



Virginia
Retirement
System®

2023

**POPULAR
ANNUAL
FINANCIAL
REPORT**

FOR THE FISCAL YEAR ENDED
JUNE 30, 2023

AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA

This document is a summary of VRS' audited financial statements and other information contained in VRS' *Annual Comprehensive Financial Report*. The complete audited financial statements and pertinent notes to the financial statements can be found in VRS' *2023 Annual Comprehensive Financial Report*. This document provides summary financial information and does not conform to Generally Accepted Accounting Principles (GAAP); the *Annual Comprehensive Financial Report* conforms to GAAP and provides a comprehensive overview of the System's financial and operating results. VRS' *Annual Comprehensive Financial Report* is available at varetire.org in the Publications section or at the VRS office.

From the Director

Patricia S. Bishop, Director

After a few disruptive years, the VRS staff approached fiscal year 2023 with a renewed energy and commitment to collaboration aimed at building on our 80-plus-year legacy and reinforcing our foundation for the future. By ensuring our core functions are healthy and robust, we pave the way for continued innovation and growth.

The 2023 Virginia General Assembly session delivered a significant win with a \$250 million cash infusion to VRS retirement plans, bringing the total to more than \$1 billion over two years. The legislature also fully funded employer contribution rates, even keeping higher prior year rates for state and teacher plans to improve plan funding. We are gratified that continuous stakeholder education on the financial upside of paying down pension liabilities laid the groundwork to improve stability and produce cost savings over time.

The quest for constant innovation was directed this year toward building a resilient and scalable data infrastructure and near-instant disaster recovery services. Data security is paramount and requires increasing vigilance by every member of the agency.

We also renewed focus on the customer experience, enhancing security and leveraging technology to improve outcomes for our audiences. Together, we will navigate challenges and seize opportunities, ensuring an excellent experience for our customers that truly reflects our vision and values.

Hybrid Retirement Plan members not making their full voluntary contribution received a 0.5% automatic increase in January. As a result of VRS' Hybrid Retirement Plan Auto-Escalation Campaign in partnership with MissionSquare Retirement, more than 99% of

targeted members began making voluntary contributions. An additional 4.1% increased their contributions beyond the 0.5% baseline for the auto-escalation. The campaign received a Communicator Award of Distinction for marketing effectiveness from the Academy of Interactive and Visual Arts (AIVA).

During fiscal year 2023, VRS issued a request for proposals for the Defined Contribution Plans' third-party record keeper. Following evaluations, interviews and a recommendation by the Defined Contributions Plans Advisory Committee (DCPAC), the VRS Board of Trustees named Voya Financial to serve as the third-party record keeper beginning January 1, 2025.

Our leadership team was delighted to begin working with Andrew Junkin in the Chief Investment Officer role and welcomed Leslie Weldon as Chief Financial Officer. In addition, a redesigned careers page of the VRS website proved its value as a resource for employee recruitment and retention.

VRS has maintained a post-pandemic hybrid work environment, balancing remote work with in-office days to facilitate collaboration and team focus. We launched an in-house professional development and training initiative tailored to the VRS culture of continuous learning as we serve members, retirees and employers across Virginia.

Through it all, our commitment to serving those who serve others has remained constant. I thank the Board of Trustees for their staunch support and stewardship, which empowers our team to provide sound financial stewardship and exceptional customer service to our members and beneficiaries. ■

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BOARD OF TRUSTEES

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* Term continues until successor appointed.

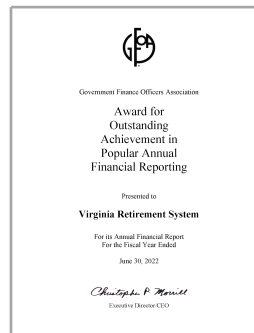
Transforming services through technology, education and communications

VRS recorded a number of accomplishments during fiscal year 2023, in addition to those mentioned in the director's message on page 2:

