

THE VRS INVESTMENT PORTFOLIO (VRSIP)

This Disclosure summarizes information about the VRSIP offered as an investment option under the Deferred Compensation Plan, the Virginia Cash Match Plan, the Optional Retirement Plan for Political Appointees, the Optional Retirement Plan for Public School Superintendents, and the Virginia Supplemental Retirement Plan of the Commonwealth of Virginia. Plan participants should read and retain this Disclosure for future reference. This document will be updated periodically as necessary.

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KEY INFORMATION

The Virginia Retirement System (VRS) has been established for the purpose of providing retirement and other benefits to teachers, state employees, and employees of participating political subdivisions. VRS manages more than \$39.0¹ billion in defined benefit plan and other non-pension trust assets and oversees more than \$1.3¹ billion in defined contribution plan assets.

The \$39.0¹ billion investment pool has been unitized to provide participants in the Deferred Compensation Plan, the Virginia Cash Match Plan, the Optional Retirement Plan for Political Appointees, the Optional Retirement Plan for Public School Superintendents, and the Virginia Supplemental Retirement Plan the opportunity to invest in the VRSIP.

It is important to note that by investing in the VRSIP you are not investing in a defined benefit (DB) pension plan. Investing in the VRSIP does not provide you with the opportunity to purchase additional DB plan service credit or increase your monthly DB pension benefit. Like other core investment options, participants investing in the VRSIP are subject to investment risks, including loss of principal and earnings.

The VRSIP is a diversified portfolio that invests in numerous asset classes. Because some of the underlying asset classes 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 and incoming and outgoing transfers only on a quarterly basis.** Please read this information carefully and consider the administrative parameters, investment objectives, risks, and fees before investing.

Investments in the Fund are NOT guaranteed by the Virginia Retirement System or the underlying investment managers, the Commonwealth of Virginia, the Federal Deposit Insurance Corporation, or any other agency of the U.S. Government, and are subject to investment risks, including loss of principal. The

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Fund is not an investment company and, accordingly, is not required to be registered under the Investment Company Act of 1940.

WHO SHOULD CONSIDER INVESTING

You may wish to consider investing in the VRSIP if:

- You understand the risks involved in investing in the VRSIP;
- The fund's investment policy and strategies are consistent with your investment objectives and risk tolerance; and
- You are comfortable with the administrative parameters regarding investing in the VRSIP.

You probably should not consider investing in the VRSIP if:

- You are looking for FDIC insurance coverage or interest that is guaranteed for a specific period, such as in a certificate of deposit;
- You are unwilling to accept the risks involved in the securities market and the likelihood that the fund will sometimes experience losses; and
- You are not comfortable with the long-term investment horizon of the fund (10 years or longer).

FUND GOVERNANCE AND MANAGEMENT

The VRS Board of Trustees ("Board") is responsible for establishing broad policy guidelines and benchmarks designed to enable the fund to achieve its investment objective. The Board is comprised of nine members as follows: five members are appointed by the Governor and four members are appointed by the Joint Rules Committee. All appointees must be confirmed by an affirmative vote of a majority of those voting in each house of the General Assembly.

The Board establishes policy in the areas of asset allocation targets/limits, fund rebalancing ranges, total fund and program level benchmarks, and active risk limits. Refer to Appendix 1 for these Board approved investment parameters. These parameters are subject to change when warranted by changes in the investment market place. Beyond these broad policy decisions, the Board has delegated to the Chief Investment Officer (CIO) all other decision making relating to the investment of VRS assets. In carrying out its fiduciary duty to oversee the investments of the fund, the Board also considers advice and recommendations provided by the VRS Investment Advisory Committee (IAC). The IAC consists of seven to nine members with each member appointment requiring a two-thirds vote of the Board. The composition of the Board, IAC members, and VRS investment staff may change from time to time.

Investment activities are accomplished through direct management by VRS investment staff as well as staff appointed outside managers. The Board has granted the CIO the authority to hire and fire investment managers at any time using processes deemed likely to achieve the best investment results for the fund.

The VRS Annual Report includes a list of Board members, IAC members, investment executive team members, and outside managers as of the date of its compilation. A copy of the Annual Report is available on the VRS Web site at www.varetire.org or in hardcopy upon request.

INVESTMENT OBJECTIVE AND POLICIES

Objective: The investment objective of the VRSIP is to maximize return while managing risk (refer to Risk Section) 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 portfolio will achieve its objective.*

Strategy: The VRSIP will pursue its objective through the active and passive management of a diversified portfolio of investments. 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.

