

# Virginia Retirement System

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

**July 12, 2004**

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

# Annual Review

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- **Market Perspective**
- **Performance**
- **Current Status**
- **Investment Philosophy**

# Market Perspective

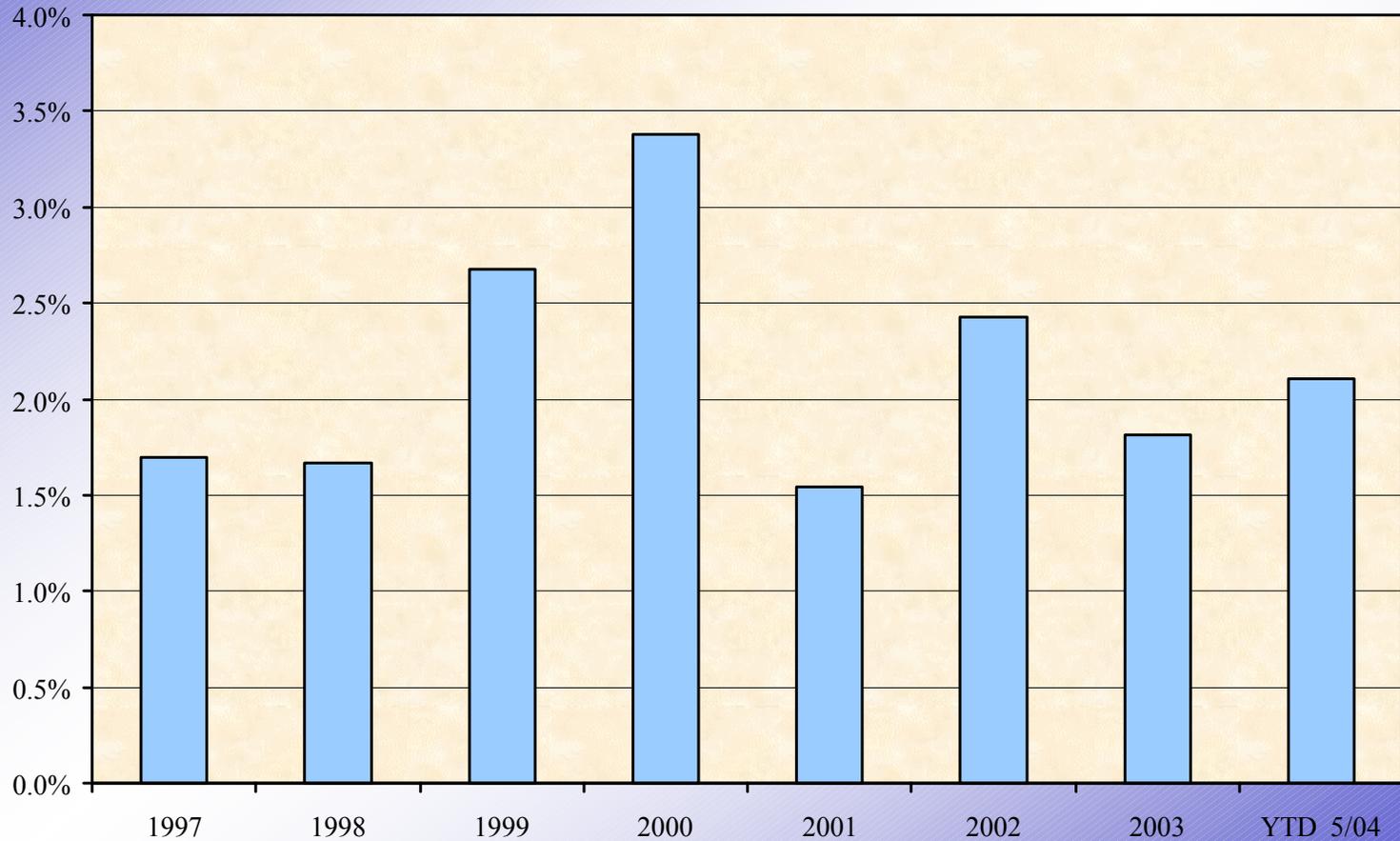
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- **Low Inflation**
- **Rising but still Low Interest Rates**
- **Economic Growth**
- **Weakening Fixed Income Market**
- **Moderate Equity Market**

