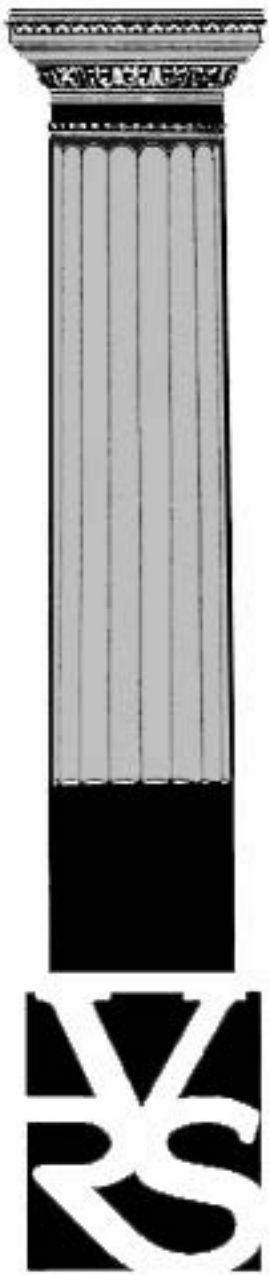


Virginia Retirement System

**Presentation to the
Joint Legislative Audit and Review Commission**

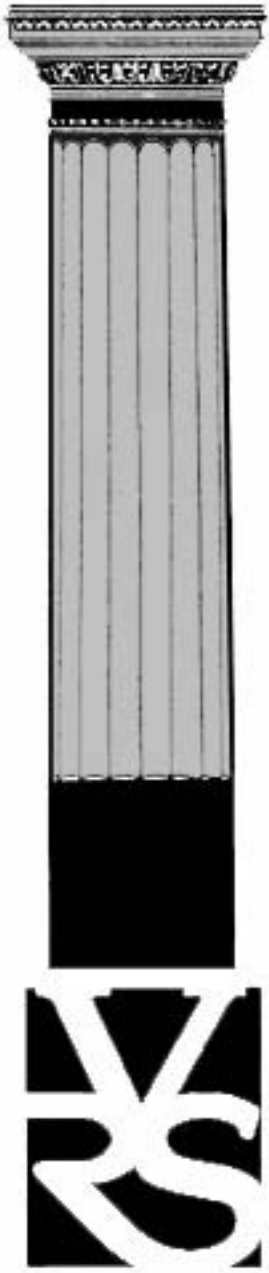
July 8, 2002

**Nancy C. Everett, CFA
Chief Investment Officer**



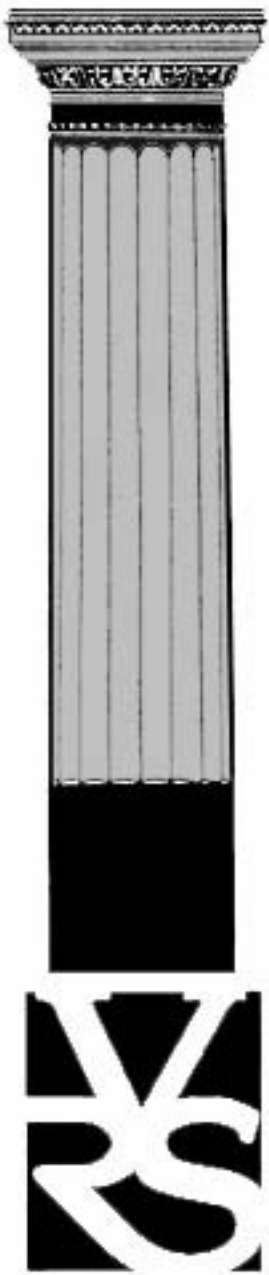
Annual Review

- **Market Perspective**
- **Performance**
- **Current Status**
- **Future Considerations**



