



Virginia  
Retirement  
System

# Investments Report

FOR THE QUARTER ENDING  
DECEMBER 31, 2020





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Welcome to the first installment of our new Investments Report. Along with the new look, I hope you'll find additional value as I share some perspectives on the VRS Trust Fund performance and the market.

For calendar year 2020, the VRS fund returned 10.3%, just ahead of the benchmark of 10.2%. Despite 2020's wild ride for the markets, the fund achieved a double-digit return for the calendar year, pushing the total trust fund amount to a historic high of \$92.1 billion.

Let's focus on the meaning of the fund's investment performance to our members, retirees and other stakeholders and how we measure the results. The most precise measure of portfolio efficacy is a custom benchmark that mirrors its investment structure. The VRS Board of Trustees, with the expertise of an outside consultant, sets the VRS benchmark to accurately measure each investment type within the portfolio.

Over short periods (monthly, quarterly and even a year or two), some asset classes will do well, while others will face some challenges. Diversification creates a stable foundation for the future and helps mitigate risk by moderating the stock market highs and lows. Risk mitigation is crucial to our goal of ensuring assets are available to pay future benefits. The key measure of the portfolio's success is long-term performance and the degree to which total fund and individual programs outperform the benchmark. VRS' long-term investment strategy focuses on returns and performance over 20- to 40-plus years, not simply a single year.

Clearly, 2020 was like nothing any of us have seen in our lifetime, and the impact on the investment markets was felt around the globe. The markets have rebounded significantly, and the news that the fourth quarter earnings for the S&P 500 Index were slightly above pre-pandemic levels from the fourth quarter of 2019 is encouraging.

In managing an investment fund with a long horizon, we continue to seek diversification and to invest in strategies that help soften market declines while taking advantage of market factors that have proven to be effective in generating above index returns over the long run.



### TOTAL FUND PERFORMANCE

(Expressed in Percentages, Net of Fees)

