

Administration

From the Director

Patricia S. Bishop, Director

In fiscal year 2024, VRS has focused on enhancing the customer experience by strengthening security and using technology to improve outcomes for those we serve. Our work aligns with VRS’ vision and core values and demonstrates the dedication of our staff. I appreciate the leadership of the VRS Board of Trustees in guiding our efforts.

The agency is progressing on its long-term path toward achieving full funding across all of our plans. Recent cash infusions, combined with the maintenance of board-certified rates, are expected to generate savings and reduce costs over time. These actions reinforce our funded status, stabilize contribution rates and assist the commonwealth in maintaining the highest bond rating. We manage large pension and benefit programs; yet, remain aware that each member’s situation is unique and requires individual care.

Enhancing the Customer Experience: At VRS, we emphasize flexible, accessible service. Our members and retirees can choose from a variety of options, including our website, counseling services and education courses, to access the information they need. Additionally, our VRS-participating employers are key partners, leveraging the resources and training we provide to help employees plan for the future.

myVRS has empowered members and retirees to manage their accounts with ease. The myVRS Financial Wellness program, developed in collaboration with iGrad, offers resources to enhance financial literacy at all stages of life.

Data security and quality continue to be top priorities as we leverage technology to expand service options. In fiscal year 2025, we will launch a new call management system that will advance customer service and efficiencies in our customer contact center.

Commitment to Cost-Effective Services: VRS remains in the most desirable quadrant of CEM Benchmarking’s cost-effective services chart, where we are noted for delivering high service at a low cost compared to our peers. We anticipate that upcoming initiatives will have additional positive impact. Our staff regularly evaluates opportunities to provide exceptional service while managing costs effectively.

A Milestone for the Hybrid Retirement Plan: Ten years after its launch, the hybrid plan has become the dominant plan, with nearly half of VRS’ active members enrolled. The plan has enhanced member outcomes, reduced employer risk and strengthened the health of the fund. Through targeted communications campaigns in partnership with our third-party record keeper MissionSquare Retirement, we have received national recognition for our effective marketing efforts and the measurable results they have produced.

During the fiscal year, VRS also prepared for the July 1, 2024, hybrid rate separation, which will ensure more accurate contributions and simplify processes for employers. At the same time, our teams prepared for the VRS Defined Contribution Plans record keeper transition from MissionSquare Retirement to Voya Financial, effective January 1, 2025.

Investing in Our Staff: Professional development increases the expertise of our staff. Our in-house training program, now in its second year, provides a unique opportunity for staff to choose from a variety of session topics to enhance their skills to meet evolving needs.

Looking Ahead: As we serve those who serve others, we’ll seize opportunities in an ever-changing technology landscape. As a team, we remain committed to helping our members plan for tomorrow, today. ■

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BOARD OF TRUSTEES

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Planning for Tomorrow, Today

Fiscal Year 2024: A Continued Commitment to Our Members

566,258

cumulative myVRS registrations in FY24, up from 503,656 in FY23

619,150

benefit estimates and **228,865** retirement plans created in myVRS

46,958

members served through in-person and virtual presentations, conferences and benefit fairs

6,219

members counseled through virtual and in-person sessions

27,000

views of a myVRS Financial Wellness video cross-promoted with the Virginia Department of Human Resource Management

YouTube

added as one of VRS' three social media channels (with Facebook and LinkedIn)

Open rates for the three VRS digital newsletters exceed the **40%** industry standard

varetire.org, the main site for members and retirees, received **1.1 million** page views

For additional highlights, see page 12 of this report.

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.

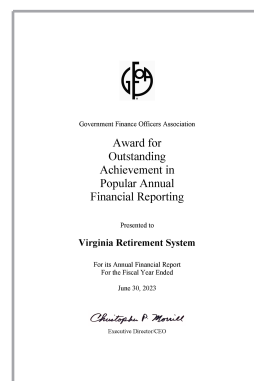
Pursuant to Title 51.1 of the *Code of Virginia*, the Board of Trustees administers and is trustee of the following funds:

- 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).



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, 2023, the eighth 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.