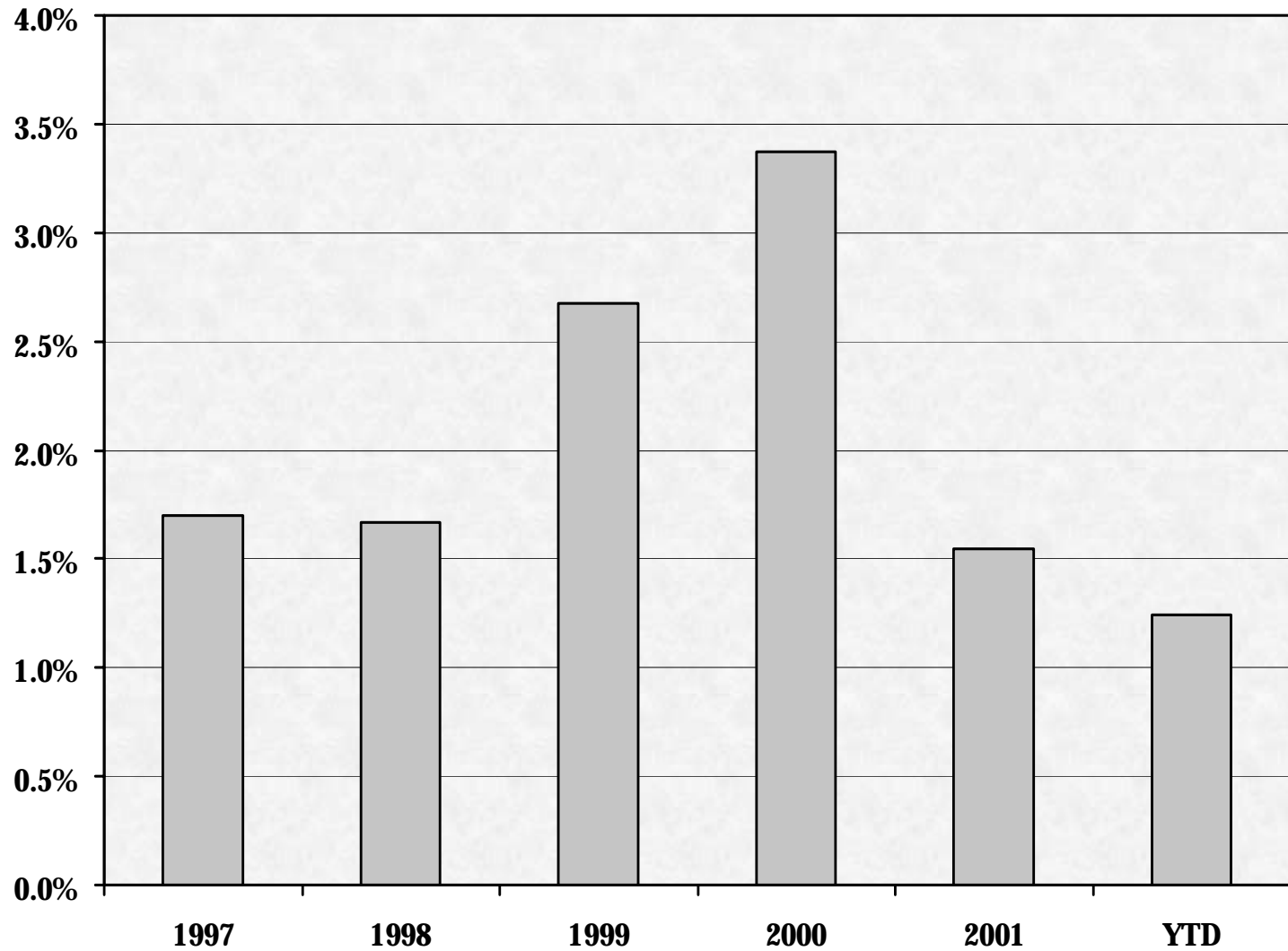
Market Perspective

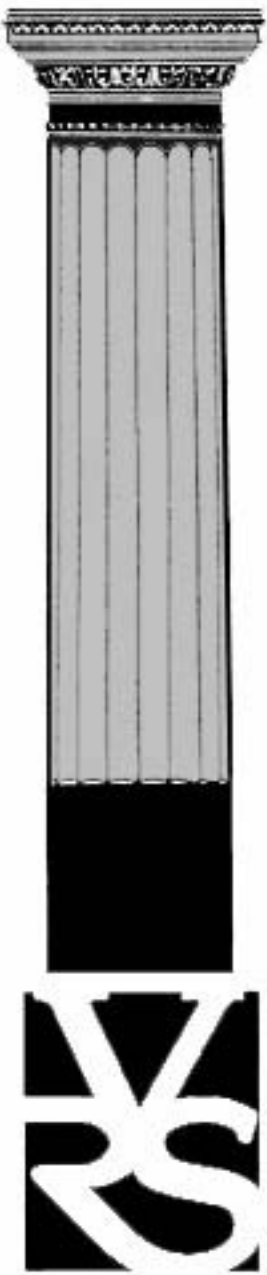
- **Benign Inflation**
- **Stable Interest Rates**
- **Recession**
- **Falling Equity Market**
- **Strong Fixed Income Market**