- Our ongoing program to reduce employee financial stress and help VRS members increase their money-management skills included four email campaigns built around financial awareness observances. Each email resulted in traffic and member registration on the myVRS Financial Wellness platform and highlighted the Planning for Retirement course and YourBudget tool, among others.
- Education and training staff developed an online series of six videos explaining VRS' allocation strategy by asset class to support the Board of Trustees' work in the Asset Liability Modeling Review.
- VRS helped employers prepare for a legislative change that will separate defined benefit and defined contribution rates for the Hybrid Retirement Plan in July 2024. The Education and Training team produced two webinars on the changes, which drew 802 attendees.
- Consistent with our strategic goal of professional development, the Human Resources team implemented the VRS EDGE (Empower, Develop, Grow and Engage) certification program, offering VRS staff 60 classes on topics including performance management, critical thinking and unconscious bias. Most participants indicated the program has met or exceeded expectations and they can apply the knowledge in their work and personal lives.
- Web Services staff served as the project manager for the new Careers page at varetire.org, designed to engage prospective employees with dynamic content, including staff testimonials and videos, demonstrating VRS' inclusive culture. Traffic to the new page increased by 106% during the fiscal year, growing from 6,400 page views to 13,200.
- The Customer Relations Department implemented a post-call text message survey to obtain real-time feedback from our audience. Initial results are positive.

- One-on-one counseling appointments by Plan 1 and Plan 2 members increased 54%, with the virtual option proving most popular. Sessions for hybrid plan members increased by 40%.
- Online retirement applications continue to increase:
 - 25% of retirement applications since the pilot began in December 2020.
 - 37% of retirement applications during the fiscal year.
 - 42% of retirement applications received in July 2023.
- The Optional Life Enhanced Enrollment campaign provided members a one-time opportunity to elect optional life coverage or add coverage without evidence of insurability. Optional life coverage grew 8.6%, with 6,428 members adding or increasing coverage.
- The web team raised the website accessibility score from 72% to 86%, beyond the government industry standard of 83%. VRS' quality assurance score of 98% also topped the government industry standard of 80%.
- VRS newsletters moved to searchable, shareable online news sites for *Employer Update* and *Member News* and the first digital issue of *Retiree News*. Open rates increased by 10% for *Member News* and 5% for *Employer Update*.

See page 12 for more highlights from fiscal year 2023.



The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Outstanding Achievement in Financial Reporting to VRS for its PAFR for the fiscal year ended June 30, 2022, the seventh consecutive year of publication for which VRS was eligible to achieve this recognition. To receive the certificate, a government unit must publish a readable and organized popular annual report that satisfies generally accepted accounting principles and applicable legal requirements.

VRS is an independent state agency. As provided under the *Constitution of Virginia*, VRS funds are separate from other state funds and can be used only to administer and pay benefits for members, retirees and beneficiaries.

Pursuant to Title 51.1 of the *Code of Virginia*, the Board of Trustees administers and is trustee of the following funds:

- Virginia Retirement System Trust, including Plan 1, Plan 2, the defined benefit component of the Hybrid Retirement Plan, and Plan 1 and Plan 2 hazardous duty benefits for political subdivision employees
- State Police Officers' Retirement System (SPORS) Trust, including Plan 1 and Plan 2
- Virginia Law Officers' Retirement System (VaLORS) Trust, including Plan 1 and Plan 2
- Judicial Retirement System (JRS) Trust, including Plan 1 and Plan 2, and the defined benefit component of the Hybrid Retirement Plan for judges
- Virginia Sickness and Disability Program (VSDP) Trust for state employees, including VSDP long-term care
- Virginia Local Disability Program (VLDP) Trust for eligible school division and political subdivision employees, including VLDP long-term care
- A disability retirement option for certain members not covered under VSDP or VLDP

- Hybrid 457 Deferred Compensation Plan
- Hybrid 401(a) Cash Match Plan
- Optional Retirement Plan for Political Appointees, Optional Retirement Plan for School Superintendents and Optional Retirement Plan for Higher Education
- Commonwealth of Virginia 457 Deferred Compensation Plan
- Virginia Cash Match Plan
- Virginia Supplemental Retirement Plan
- Group Life Insurance Program
- Retiree Health Insurance Credit Program
- Line of Duty Death and Health Benefits Trust Fund

In addition, the Board administers or has substantial oversight responsibilities for the Benefit Restoration Plan, the Commonwealth of Virginia Voluntary Group Long Term Care Insurance Program and the Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund Program, as well as benefit eligibility determinations under the Line of Duty Act in Title 9.1 of the *Code of Virginia*.

The system also has full investment responsibility for other custodial funds, which include the Commonwealth Health Research Fund (CHRF), the Commonwealth's Attorneys Training Fund (CATF) and the VRS Investment Portfolio (VRSIP).