Membership

VRS Total Population: 832,614



DISTRIBUTION OF ACTIVE MEMBERS

AT JUNE 30

| | 2024 | | 2023 | | 2022 | |
|---------------------------------------|----------------|------------------|----------------|------------------|----------------|------------------|
| | Number | Percent of Total | Number | Percent of Total | Number | Percent of Total |
| State Employees (VRS) | 81,977 | 22.3% | 79,064 | 22.2% | 76,156 | 21.8% |
| Teachers (VRS) | 156,377 | 42.5% | 152,954 | 43.0% | 153,204 | 43.9% |
| Political Subdivision Employees (VRS) | 119,828 | 32.6% | 114,599 | 32.1% | 110,675 | 31.6% |
| State Police Officers (SPORS) | 1,877 | 0.5% | 1,917 | 0.5% | 1,875 | 0.5% |
| Virginia Law Officers (VaLORS) | 7,255 | 2.0% | 7,524 | 2.1% | 7,342 | 2.1% |
| Judges (JRS) | 469 | 0.1% | 457 | 0.1% | 459 | 0.1% |
| Total Members | 367,783 | 100.0% | 356,515 | 100.0% | 349,711 | 100.0% |

DISTRIBUTION OF RETIREES AND BENEFICIARIES

AT JUNE 30

| | 2024 | | 2023 | | 2022 | |
|---|----------------|------------------|----------------|------------------|----------------|------------------|
| | Number | Percent of Total | Number | Percent of Total | Number | Percent of Total |
| State Employees (VRS) | 62,719 | 26.1% | 62,292 | 26.4% | 61,651 | 26.6% |
| Teachers (VRS) | 104,834 | 43.5% | 102,346 | 43.4% | 100,148 | 43.2% |
| Political Subdivision Employees (VRS) | 65,154 | 27.1% | 63,631 | 26.9% | 61,994 | 26.8% |
| State Police Officers (SPORS) | 1,460 | 0.6% | 1,533 | 0.6% | 1,511 | 0.7% |
| Virginia Law Officers (VaLORS) | 5,960 | 2.5% | 5,853 | 2.5% | 5,673 | 2.5% |
| Judges (JRS) | 522 | 0.2% | 553 | 0.2% | 546 | 0.2% |
| Total Retirees and Beneficiaries | 240,649 | 100.0% | 236,208 | 100.0% | 231,523 | 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.

Political Subdivision Employees: Employees of Virginia cities, towns, special authorities and commissions.

VRS Participating Employers: 840



* 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, 2024

| | 1-10 Years | 11-20 Years | 21-30 Years | 31-40 Years | 41-50 Years | Over 50 Years | Total |
|------------------------------|---------------|---------------|---------------|---------------|--------------|---------------|----------------|
| VRS – State | 13.00% | 23.02% | 28.97% | 28.65% | 6.16% | 0.20% | 100.00% |
| VRS – Teacher | 10.87% | 24.86% | 34.37% | 27.79% | 2.07% | 0.04% | 100.00% |
| VRS – Political Subdivisions | 18.04% | 29.39% | 32.85% | 17.88% | 1.80% | 0.04% | 100.00% |
| SPORS | 2.95% | 4.59% | 35.34% | 49.93% | 6.85% | 0.34% | 100.00% |
| VaLORS | 9.03% | 28.42% | 51.12% | 10.76% | 0.65% | 0.02% | 100.00% |
| JRS | 1.33% | 3.07% | 9.20% | 12.26% | 18.01% | 56.13% | 100.00% |
| All Plans | 13.00% | 26.00% | 33.00% | 25.00% | 3.00% | 0.00% | 100.00% |

DISTRIBUTION OF RETIREES BY AGE AT RETIREMENT

ALL RETIREES AT JUNE 30, 2024

| | Under 55 | 55-59 | 60-65 | Over Age 65 | Total |
|------------------------------|---------------|---------------|---------------|---------------|----------------|
| VRS – State | 14.81% | 19.27% | 33.98% | 31.94% | 100.00% |
| VRS – Teacher | 13.56% | 30.63% | 34.69% | 21.12% | 100.00% |
| VRS – Political Subdivisions | 23.25% | 18.69% | 30.39% | 27.67% | 100.00% |
| SPORS | 51.86% | 28.42% | 14.45% | 5.27% | 100.00% |
| VaLORS | 43.81% | 24.80% | 23.00% | 8.39% | 100.00% |
| JRS | 4.22% | 12.07% | 29.69% | 54.02% | 100.00% |
| All Plans | 17.47% | 24.24% | 32.92% | 25.37% | 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.



