



Virginia  
Retirement  
System

# Investments Report

FOR THE QUARTER ENDING

JUNE 30, 2021





**Ronald D. Schmitz**  
Chief Investment  
Officer

As VRS marks the end of its fiscal year, we are pleased to share two significant milestones:

- The VRS Trust Fund achieved a record-setting return of 27.5%, exceeding the total fund benchmark and far surpassing the 6.75% annual assumed rate of return.
- The fund ended the year with approximately \$101.8 billion, crossing the \$100 billion mark for the first time in its history.

We also beat the one-, three-, five- and 10-year benchmarks for the overall fund in 2021. Asset diversification is one of the most critical aspects of maintaining a healthy portfolio to deliver on promised benefits to our members and retirees. The VRS Board of Trustees establishes the asset allocation policy based on a thorough risk tolerance study using an outside consultant. Like all public pension plans, VRS diversifies the portfolio with a mix of assets. Our strategy:

- Lowers the risk to the overall portfolio and the risk associated with investing the portfolio solely in the S&P.
- Creates a stable foundation for the fund, which helps moderate big market swings associated with the stock market or a single index.
- Keeps employer contribution rates steady.

The outperformance of the portfolio over the 10-year period versus its benchmark adds about \$375 million per year to the trust fund that would not be realized if we simply managed a passive, indexed portfolio.

Drivers behind the 2021 results included some advantageous asset class positioning and solid security selection results from the single asset class programs and multi-asset class strategies.

Five primary asset class programs make up the bulk of the total fund. Each of these programs had very good absolute and/or relative returns for FY 2021.

- **Public Equity** had a strong run, though the 41% return was slightly less than its benchmark of 41.5%, given the slightly defensive position of the portfolio. Of note, the VRS public equity return outperformed the S&P index for this period.

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previous page*

- Despite a low return year in the bond market, the **Fixed Income** portfolio returned 3.3%, a remarkable 2.6% ahead of the index.
- The solid **Credit Strategies** portfolio performance seen earlier in the year continued in the fourth quarter resulting in an 18.4% return, just over 7% of that value added over its 11.3% benchmark.
- The **Real Assets** Program had a strong year compared to long-term expected returns, returning 11.3% and besting its benchmark by just shy of 5%.
- Typically, **Private Equity** does not keep up with the benchmark in bull markets. Though lagging the 57.8% benchmark slightly, the portfolio performed more robustly than anticipated. A healthy June quarter return contributed to a 12-month return of 54.1%, our strongest asset class for the fiscal year in absolute terms.

Our **Multi-Asset Strategies** also turned in stellar performance for the year, with each program easily eclipsing its respective benchmark. Like the broader VRS portfolio, outperformance was driven by COVID vaccine-related recovery in the spring, along with asset allocation equity tilts. VRS uses several multi-asset strategies—one in private markets and two in publicly traded markets:

- **Private Investment Partnerships** delivered a strong return of 30.8%, nearly 6% above its benchmark.
- **Dynamic Strategies** also had a great year with a 29.3% return compared to a benchmark of 25.8%.
- The **Risk-Based Investment** portfolio experienced a 12.3% return, besting its 8% benchmark.

A diverse portfolio helps ensure a stable trust fund and serves our members, retirees and beneficiaries in both good and challenging markets for years to come.



### TOTAL FUND PERFORMANCE

(Expressed in Percentages, Net of Fees)

