



Virginia Retirement System®

Investments Report

FOR THE QUARTER ENDING
MARCH 31, 2023





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Chief Investment Officer

Despite speculation about ongoing economic concerns, stock and bond markets had positive returns this quarter. Global stocks returned 7.1% for the first three months of the year while U.S. investment grade bonds returned 3.0%.

The table below shows the VRS portfolio performance as well as the Board-approved benchmark and excess return.

As of 03/31/23	FYTD	1 Year	3 Years	5 Years	10 Years
VRS Total Fund	3.5%	-1.8%	12.3%	7.7%	7.9%
Benchmark	2.8%	-5.5%	9.0%	5.8%	6.8%
Excess Return	0.7%	3.7%	3.3%	1.9%	1.1%

The “consensus view” on the global economy and on financial markets lacks much...well, consensus. The Federal Reserve has continued its fight against inflation by raising interest rates and the Fed Funds rate is up 5% from the lows of 2020. While the rate hikes have seemed to soothe inflationary pressures (the rate of inflation, as measured by the Consumer Price Index, has slowed for 10 consecutive months), the overall level of 4.9% remains above the target of the Federal Reserve. However, the interest rate increases have led to some ripples of concern in the banking sector. Balancing that is continued resilience in the economy with expectations of a potential recession moderating. How do we position the VRS portfolio in such times of heightened uncertainty?

The answer goes back to our investment strategy. The portfolio is well diversified to mitigate risk and we are focused on achieving long-term returns that meet or exceed the targets established by the Board. As is our practice at least every three years, the Board is evaluating the long-term asset allocation of the plan with input from staff and outside experts. Although a significant change in strategy is unlikely, this exercise focuses on maximizing returns while managing risk within an acceptable range.

Regardless of the headlines, the direction of interest rates, or inflation, the VRS portfolio is positioned to be resilient and ready to capitalize on future opportunities. Our team is ever mindful that decisions made today must support public employees through the coming decades and beyond.

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	8.2	6.5	16.1	-4.7	5.9	1.9	10.1	5.9
<i>Benchmark ¹</i>	8.2	7.0	16.1	-7.3	7.1	2.5	10.0	7.1
Total Fixed Income	2.1	2.0	-0.6	-4.3	3.1	2.4	1.1	3.1
<i>Benchmark ²</i>	1.4	0.9	-2.2	-4.8	2.9	2.4	0.5	2.9
Total Credit Strategies	5.8	5.8	9.4	0.1	2.1	0.9	2.8	2.1
<i>Benchmark ³</i>	4.5	3.9	6.8	0.4	3.3	0.7	6.8	3.3
Total Real Assets	10.3	9.3	11.2	5.8	-1.0	-1.1	2.3	-1.0
<i>Benchmark ⁴</i>	8.3	7.3	8.8	4.2	-3.2	-1.2	0.7	-3.2
Total Private Equity	16.2	17.4	19.7	-3.3	1.4	1.5	-3.5	1.4
<i>Benchmark ⁵</i>	11.6	7.8	5.3	-18.1	10.0	-3.8	-13.4	10.0
Total Private Investment Partnerships	n/a	9.5	10.9	2.5	2.1	2.1	0.9	2.1
<i>Benchmark ⁶</i>	n/a	7.2	7.2	-3.5	3.2	-1.5	-1.4	3.2
Total Multi-Asset Public Strategies	n/a	n/a	8.5	-2.9	1.5	-1.5	4.0	1.5
<i>Benchmark ⁷</i>	n/a	n/a	6.6	-3.5	3.4	1.4	4.6	3.4
Total Fund	7.9	7.7	12.3	-1.8	2.7	1.0	3.5	2.7
<i>VRS Custom Benchmark ⁸</i>	6.8	5.8	9.0	-5.5	4.7	0.6	2.8	4.7