Finance

SUMMARY OF FIDUCIARY NET POSITION

AT JUNE 30

(EXPRESSED IN MILLIONS)

| | 2024 | Increase (Decrease) | 2023 | Increase (Decrease) | 2022 |
|---|---------------------|------------------------|---------------------|------------------------|---------------------|
| Assets: | | | | | |
| Cash, Receivables and Capital Assets | \$ 5,051.5 | \$ (588.8) | \$ 5,640.3 | \$ 2,659.4 | \$ 2,980.9 |
| Investments | 116,482.7 | 8,645.8 | 107,836.9 | 5,042.9 | 102,794.0 |
| Security Lending Collateral | 4,335.9 | 609.2 | 3,726.7 | (913.1) | 4,639.8 |
| Total Assets | 125,870.1 | 8,666.2 | 117,203.9 | 6,789.2 | 110,414.7 |
| Liabilities: | | | | | |
| Accounts Payable and Other Payables | 770.9 | 512.8 | 258.1 | (403.4) | 661.5 |
| Investment Purchases Payable | 6,284.8 | (1,000.8) | 7,285.6 | 3,266.3 | 4,019.3 |
| Obligations Under Securities Lending | 4,536.3 | 809.2 | 3,727.1 | (914.1) | 4,641.2 |
| Total Liabilities | 11,592.0 | 321.2 | 11,270.8 | 1,948.8 | 9,322.0 |
| Total Net Position – Restricted for Benefits | \$ 114,278.1 | \$ 8,345.0 | \$ 105,933.1 | \$ 4,840.4 | \$ 101,092.7 |

SUMMARY OF CHANGES IN FIDUCIARY NET POSITION

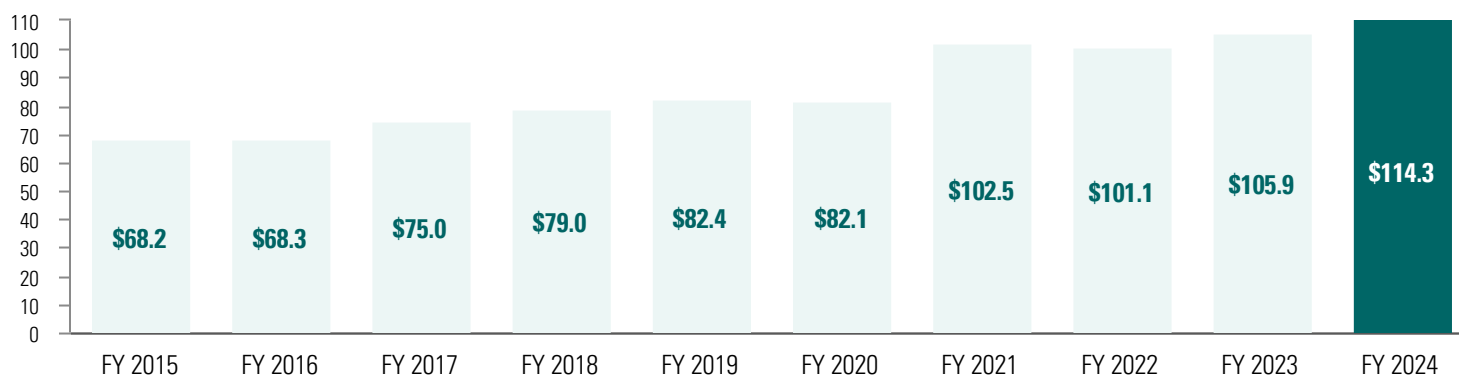
FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