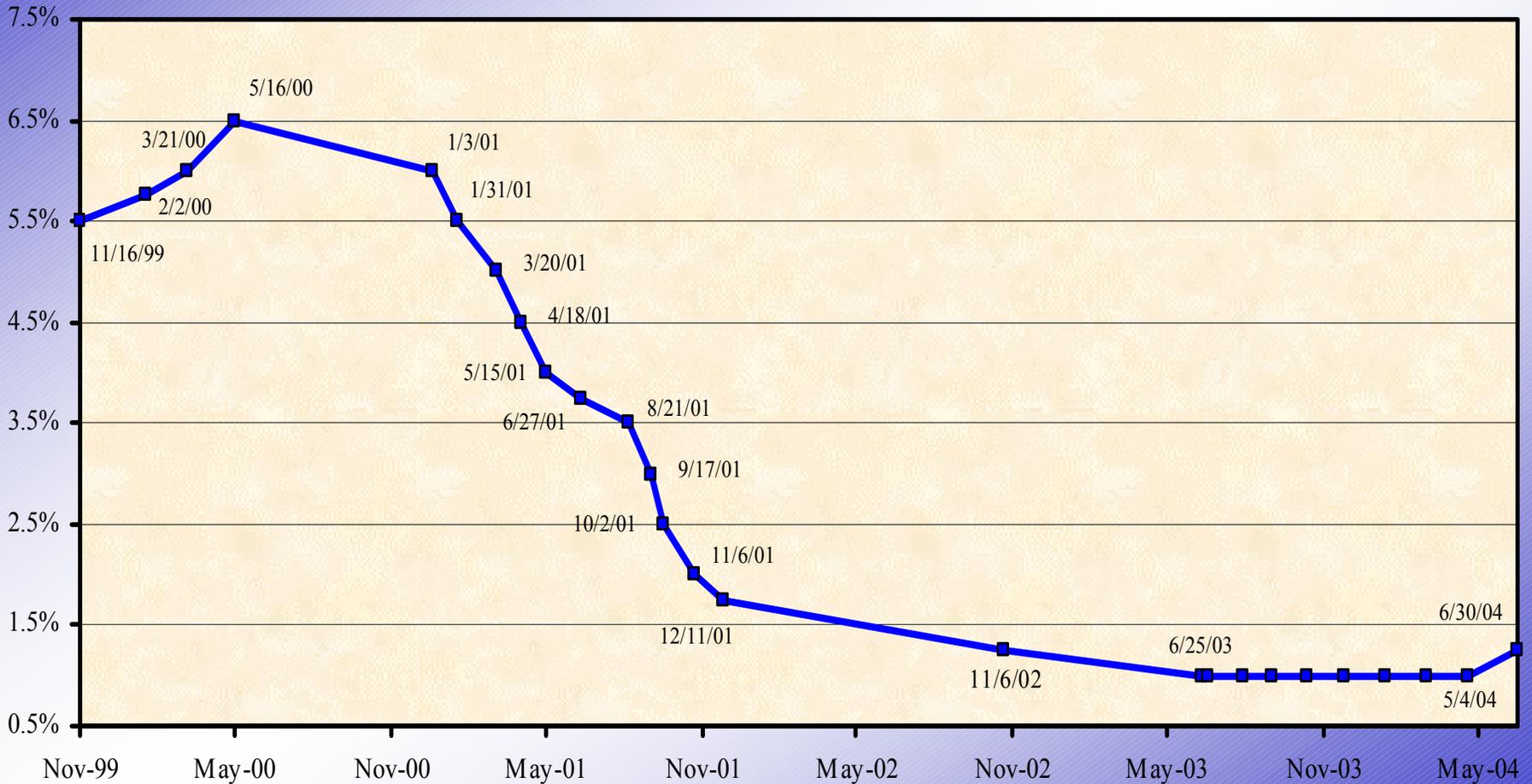
# Core Consumer Price Index

## (Percentage Increases)