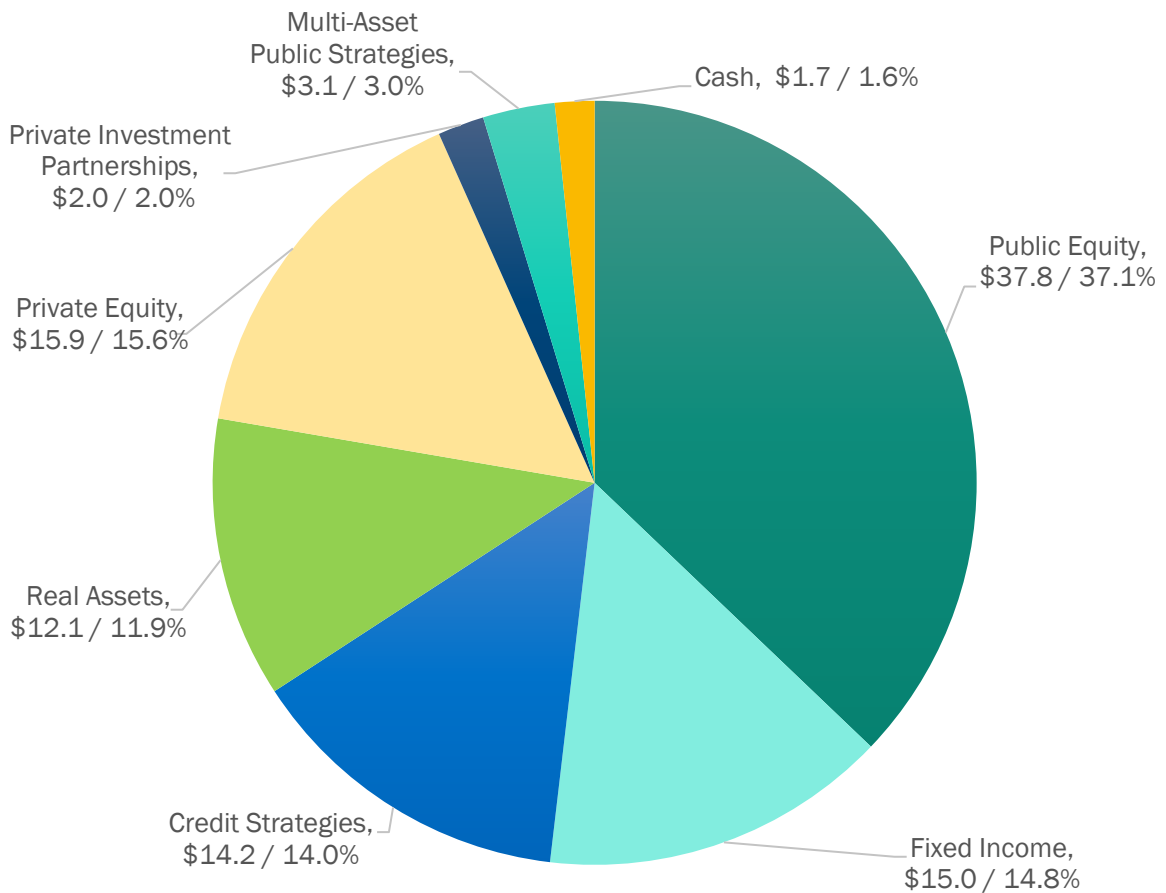
	10 Yr.	5 Yr.	3 Yr.	1 Yr.	Qtr.	Month	Fiscal YTD	Cal YTD
<b>Total Public Equity Strategies</b>	<b>10.2</b>	<b>13.4</b>	<b>13.3</b>	<b>41.0</b>	<b>6.5</b>	<b>0.8</b>	<b>41.0</b>	<b>14.2</b>
<i>Benchmark <sup>1</sup></i>	10.3	14.4	14.5	41.5	7.3	1.2	41.5	12.9
<b>Total Fixed Income</b>	<b>4.2</b>	<b>4.2</b>	<b>7.0</b>	<b>3.3</b>	<b>2.4</b>	<b>0.9</b>	<b>3.3</b>	<b>-0.5</b>
<i>Benchmark <sup>2</sup></i>	3.4	3.1	5.4	0.7	2.0	0.7	0.7	-1.4
<b>Total Credit Strategies</b>	<b>6.6</b>	<b>8.0</b>	<b>8.2</b>	<b>18.4</b>	<b>4.0</b>	<b>2.6</b>	<b>18.4</b>	<b>7.1</b>
<i>Benchmark <sup>3</sup></i>	5.7	6.5	6.7	11.3	1.9	0.7	11.3	2.8
<b>Total Real Assets</b>	<b>10.0</b>	<b>8.0</b>	<b>6.6</b>	<b>11.3</b>	<b>4.0</b>	<b>2.5</b>	<b>11.3</b>	<b>7.0</b>
<i>Benchmark <sup>4</sup></i>	8.5	6.1	5.2	6.4	2.9	0.8	6.4	4.6
<b>Total Private Equity</b>	<b>15.8</b>	<b>19.8</b>	<b>21.0</b>	<b>54.1</b>	<b>13.0</b>	<b>11.1</b>	<b>54.1</b>	<b>23.6</b>
<i>Benchmark <sup>5</sup></i>	14.0	17.1	16.3	57.8	5.6	3.0	57.8	22.2
<b>Total Private Investment Partnerships</b>	<b>n/a</b>	<b>9.2</b>	<b>9.3</b>	<b>30.8</b>	<b>8.8</b>	<b>8.8</b>	<b>30.8</b>	<b>16.1</b>
<i>Benchmark <sup>6</sup></i>	n/a	9.3	9.4	25.0	3.3	1.5	25.0	10.5
<b>Total Multi-Asset Public Strategies</b>	<b>n/a</b>	<b>n/a</b>	<b>6.0</b>	<b>20.4</b>	<b>3.6</b>	<b>0.2</b>	<b>20.4</b>	<b>6.3</b>
<i>Benchmark <sup>7</sup></i>	n/a	n/a	8.7	16.6	4.0	0.8	16.6	5.4
<b>Total Fund</b>	<b>8.8</b>	<b>10.7</b>	<b>11.3</b>	<b>27.5</b>	<b>5.9</b>	<b>2.7</b>	<b>27.5</b>	<b>10.9</b>
<i>VRS Custom Benchmark <sup>8</sup></i>	8.3	10.2	10.6	25.3	4.6	1.2	25.3	8.7

Notes:

1. Effective February 2020, the Public Equity Custom Benchmark is the MSCI ACWI IMI (net VRS tax rates) Index.
2. 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%).
3. 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%).
4. 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.
5. 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.
6. 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%).
7. 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.
8. The VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.



## Total Fund Market Value = \$101.8 billion



Dollar Amounts in Billions / Percent of Total Fund

Source: Bank of New York Mellon



	<b>VRS Return</b> (as of June 30, 2021)
1-year	27.5%
3-year	11.3%
5-year	10.7%
10-year	8.8%
15-year	7.3%
20-year	7.2%
25-year	8.1%

Source: Bank of New York Mellon



	<b>VRS Return</b> (as of June 30, 2021)
1-year	28.2%
3-year	11.9%
5-year	11.2%
10-year	9.2%
15-year	7.6%
20-year	7.5%
25-year	8.4%

Source: Bank of New York Mellon