.6%, doubling the fund benchmark return of 1.3%. The 12-month return for the fund was 24.3%, well ahead of the 19.3% benchmark.

All asset classes added value above the corresponding benchmarks for the period. Because they represent very efficient markets, the value added in stock and bond portfolios was good at just under 2% in both asset classes, relative to the benchmark index. While strong results, the value added in public markets was far exceeded by what we saw generated by private asset classes during the quarter. Credit (mostly private with some public exposure) exceeded its benchmark by just over 8%. Real Assets beat its benchmark by just shy of 4%, and Private Equity exceeded its benchmark by just shy of 14%. This was exceptional performance in each of the respective programs.

Perhaps more important than the near-term results is the longer-term performance delivered by private asset classes. Let's compare the absolute level of performance of private markets versus the relevant public market alternatives over the last 10 years:

### Private vs. Public Asset Class Returns Net of Fees

Private Asset Class	10-yr Return	Public Market Alternative	10-yr Return	Excess Return From Private Markets
<b>Private Equity</b>	16.8%	<b>Global Stocks</b>	12.0%	4.8%
<b>Credit Strategies</b>	7.6%	<b>Fixed Income</b>	4.0%	3.6%
<b>Real Assets</b>	10.4%	<b>60/40 Stock/Bond Index*</b>	8.8%	1.6%

\* 60/40 is a proxy for the risk level of the Real Assets portfolio.

Clearly, there are significant excess returns available in private markets. They bring a different return pattern and are instrumental in reducing the short-term volatility of the total fund, helping to reduce contribution rate volatility for employers. The increased returns do come with some loss of liquidity and a slightly higher default risk. Yet, these risks are more than compensated by higher returns and less short-term volatility. We'll talk more about diversification benefits next quarter.



### TOTAL FUND PERFORMANCE

(Expressed in Percentages, Net of Fees)

	10 Yr.	5 Yr.	3 Yr.	1 Yr.	Qtr.	Month	Fiscal YTD	Cal YTD
<b>Total Public Equity Strategies</b>	<b>12.0</b>	<b>12.3</b>	<b>11.8</b>	<b>31.3</b>	<b>-0.5</b>	<b>-3.4</b>	<b>-0.5</b>	<b>13.6</b>
<i>Benchmark <sup>1</sup></i>	12.1	13.1	12.8	29.4	-1.0	-4.0	-1.0	11.7
<b>Total Fixed Income</b>	<b>4.0</b>	<b>4.1</b>	<b>7.0</b>	<b>1.8</b>	<b>0.1</b>	<b>-0.8</b>	<b>0.1</b>	<b>-0.3</b>
<i>Benchmark <sup>2</sup></i>	3.1	3.0	5.5	-0.1	0.1	-0.9	0.1	-1.3
<b>Total Credit Strategies</b>	<b>7.6</b>	<b>7.6</b>	<b>8.3</b>	<b>16.2</b>	<b>2.3</b>	<b>1.6</b>	<b>2.3</b>	<b>9.6</b>
<i>Benchmark <sup>3</sup></i>	6.4	5.9	6.3	8.1	1.0	0.3	1.0	3.8
<b>Total Real Assets</b>	<b>10.4</b>	<b>8.2</b>	<b>7.2</b>	<b>14.0</b>	<b>3.4</b>	<b>2.8</b>	<b>3.4</b>	<b>10.6</b>
<i>Benchmark <sup>4</sup></i>	8.8	6.3	5.8	10.2	3.2	0.5	3.2	7.9
<b>Total Private Equity</b>	<b>16.8</b>	<b>21.6</b>	<b>24.0</b>	<b>55.7</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>39.0</b>
<i>Benchmark <sup>5</sup></i>	14.8	18.1	18.1	41.9	7.3	1.2	7.3	31.1
<b>Total Private Investment Partnerships</b>	<b>n/a</b>	<b>10.7</b>	<b>11.0</b>	<b>30.6</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>	<b>23.9</b>
<i>Benchmark <sup>6</sup></i>	n/a	10.2	10.1	20.1	3.9	0.9	3.9	14.9
<b>Total Multi-Asset Public Strategies</b>	<b>n/a</b>	<b>n/a</b>	<b>5.7</b>	<b>15.8</b>	<b>0.3</b>	<b>-0.8</b>	<b>0.3</b>	<b>6.6</b>
<i>Benchmark <sup>7</sup></i>	n/a	n/a	8.2	12.7	0.1	-1.6	0.1	5.5
<b>Total Fund</b>	<b>10.0</b>	<b>10.5</b>	<b>11.3</b>	<b>24.3</b>	<b>2.6</b>	<b>1.2</b>	<b>2.6</b>	<b>13.8</b>
<i>VRS Custom Benchmark <sup>8</sup></i>	9.3	9.8	10.2	19.3	1.3	-1.3	1.3	10.2

