

Fund Facts

Tier III:
**Actively Managed
Asset Allocation Fund¹**

Fund Type:
Asset Allocation

Inception Date:²
7/1/2008

Total Net Assets:
\$49.6 billion

Expense Ratio:³
0.66%

Investment Objective

The investment objective of the VRSIP is to maximize return while managing risk within an acceptable range. Due to the long-term nature of the defined benefit plan's liabilities, the horizon for investment decisions is generally defined as 10 years or longer. There is no assurance that the Fund will achieve its objective. Refer to "Risks" section.

Manager

The Fund is managed by a team of professionals at the Virginia Retirement System (VRS). Investment activities are accomplished through direct management by VRS investment staff as well as staff-appointed outside managers.

Investor Profile

The Fund may be appropriate for the investor who wants to simplify the asset allocation process by investing in a single fund consisting of a diversified portfolio.⁴ The Fund may be suitable for the investor with a long-term investment time frame who is willing to accept the risks associated with the daily volatility of the investment markets.

Strategy

The VRSIP will pursue its objective through the active and passive management of a diversified portfolio of investments. Such investments may include but not be limited to U.S. stocks, non-U.S. stocks, bonds, public and private real estate, credit strategies, convertibles, private equity and cash. The Fund may use a variety of investment techniques and strategies to achieve desired portfolio results within particular investment mandates. Such strategies may include but not be limited to the use of illiquid securities, derivatives, leverage, short sales, swaps, foreign currency transactions and loaning of securities.

Risks

Risk is assessed in an asset-liability framework, and the Board establishes asset allocation policy based primarily on the expected volatility in the pension plan's funded status and contribution rate volatility.

Specific risk objectives for the Fund are to: 1) Manage the volatility (a measure of the dispersion of outcomes for the return on an investment; typically, this is stated as annualized standard deviation) of the Fund within a reasonable range around a targeted volatility as established in the asset allocation process; and 2) manage tracking error of the Fund within a reasonable range around a targeted tracking error. Tracking error is a statistical measure describing the degree of variability around policy benchmarks, and is calculated as the standard deviation of the difference between the Fund's return and the benchmark's return. Standard deviation is a statistical measure of the extent to which numbers are spread around their average.

The Board may change the risk target and strategy for the Fund at any time, based on the needs of the pension plan and changing market conditions. In general, the investment strategies and risk measures used in managing the Fund are designed to help the Board control risks in a manner appropriate for a long-term pension plan with minimal liquidity needs. Such strategies and risk measures may not be consistent with the risk tolerance and objectives of individual investors, and participants should carefully assess the suitability of the Fund in light of their own specific objectives.

The Fund's participation in a securities lending program may result in losses to the Fund. Securities lending programs and subsequent reinvestment of the posted collateral are subject to a number of risks, including the risk that the value of the investment held in collateral pools may decline in value, be sold at a loss or incur credit losses.

Quarterly Opening

Because some of the underlying investments are illiquid in nature (such as real estate and private equity), the VRSIP is officially valued on a calendar quarter basis. Thus, the VRSIP is open to contributions, incoming and outgoing transfers only on a quarterly basis. Contributions and investment transfer amounts awaiting deposit into the VRSIP are invested in the Interim Account VRSIP (IAVRSIP).

Quarterly Opening (cont'd)

Money held in the IAVRSIP will be invested in the Long-Term Growth Fund. The Long-Term Growth Fund is a Tier I Asset Allocation fund option available to DC plan participants. For more information regarding the IAVRSIP, refer to the IAVRSIP Fund Profile Sheet available through www.varetire.org or call 1-VRS-DC-PLAN1 (1-877-327-5261). Transfer requests from the VRSIP are not processed immediately.

Transfer requests from the VRSIP made prior to quarter end will be held in pending status until the ninth business day of the following quarter. The transfer request will be processed on the ninth business day following quarter end. Because of the inherent lag in the valuation process, dollars being transferred out of the VRSIP will not be invested in the market during this nine business day timeframe. This may translate from 11 to 14 calendar days.

Participants should read the VRSIP Disclosure Document for information regarding the administrative parameters before investing in the VRSIP. Go to www.varetire.org and select your Plan under the *Defined Contribution Plans* tab. Then, select *Plan Investments and Fund Information for VRSIP Disclosure*.

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 ^{6*}	10 Years ^{6*}
VRSIP ⁷	1.85%	3.31%	1.81%	5.82%
Intermediate-Term Benchmark ⁸	2.04	3.29	1.64	5.47
Long-Term Benchmark ⁸	2.72	3.81	1.66	4.45

Asset Allocation^{5**}

Fixed Income	21.1%
Domestic Equity	20.7
Non-U.S. Equity (Dev)	16.3
Credit Strategies	10.2
Private Equity	10.0
Emerging Markets	6.9
Private Real Estate	6.5
Convertibles	4.3
Emerging Market Debt	2.7
Public Real Estate	1.0
Cash	0.3

*Annualized

**Due to rounding, weightings may not equal 100%.

1 An actively-managed fund tries to produce higher returns than the benchmark index. A professional portfolio manager, typically with one or more analysts, engages in regular in-depth research on the individual securities within a particular area of focus. Actively-managed investment options tend to have higher fees than those that are passively-managed because you are paying the investment manager for his or her expertise and research in deciding which securities to buy or sell and for the potential of achieving higher returns. Actively-managed investment options may also have higher fees due to more frequent trading of securities within the investment option than with a passively-managed one.

2 The inception date shown reflects the date the VRS investment portfolio was unitized.

3 Expense ratio is based on those expenses incurred in the fiscal year ended June 30, 2010.

4 Diversification of an investment portfolio does not assure a profit and does not protect against loss in declining markets.

5 Holdings and composition of holdings are subject to change.

6 Historical data is based on the returns of the VRS investment portfolio prior to the portfolio being unitized.

7 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.

8 In analyzing the performance of the fund, the Board uses an Intermediate-Term Benchmark and a Long-Term Benchmark. Both benchmarks are rebalanced monthly.

Intermediate-Term Benchmark: The Intermediate-Term Benchmark represents the strategic asset allocation mix and program level benchmarks established by the Board during its annual asset allocation review.

Long-Term Benchmark: Effective July 2010, the Long-Term benchmark is 60% Russell 3000 Index and 40% Citigroup Broad Investment Grade Index. Prior to July 2010 the benchmark was 70% Russell 3000 Index and 30% Citigroup Broad Investment Grade Index. The two benchmarks are linked for historical performance purposes.

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).