2023 Membership

VRS Total Population: 803,024

Active Members



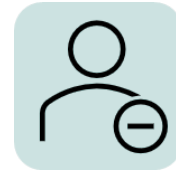
356,515

Retirees/Beneficiaries



236,208

Inactive/Deferred Members



210,301

DISTRIBUTION OF ACTIVE MEMBERS

AT JUNE 30

	2023		2022		2021	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	79,064	22.2%	76,156	21.4%	76,108	22.1%
Teachers (VRS)	152,954	43.0%	153,204	43.1%	149,853	43.4%
Political Subdivision Employees (VRS)	114,599	32.1%	110,675	31.0%	108,712	31.5%
State Police Officers (SPORS)	1,917	0.5%	1,875	0.5%	1,939	0.6%
Virginia Law Officers (VaLORS)	7,524	2.1%	7,342	2.1%	7,812	2.3%
Judges (JRS)	457	0.1%	459	0.1%	453	0.1%
Total Members	356,515	100.0%	349,711	100.0%	344,877	100.0%

DISTRIBUTION OF RETIREES AND BENEFICIARIES

AT JUNE 30

	2023		2022		2021	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	62,292	26.4%	61,651	26.6 %	60,478	26.9%
Teachers (VRS)	102,346	43.4%	100,148	43.2 %	97,378	43.3%
Political Subdivision Employees (VRS)	63,631	26.9%	61,994	26.8 %	59,678	26.5%
State Police Officers (SPORS)	1,533	0.6%	1,511	0.7 %	1,495	0.7%
Virginia Law Officers (VaLORS)	5,853	2.5%	5,673	2.5 %	5,400	2.4%
Judges (JRS)	553	0.2%	546	0.2 %	544	0.2%
Total Retirees and Beneficiaries	236,208	100.0%	231,523	100.0%	224,973	100.0%



Active Member: A member working in a covered position with an employer that participates in VRS.

Deferred Member: A member who has left covered employment but has not withdrawn funds and has service credit in VRS.

Retiree: A retiree is no longer employed in a covered position and receives a retirement benefit from VRS.

VRS Participating Employers: 836

State Agencies



225

Special Authorities



213

Cities and Towns



163

School Boards*



142

Counties



93

* Of the 142 school boards, 131 also provide coverage for non-teacher employees and are treated as political subdivisions.

DISTRIBUTION OF RETIREES BY YEARS OF SERVICE

ALL RETIREES AT JUNE 30, 2023

	1-10 Years	11-20 Years	21-30 Years	31-40 Years	41-50 Years	Over 50 Years	Total
VRS – State	12.89%	22.98%	29.04%	28.88%	6.04%	0.17%	100.00%
VRS – Teacher	10.74%	24.76%	34.38%	28.09%	2.00%	0.03%	100.00%
VRS – Political Subdivisions	18.27%	29.59%	32.58%	17.82%	1.71%	0.03%	100.00%
SPORS	3.84%	4.44%	35.49%	49.05%	6.85%	0.33%	100.00%
ValORS	8.99%	28.75%	50.45%	11.14%	0.65%	0.02%	100.00%
JRS	1.26%	3.44%	7.78%	12.48%	18.44%	56.60%	100.00%
All Plans	13.22%	25.51%	32.83%	25.21%	3.03%	0.20%	100.00%

DISTRIBUTION OF RETIREES BY AGE AT RETIREMENT

ALL RETIREES AT JUNE 30, 2023

	Under 55	55-59	60-65	Over Age 65	Total
VRS – State	15.19%	19.92%	34.14%	30.75%	100.00%
VRS – Teacher	13.53%	31.27%	34.69%	20.51%	100.00%
VRS – Political Subdivisions	23.58%	19.00%	30.40%	27.02%	100.00%
SPORS	54.14%	28.05%	12.92%	4.89%	100.00%
ValORS	43.94%	24.62%	22.95%	8.49%	100.00%
JRS	5.24%	14.47%	30.02%	50.27%	100.00%
All Plans	17.67%	24.75%	32.95%	24.63%	100.00%

Defined Benefit Plan: The retirement plan under VRS is a defined benefit plan for members in Plan 1, Plan 2 and a portion of the Hybrid Retirement Plan. A defined benefit plan provides a monthly benefit during retirement based on age, total service credit and average final compensation.

Defined Contribution Plan: The benefit under a defined contribution plan is based on contributions and net investment gains on these contributions. The defined contribution plans administered or authorized by VRS include the Commonwealth of Virginia 457 Deferred Compensation and Cash Match plans, optional retirement plans for selected employees, a supplemental plan for certain school employees and a portion of the Hybrid Retirement Plan.

Defined Benefit Component: The defined benefit component under the Hybrid Retirement Plan provides a retirement benefit based on age, total service credit and average final compensation at retirement. VRS manages the investments and related risk for member and employer contributions under this component.

