



Virginia
Retirement
System

Investments Report

FOR THE QUARTER ENDING

MARCH 31, 2021





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What a difference a year makes. This time last year, news centered around a novel virus causing unprecedented impacts in our daily lives. World financial markets reacted, with the U.S. market experiencing a sharp decline. Since then, U.S. markets have rebounded and are up by about 80%. Although the U.S. leads this uptick, it has generally been a global rally.

VRS' diverse portfolio, a balanced mix of stocks, bonds, real estate and other assets, saw less of a decline than the stock market and has bounced back robustly. VRS' long-term investment strategy – 20 years or more – is not intended to mirror the annual returns of the U.S. stock market. Our diversification strategy helps smooth the highs and lows seen in the stock market while focusing on long-term growth. It also prevents significant fluctuation in the contribution rates that our participating employers pay.

To demonstrate the benefits of diversification, compare first quarter 2021 to March 2020—the month COVID-19 lockdowns began. While the U.S. stock market was down about 34%, the VRS portfolio declined by just 10%. This quarter, the fund returned 4.7%, beating our 4.0% Total Fund Benchmark, which is an asset class weighted portfolio based on the Board's strategic policy guidelines. The U.S. stock market returned approximately 6.5%.

Quarterly rates represent a mark in time, but it's important to recognize that the true value of our fund is measured by outperforming the benchmark over the long term. The VRS Board, along with an outside consultant, sets the VRS fund benchmark. Performance against the benchmark is our measure of success, not performance against the U.S. stock market.

For the last 12 months, VRS achieved a 28.3% return, ahead of the benchmark and well above the long-term assumed 6.75% annual rate of return. Absolute and relative performance have been good and are expected to offset the challenges experienced in 2020. This is a rate-setting year for employer contributions, and these positive returns will play into the rates set for the next biennium. With a strong risk-mitigation structure, the fund continues to be well positioned to serve its members, even during uncertain times.



TOTAL FUND PERFORMANCE

(Expressed in Percentages, Net of Fees)