Asset Allocation/Rebalancing: Asset allocation policy is important because it defines the basic risk and return characteristics of the VRSIP. The Board, in consideration of the IAC and CIO recommendations, sets the fund's strategic asset allocation mix and reviews the mix at least once each fiscal year. The Board also establishes a rebalancing range around each asset class target weight within which the CIO is granted discretion. The strategic asset allocation mix and rebalancing ranges may change as needs arise. Appendix 1 shows the fund's strategic asset allocation mix and the rebalancing range for each asset class as of the date of printing of this document. Interested parties may view the fund's quarterly fact sheet by visiting the VRS Web site at www.varetire.org and selecting a Plan under the *Defined Contribution Plans* tab. Then, select *Fund Information* under the *Plan Investments* tab. Or, call the toll-free Plan Information Line at 1-VRS-DCPLAN1 (1-877-327-5261) to have one mailed to you.

RISK

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 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. Appendix 1 shows the tracking error range for the fund as of the date of the printing of this document.

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.

PERFORMANCE BENCHMARKS

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

Long Term Benchmark. The Long Term Benchmark is a mix of publicly traded domestic stocks and bonds that reflect the Board's risk target of the fund. The purpose of this benchmark is to provide a long-term baseline comparison versus the fund's more diversified and active strategies. The long term benchmark currently consists of 70% Russell 3000 Index and 30% Citigroup Broad Investment Grade Index. The composition of this benchmark is subject to change.

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. The purpose of this benchmark is to evaluate the success in implementing the strategic asset allocation policy.

FEES AND EXPENSES

The following information describes the fees and expenses of the fund which are paid directly from fund assets. Each investment manager charges a basic investment management fee for the management of investments. Some investment management contracts contain performance fees wherein the manager may receive additional compensation based on the manager's investment performance. Investment management fees and any performance based fees vary by the manager's investment mandate and contract. Other fund expenses include: custody, transaction costs, VRS internal operating costs, legal fees, and other administrative expenses.

As of fiscal year ended June 30, 2008 the expense ratio for the VRSIP was 0.49%. The VRS Annual Report lists fees incurred by the fund at the most recent fiscal year end. A copy of the Annual Report is available on the VRS Web site at www.varetire.org or in hardcopy upon request.

In addition to the fees described above, participants will incur a fee related to money held in the Interim Account (please see the IAVRSIP fund fact sheet on www.varetire.org under the *Defined Contribution Plans* tab for specific expense ratio information) and a fee for third-party administrator (TPA) services. The TPA's annual record keeping and communication services fee is 19 basis points (0.19%) capped at combined account balances of \$130,000 deducted from participant accounts on a quarterly basis (0.0475% per quarter).

VALUATION OF UNITS

The Bank New York Mellon, as the custodian for the VRS investment pool will calculate a unit value for the VRSIP as of the close of each month. However, under the plan, participants are permitted in and out of the VRSIP only on the basis of quarterly unit values. This is because valuations for many of the fund's illiquid holdings such as real estate and private equity are only available quarterly. Although interim unit values are provided as of the end of each month, they will not be based on up-to-date values for some of the fund's holdings. Interim unit values should only be viewed as estimates to assist you in keeping track of your VRSIP account between quarterly valuations.

Month end unit values for the VRSIP are calculated on the eighth business day following each month's end. When accessing your account via the Web site, remember unit values for January, February, April, May, July, August, October and November are just estimates. Only quarterly unit values for March, June, September and December are used for fund entry or exit.

ADMINISTRATIVE PARAMETERS

Terms

VRS Investment Portfolio (VRSIP) – An investment pool managed by VRS.

Interim Account VRSIP (IAVRSIP) – A daily valued account where contributions and investment transfers are held until invested in the VRSIP. Money held in the IAVRSIP is invested in the same *Long-Term Growth Fund* as offered in the VRS defined contribution plans.

Preliminary Investment Portfolio VRSIP (PIPVRSIP) – A non-interest bearing holding account where IAVRSIP balances are moved to after the last business day of the quarter and prior to being swept into the VRSIP. Balances held in the PIPVRSIP account are not available for transfer out or withdrawal.

Core investment options – Daily valued investment options offered by the VRS defined contribution plans.

The VRSIP operates differently than the core investment options offered by the VRS defined contribution plans because it is officially valued quarterly. The following parameters are provided to help you understand these differences and what you should consider prior to investing in the VRSIP and keep in mind when managing your account.