Defined Contribution Component: The defined contribution component of the Hybrid Retirement Plan provides a retirement benefit based on member and employer contributions and net investment gains on contributions. Members manage the investments and related risk for this component.



2023 Finance

SUMMARY OF FIDUCIARY NET POSITION

AT JUNE 30

(EXPRESSED IN MILLIONS)

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Assets:					
Cash, Receivables and Capital Assets	\$ 5,640.3	\$ 2,659.4	\$ 2,980.9	\$ (366.7)	\$ 3,347.6
Investments	107,836.9	5,042.9	102,794.0	(2,253.8)	105,047.8
Security Lending Collateral	3,726.7	(913.1)	4,639.8	(547.2)	5,187.0
Total Assets	117,203.9	6,789.2	110,414.7	(3,167.7)	113,582.4
Liabilities:					
Accounts Payable and Other Payables	258.1	(403.4)	661.5	(87.5)	749.0
Investment Purchases Payable	7,285.6	3,266.3	4,019.3	(1,117.7)	5,137.0
Obligations Under Securities Lending	3,727.1	(914.1)	4,641.2	(545.8)	5,187.0
Total Liabilities	11,270.8	1,948.8	9,322.0	(1,751.0)	11,073.0
Total Net Position – Restricted for Benefits	\$ 105,933.1	\$ 4,840.4	\$ 101,092.7	\$ (1,416.7)	\$ 102,509.4

SUMMARY OF CHANGES IN FIDUCIARY NET POSITION

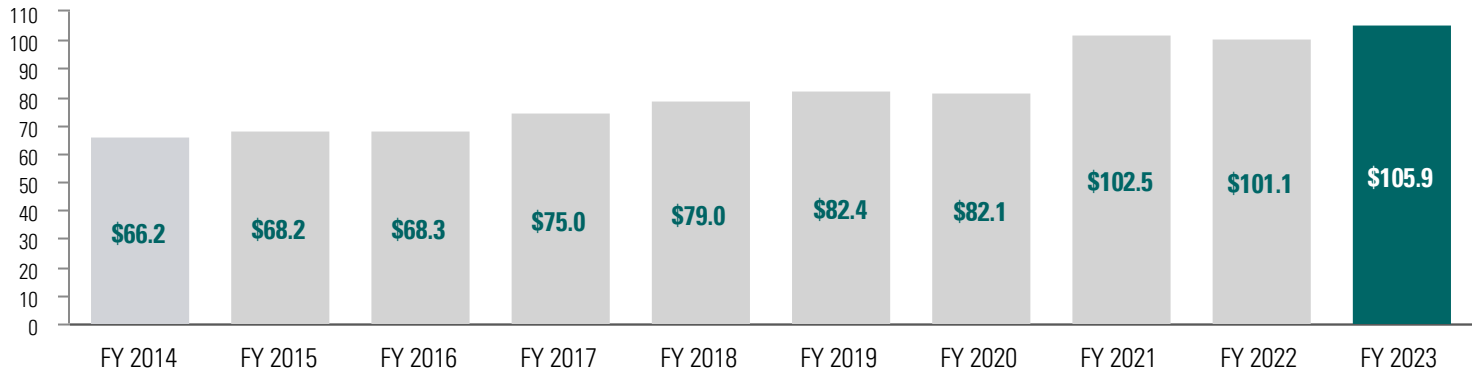
FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Additions:					
Member Contributions	\$ 1,220.2	\$ 86.0	\$ 1,134.2	\$ 57.6	\$ 1,076.6
Employer Contributions	3,567.0	328.4	3,238.6	142.8	3,095.8
Special Employer Contributions	116.7	(157.6)	274.3	235.6	38.7
Non-employer Contributing Entity	158.5	(317.2)	475.7	414.4	61.3
Net Investment Income	6,511.1	6,635.4	(124.3)	(22,406.6)	22,282.3
Miscellaneous Revenue & Transfers	6.9	(2.1)	9.0	3.7	5.3
Total Additions	11,580.4	6,572.9	5,007.5	(21,552.5)	26,560.0
Deductions:					
Retirement Benefits	6,043.3	314.0	5,729.3	207.1	5,522.2
Refunds of Member Contributions	127.1	(4.8)	131.9	15.7	116.2
Insurance Premiums and Claims	256.5	(2.5)	259.0	7.6	251.4
Retiree Health Insurance Credit Reimbursements	181.4	2.4	179.0	7.6	171.4
Disability Insurance Benefits	43.0	2.3	40.7	2.0	38.7
Line of Duty Act Reimbursements	15.7	1.6	14.1	1.0	13.1
Administrative and Other Expenses	73.0	2.8	70.2	7.1	63.1
Total Deductions	6,740.0	315.8	6,424.2	248.1	6,176.1
Net Increase (Decrease) in Net Position	4,840.4	6,257.1	(1,416.7)	(21,800.6)	20,383.9
Net Position – Beginning of Year	101,092.7	(1,416.7)	102,509.4	20,383.9	82,125.5
Net Position – End of Year	\$ 105,933.1	\$ 4,840.4	\$ 101,092.7	\$ (1,416.7)	\$ 102,509.4

