

Fund Facts

Tier II:
**Passively
Managed Fund¹**

Fund Type:
Bond

Inception Date²:
11/1/1999

Total Net Assets³:
\$3.6 billion

Expense Ratio:
0.06%

Number of Holdings:
5,331

Average Quality⁶:
AA2

Average Maturity:
7.2 years

Duration:
5.0 years

Interest Rate Risk:
Average

Yield:
2.36%

Investment Objective

The Fund seeks to track the performance of the Barclays Capital Aggregate Bond Index. This Index is an unmanaged index considered indicative of the broad domestic bond market in general and consists of government, corporate, mortgage-backed and asset-backed securities. There is no assurance that the Fund will achieve its objective. Refer to “Risks” section.

Manager

The Fund is a collective investment trust managed by a team of State Street Global Advisors (SSgA) professionals.

Investor Profile

Bond investments may be most appropriate for someone seeking higher potential income than with a money market investment. The Fund may be suitable for an investor who may desire to balance more aggressive investments with one providing potentially steady income.

Strategy

The bond portion is invested in SSgA’s U.S. Bond Index Non-Lending Series Fund-Class A. The U.S. stock portion is invested in SSgA’s Russell All Cap Index Non-Lending Series Fund-Class A. The foreign stock portion is invested in SSgA’s International Index Non-Lending Series Fund-Class A. All funds are managed using a “passive” or “indexing” investing approach, by which SSgA attempts to replicate, before expenses, the performance of the funds’ respective benchmark indices. The funds typically seek to achieve their objectives by investing in securities comprising their respective indices in the same proportions as they are represented in the indices. In some cases, it may not be possible or practicable to purchase all of the securities comprising the indices, or to hold them in the same weightings as represented in the indices. In those circumstances, SSgA may employ a sampling or optimization technique to construct the portfolios. From time to time, SSgA may purchase securities that are not yet represented in the indices or sell securities that have not yet been removed from the indices. The Fund may use futures and other derivatives and may invest in other investment options.

Risks

There are risks involved with investing, including loss of money over short or long periods of time. Fund risks include, but are not limited to:

Interest rate risk: The risk that if interest rates rise bonds will decline in value.

Income risk: The risk that a fund’s income will decline because of falling interest rates.

Default (credit) risk: The risk that an issuer fails to pay interest or principal when due or in a timely manner or that negative perceptions of an issuer’s ability to make such payments will cause the price of the security to decline.

Call risk: The risk that the issuer of a callable bond will redeem the bond issue prior to maturity. This typically results in the bond holder reinvesting funds at a lower interest rate resulting in a decline in income and losing the opportunity for additional price appreciation associated with falling interest rates.

Prepayment risk: The risk associated with the early unscheduled return of principal which results in the bondholder losing income due to the early payoff of the debt and potentially having to reinvest funds at lower interest rates.

Market risk: The risk that the price of securities in a fund will rise or fall sometimes rapidly or unpredictably due to factors such as real or perceived adverse economic conditions, political developments, and/or investor sentiment generally. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously. Stocks generally have greater price volatility than bonds.

Manager risk: The risk that manager decisions can adversely affect the ability of a fund to meet its investment objectives and/or cause a fund to underperform relevant benchmarks.

Bond Index Fund

as of September 30, 2011

Performance

Current performance may be lower or higher than performance data shown. Performance data shown represents past performance and is not a guarantee or prediction of future results. For performance data current to the most recent month-end, please visit the Web site at www.varetire.org and select a Plan under the Defined Contribution Plans tab. Choose "Plan Investments" and then "Investment Performance." The investment return and principal value of an investment will fluctuate so that, when redeemed, shares/units may be worth more or less than their original cost. Investors should consider the investment objectives, risk, fees and expenses carefully before investing.

	1 Year	3 Years*	5 Years*	10 Years*
Bond Index Fund ⁴	5.25%	8.03%	6.62 %	5.73%
Barclays Capital Aggregate Bond Index ⁵	5.26	7.97	6.53	5.66

Top Holdings

US/T	35.0%
FNMA	16.2
FHLMC	12.7
GNMA	7.0
FHLB	1.0
GE	0.6
EIB	0.6
JPM	0.5
KFW	0.5
C	0.5

Allocation

Bonds	100.0%
Cash & Other	0.0

Quality Distribution**

Aaa	75.5%
Aa	5.8
A	10.2
Baa	8.6

Sector Weightings**

Treasury	35.0%
Mortgage-Backed Securities (MBS)	32.4
Industrial	10.8
Finance	6.8
Agency	5.2
Non-Corporates	5.1
Utility	2.2
CMBS	2.1
Asset-Backed Securities (ABS)	0.3
Cash	0.0

Glossary

Quality Ratings: Represents bond issuers' ability to make interest payments and repay principal over time. Rating organizations such as Moody's and Standard & Poor's evaluate the credit worthiness of bonds and assign ratings accordingly. Because the financial condition of an issuer can change, rating organizations may downgrade or upgrade ratings over time. The chart on the right serves as a reference.

Duration: Measures a bond or bond portfolio's price sensitivity to changes in interest rates. The higher the duration number (expressed in years) the greater the interest rate risk.

Yield: Approximates the percent returned on a bond investment if held to maturity.

Investment Grade	Moody's [†]	Standard & Poor's ^{††}
Highest Quality	Aaa	AAA
High Quality (very strong)	Aa	AA
Upper-Medium Grade Quality (strong)	A	A
Medium Grade Quality	Baa	BBB
Not Investment Grade		
Lower Medium Grade Quality (somewhat speculative)	Ba	BB
Low Grade Quality (speculative)	B	B
Poor Quality	Caa	CCC
Most Speculative	Ca	CC
Imminent Default or Default	C	C, D

[†]The ratings from Aa to Ca by Moody's may be modified by the addition of 1, 2 or 3 to show relative standing within the category with 1 ranking in the higher end and 3 ranking in the lower end of the category.

^{††}The ratings from AA to CC by Standard & Poor's may be modified by the addition of a plus or minus sign to show relative standing within the category.

*Annualized

** May not equal 100% due to rounding.

1 A passively-managed fund tries to track the total return of a particular index. They are often called "passively-managed" because the way your money is invested is determined by the securities that are included in a particular index, not the research and discretion of a portfolio manager.

2 The inception date shown reflects the VRS Defined Contribution Plans investment strategy inception date. Prior to February 28, 2010 the inception date shown reflected the SSgA Series Class Fund. The change was made due to the length of the strategy performance track record for the Plans and because the investment strategy may be comprised of more than one underlying fund.

3 Total Net Assets shown reflect that of the Series Class Non-Lending Fund.

4 The performance returns shown reflect all fund management fees and expenses, but does not reflect the Plan administrative fee, which would further reduce the returns shown. All calculations assume reinvestment of dividends and capital gains. All returns are calculated in U.S. dollars.

5 You cannot invest directly in an Index.

6 The average quality rating reported by SSgA is a composite rating of ratings published by Moody's, Standard & Poor's and Fitch.

Plan Administrative Fee - ING Institutional Plan Services ("ING"), the Plans' record keeper, will deduct an annual record keeping and communication services fee of 18 basis points (0.18%) capped at \$130,000 from your combined account balance on a quarterly basis (0.045% per quarter).

NOT FDIC INSURED - MAY LOSE VALUE - NO BANK GUARANTEE