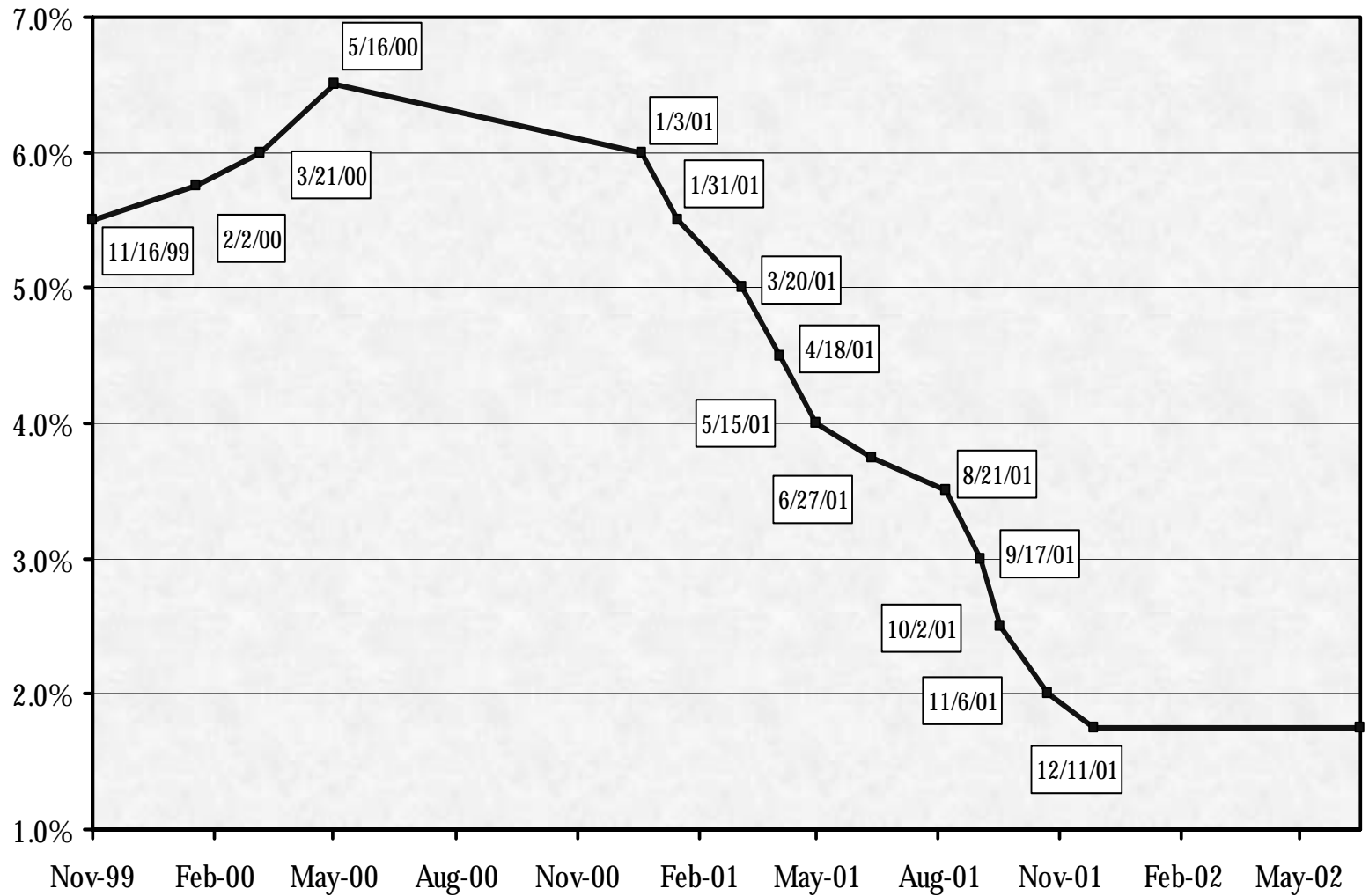
Core Consumer Price Index

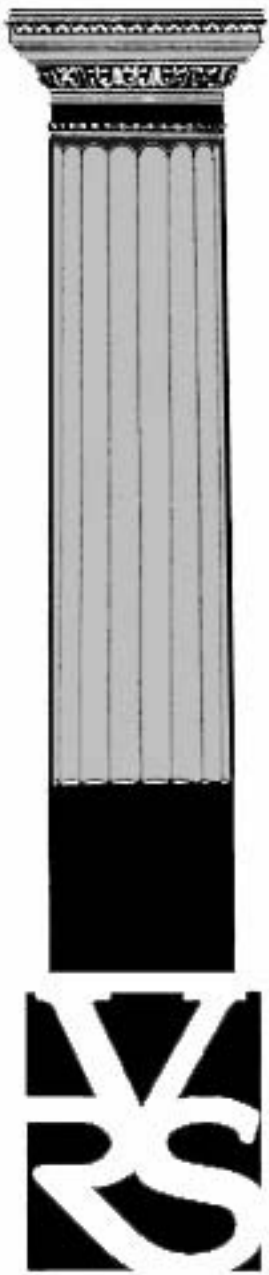
(Percentage Increases)