VRS FIDUCIARY NET POSITION (EXPRESSED IN BILLIONS)

AT JUNE 30



NET POSITION RESTRICTED FOR BENEFITS

AT JUNE 30

(EXPRESSED IN THOUSANDS)

	2023	2022
Virginia Retirement System	\$ 98,127,270	\$ 93,836,088
State Police Officers' Retirement System	1,079,755	1,031,383
Virginia Law Officers' Retirement System	1,931,061	1,841,041
Judicial Retirement System	677,958	656,965
Group Life Insurance Advance Premium Deposit Reserve	2,707,739	2,467,989
Retiree Health Insurance Credit Reserve	599,878	492,325
Disability Insurance Trust Fund (VSDP)	634,779	602,916
Line of Duty Act Trust Fund	5,311	7,214
Disability Insurance Trust Fund (VLDP)	21,141	15,268
VRS Investment Portfolio DC Plans	68,321	63,656
Commonwealth Health Research Fund	47,847	46,592
Volunteer Firefighters' and Rescue Squad Workers Service Award Fund	5,859	5,472
Commonwealth's Attorneys Training Fund	26,206	25,777
Total Pension and Other Employee Benefit Reserves	\$ 105,933,125	\$ 101,092,686

Fiduciary Net Position: Reflects the balance of resources available to pay benefits at the end of the fiscal year.

Changes in Fiduciary Net Position: Reflects the changes in resources available to pay benefits during the fiscal year.

Other Post-Employment Benefits (OPEB): Benefits (other than pensions) that governments provide to their retired employees.



PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY

VRS State Plan:
82.19%

VRS Teacher Plan:
82.45%

VRS Political Subdivision Plans (Aggregate Total):
91.93%

SPORS:
73.81%

VaLORS:
74.91%

JRS:
88.29%

2023 Finance

SUMMARY OF PENSION PLAN PRIMARY EXPENSES FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Benefits	\$ 6,043.3	\$ 314.0	\$ 5,729.3	\$ 207.1	\$ 5,522.2
Refunds	125.0	(5.1)	130.1	13.9	116.2
Administrative and Other Expenses	63.6	2.1	61.5	6.2	55.3
Total Primary Expenses	\$ 6,231.9	\$ 310.9	\$ 5,920.9	\$ 227.2	\$ 5,693.7

SCHEDULE OF INVESTMENT EXPENSES FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2023	2022
Total External Management Fees	568,369	534,216
Performance Fees	5,326	29,078
Total Miscellaneous Fees and Expenses	42,032	12,092
In-House Investment Management	49,536	38,123
Total Investment Expenses	\$ 665,263	\$ 613,509

Contributions and investments fund VRS plans.

The VRS Board of Trustees sets the **retirement plan funding policy** and adopts contribution rates based on recommendations from the plan actuary. The Board also sets investment policy with the objective of maximizing returns while managing risk within an acceptable range.

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Member and employer contributions are deposited into the pension trust fund and managed by VRS investment staff under the guidelines established by the Board.

Recommended contribution rates for the statewide retirement systems are communicated to the General Assembly, which has the final authority for the funding of these plans.