- **Getting started**
 - Once you have read the *Who Should Consider Investing* section of this Disclosure document and understand the investment objective and risks as well as the administrative parameters regarding the VRSIP, go to www.varetire.org and select *Account Log-in* under the *Defined Contribution Plans* tab to access your account. Then, select *Manage Investments* under the *My Account* tab and enter the percentage you wish to allocate to the IAVRSIP.
- **Contribution allocation to the IAVRSIP**
 - You can allocate a maximum of 95% of your on-going contribution amount to the IAVRSIP. To log in to your account, go to www.varetire.org and select *Account Log-in* under the *Defined Contribution Plans* tab. Then, choose *On-going Contributions* under the *My Account* tab and enter the percentage you wish to allocate to the IAVRSIP.
- **Contributions to the IAVRSIP**
 - Your contributions designated for the VRSIP are first deposited to the IAVRSIP where they are held until the last business day of each quarter. Money held in the IAVRSIP is available for transfers out and withdrawals up until market close (4:00 p.m. Eastern time) the last business day of each quarter.
- **Timing of your contribution allocation to the VRSIP**
 - After market close on the last business day of each quarter, all balances held in the IAVRSIP are transferred into the PIPVRSIP account where they are held until a unit value is established for the VRSIP. Balances held in the PIPVRSIP account are not available for transfer out or withdrawal.
 - The VRSIP unit value will be established by the eighth business day following quarter end, at which time balances will be transferred from the PIPVRSIP to the VRSIP. Balances transferred to the VRSIP on the eighth business day will be treated as if they were invested in the VRSIP on the first day of the quarter.
- **Transfers in to the IAVRSIP**
 - You can transfer money from the core investment options to the VRSIP by logging into your account at www.varetire.org. To do so, select *Account Log-in* under the *Defined Contribution*

Plans tab. Under the *My Account* tab, choose *Fund Transfer* under *Manage Investments* and enter the percentage you wish to transfer from your existing core funds into the IAVRSIP.

- You may transfer all but \$2,500 out of your core VRS funds in to the IAVRSIP.
- After market close on the last business day of each quarter, balances held in the IAVRSIP are transferred into the PIPVRSIP where they are held until a unit value is established for the VRSIP. Amounts held in the PIPVRSIP account are not available for transfer out or withdrawal.
- The VRSIP unit value will be established by the eighth business day following quarter end, at which time balances will be transferred from the PIPVRSIP to the VRSIP. Fund amounts transferred into the VRSIP on the eighth business day will be treated as if they were invested in the VRSIP on the first day of the month.

- **Transfers out of the VRSIP**

- You can transfer money from the VRSIP to the core investment options by logging into your account at www.varetire.org. To do so, select *Account Log-in* under the *Defined Contribution Plans* tab. Under the *My Account* tab, choose *Fund Transfer* under *Manage Investments* and enter the percent you wish to transfer from the VRSIP into the core investment options.
- **Important:** 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 then be processed on the ninth business day following quarter end. Because of the lag inherent in the valuation process, dollars being transferred out of the VRSIP will not be invested in the market during this nine business day time frame. This may translate to 11 to 14 calendar days.

- **Withdrawals from the VRS defined contribution plans when you have a balance in the VRSIP**

- You cannot make a withdrawal, even a hardship withdrawal, from the VRSIP.
- In order to request a full withdrawal from your account with the VRS defined contribution plans, you must first transfer your balance in the VRSIP back into the core investment options. Please see “How do I transfer money out of the VRSIP?” above for more information.
- You must transfer sufficient funds to process your request. If you do not have sufficient funds in your core funds, your request will be processed to the extent possible from the core funds. However, this could result in a smaller payout than requested.

- **Tracking your account in between quarters**

- Month end unit values for the VRSIP are calculated on the eighth business day following each month’s end. When accessing your account via the plan’s Web site, remember unit values for January, February, April, May, July, August, October and November are just estimates. Only quarterly unit values for March, June, September and December are used for fund entry or exit.
- Although interim unit values are provided as of the end of each month, they will not be based on up-to-date values for some of the fund’s holdings. Interim unit values should only be viewed as estimates to assist you in keeping track of your VRSIP account between quarterly valuations.

Footnotes

¹ As of March 31, 2009

COPIES OF THE DISCLOSURE AND ACCOUNT INFORMATION

Copies of the Disclosure. For additional copies of this Disclosure, please contact a Virginia registered representative or go to *www.varetire.org*. Or, call the toll-free Plan Information Line at 1-VRS-DC-PLAN1 (1-877-327-5261).

Account Information. For account balance, performance and other information, go to *www.varetire.org*. Or, call the toll-free Plan Information Line at 1-VRS-DC-PLAN1 (1-877-327-5261).