| | 2024 | Increase (Decrease) | 2023 | Increase (Decrease) | 2022 |
|--|---------------------|------------------------|---------------------|------------------------|---------------------|
| Additions: | | | | | |
| Member Contributions | \$ 1,324.1 | \$ 103.9 | \$ 1,220.2 | \$ 86.0 | \$ 1,134.2 |
| Employer Contributions | 3,891.9 | 324.9 | 3,567.0 | 328.4 | 3,238.6 |
| Special Employer Contributions | 55.1 | (61.6) | 116.7 | (157.6) | 274.3 |
| Non-employer Contributing Entity | — | (158.5) | 158.5 | (317.2) | 475.7 |
| Net Investment Income | 10,233.3 | 3,722.2 | 6,511.1 | 6,635.4 | (124.3) |
| Miscellaneous Revenue & Transfers | 6.4 | (0.5) | 6.9 | (2.1) | 9.0 |
| Total Additions | 15,510.8 | 3,930.4 | 11,580.4 | 6,572.9 | 5,007.5 |
| Deductions: | | | | | |
| Retirement Benefits | 6,471.1 | 427.8 | 6,043.3 | 314.0 | 5,729.3 |
| Refunds of Member Contributions | 122.1 | (5.0) | 127.1 | (4.8) | 131.9 |
| Insurance Premiums and Claims | 252.8 | (3.7) | 256.5 | (2.5) | 259.0 |
| Retiree Health Insurance Credit Reimbursements | 183.3 | 1.9 | 181.4 | 2.4 | 179.0 |
| Disability Insurance Benefits | 43.9 | 0.9 | 43.0 | 2.3 | 40.7 |
| Line of Duty Act Reimbursements | 16.5 | 0.8 | 15.7 | 1.6 | 14.1 |
| Administrative and Other Expenses | 76.0 | 3.0 | 73.0 | 2.8 | 70.2 |
| Total Deductions | 7,165.7 | 425.7 | 6,740.0 | 315.8 | 6,424.2 |
| Net Increase (Decrease) in Net Position | 8,345.1 | 3,504.7 | 4,840.4 | 6,257.1 | (1,416.7) |
| Net Position – Beginning of Year | 105,933.1 | 4,840.4 | 101,092.7 | (1,416.7) | 102,509.4 |
| Net Position – End of Year | \$ 114,278.2 | \$ 8,345.1 | \$ 105,933.1 | \$ 4,840.4 | \$ 101,092.7 |

VRS FIDUCIARY NET POSITION (EXPRESSED IN BILLIONS)

AT JUNE 30



NET POSITION RESTRICTED FOR BENEFITS

AT JUNE 30

(EXPRESSED IN THOUSANDS)

| | 2024 | 2023 |
|--|-----------------------|-----------------------|
| Virginia Retirement System | 105,579,401 | 98,127,270 |
| State Police Officers' Retirement System | 1,160,537 | 1,079,755 |
| Virginia Law Officers' Retirement System | 2,076,732 | 1,931,061 |
| Judicial Retirement System | 717,164 | 677,958 |
| Group Life Insurance Advance Premium Deposit Reserve | 3,080,133 | 2,707,739 |
| Retiree Health Insurance Credit Reserve | 775,393 | 599,878 |
| Disability Insurance Trust Fund (VSDP) | 692,870 | 634,779 |
| Line of Duty Act Trust Fund | 4,841 | 5,311 |
| Disability Insurance Trust Fund (VLDP) | 29,474 | 21,141 |
| VRS Investment Portfolio DC Plans | 77,356 | 68,321 |
| Commonwealth Health Research Fund | 50,520 | 47,847 |
| Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund | 6,431 | 5,859 |
| Commonwealth's Attorneys Training Fund | 27,385 | 26,206 |
| Total Pension and Other Employee Benefit Reserves | \$ 114,278,237 | \$ 105,933,125 |

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:
83.45%

VRS Teacher Plan:
84.52%

VRS Political
Subdivision Plans
(Aggregate Total):
92.41%

SPORS:
74.34%

VaLORS:
75.70%

JRS:
88.35%

Finance

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

(EXPRESSED IN MILLIONS)

| | 2024 | Increase (Decrease) | 2023 | Increase (Decrease) | 2022 |
|-----------------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| Benefits | \$ 6,471.1 | \$ 427.8 | \$ 6,043.3 | \$ 314.0 | \$ 5,729.3 |
| Refunds | 121.5 | (3.5) | 125.0 | (5.1) | 130.1 |
| Administrative and Other Expenses | 66.6 | 3.0 | 63.6 | 2.1 | 61.5 |
| Total Primary Expenses | \$ 6,659.2 | \$ 427.3 | \$ 6,231.9 | \$ 311.0 | \$ 5,920.9 |

SCHEDULE OF INVESTMENT EXPENSES FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

| | 2024 | 2023 |
|---------------------------------------|-------------------|-------------------|
| Total External Management Fees | 596,544 | 568,369 |
| Performance Fees | 19,657 | 5,326 |
| Total Miscellaneous Fees and Expenses | 23,550 | 42,032 |
| In-House Investment Management | 50,399 | 49,536 |
| Total Investment Expenses | \$ 690,150 | \$ 665,263 |

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.



