

OVERSIGHT VRS Report

JOINT LEGISLATIVE AUDIT & REVIEW COMMISSION OF THE VIRGINIA GENERAL ASSEMBLY

Semi-Annual VRS Investment Report: December 1998

The economic and public equity market volatility during the third quarter of calendar year 1998 clearly impacted the fund's investment performance. For example, although the fund's three- and five-year investment returns through October 1998 – 16.1 and 13.5 percent, respectively – exceeded established performance benchmarks, the fund's one-year return did not. The lag in the fund's one-year performance relative to the established benchmark in part reflects the fact that a relatively small group of securities were responsible for much of the gains in both the public equity and fixed income markets. As a result, some of VRS' external managers holding more diversified portfolios underperformed the fund's one-year benchmark.

It is important to note that due primarily to the economic and market conditions present during the third quarter of 1998, the fixed income portion of the portfolio, as anticipated, outperformed public equities. However, the fixed income portfolio exceeded its strategic asset allocation target, and rebalancing back to the strategic target was necessary. At that time, the Investment Advisory Committee (IAC) requested that staff develop a proposed framework for its review, discussion, and subsequent approval that could be used in the future to guide the fund's rebalancing.

Finally, VRS recently initiated a process to thoroughly review the status of the fund's international equity program. VRS has had an international equity program for some time. However, the recent performance of that asset class resulted in the decision to systematically reassess how best to structure and administer the international equity program in the future. VRS staff, with input from the IAC and international equity experts, have identified a number of issues that warrant further review regarding the program. Over the next few months, VRS staff will develop these issues for discussion with the IAC, leading to a policy for approval by the Board of Trustees.

Profile: Virginia Retirement System Investments

Market Value of Assets: \$30.6 billion
Number of External Managers: 83
Number of External Investment Accounts, Direct Investments, and Partnerships: 197
FY 1998 Investment Expenses: \$93 million (29.4 basis points)
FY 1998 Investment Department Operating Budget: \$4.8 million (1.5 basis points)
Number of VRS Investment Staff: 29 positions (4 vacancies)

Total Return on Investments¹

10 years	5 years	3 years	1 year
12.4%	13.5%	16.1%	10.5%
(Performance/Intermediate Benchmarks:)			
na ²	13.3%	15.8%	11.7%

¹ Time periods ending 10/31/98

² Not computed by VRS.

Investment Policy Indicators (as of October 31, 1998)

Asset Class	Asset Allocation (% of Total Assets or \$ Amount)		Where Invested (% of Asset Class)		How Managed (% of Asset Class)	
	Target	Actual	Domestic	International	External	VRS
Public Equity	65.2%	64.8%	79%	21%	79%	21%
Fixed Income	25%	25.2%	94%	6%	83%	17%
Private Equity	\$1.5 billion	\$1.64 billion	90%	10%	100%	0%
Real Estate	\$1.5 billion	\$1.21 billion	96%	4%	100%	0%

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