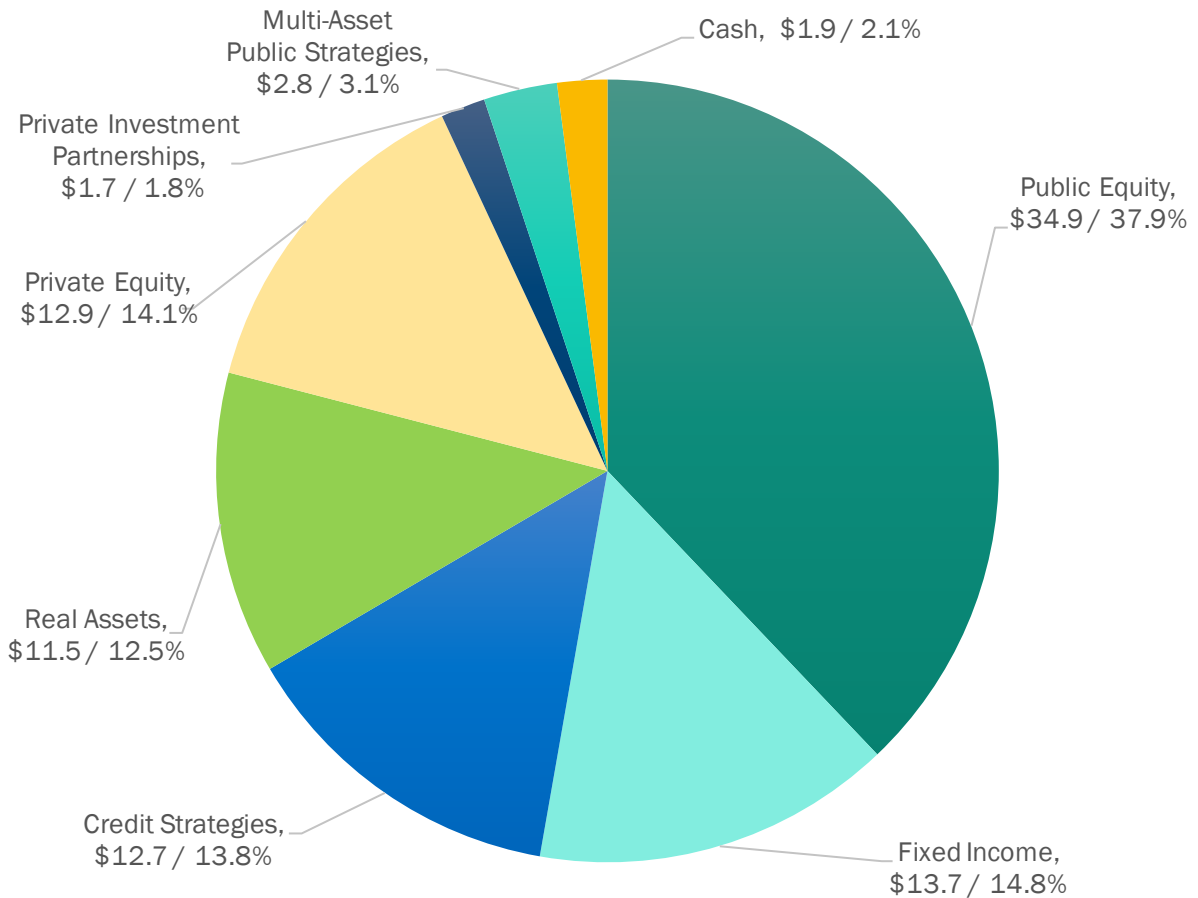
	10 Yr.	5 Yr.	3 Yr.	1 Yr.	Qtr.	Month	Fiscal YTD	Cal YTD
<b>Total Public Equity Strategies</b>	<b>9.2</b>	<b>10.5</b>	<b>8.3</b>	<b>13.4</b>	<b>15.5</b>	<b>5.2</b>	<b>23.5</b>	<b>13.4</b>
<i>Benchmark<sup>1</sup></i>	9.3	11.6	10.2	17.0	15.8	5.0	25.3	17.0
<b>Total Fixed Income</b>	<b>4.6</b>	<b>5.6</b>	<b>6.6</b>	<b>10.5</b>	<b>2.1</b>	<b>0.6</b>	<b>3.7</b>	<b>10.5</b>
<i>Benchmark<sup>2</sup></i>	3.9	4.4	5.3	7.5	1.2	0.3	2.1	7.5
<b>Total Credit Strategies</b>	<b>6.2</b>	<b>7.5</b>	<b>6.2</b>	<b>7.4</b>	<b>6.0</b>	<b>2.9</b>	<b>10.6</b>	<b>7.4</b>
<i>Benchmark<sup>3</sup></i>	5.8	7.2	5.9	5.2	4.2	1.3	8.3	5.2
<b>Total Real Assets</b>	<b>10.2</b>	<b>7.9</b>	<b>5.9</b>	<b>1.3</b>	<b>3.1</b>	<b>1.7</b>	<b>4.0</b>	<b>1.3</b>
<i>Benchmark<sup>4</sup></i>	8.8	6.2	4.9	1.4	2.2	0.6	1.8	1.4
<b>Total Private Equity</b>	<b>14.6</b>	<b>15.5</b>	<b>15.5</b>	<b>16.7</b>	<b>12.0</b>	<b>11.8</b>	<b>24.7</b>	<b>16.7</b>
<i>Benchmark<sup>5</sup></i>	13.8	13.8	11.1	12.6	8.2	-2.5	29.1	12.6
<b>Total Private Investment Partnerships</b>	<b>n/a</b>	<b>6.9</b>	<b>5.4</b>	<b>1.8</b>	<b>5.4</b>	<b>5.4</b>	<b>12.6</b>	<b>1.8</b>
<i>Benchmark<sup>6</sup></i>	n/a	8.0	7.3	7.4	4.6	-0.8	13.1	7.4
<b>Total Multi-Asset Public Strategies</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>5.7</b>	<b>8.6</b>	<b>3.5</b>	<b>13.3</b>	<b>5.7</b>
<i>Benchmark<sup>7</sup></i>	n/a	n/a	n/a	10.1	6.8	2.3	10.6	10.1
<b>Total Fund</b>	<b>8.2</b>	<b>9.1</b>	<b>7.9</b>	<b>10.3</b>	<b>9.2</b>	<b>4.5</b>	<b>15.0</b>	<b>10.3</b>
<i>VRS Custom Benchmark<sup>8</sup></i>	7.9	9.1	8.0	10.2	8.3	1.9	15.2	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) with modified benchmarking for Other Real Assets during the increased allocation period.
- Effective July 2020, the Private Equity Custom Benchmark is the MSCI ACWI IMI Index (net VRS tax rates) lagged by three months with modified benchmarking during the increased allocation period.
- Effective January 2020, 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) (40%), the NCREIF Private Real Estate Benchmark (ODCE Index (net) lagged by three months) (30%), the Other Real Assets Custom Benchmark (the CPI-U Index plus 400 basis points per annum lagged by three months) (10%), the Bloomberg Barclays US High Yield Ba/B 2% Issuer Cap Index (10%), and the S&P Performing Loan Index (10%).
- 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.



### Total Fund Market Value = \$92.1 billion



Dollar Amounts in Billions / Percent of Total Fund  
*Difference in totals is due to rounding.*  
Source: Bank of New York Mellon



	<b>VRS Return</b> (as of December 31, 2020)
1-year	10.3%
3-year	7.9%
5-year	9.1%
10-year	8.2%
15-year	6.9%
20-year	6.4%
25-year	7.9%

Source: Bank of New York Mellon