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 | 2024 | 2023 |
|--|-----------------|-----------------|
| Virginia Retirement System | 92.328% | 92.553% |
| State Police Officers' Retirement System | 1.017% | 1.021% |
| Virginia Law Officers' Retirement System | 1.820% | 1.825% |
| Judicial Retirement System | 0.629% | 0.642% |
| Group Life Insurance Fund | 2.769% | 2.652% |
| Retiree Health Insurance Credit Fund | 0.669% | 0.552% |
| Disability Insurance Trust Fund (VSDP) | 0.597% | 0.593% |
| Line of Duty Act Trust Fund | 0.005% | 0.005% |
| Virginia Local Disability Program | 0.025% | 0.019% |
| VRS Investment Portfolio | 0.067% | 0.063% |
| Commonwealth Health Research Fund | 0.044% | 0.045% |
| Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund | 0.006% | 0.005% |
| Commonwealth's Attorneys Training Fund | 0.024% | 0.025% |
| Total Equity Interests | 100.000% | 100.000% |

PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY

Group Life Insurance Fund: **73.41%**

State Employee Health Insurance Credit: **35.17%**

Teacher Employee Health Insurance Credit: **21.82%**

VRS Political Subdivision Plans Health Insurance Credit (Aggregate Total): **62.13%**

State-Funded Health Insurance Credit for Constitutional Officers: **34.54%**

State-Funded Health Insurance Credit for Social Services Employees: **42.72%**

State-Funded Health Insurance Credit for Registrars: **56.77%**

Disability Insurance Program: **204.38%**

Virginia Local Disability Program for Teachers: **107.02%**

Virginia Local Disability Program for Political Subdivisions: **129.49%**

Line of Duty Act Program: **1.22%**

From the CIO

Andrew H. Junkin, Chief Investment Officer

Fiscal year 2024 carried forward with many similar themes from the prior year – sustained inflation, higher but stable short-term interest rates and growing geopolitical issues.

In the U.S., the Federal Reserve has a dual mandate to promote maximum employment and stable prices. During the fiscal year, inflation was notably lower than 2023 but hovered between 3% and 3.7%, above the Federal Reserve’s stated goal of 2%. However, as inflation moderated, the unemployment rate slowly climbed from 3.5% in July 2023 to 4.1% in June 2024. Balancing the two mandates, the Federal Reserve began to signal that interest rates would likely decline and, ultimately, decreased the rate by 0.5% in September.

Geopolitically, fiscal year 2024 brought unwelcome news. The war in Ukraine continued unabated in its second year. Last October, Hamas-led militant groups launched a surprise attack in Israel that prompted retaliation and ongoing armed conflict, affecting the stability of the entire region. U.S.-China relations continue to be strained on economic and defense issues.

Despite the challenging backdrop, the global stock market ended the fiscal year with a strong 19.4% return. World financial markets experienced positive returns, with the ongoing and notable exception of real estate.

The VRS portfolio returned 9.9% for the fiscal year, outperforming the long-term assumed rate of return of 6.75% yet underperforming the total fund benchmark of 11.6%. VRS’ long-term investment strategy is focused on maximizing returns at a prudent level of risk. We are keenly focused on avoiding large losses, as required by the *Code of Virginia*. The portfolio includes diverse investments in a variety of asset classes and strategies: publicly traded stocks, fixed income, credit strategies, private equity, real assets, and other risk-mitigating and return-seeking strategies.

Over the long term, the VRS portfolio has provided solid returns to the plan. The table below shows that over intermediate-term

periods and long-term periods, the VRS portfolio has earned returns above the board-specified benchmark.

- Public stock markets had strong, positive returns for the fiscal year. U.S. stocks led the way with a 24.6% return for the S&P 500. VRS’ globally diversified portfolio returned 20.1%, ahead of the benchmark, which had a return of 18.0%.
- Fixed Income returns finished the year up 3.8%, ahead of the benchmark, which returned 3.3%, continuing the consistent run of the bond team’s outperformance.
- The Credit Strategies portfolio – largely comprised of private credit strategies – returned 11.7% for the year, ahead of the benchmark return of 10.8%.
- Private Equity returned 5.8%, falling below the one-year benchmark. This investment strategy requires a long-term perspective as underlying investments are less liquid. Private equity continues to provide strong excess returns over the long term and has been the highest returning asset class over the 3-, 5- and 10-year periods.
- The Real Assets program, which includes real estate, infrastructure and other inflation sensitive assets, returned -3.2%. The program’s benchmark also declined with a return of -5.8%.