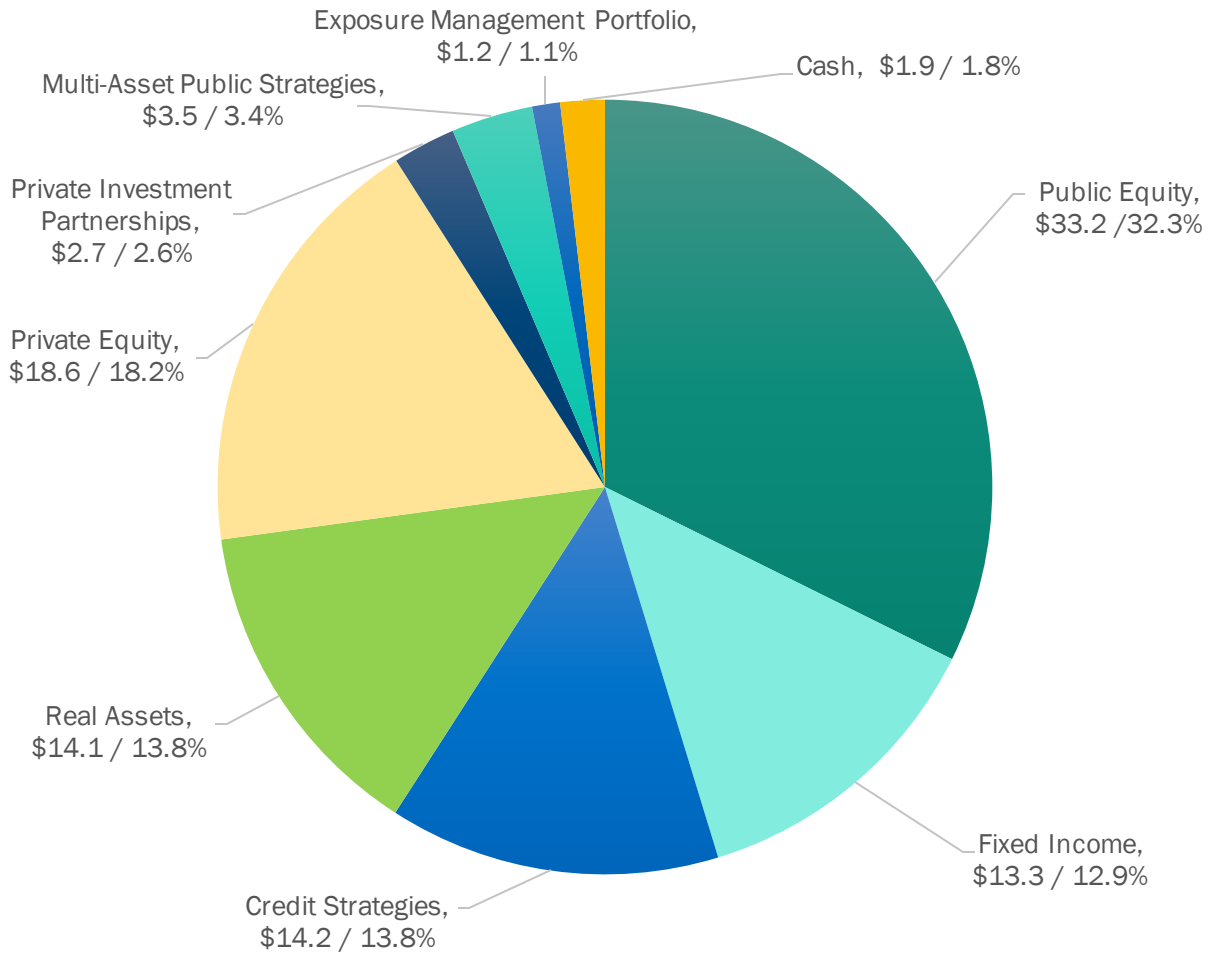
Notes:

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 US Aggregate Bond Index (90%), Bloomberg 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 Morningstar LSTA Performing Loan Index (60%), Bloomberg US High Yield Ba/B 2% Issuer Cap Index (30%), and Bloomberg US Aggregate Bond Index (10%).
4. Effective January 2023, the Real Assets Custom Benchmark is the market value weighted blend of the NCREIF Private Real Estate Benchmark (ODCE Index (net) lagged by three months) and the Other Real Assets Custom Benchmark (the CPI-U Index plus 400 basis points per annum lagged by three months).
5. Effective July 2020, the Private Equity Custom Benchmark is the MSCI ACWI IMI Index (net VRS tax rates) lagged by three months.
6. 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 US High Yield Ba/B 2% Issuer Cap Index (17%), and the Morningstar LSTA Performing Loan Index (17%).
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.

Source: Bank of New York Mellon



Total Fund Market Value = \$102.6 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 March 31, 2023)
1-year	-1.8%
3-year	12.3%
5-year	7.7%
10-year	7.9%
15-year	6.5%
20-year	8.3%
25-year	6.7%

Source: Bank of New York Mellon