

# OVERSIGHT VRS Report

## JOINT LEGISLATIVE AUDIT & REVIEW COMMISSION OF THE VIRGINIA GENERAL ASSEMBLY

### Semi-Annual VRS Investment Report: December 1997

During 1997, the Virginia Retirement System (VRS) implemented a revised asset allocation structure based on minimum and maximum percentages of fund assets. These are: public equity (55 percent minimum), domestic equity (45 percent minimum), international equity (35 percent maximum), fixed income (20 percent minimum), and alternative investments in private equity and real estate (15 percent maximum). Strategic targets have also been adopted.

In an effort to invest pension fund assets in the most cost-effective manner, VRS is increasing its reliance on passive management strategies, and on internal management of assets by its own professional investment staff:

- 59 percent of domestic equity and 48 percent of international equity investments are managed passively.
- 40 percent of fixed income and 20 percent of domestic equity investments are managed internally.

Total VRS investment management expenses as a percentage of total assets under management have decreased over the past three years, from 0.34 percent during FY 1995 to 0.29 percent during FY 1997. Passively-managed domestic equity assets are the least expensive for VRS to manage, with fees equal to 0.01 percent of assets. Private equity investments are the most expensive, with fees equal to 2.03 percent of assets during FY 1997.

#### Profile: Virginia Retirement System Investments

Market Value of Assets: \$28.6 billion  
 Number of External Managers: 77  
 Number of External Investment Accounts,  
 Direct Investments, and Partnerships: 158  
 FY 1997 Investment Expenses: \$75.8 Million  
 Number of VRS Investment Staff: 24 positions (2 vacancies)

#### Total Return on Investments

(Time Periods Ending 9/30/97)

10 years	5 years	3 years	1 year
11.8%	14.8%	20.6%	26.8%

#### Investment Policy Indicators (as of September 30, 1997)

Asset Class	Asset Allocation (% of Total Assets or \$ Amount)		Where Invested (% of Asset Class)		Type of Management (% of Asset Class)	
	Target	Actual	Domestic	International	Active	Passive
Public Equity	66%	65.5%	79%	21%	43%	57%
Fixed Income	25%	24.6%	97%	3%	60%	40%
Private Equity	\$1.2 Billion	\$1.22 Billion	92%	8%	100%	0%
Real Estate	\$1.2 Billion	\$1.17 Billion	100%	0%	45%	55%

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