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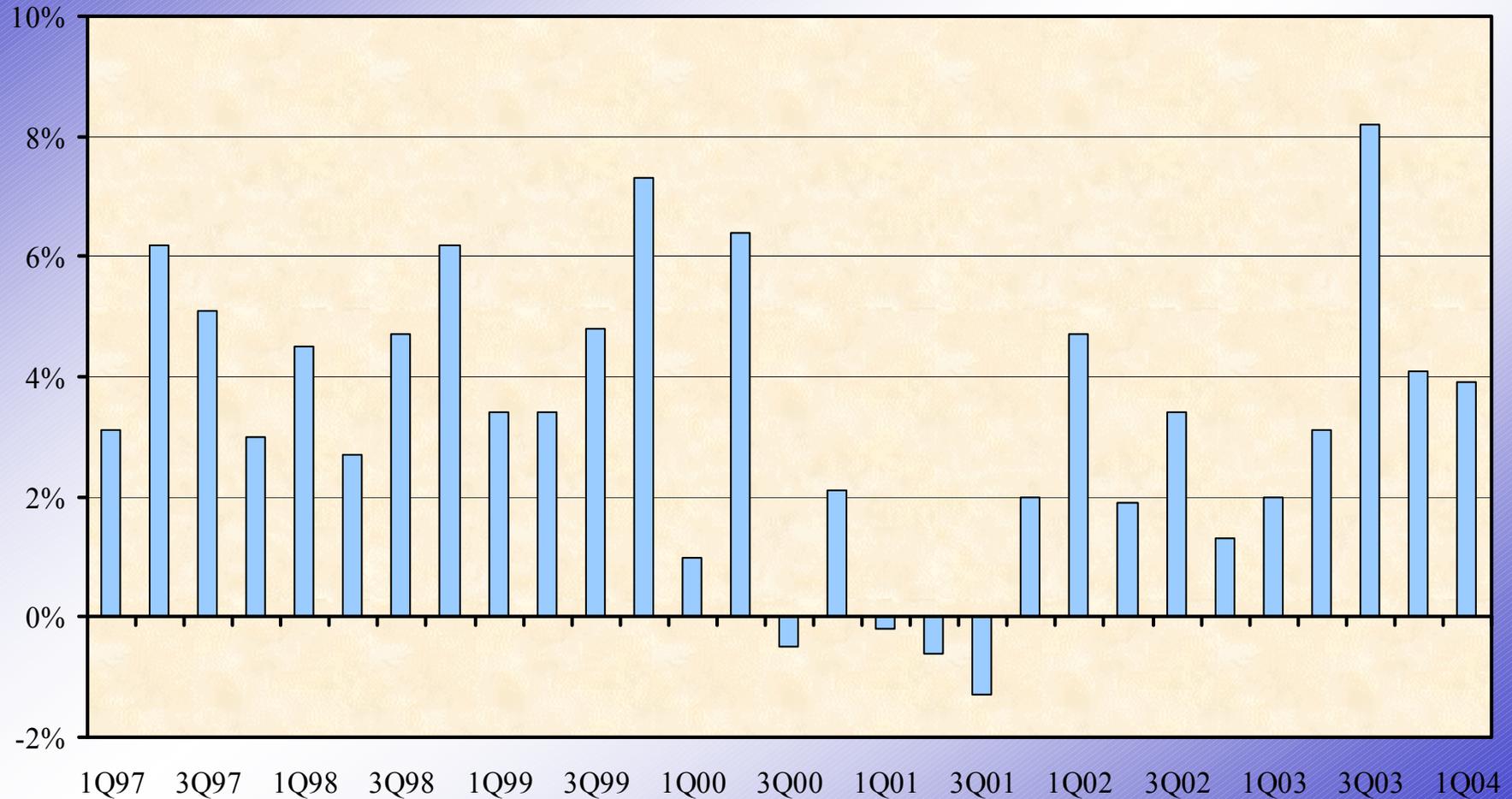
# Federal Funds Rate