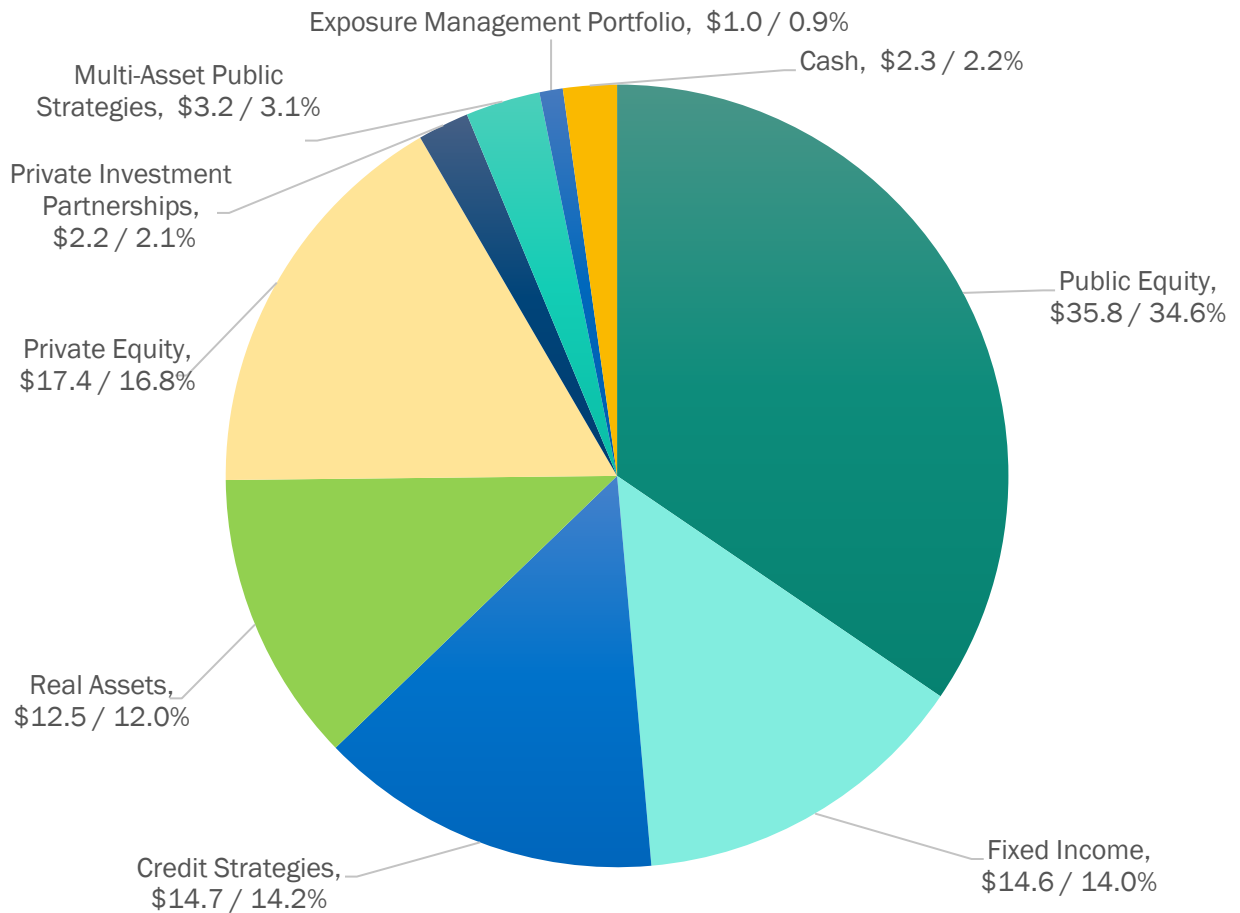
Notes:

- Effective February 2020, the Public Equity Custom Benchmark is the MSCI ACWI IMI (net VRS tax rates) Index.
- Effective July 2020, the Fixed Income Custom Benchmark is a blend of the Bloomberg Barclays Aggregate Bond Index (90%), Bloomberg Barclays US High Yield Ba/B 2% Issuer Cap Index (5%), and J.P. Morgan EMBI Global Core Index (5%).
- Effective January 2020, the Credit Strategies Custom Benchmark is a blend of the S&P Performing Loan Index (60%), Bloomberg Barclays US High Yield Ba/B 2% Issuer Cap Index (30%), and Bloomberg Barclays US Aggregate Bond Index (10%).
- 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).
- Effective July 2020, the Private Equity Custom Benchmark is the MSCI ACWI IMI Index (net VRS tax rates) lagged by three months.
- Effective July 2021, the Private Investment Partnerships Custom Benchmark is the weighted average of the custom Private Equity Benchmark (MSCI ACWI IMI Index (net VRS tax rates) lagged by three months) (33%), the NCREIF Private Real Estate Benchmark (ODCE Index (net) lagged by three months) (25%), the Other Real Assets Custom Benchmark (the CPI-U Index plus 400 basis points per annum lagged by three months) (8%), the Bloomberg Barclays US High Yield Ba/B 2% Issuer Cap Index (17%), and the S&P Performing Loan Index (17%).
- Effective July 2018, the Multi-Asset Public Strategies Custom Benchmark is the market value weighted average of the benchmarks of the mandates (Dynamic Strategies and Risk-Based Investments) within the program.
- The VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

Source: Bank of New York Mellon



### Total Fund Market Value = \$103.7 billion



Dollar Amounts in Billions / Percent of Total Fund

Source: Bank of New York Mellon



	<b>VRS Return</b> (as of September 2021)
1-year	24.3%
3-year	11.3%
5-year	10.5%
10-year	10.0%
15-year	7.2%
20-year	7.9%
25-year	8.1%

Source: Bank of New York Mellon