EQUITY INTERESTS

AT JUNE 30

Fund	2023	2022
Virginia Retirement System	92.553%	92.758%
State Police Officers' Retirement System	1.021%	1.022%
Virginia Law Officers' Retirement System	1.825%	1.824%
Judicial Retirement System	0.642%	0.651%
Group Life Insurance Fund	2.652%	2.514%
Retiree Health Insurance Credit Fund	0.552%	0.483%
Disability Insurance Trust Fund (VSDP)	0.593%	0.587%
Line of Duty Act Trust Fund	0.005%	0.007%
Virginia Local Disability Program	0.019%	0.015%
VRS Investment Portfolio	0.063%	0.063%
Commonwealth Health Research Fund	0.045%	0.046%
Volunteer Firefighters' and Rescue Squad Workers Service Award Fund	0.005%	0.005%
Commonwealth's Attorneys Training Fund	0.025%	0.025%
Total Equity Interests	100.000%	100.000%

PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY

Group Life Insurance Fund: **69.30%**

State Employee Health Insurance Credit: **25.46%**

Teacher Employee Health Insurance Credit: **17.90%**

VRS Political Subdivision Plans Health Insurance Credit (Aggregate Total): **51.79%**

State-Funded Health Insurance Credit for Constitutional Officers: **24.42%**

State-Funded Health Insurance Credit for Social Services Employees: **34.36%**

State-Funded Health Insurance Credit for Registrars: **45.88%**

Disability Insurance Program: **199.05%**

Virginia Local Disability Program for Teachers: **93.77%**

Virginia Local Disability Program for Political Subdivisions: **116.89%**

Line of Duty Act Program: **1.31%**

From the CIO

Andrew H. Junkin, Chief Investment Officer

Fiscal year 2023 was volatile across the globe as inflation, rising interest rates and geopolitics remained front and center in the financial markets. In the United States, inflation reached 9.1% in June 2022 – the highest rate of inflation since the 1980s. In response, central banks began to increase borrowing costs.

The Federal Reserve raised interest rates 3.5% during the fiscal year. U.S. inflation declined to 3.2% as of July 2023 but is still above the Fed’s target of 2.0%.

Political friction around the globe has also contributed to volatility in financial markets. The war in Ukraine rages on, now in its second year. Tension between the U.S. and China has grown over economic and defense issues. Despite challenges, the global stock market had a strong fiscal-year end with a 16.7% return.

While the economic news offered a mixed picture, the VRS portfolio returned 6.1% for the fiscal year, slightly underperforming the total fund benchmark of 6.3% and the 6.75% assumed rate of return. VRS’ long-term investment strategy is focused on maximizing returns while minimizing risk. To achieve that balance, the VRS portfolio is highly diversified with investments around the globe in a variety of asset classes and strategies.

The VRS portfolio outperformed the fund benchmark and the assumed rate of return for intermediate-term periods (three and five years) and long-term periods (10, 15, 20 and 25 years) as shown in the table below.

- Public stock markets rallied after stumbling in the first three months of the fiscal year, ending with a 16.7% return. The VRS equity portfolio was also up strongly, returning 15.6%.
- Fixed Income returns finished the year up 0.5%, ahead of the benchmark, which had a negative return of -0.1%, continuing the consistent run of the bond team’s outperformance.

- Private Equity continues to provide strong excess returns to the VRS portfolio and has been the highest returning asset class over the long term.
- Returns for the Credit Strategies portfolio were positive but behind the benchmark (+5.7% versus +9.2%). However, longer-term returns have all exceeded the benchmark.
- Real Assets finished the year ahead of its benchmark, returning +1.7% versus -0.7%.

The portfolio is positioned for resilience in future economic scenarios. We constantly evaluate opportunities for investments and strategies that will add value to the portfolio. Our long-term focus means that VRS is well positioned to support more than 800,000 members, retirees and beneficiaries into the future.

Inflation, interest rates and geopolitics will likely continue to be at the forefront of financial markets through the next year. The Federal Reserve raised rates again in fiscal year 2024 and has indicated another rate hike is probable. Inflation has declined but remains above the Fed’s target, signaling an environment where higher rates are the norm.

VRS has been positioned defensively for some time and expects to remain that way until there is more clarity about the future direction of the economy. We carefully balance return and risk and remain committed to diversification as a key tenet of our success. We believe VRS is well positioned to deliver returns that allow the commonwealth to continue to meet its benefit obligations.

I wish to thank the VRS Board of Trustees and the Investment Advisory Committee for their support, as well as my colleagues on the VRS administrative team. I am especially grateful to VRS’ investment professionals for their work. Our collaborative efforts and long-term strategy continue to build the fund to serve those who serve others in Virginia. ■