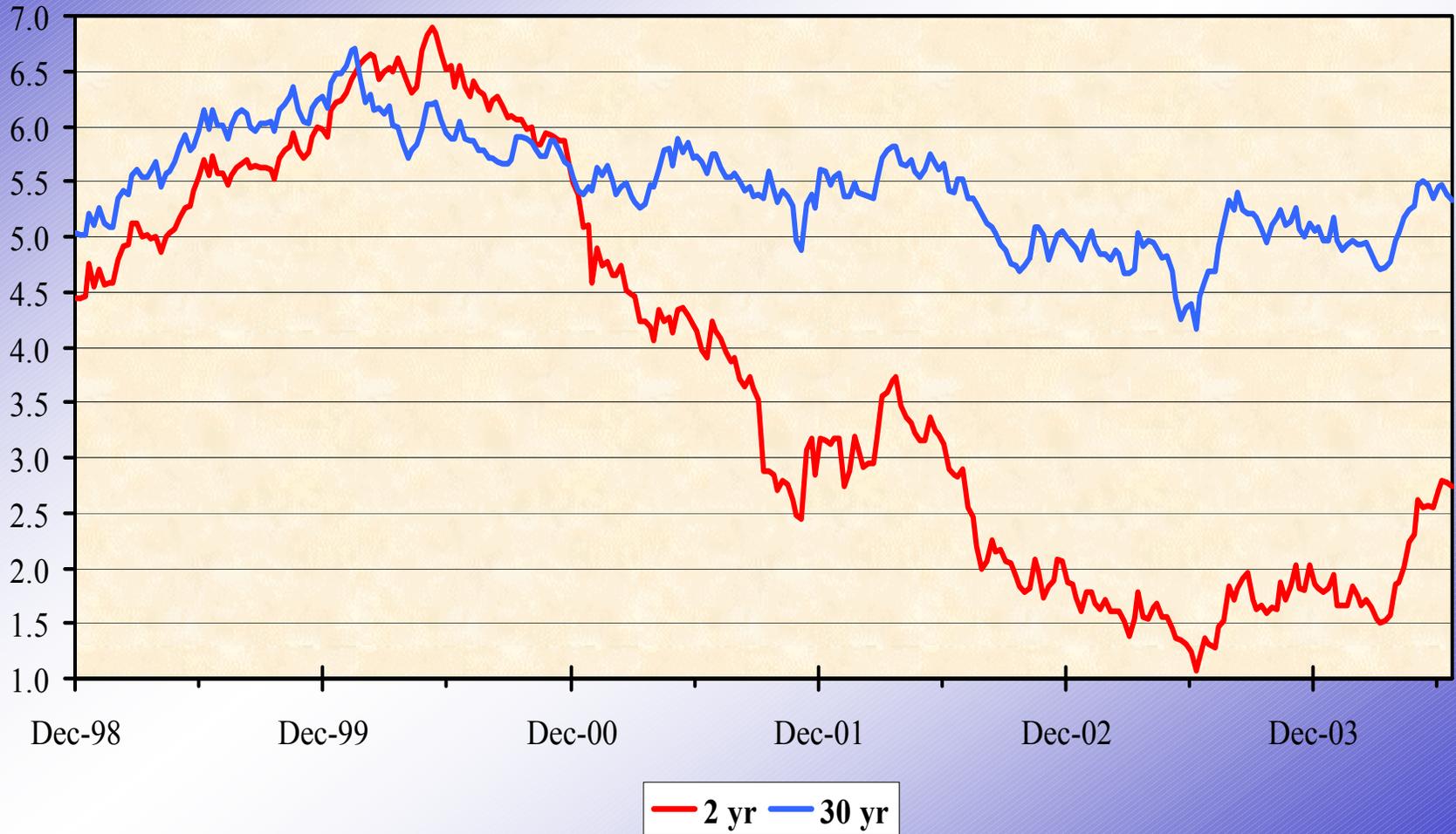
# Real Gross Domestic Product

## (Annualized Growth Rate)

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# U.S. Treasury Yields