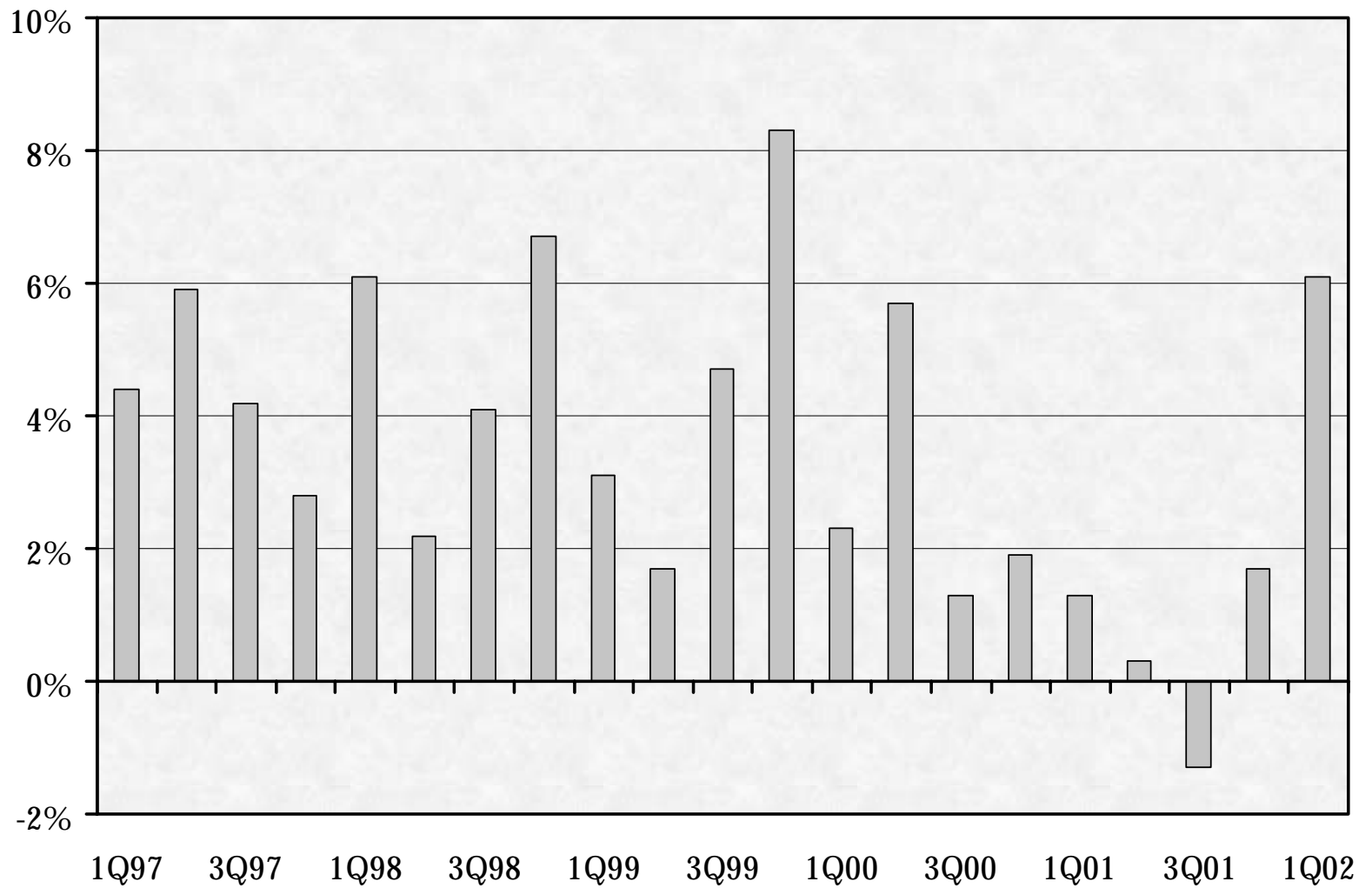
Federal Funds Rate



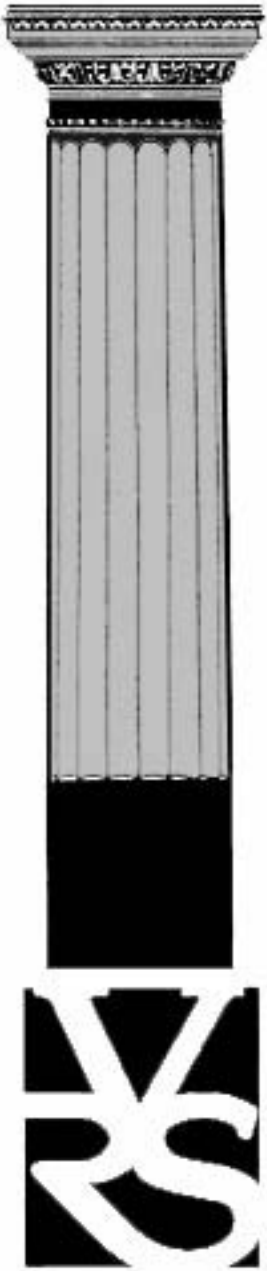
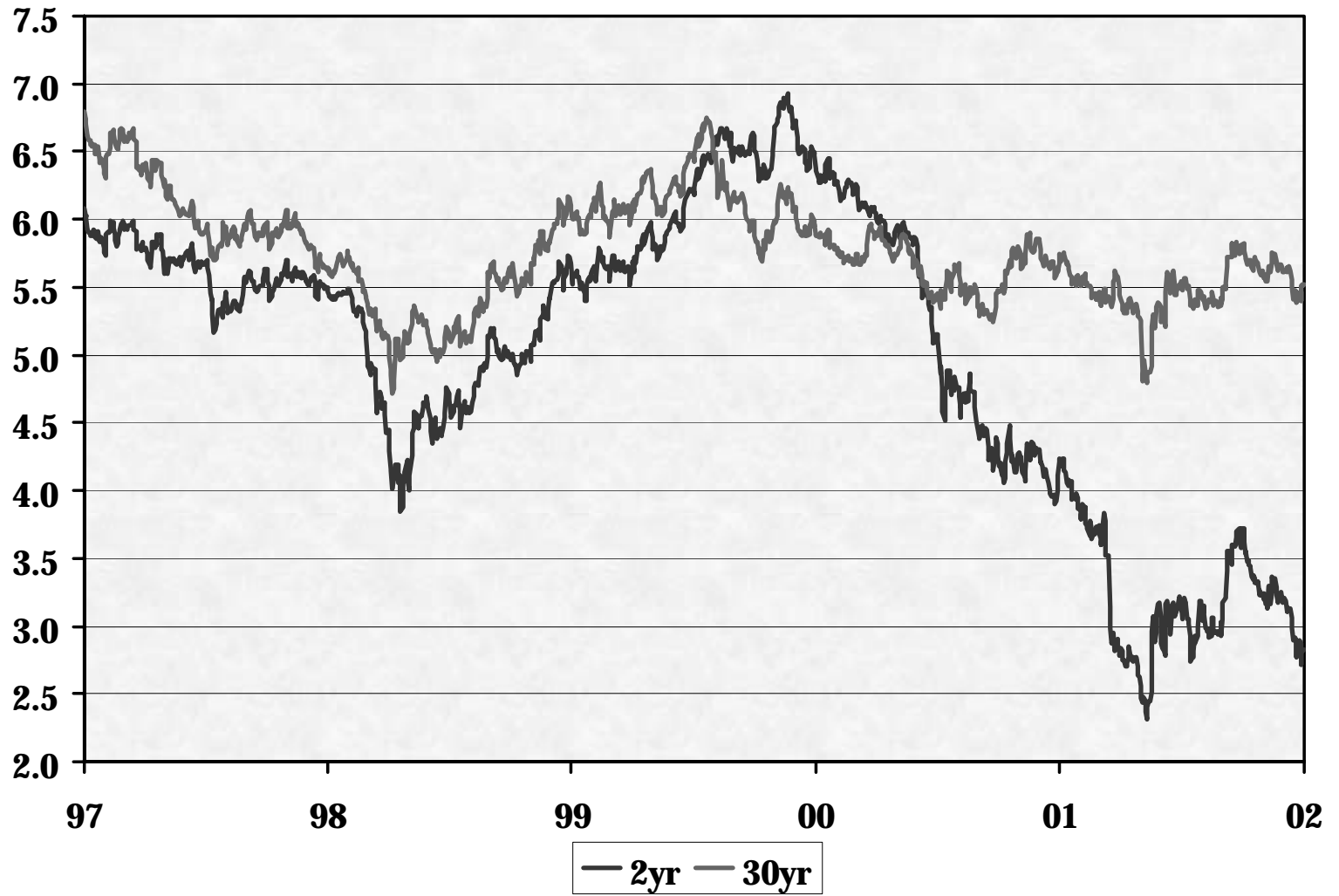


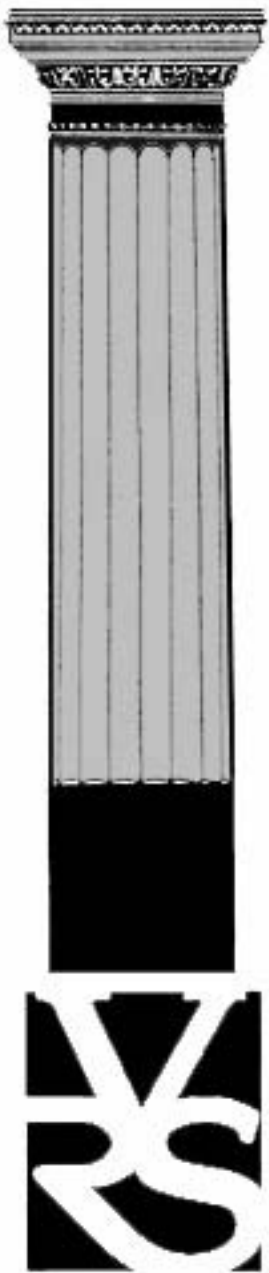
Real Gross Domestic Product

(Annualized Growth Rate)