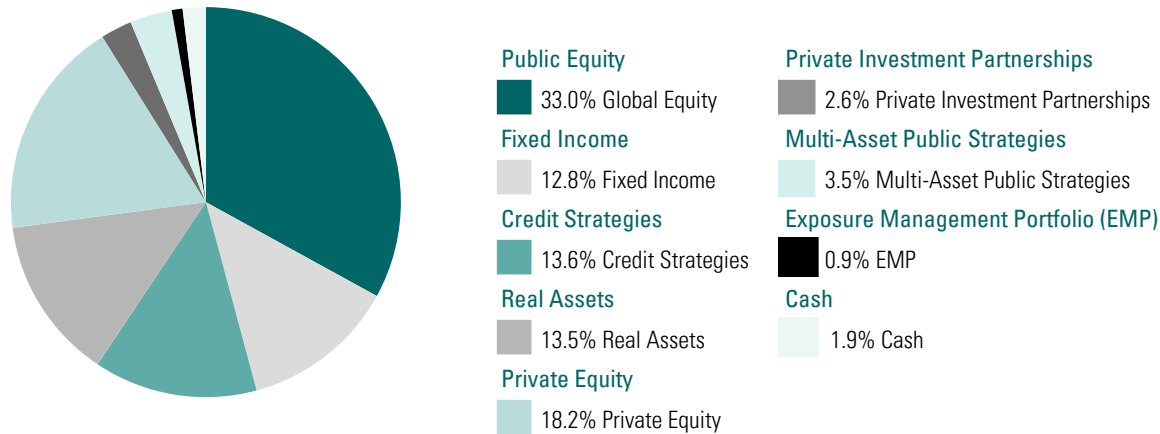
ANNUALIZED RETURN FOR PERIODS ENDED JUNE 30, 2023

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
VRS Total Fund	6.1%	10.8%	8.0%	8.2%	6.8%	7.9%	6.8%
Benchmark*	6.3%	7.9%	6.3%	7.1%	6.0%	7.1%	6.0%

Investment return calculations were prepared using a time-weighted return methodology based on market value, net of investment expenses.

2023 Investments

ASSET ALLOCATION MIX AT JUNE 30, 2023



Investment Diversification at VRS

VRS strategically monitors the portfolio, focusing on returns and performance over 20 years and longer, not simply a single year. From that long-term perspective, the VRS fund continues to exceed the current 6.75% assumed actuarial rate of return for the 25-year period. VRS uses stocks, bonds, real estate, cash and other investment strategies to diversify the fund portfolio.

Diversification:

- Combines different investments to limit exposure to a single asset or strategy, which lowers risk.
- Creates a stable foundation that helps moderate highs and lows in the stock market.
- Follows the mandate of the *Code of Virginia* (§ 51.1-124.30(C)), helping prevent frequent shifts in participating employers' contribution rates and providing rate consistency from year to year.

The board determines the mix of asset classes in the portfolio and uses benchmarks to establish performance criteria for each asset class. For fiscal year 2023, VRS' performance was slightly under the benchmark established by the board for the total fund. ■

DEFINED CONTRIBUTION PLAN ACCOUNT ASSETS AT JUNE 30, 2023

VRS has oversight but no investment responsibility for the VRS Defined Contribution Plans.

Commonwealth of Virginia 457 Deferred Compensation Plan	Virginia Cash Match Plan 401(a)	VRS Hybrid 401(a) Cash Match Plan	VRS Hybrid 457 Deferred Compensation Plan
\$4,087,343,947	\$591,468,574	\$1,263,719,795	\$662,545,101

The investment options for the defined contribution plans are organized into three pathways intended to provide participants with a variety of investment choices while controlling the associated costs:

- Do-It-For-Me Path
- Help-Me-Do-It Path
- Do-It-Myself Path

INVESTMENT SUMMARY

(EXPRESSED IN THOUSANDS)

	2023 Fair Value	Percent of Total Value	2022 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	\$ 5,463,039	5.07%	\$ 5,103,220	4.96%
Mortgage Securities	7,743,993	7.18%	3,384,999	3.29%
Corporate and Other Bonds	5,893,713	5.47%	11,428,104	11.12%
Total Bonds and Mortgage Securities	19,100,745	17.72%	19,916,323	19.37%
Common and Preferred Stocks	24,906,540	23.10%	22,153,695	21.55%
Index and Pooled Funds:				
Equity Index and Pooled Funds	13,242,981	12.28%	12,627,783	12.28%
Fixed-Income Commingled Funds	823,876	0.76%	1,424,241	1.39%
Total Index and Pooled Funds	14,066,857	13.04%	14,052,024	13.67%
Real Assets	13,999,754	12.98%	13,735,587	13.36%
Private Equity	35,612,059	33.02%	32,530,492	31.66%
Short-Term Investments:				
Treasurer of Virginia – LGIP Investment Pool	76,066	0.07%	352,743	0.34%
Foreign Currencies	74,850	0.07%	53,176	0.05%
Total Short-Term Investments	150,916	0.14%	405,919	0.39%
Total Investments	\$ 107,836,871	100.00%	\$ 102,794,040	100.00%

Asset Allocation: Assigning specific percentages of investments to different asset classes according to financial goals, risk tolerance and investment time horizon.

