



Virginia
Retirement
System

Investments Report

FOR THE QUARTER ENDING

JUNE 30, 2022





Ronald D. Schmitz
Chief Investment
Officer

As VRS marked the end of fiscal year 2022, the investments report is a mixed news story. The stock market, down about 16%, was certainly less robust this past fiscal year than it was for the period ended June 30, 2021. That result is not unexpected, given the exceedingly strong returns last year. Markets often post a period of flat-to-negative results after skyrocketing. Bonds were also down for the year about -11%.

The VRS portfolio benchmark of -5.5% was comfortably ahead of the traditional 60/40 stock bond index return of -10%. VRS benefited nicely from diversification to assets such as real estate, timber and private strategies in the equity and credit space.

More important, the VRS portfolio was modestly positive in the face of these negative market benchmarks. The portfolio return of 0.6% is quite subdued compared to typical results, as reflected in our long-term assumed rate of return of 6.75% annually. However, this year's returns relative to the benchmark were nothing short of remarkable. Because our investment professionals actively manage a portion of the fund using a risk-controlled approach, our normal value-add typically yields about half a percent of outperformance. Achieving approximately 6 percentage points of outperformance this year (0.6% versus a benchmark of -5.5%) is an admirable result.

The level of outperformance in FY 2022 puts a nice exclamation point on a decade of strong results. The annualized value-add by staff decisions versus the benchmark results in an average value-add of \$1 billion per year. How were these results achieved?

In short, all asset classes outperformed their respective market indices. Security selection was strong from external managers collectively, as well as from our in-house portfolio management team. The private market portfolio posted especially strong performance versus benchmark.

In addition, the VRS portfolio benefited from its asset class exposure versus policy benchmark weights. Positioned defensively, the portfolio was underweight stocks and bonds, while being overweight private market asset classes, which, as noted, outperformed compared to stocks and bonds.

(Continued)



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Recently, the Federal Reserve began its regime of interest rate hikes to fight inflation, which has proven to be a bit more than “transitory.” As the Fed acted, stock market investors, in reply to higher interest rates, began discounting future earnings at a higher rate than a year ago. Since peaking in early January, stocks have drifted downward in a bit of a sawtooth pattern – at one point falling more than 20%.

Looking ahead to the new fiscal year, there may well be more challenging days as the economy absorbs higher interest rates. All eyes are on the Fed as it seeks to calm inflation without driving the economy into a recession. The VRS portfolio remains defensively positioned with continued underweights to stocks and bonds. This is offset by overweight exposure to private markets, lowering risk to the overall portfolio. Strategic positioning was a winner in fiscal year 2022. Hopefully, it will be so again in the coming year.

TOTAL FUND PERFORMANCE

(Expressed in Percentages, Net of Fees)

	10 Yr.	5 Yr.	3 Yr.	1 Yr.	Qtr.	Month	Fiscal YTD	Cal YTD
Total Public Equity Strategies	9.0	6.3	6.1	-14.8	-13.5	-8.0	-14.8	-18.4
<i>Benchmark ¹</i>	8.9	6.9	6.3	-16.2	-15.7	-8.6	-16.2	-20.3
Total Fixed Income	2.3	1.8	0.3	-10.6	-5.3	-2.1	-10.6	-10.8
<i>Benchmark ²</i>	1.5	0.8	-1.1	-11.0	-5.3	-2.1	-11.0	-11.1
Total Credit Strategies	6.6	6.3	6.4	1.5	-2.6	-1.6	1.5	-2.7
<i>Benchmark ³</i>	4.7	3.3	1.8	-6.5	-6.0	-3.5	-6.5	-8.0
Total Real Assets	10.9	10.1	11.0	21.7	3.4	4.5	21.7	10.6
<i>Benchmark ⁴</i>	9.1	8.1	8.7	18.0	3.5	1.0	18.0	8.5
Total Private Equity	17.5	21.2	25.5	27.4	0.3	0.6	27.4	5.2
<i>Benchmark ⁵</i>	13.7	14.4	15.7	6.7	-5.4	2.1	6.7	0.5
Total Private Investment Partnerships	n/a	11.1	12.7	17.0	1.6	1.6	17.0	4.8
<i>Benchmark ⁶</i>	n/a	9.2	9.5	6.9	-2.1	-0.1	6.9	1.1
Total Multi-Asset Public Strategies	n/a	n/a	3.6	-4.7	-6.6	-4.5	-4.7	-7.2
<i>Benchmark ⁷</i>	n/a	n/a	3.6	-8.2	-7.7	-4.2	-8.2	-10.8
Total Fund	8.7	8.3	9.2	0.6	-5.1	-2.6	0.6	-5.9
<i>VRS Custom Benchmark ⁸</i>	7.5	6.6	6.1	-5.5	-8.0	-3.6	-5.5	-9.6