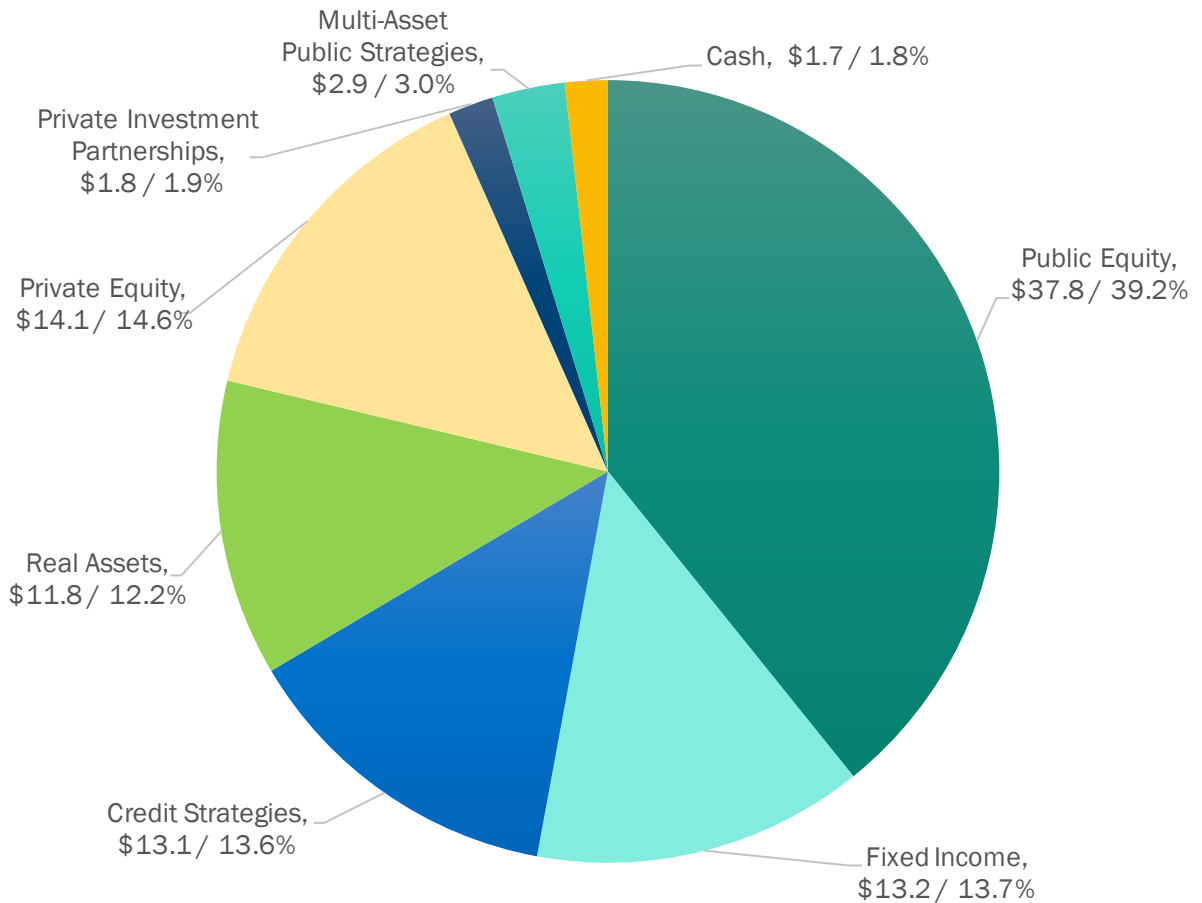
	10 Yr.	5 Yr.	3 Yr.	1 Yr.	Qtr.	Month	Fiscal YTD	Cal YTD
Total Public Equity Strategies	9.5	12.1	11.1	56.5	7.2	3.6	32.4	7.2
<i>Benchmark¹</i>	9.5	13.0	12.4	58.2	5.2	2.6	31.9	5.2
Total Fixed Income	4.2	4.3	6.1	6.3	-2.7	-1.0	0.9	-2.7
<i>Benchmark²</i>	3.5	3.1	4.7	2.4	-3.3	-1.2	-1.3	-3.3
Total Credit Strategies	6.2	7.9	7.0	20.7	2.9	1.3	13.8	2.9
<i>Benchmark³</i>	5.6	6.9	6.0	19.7	0.9	-0.1	9.2	0.9
Total Real Assets	9.9	7.7	6.5	6.0	2.9	2.2	6.9	2.9
<i>Benchmark⁴</i>	8.5	5.9	5.1	5.2	1.6	0.7	3.4	1.6
Total Private Equity	15.0	17.1	17.1	23.6	9.4	9.5	36.4	9.4
<i>Benchmark⁵</i>	14.2	16.0	14.3	19.7	15.8	5.3	49.5	15.8
Total Private Investment Partnerships	n/a	7.5	7.1	6.2	6.7	6.7	20.2	6.7
<i>Benchmark⁶</i>	n/a	8.7	9.1	13.0	6.9	2.2	20.9	6.9
Total Multi-Asset Public Strategies	n/a	n/a	n/a	24.3	2.6	1.1	16.2	2.6
<i>Benchmark⁷</i>	n/a	n/a	n/a	21.5	1.4	0.7	12.1	1.4
Total Fund	8.3	9.8	9.5	28.3	4.7	3.2	20.4	4.7
<i>VRS Custom Benchmark⁸</i>	7.9	9.6	9.3	27.5	4.0	1.6	19.8	4.0

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 = \$96.4 billion



Dollar Amounts in Billions / Percent of Total Fund

Source: Bank of New York Mellon



	VRS Return (as of March 31, 2021)
1-year	28.3%
3-year	9.5%
5-year	9.8%
10-year	8.3%
15-year	6.8%
20-year	7.1%
25-year	8.0%

Source: Bank of New York Mellon