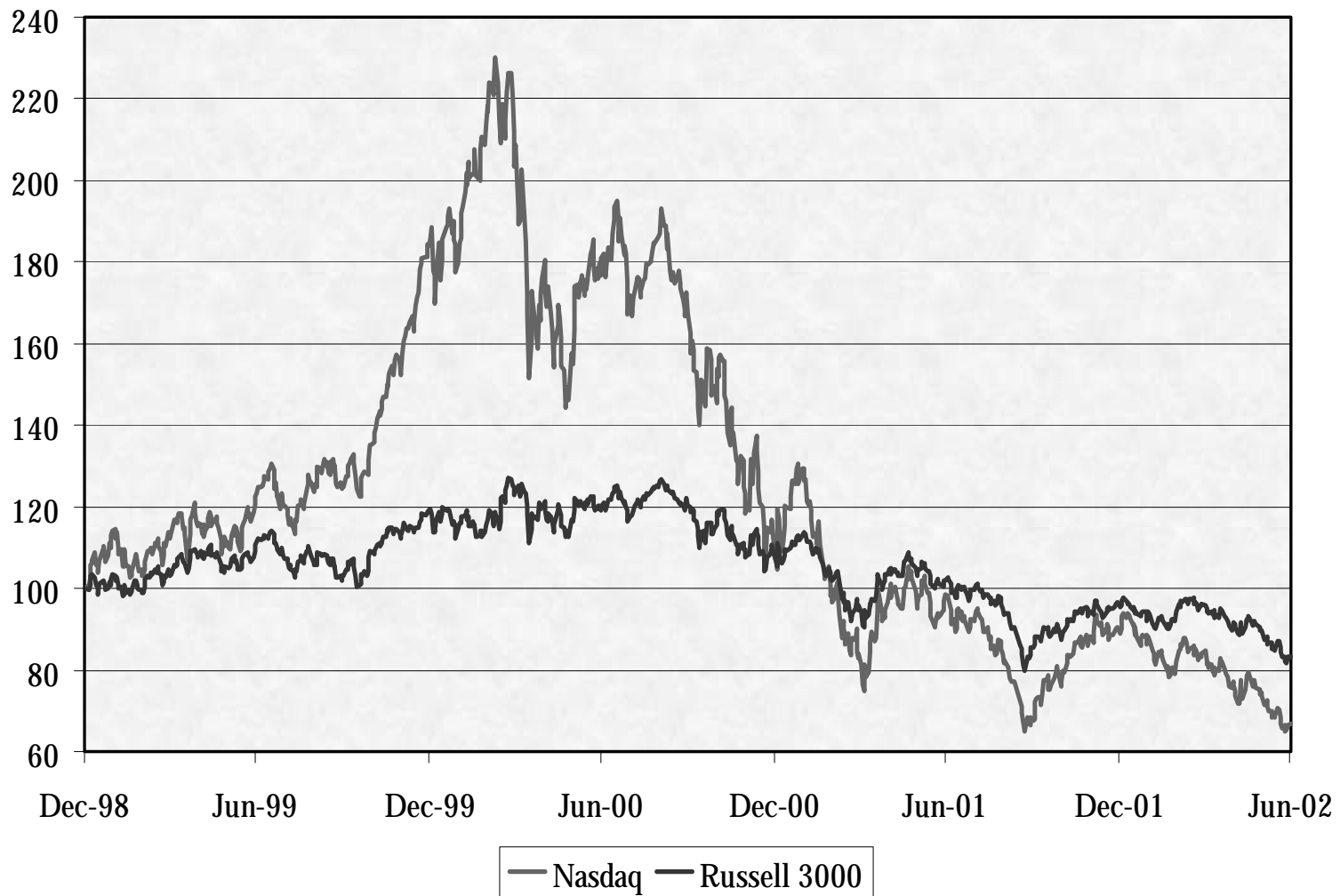
U.S. Treasury Yields

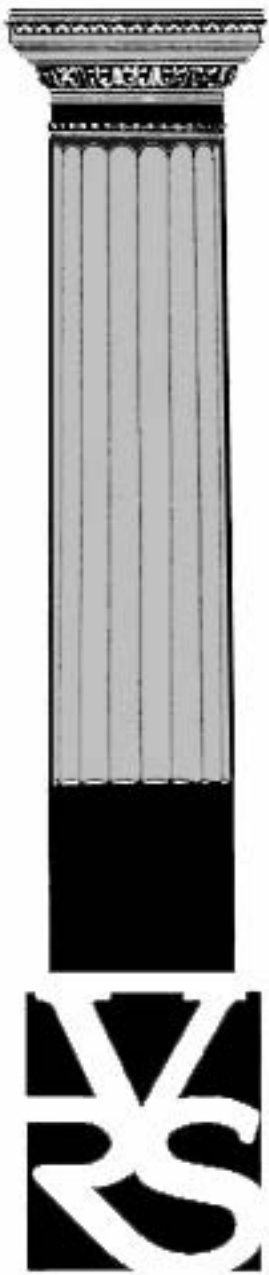




U.S. Equity Market

1999 – Present

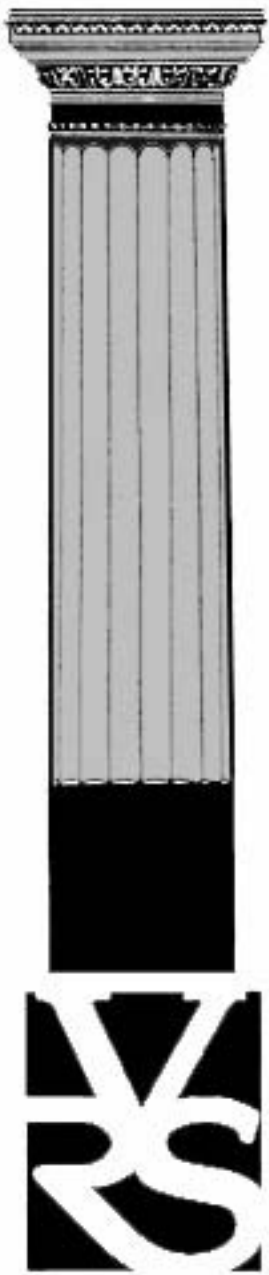




U.S. Equity Market

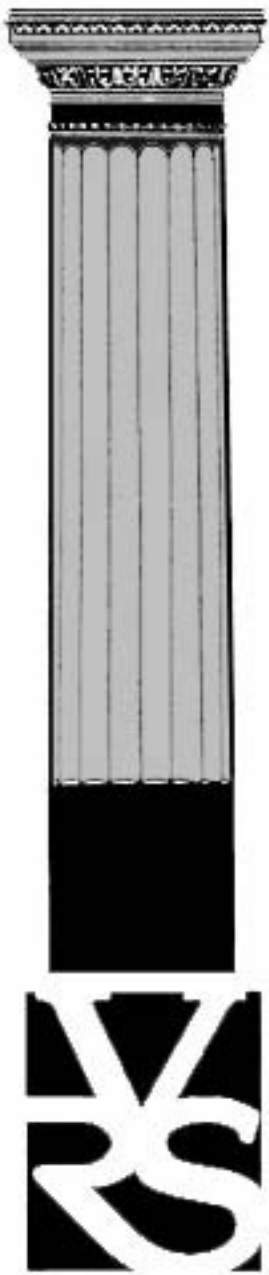
Russell 3000 1992 – Present





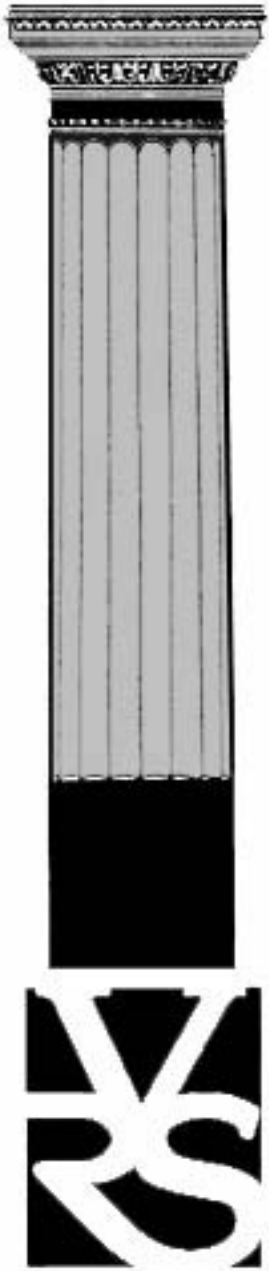
Performance (5/02)

	<u>VRS</u>	<u>Benchmark</u>
10 YR	10.1 %	9.7 %
5 YR	7.2 %	6.5 %
3 YR	2.3 %	.6 %
1 YR	-5.2 %	-5.0 %
FYTD	-3.6 %	-3.4 %