Asset Class: A group of securities that typically behaves similarly in the marketplace when compared to other groups of securities. Three common asset classes are equities, fixed income and cash equivalents.

Benchmark: A standard by which something can be measured or judged.

Credit Strategies: Investments in debt securities such as bonds and other types of public and private debt paid back over time with interest, generating returns through income and capital appreciation.

Diversification: Spreading money among different securities, sectors, industries and strategies within a number of asset classes.

Multi-Asset Public Strategies (MAPS): Similar to a balanced fund, with the goal of achieving value-added returns across several classes of investments while simultaneously mitigating risk in other asset classes.

Total Return: Return on an investment over a specific period of time. Total return includes income and share price appreciation and depreciation. It assumes that all dividends and capital gains paid during the period are reinvested to buy additional shares.



AWARDS

VRS received the following national and local awards during fiscal year 2023:

Academy of Interactive & Visual Arts (AIVA) Communicator Award of Distinction: Auto-Escalation Campaign

Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting and Award for Outstanding Achievement in Popular Annual Financial Reporting

Public Pension Coordinating Council (PPCC) Public Pension Standards Award for Funding and Administration

National Conference on Public Employee Retirement Systems (NCPERS) Certificate of Transparency

WWBT-TV 12 Acts of Kindness: Ronald L. Stokes, VRS senior investment analyst, for organizing free "Budget Bootcamps" in Richmond

Commonwealth of Virginia Certificate of Appreciation for VRS' enthusiastic support of the Commonwealth of Virginia Campaign (CVC)

2023 Serving Those Who Serve Others

Our team is dedicated to fulfilling the VRS vision: To be the trusted leader in the delivery of benefits and services to those we serve.

We strive to provide exceptional service and support to the commonwealth's public servants, who in turn serve citizens in their communities.

myVRS and myVRS Financial Wellness

Our advancements in customer service technology, including self-service opportunities, are an important element of our mission. Guiding members and retirees to financial education resources is a top priority.

- 503,656 cumulative myVRS user registrations.
- 83,686 myVRS Financial Wellness page views.
- 831 Your Money Personality assessment completions.
- 500 myVRS Financial Wellness course completions.
- 306 budgets created.



DCP Voluntary Contributions

VRS partnered with MissionSquare Retirement, the third-party record keeper for its defined contribution plans (DCP), to boost awareness and use of the SmartStep automatic-increase feature and drive engagement with Account Access.

- 84% of the total population chose to make a voluntary contribution because of the communications campaign.
- 793 new SmartStep users in Hybrid Retirement Plan.
- 874 new SmartStep users in Commonwealth of Virginia 457 Plan.



Customer Contact Center

We assist customers with benefit and retirement questions, guiding members and retirees to online tools in myVRS and helping them navigate difficult transitions, including disability or the loss of a loved one.

- 175,179 calls answered.
- 8,076 email responses.



Education and Counseling

VRS engages with members in a variety of ways to meet their educational and counseling needs:

- Virtual, in-person and telephone counseling for members and retirees.
- 16 employer e-courses with 659 completions.
- 25 member training videos with 7,859 completions.
- 23 employer webinars with 1,892 attendees.



Employer Support

We work closely with more than 800 VRS-participating employers—our partners in the delivery of benefits. In addition to direct access to an employer relationship manager and a monthly e-newsletter, we provide:

- 91 employer roundtables with 2,017 contacts representing 693 employers; 87 employer site visits.
- Dedicated support line through our call center.
- Virtual and webinar training.
- Outreach to 826 new benefit administrators at participating employers.



Web Services

The web team manages VRS and collateral websites, which provide benefit information, news and reminders, access to education and training and downloadable publications for members, retirees and employers.

- varetire.org (main site for members and retirees): 3,058,234 page views.
- employers.varetire.org (employers): 282,375 page views.
- Defined Contribution Plans and Hybrid Retirement Plan websites: 624,017 page views.



LEARN MORE ABOUT THE VIRGINIA RETIREMENT SYSTEM

In addition to this document, VRS publishes an *Annual Comprehensive Financial Report*, which provides complete audited financial statements and accompanying notes. Visit varetire.org/publications to view or download a copy.



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