The Federal Reserve has eased rates once this year. We expect additional rate cuts that should help maintain stability in financial markets and buoy the job market to some degree. The Federal Reserve’s goal is to engineer the so-called “soft landing” – reducing inflation without causing a recession. A recession is possible over the next year, but we believe the odds are low.

VRS remains highly diversified, which is a key tenet of our investment strategy. We continue to balance risk with return, targeting investments where opportunities present themselves. VRS is well positioned to continue delivering returns that allow the commonwealth to meet its benefit obligations. ■

ANNUALIZED RETURN FOR PERIODS ENDED JUNE 30, 2024

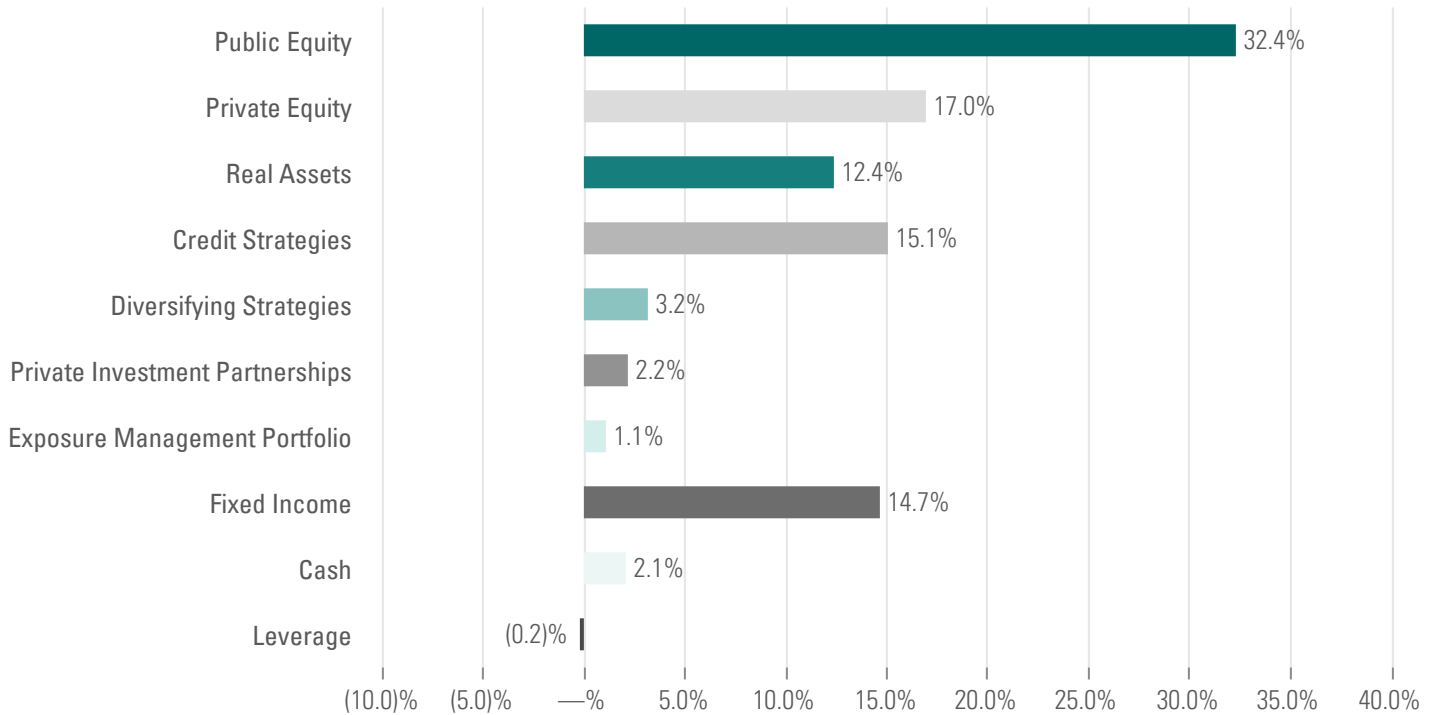
| | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years | 20 Years | 25 Years |
|-----------------------|--------|---------|---------|----------|----------|----------|----------|
| VRS Total Fund | 9.9% | 5.5% | 8.7% | 7.6% | 9.1% | 7.5% | 6.7% |
| Benchmark | 11.6% | 3.9% | 7.2% | 6.8% | 8.4% | 6.7% | 5.9% |

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

Investments

ASSET ALLOCATION MIX AT JUNE 30, 2024

(PERCENTAGE OF TOTAL FUND)



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 2024, VRS' performance was slightly under the benchmark established by the board for the total fund. ■

DEFINED CONTRIBUTION PLAN ACCOUNT ASSETS AT JUNE 30, 2024

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 |
|--|---------------------------------|-----------------------------------|--|
| \$4,633,701,246 | \$656,530,746 | \$1,755,995,364 | \$944,592,970 |

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, Help-Me-Do-It and Do-It-Myself.