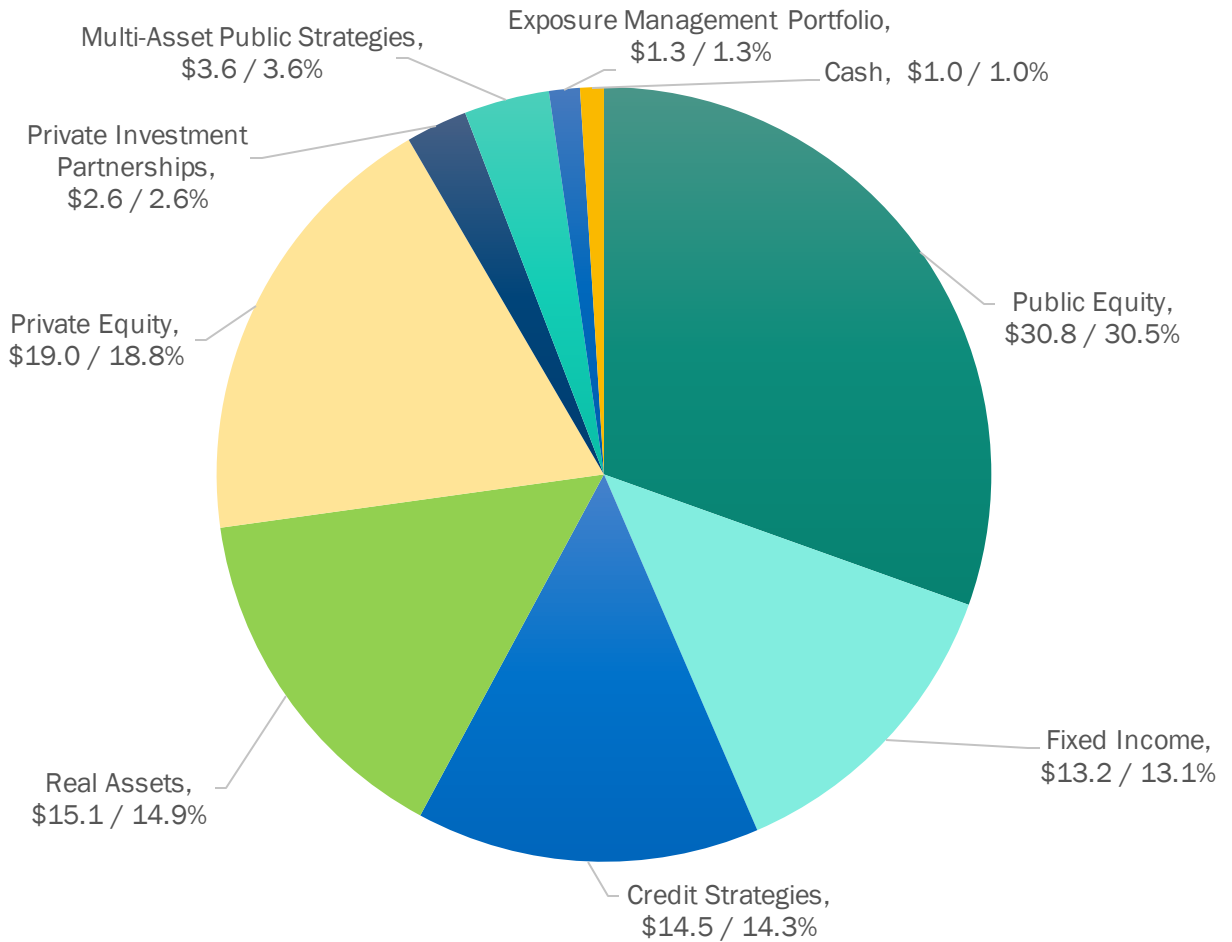
Notes:

- 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 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.

Source: Bank of New York Mellon



Total Fund Market Value = \$101.2 billion



Dollar Amounts in Billions / Percent of Total Fund

Source: Bank of New York Mellon

Differences in totals are due to rounding



	VRS Return (as of June 30, 2022)
1-year	0.6%
3-year	9.2%
5-year	8.3%
10-year	8.7%
15-year	6.0%
20-year	7.7%
25-year	7.3%

Source: Bank of New York Mellon



VRS Return (as of June 30, 2022)	
1-year	1.2%
3-year	9.8%
5-year	8.9%
10-year	9.1%
15-year	6.4%
20-year	8.0%
25-year	7.6%

Source: Bank of New York Mellon