Semi-Annual VRS Investment Report
December 2000

As of September 30, 2000, the market value of the VRS pension fund was $40.8 billion. For the one-, three-, and five-year periods, the fund’s investment performance exceeded established benchmarks for the period ending September 30, 2000. The VRS’ investment returns for all time periods measured exceeded the actuarial assumed investment return of eight percent.

The public equity program is VRS’ largest asset class comprising almost $24.7 billion. The domestic public equity program, continued to lag established performance benchmarks for the one-, three-, and five-year periods (see Table 1 on page 2). However, the domestic equity program in the second and third quarter of calendar year 2000 outperformed the program’s Russell 3000 benchmark. Within the domestic equity program, both the active and passive domestic equity programs exceeded established performance benchmarks for the third quarter of calendar year 2000.

However, the investment performance of the non-U.S. public equity program in the third quarter of calendar year 2000 was negatively impacted by higher oil prices and slowing consumer spending in the United States. The fixed income program’s performance was consistent with its benchmark, returning almost seven percent for the one-year period. Real estate, although not meeting its performance benchmark, returned 12 percent for the one-year period ending September 30, 2000. Finally,
the private equity program continued to outperform its benchmarks for all time periods reported.

The impact of VRS’ private equity program on the total fund’s performance has been substantial. VRS invests in private equity to accomplish two primary objectives – to diversify the overall retirement fund and to provide enhanced returns relative to the public equity program. While private equity can provide higher returns, it also has higher risks, is less liquid than public equity, and the fees are typically higher than fees on other asset classes. As a result, VRS views private equity as an opportunistic asset class and has not established a strategic asset allocation target for the program. Since April 1989 when the program was implemented, the program’s annual return has averaged 32.6 percent, well above its performance benchmark’s annual return of 21.8 percent.

Finally, VRS investment staff, the Investment Advisory Committee, and the Board of Trustees continue the process of revising the fund’s asset allocation policy through the asset/liability study. The asset/liability study recognizes the impact liabilities have in selecting an asset allocation policy. The asset/liability study will cover a 20-year period from June 30, 2000, focusing on five-year, 10-year, and 20-year time periods. A number of portfolios will be modeled with the approved asset allocation policy linking the fund’s investments to the system’s funding and benefit policies.