
Joint Legislative Audit and Review Commission



**VRS Oversight:
Semi-Annual Investment Report
July 2008**

Commission Briefing

July 14, 2008



JLARC

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

VRS Investments

- VRS invests across five major 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
 - Three hedge funds are in the credit strategies program
 - One hedge fund is in the fixed income program

VRS Investment Performance

Program	FY YTD	1-Year	3-Year	5-Year
Public Equity	<u>-9.9%</u>	-3.2%	9.6%	16.1%
Fixed Income	<u>7.5%</u>	<u>6.7%</u>	<u>5.3%</u>	4.7%
Private Equity	18.1%	26.5%	27.0%	25.6%
Real Estate	<u>5.7%</u>	7.6%	20.7%	19.1%
Credit Strategies	-4.5%	-1.3%	5.4%	n/a

X% = Met or exceeded benchmark X% = Underperformed benchmark

Total Fund Performance

- Total market value of fund assets on March 31, 2008
\$55.7 billion
- VRS' investment returns exceeded performance benchmarks, but didn't achieve the assumed actuarial rate of return for some periods (7.5%)

	One-Year	Three-Year	Five-Year	Ten-Year
Actual Return	1.5%	10.1%	13.9%	7.0%
Benchmark	0.5%	9.2%	13.1%	6.4%

Total Fund Performance

- From FY 2004 – FY 2007 actual VRS returns have been in excess of 7.5% (assumed annual actuarial rate of return)
- Total fund return for FY 2008 through March 31 was negative (-3.6%)
- Challenging environment for the economy and financial markets
 - Period of slow growth, rising inflation, and weak housing market
 - VRS staff don't expect the same outsized returns as the recent past

Policy Limits Increased for Alternative Assets

- VRS Board approved increases to policy limits on VRS' alternative asset classes and hedge funds

Credit Strategies	6 to 10%
Real Estate	7 to 10%
Private Equity	7 to 10%
Hedge Funds	5 to 10%

- Using limits rather than targets allows staff flexibility to
 - invest when opportunities arise
 - pull back when value prospect is not desirable

Board Approved Additional Changes to Asset Allocation Policy

- Board voted to maintain current policy mix of 70% domestic stocks and 30% domestic bonds
 - Serves as baseline long-term benchmark
 - Expected return of 7.5%
 - Expected annualized volatility of 12%
- Policy weight for total non-U.S. public equity will increase from 20 to approximately 27%
 - 20% policy weight for non-U.S. developed markets
 - Board adopted a global equity benchmark weight for the emerging markets allocation
 - Increased current allocation from 3.9 to 6.5%
 - Not a static allocation

Board Approved Additional Changes to Asset Allocation Policy

- CIO provided discretion to reduce fixed income allocation by up to 5%
 - Reduction must be matched by equivalent increase in credit strategies and/or public equity
 - Must not increase fund volatility by more than 1%
 - Credit strategies policy limit could increase an additional 5%

VRSIP Offered to Defined Contribution Plan Participants

- Participants can now purchase shares in the unitized VRS Trust Fund
- VRS Investment Portfolio (VRSIP) will be invested
 - on a commingled basis with the VRS Trust Fund
 - using the same investment strategies and professionals
- Investments are not guaranteed by VRS

Appointments to Board of Trustees

- Governor Kaine appointed:
 - A. Marshall Acuff, Jr. as Chair of the VRS Board of Trustees
 - Robert L. Green and Mitchell L. Nason as members of the Board of Trustees
- The Joint Rules Committee reappointed
 - John M. Albertine, Ph.D. as a member of the Board of Trustees

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.