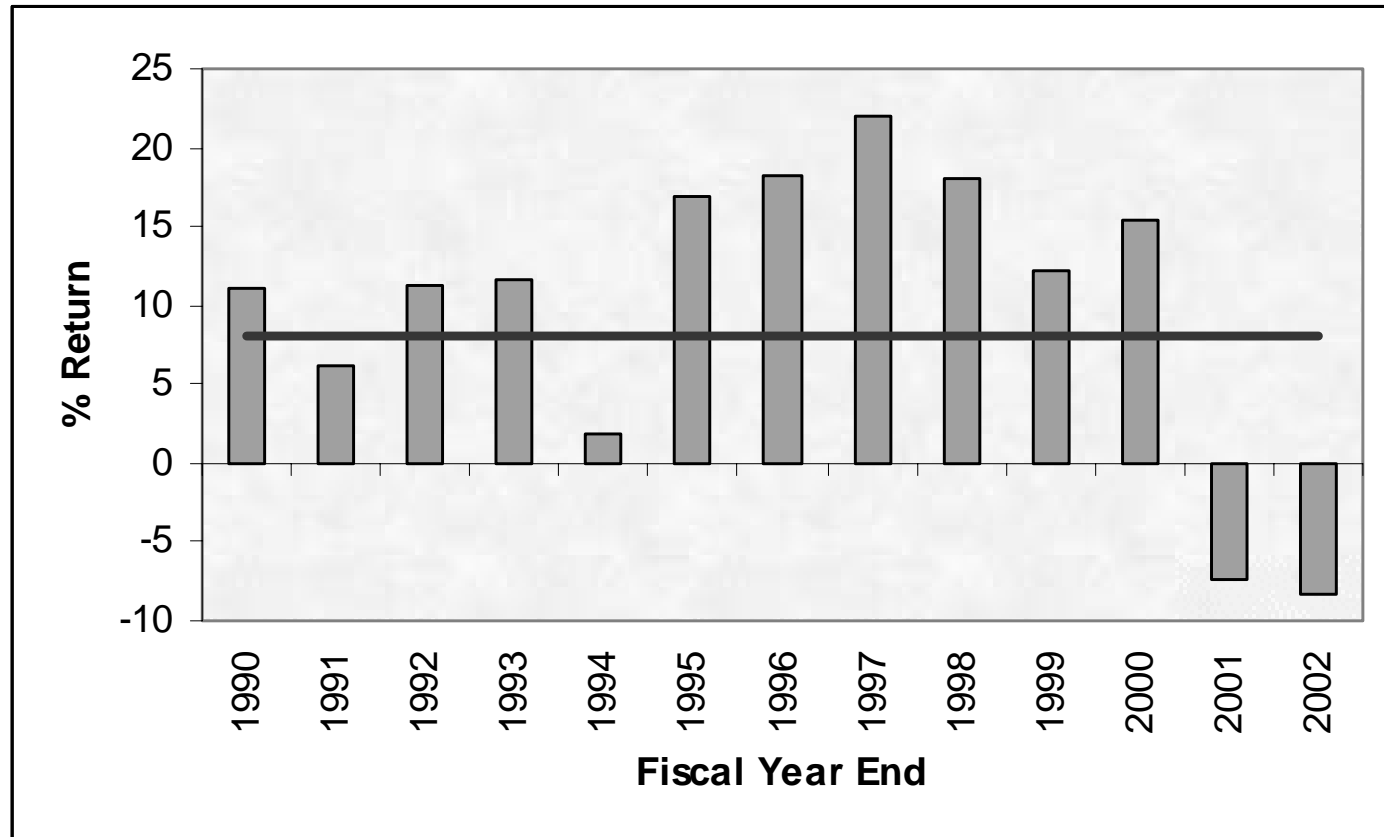
Current Status

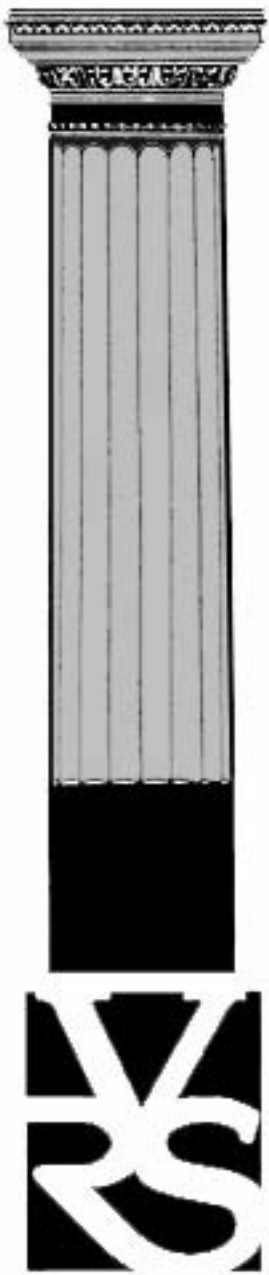
- Long-term returns have been very good
- Benefits have increased
- Contributions have decreased
- Expenses have increased



