

**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**VRS Oversight:  
Semi-Annual Investment Report  
December 2005**

**JLARC Staff Briefing  
Trish Bishop  
December 12, 2005**

# VRS Oversight Act

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- **Section 30-78 *et seq.* of the *Code of Virginia* requires JLARC to oversee and evaluate VRS on a continuing basis**
  
- **Areas for review and evaluation include:**
  - **structure, governance, administration, and management**
  - **actuarial policy and actuarial soundness**
  - **investment practices, policies, and performance**

# Recent Fund Performance

- Market value of the fund's assets as of September 30, 2005, was \$45.8 billion
- VRS' investment returns have shown strong performance

One-Year Return	Three-Year Return	Five-Year Return	Ten-Year Return
16.6%	16.5%	3.9%	9.7%

# Recent Fund Performance

(continued)

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## ■ Public equity program

- continues to be VRS' largest asset class, comprising 62.7 percent of the portfolio
- returns for the one- and three-year periods ending September 30, 2005, exceeded 20 percent, but
- negatively influenced the total fund's overall investment performance for the five-year period ending September 30, 2005

## ■ Fixed income

- represented 19.7 percent of the total fund
- exceeded performance benchmarks, but
- returns were negative for the current fiscal year through September 30, 2005

# Recent Fund Performance

(continued)

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## ■ Private equity

- represented 5.2 percent of the total fund
- provided strong returns in the three- and five-year periods ending September 30, 2005, and
- exceeded performance benchmarks

## ■ Real estate program

- represented 4.4 percent of the total fund
- exceeded performance benchmarks, but
- current returns not expected to continue long-term

# Recent Fund Performance

(continued)

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## ■ Credit strategies program

- had \$1.7 billion in assets, and represented 3.8 percent of the total fund, as of September 30, 2005
- returned 5.8 percent for the fiscal year to-date, but
- underperformed its benchmark

## ■ Hedge fund program

- represented 3.8 percent of the total fund or 1.7 billion in assets,
- returned 12.2 percent for the one-year period ending September 30, 2005

# Review of VRS Alternative Investments

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- **VRS investment staff recently completed a review of VRS' alternative investments**
  
- **The hedge fund program was an area of focus during the review, and included recommendations to**
  - **Reduce the number of managers**
  - **Make larger allocations to identified best managers**
  - **Improve transparency and due diligence activities**
  - **Integrate the hedge fund program into public equity, and**
  - **Maintain current exposure, but consider further investments on an opportunistic basis**

# Leadership Changes

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- **VRS Board of Trustees selected Charles W. Grant as chief investment officer**
- **Governor Warner appointed J. Alfred Broaddus, Jr., recently retired president of the Federal Reserve Bank of Richmond, to the VRS Board of Trustees**