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Joint Legislative Audit and Review Commission



**VRS Oversight:  
Semi-Annual Investment Report  
December 2007**

Commission Briefing

December 10, 2007



JLARC

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# VRS Oversight Act

- Oversee and evaluate VRS on a continuing basis
- Prepare semi-annual investment reports
- Prepare a biennial status report
- Conduct a quadrennial actuarial analysis
- Publish an informational guide for legislators
- Hire an actuary for use by JLARC, House Appropriations, and Senate Finance

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# VRS Investments

- VRS invests across five asset classes
  - Public equity
  - Fixed income
  - Private equity
  - Real estate
  - Credit strategies
- VRS holdings include hedge funds
  - Most hedge funds are in the public equity program
  - One hedge fund is in the credit strategies program

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# Fund Performance

- Total market value of fund assets on September 30, 2007 **\$59.4 billion**
- VRS' investment returns exceeded performance benchmarks and assumed actuarial rate of return (7.5%)

One-Year Return	Three-Year Return	Five-Year Return	Ten-Year Return
18.6%	15.6%	15.9%	8.7%

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# Fund Performance

- Over the last four years actual VRS returns have been in excess of 7.5% (assumed actuarial rate of return)
- Economy has now weakened
  - Period of increased volatility and possibly diminished returns
  - VRS staff don't expect the same outsized returns as the recent past

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# VRS Exposure to Subprime Investments

- As of September 30, 2007, VRS held 1.4% of the total fund in securities collateralized by subprime mortgages
  - Majority of the exposure is highly rated
  - VRS did not have direct exposure to subprime collateralized debt obligations (CDOs)
- VRS does not expect any material long-term defaults or losses

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## Automatic Enrollment in 457 Deferred Compensation Plan (DCP)

- HB 1830 (2007 General Assembly) made enrollment in the 457 DCP automatic
- Unless they opt out of participation, employees will
  - Defer \$20 per pay period to the 457 DCP
  - Receive a \$10 employer match to the 401 (a) Cash Match Plan
- Automatically enrolled employees
  - Will have several opportunities to opt out
  - Can change their investment options at any time

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## **JLARC Staff for This Report**

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## **For More Information**

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Copies of these slides are available on our website  
and on the table by the door.