VRS Annual Performance

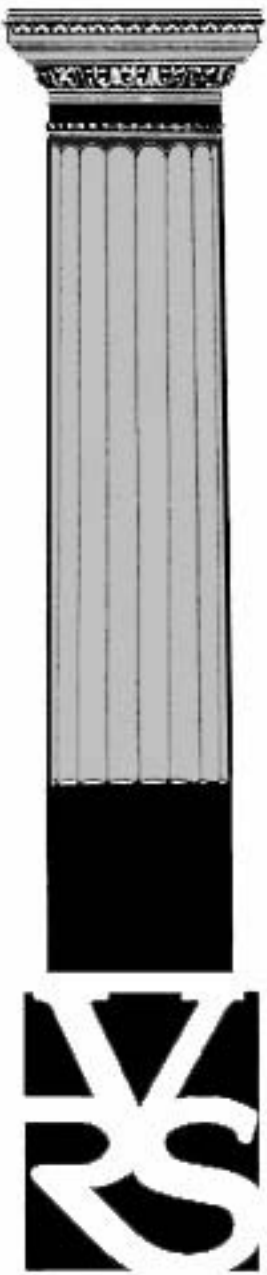
1990-2002



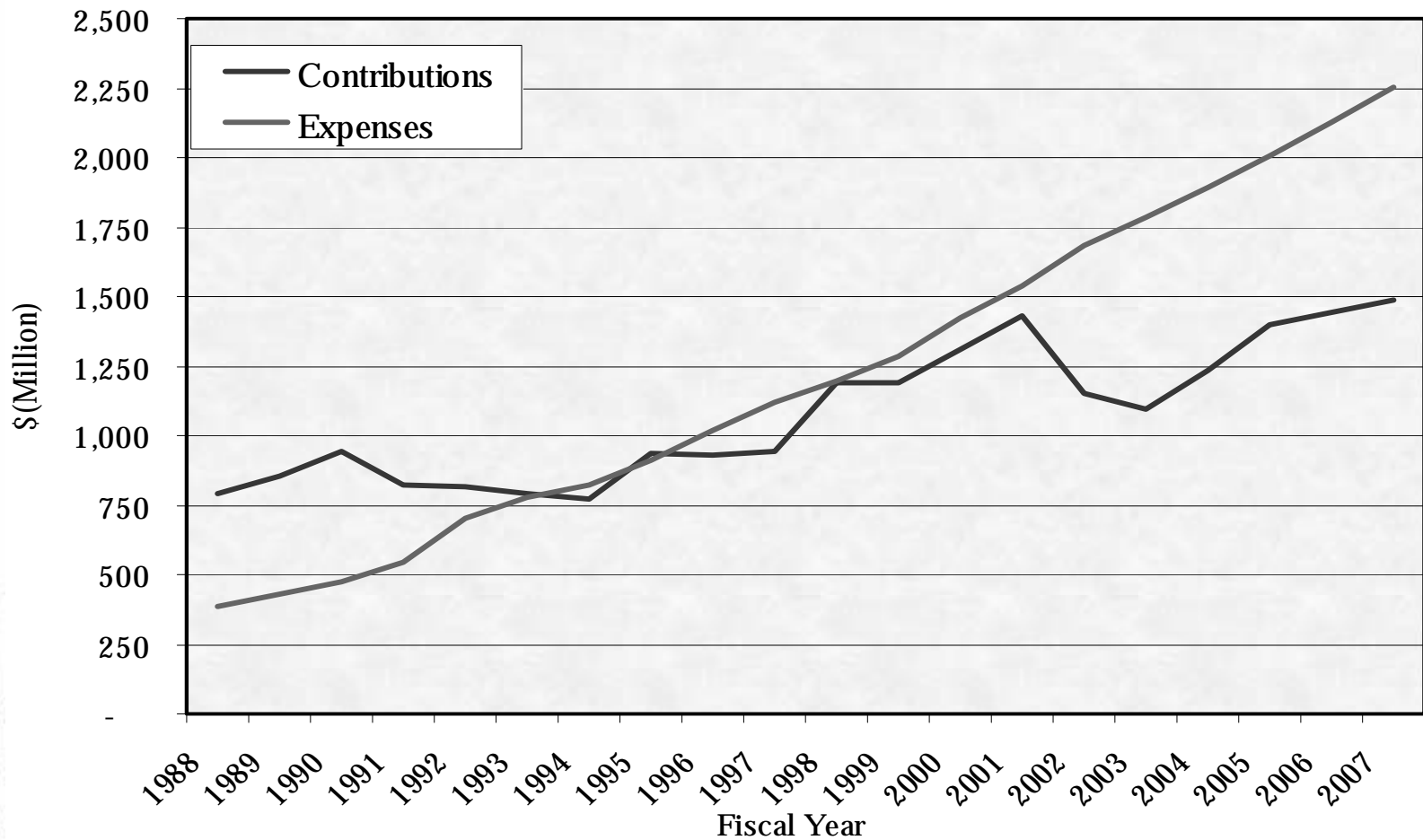


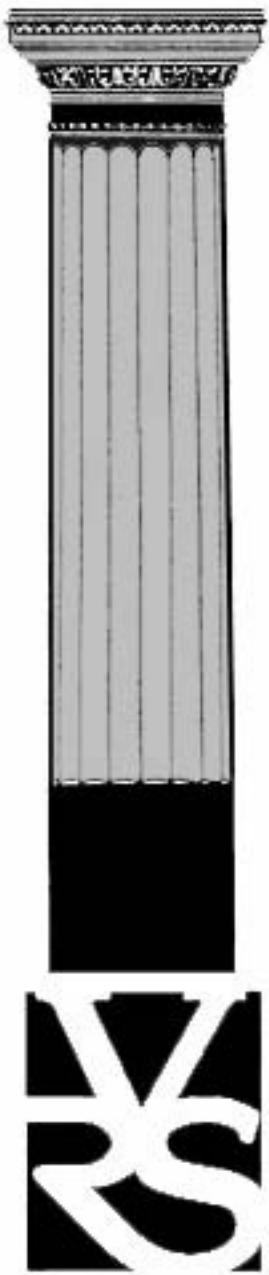
Benefit Enhancements

- 1991 Early Retirement Incentive Program
- 1994 3% Benefit increase for state employees
- 1995 WTA
- 1996 Mandatory Teacher health care credit
- 1999 1.7 multiplier
50/30
VaLORs
- 2001 Pre 1980 retiree benefit increase



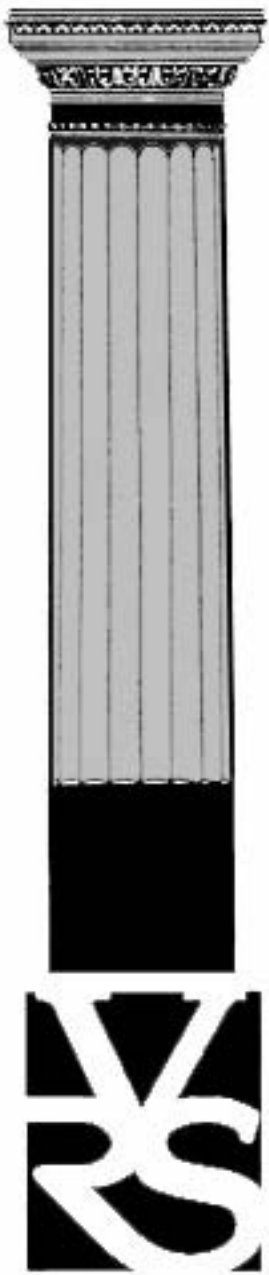
Total Contributions v. Total Expenses





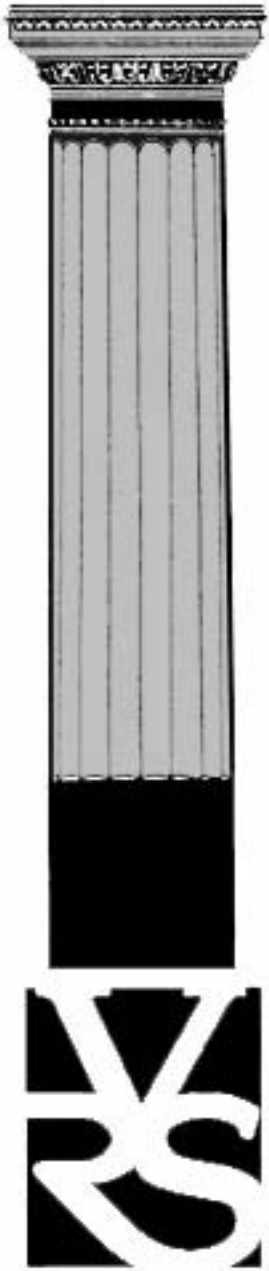
Future Considerations

- Market return expectations are lower