Investments

INVESTMENT SUMMARY

(EXPRESSED IN THOUSANDS)

| | 2024 Fair Value | Percent of Total Value | 2023 Fair Value | Percent of Total Value |
|--|-----------------------|---------------------------|-----------------------|---------------------------|
| Bonds and Mortgage Securities: | | | | |
| U.S. Government and Agencies | \$ 7,811,767 | 6.71% | \$ 5,463,039 | 5.07% |
| Mortgage Securities | 5,736,229 | 4.92% | 7,743,993 | 7.18% |
| Corporate and Other Bonds | 8,251,049 | 7.08% | 5,893,713 | 5.47% |
| Total Bonds and Mortgage Securities | 21,799,045 | 18.71% | 19,100,745 | 17.72% |
| Common and Preferred Stocks | 27,035,632 | 23.21% | 24,906,540 | 23.10% |
| Index and Pooled Funds: | | | | |
| Equity Index and Pooled Funds | 14,484,488 | 12.43% | 13,242,981 | 12.28% |
| Fixed-Income Commingled Funds | 0 | 0.00% | 823,876 | 0.76% |
| Total Index and Pooled Funds | 14,484,488 | 12.43% | 14,066,857 | 13.04% |
| Real Assets | 14,153,874 | 12.15% | 13,999,754 | 12.98% |
| Private Equity | 38,502,907 | 33.06% | 35,612,059 | 33.02% |
| Short-Term Investments: | | | | |
| Treasurer of Virginia – LGIP Investment Pool | 482,233 | 0.42% | 76,066 | 0.07% |
| Foreign Currencies | 24,562 | 0.02% | 74,850 | 0.07% |
| Total Short-Term Investments | 506,795 | 0.44% | 150,916 | 0.14% |
| Total Investments | \$ 116,482,741 | 100.00% | \$ 107,836,871 | 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.

Leverage: Uses borrowed funds to invest within various strategies to amplify returns or to better manage portfolio risk.

Diversifying Strategies: 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 AND HONORS

| | | | | | | |
|--|--|--|---|--|--|---|
| The American Business Awards [®] Gold Stevie [®] Award | Academy of Interactive & Visual Arts (AIVA) Communicator Award of Distinction* and Communicator Award of Excellence* | Honorable Mention, P&I Excellence & Innovation Awards, Pensions & Investments* | 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 | Commonwealth of Virginia Certificate of Appreciation for support of the Commonwealth of Virginia Campaign |
|--|--|--|---|--|--|---|

* VRS collaboration with MissionSquare Retirement.

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.

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.



- Total user registrations for myVRS increased by 12.4%.
- 3.4 million myVRS page views.
- 945 Your Money Personality assessment completions.
- 2,871 myVRS Financial Wellness checkups.

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.



- 195,383 calls answered.
- 10,828 email responses.

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 provided:



- 208 roundtables and site visits with 2,871 contacts representing 653 employers.
- Dedicated support line through our call center.
- Virtual and webinar training.
- Outreach to 629 new benefit administrators.

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

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.



- 60,155 participants chose to make a voluntary contribution during the year.
- 9,556 participants set up regular contribution increases with SmartStep.
- 70% of hybrid plan members making voluntary contributions.

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; 1,051 completions.
- 29 member training videos with 7,238 completions.
- 23 employer webinars and virtual classes with 770 attendees.


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.



- VRS Employers website: 402,471 page views.
- Defined Contribution Plans and Hybrid Retirement Plan websites: 723,758 page views.
- VRS' website accessibility score of 89% exceeds the government industry standard.

For other highlights, see page 3 of this report.

 **LEARN MORE ABOUT VRS**
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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Virginia Retirement System®

1200 East Main Street
Richmond, VA 23219
varetire.org, 888-827-3847

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