# U.S. Equity Market

## 1994– Present

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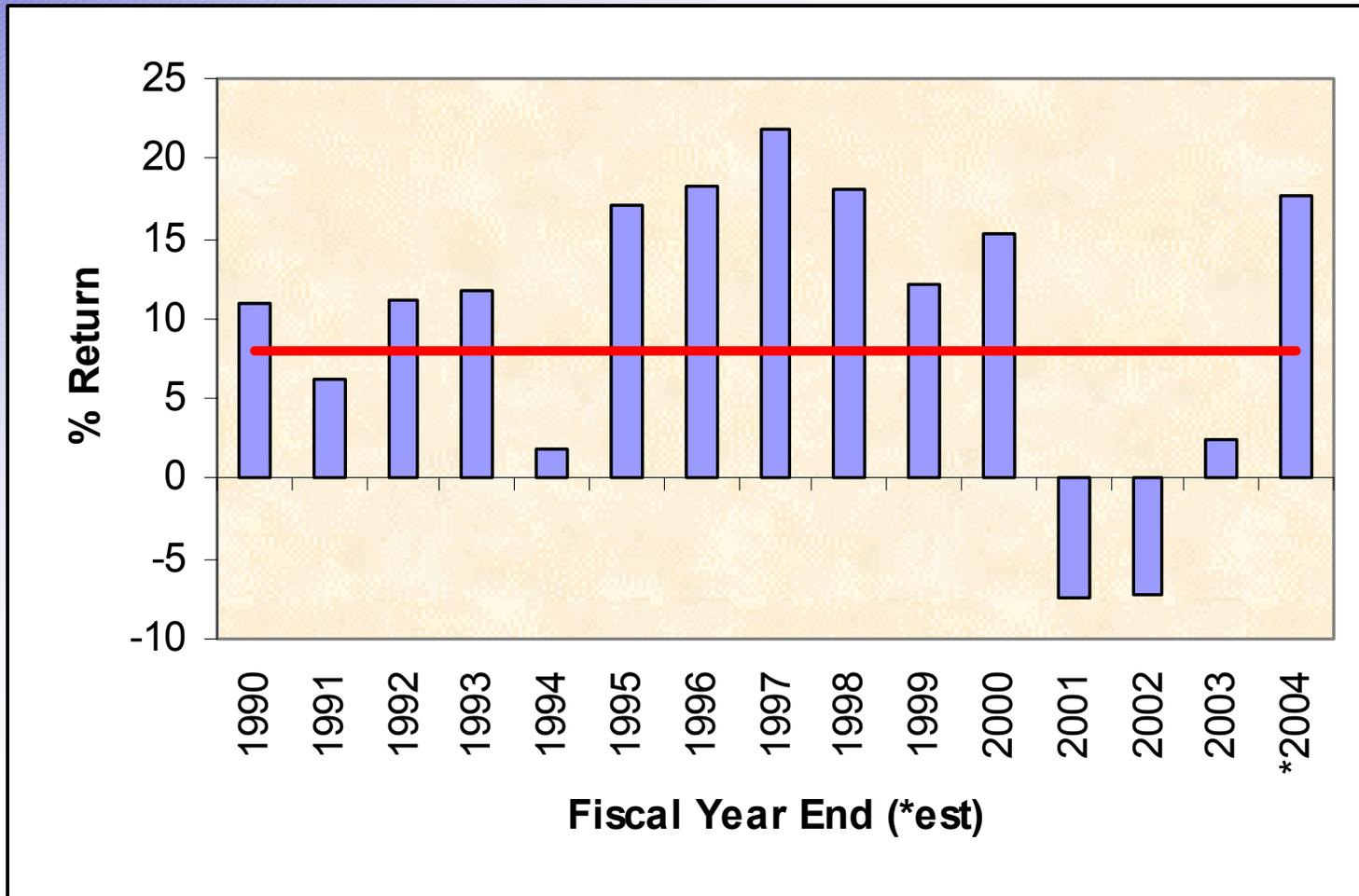
# U.S. Equity Market