- Inflation expectations are lower
- Are the markets riskier going forward?



Lower Expectations

- 2002 Board Retreat
 - Panel of experts sees lower returns across all asset classes
 - Continued low inflation
 - Lower expectations may lead to
 - Greater risk
 - Lower funded status
 - Higher contributions



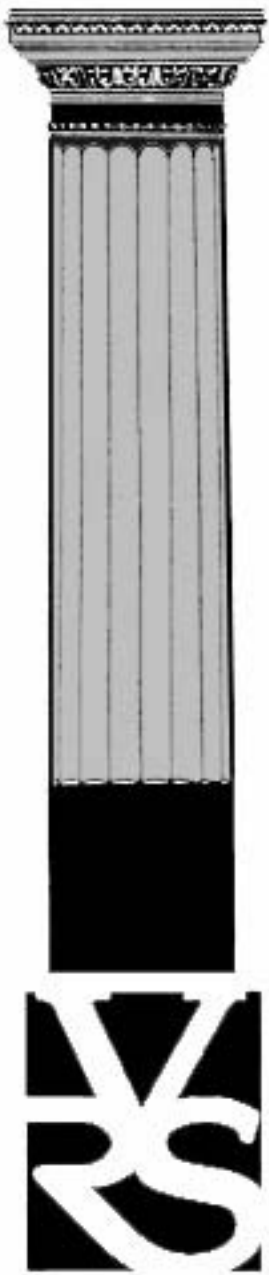
VRS Asset Allocation

1994

- 45% US Equity
- 10% Non-US Equity
- 27% Global Fixed Inc
- 6% Private Equity
- 9% Real Estate
- 3% Managed Futures

2002

- 48.5% US Equity
- 15% Non-US Equity
- 25% Fixed Income
- 7% Private Equity
- 4.5% Real Estate



2003?