July 1, 2003 – June 30, 2004

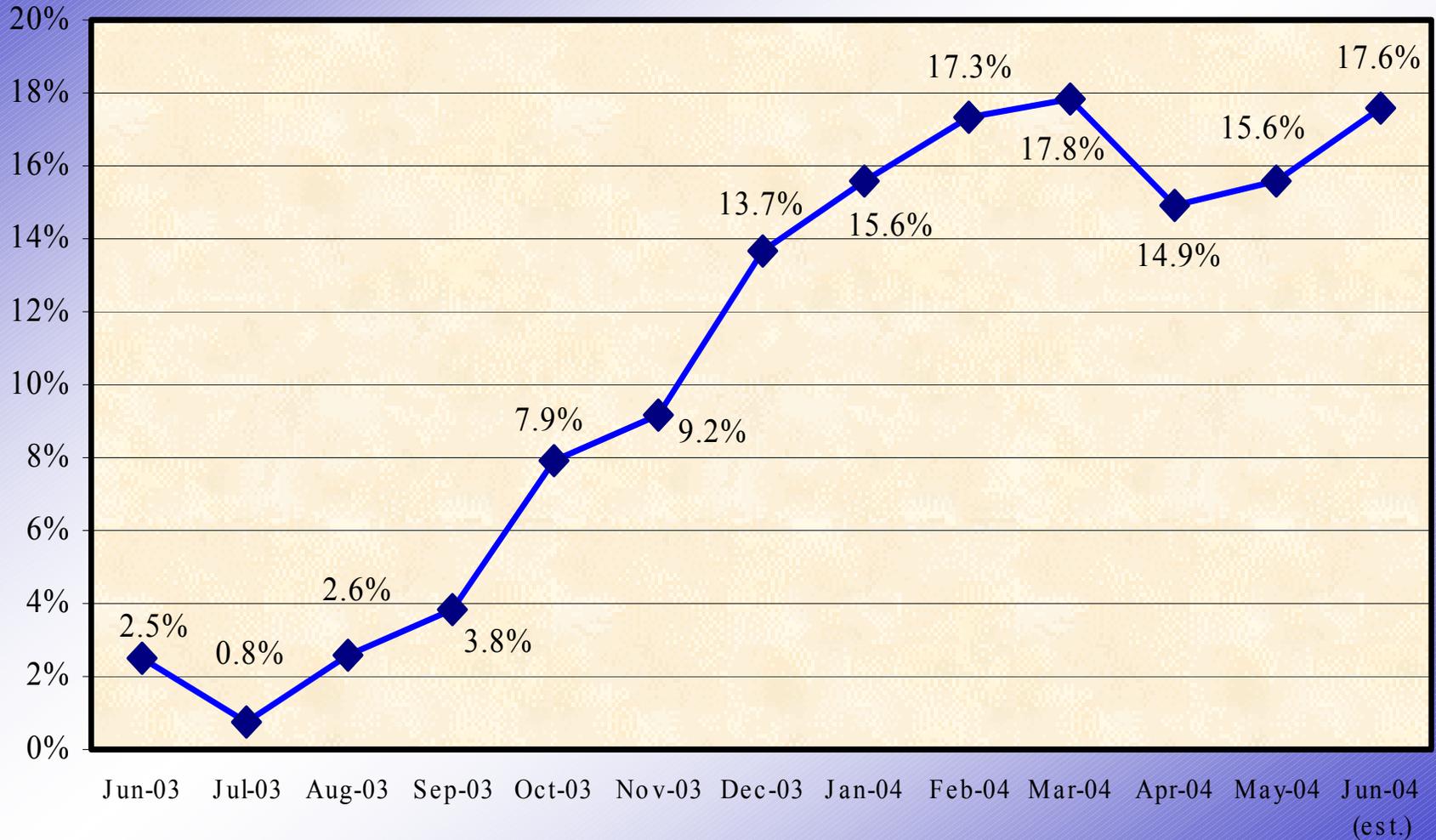


# VRS Annual Performance

## 1990-2004



# 2004 Fiscal Year-to-Date Returns



# Performance (5/04)

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	<u>VRS</u>	<u>Benchmark</u>
<b>10 YR</b>	<b>10.0 %</b>	<b>9.5 %</b>
<b>5 YR</b>	<b>4.0 %</b>	<b>3.1 %</b>
<b>3 YR</b>	<b>2.6 %</b>	<b>2.8 %</b>
<b>1 YR</b>	<b>17.0 %</b>	<b>18.0 %</b>
<b>FYTD</b>	<b>15.6 %</b>	<b>16.6 %</b>

# Current Status

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- Long-term returns still good but will continue to be impacted by 2000-2003
- 2004 Asset/Liability Study Update
  - Board factors in lower returns across all asset classes
  - Continued low inflation
  - Lower expectations may lead to
    - Greater risk
    - Lower funded status
    - Higher contributions

# Investment Philosophy

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- Diversify portfolio to avoid concentrated losses
- Majority of assets in blue chip stocks and high quality fixed income
- Invest passively in large efficient markets to maintain low cost asset class exposure

# Investment Philosophy

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- Invest a portion of the fund in alternative assets where :
  - Value can be added in the long-term
    - Real Estate, Private Equity
  - Value can be added in the short-term
    - TIPs, High Yield, REITs
  - The volatility of the total fund is reduced while maintaining expected return
    - Hedge Funds, Other

# VRS Hedge Fund Program

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- Diversification of Risk
  - Total Fund
  - Program
- Limited to mainly equity strategies
  - Low leverage
  - Traded on public exchanges
  - Greater transparency

# VRS Asset Allocation

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## 2004

- 45.5% US Equity
- 17% Non-US Equity
- 22% Fixed Income
- 7% Private Equity
- 5% Real Estate
- 3% Hedge Funds

## 2005

- 38.75% US Equity
- 20% Non-US Equity
- 20% Fixed Income
- 7% Private Equity
- 6% Real Estate
- 5% Hedge Funds
- 3% High Yield