For additional information about the Virginia Retirement System, please visit the Web site at *www.varetire.org* or write to the following address:

The Virginia Retirement System
Attn: Public Relations Director
PO Box 2500
Richmond, VA 23218

Appendix 1
as of February 19, 2009

| Asset Class (Strategies) | Policy Limit % | Rebalance Range | Policy Target % | Benchmark | Tracking Error Target | Tracking Error Limit |
|--------------------------|----------------|-----------------|-----------------|---|-----------------------|----------------------|
| Public Equity | | | | Public Equity Custom | | |
| Developed Mkt Equity | | | see below | n/a | | |
| U.S. Equity | | ± 4% | see below | Frank Russell 3000 Index | | |
| Non-U.S. | | ± 4% | see below | MSCI World ex U.S. (+ Korea) 50% Hedged Index | | |
| Emerging Equity | | ± 4% | see below | MSCI Emerging IMI (ex Korea) Index | | |
| Fixed Income | | ± 4% | 22.5% | Citigroup Broad Investment Grade Index | | |
| Credit Strategies | ≤ 10.0% | ± 4% | actual | Credit Strategies Custom | | |
| Credit | - | - | - | ML U.S. High Yield BB-B Constrained Index | | |
| Convertible Bonds | - | - | - | Merrill Lynch All Convertibles Index | | |
| Real Estate | ≤ 10.0% | ± 4% | actual | Real Estate Custom | | |
| Public | - | - | - | Total REIT Custom | | |
| Private | - | - | - | NCREIF Property Index | | |
| Private Equity | ≤ 10.0% | ± 4% | actual | Private Equity Custom | | |
| Cash | | - | 0.25% | Merrill Lynch 91-day T-Bill Index | | |
| Total Fund | | | | VRS Intermediate Policy Benchmark | 120 bps | 200 bps |
| Hedge Funds (Strategies) | ≤ 10.0% | n/a | | varies by program | | |

Note: The Board establishes the total fund tracking error limit and reviews the total fund tracking error target. The total fund tracking error limit is the maximum allowable observed tracking error calculated on a rolling 36-month basis. The total fund tracking error target is the amount of expected tracking error based on the total fund's current mix and strategies. The CIO establishes individual program tracking error limits and targets.

The policy weight for **Developed Market Equity** is equal to 100% minus the policy weight for Cash (0.25%) minus the policy weight for Emerging Equity minus the policy weight for Fixed Income minus the sum of the actual weights for Credit Strategies, Real Estate, and Private Equity.

The policy weight for **U.S. Equity** is 60% times the policy weight for Developed Market Equity. The policy weight for **Non-U.S. Equity** is 40% times the policy weight for Developed Market Equity.

The policy weight for **Emerging Equity** equals (the weight of MSCI Emerging IMI (ex Korea) Index within the All Country World Index) times (the weight of VRS Public Equity within the VRS Total Fund). This policy weighting will be fully implemented on April 1, 2009 at which time Korea will be shifted from Non-U.S. Developed to Emerging Equity.

The policy weight for **Fixed Income** consists of a 20% strategic weight combined with the current 2.5% opportunistic weight.

At the discretion of the CIO, the policy limits for **Credit Strategies** and **Real Estate**, and the policy target for **Fixed Income** may be adjusted upward to reflect opportunistic usage of credit and debt related strategies. There is a 10% cap on these opportunistic policy shifts.

The **VRS Intermediate Policy Benchmark** is a weighted average of the following benchmarks:

| Asset Class | Weight | Benchmark |
|-------------------------|---|---|
| Developed Market Equity | Plug value (to equal 100%) | n/a |
| U.S. Equity | 60.0% times Dev. Mkt. Equity | Russell 3000 Index |
| Non-U.S. Equity | 40.0% times Dev. Mkt. Equity | MSCI World ex U.S. (+ Korea) 50% hedged Index |
| Emerging Equity | (EM wt (ex Korea) as % of ACWI) times (Public Equity weight as % of Total Fund) | MSCI Emerging IMI (ex Korea) Index |
| Fixed Income | Policy weight | Citigroup Broad Investment Grade Index |
| Private Equity | Actual weight | Private Equity Custom |
| Real Estate | Actual weight | Real Estate Custom |
| Credit Strategies | Actual weight | Credit Strategies Custom |
| Cash | 0.25% | Merrill Lynch 91-day T-Bill Index |

The Credit Strategies Custom Benchmark is the weighted average of the Merrill Lynch U.S. High Yield BB-B Constrained Index and the Merrill Lynch All Convertibles Index.

The Total REIT Custom Benchmark is the weighted average of the Dow Jones Wilshire REIT Index (domestic public real estate) and the FTSE EPRA/NAREIT Global Real Estate Index (global public real estate).

The Real Estate Custom Benchmark is the weighted average of the NCREIF Property Index lagged by 3 months (private real estate), the Dow Jones Wilshire REIT Index (domestic public real estate) and the FTSE EPRA/NAREIT Global REIT Index (global public real estate).

The Private Equity Custom Benchmark is the Russell 3000 Index lagged by 3 months plus 250 basis points per annum.

Hedge Funds are a collection of active strategies that may be used in any VRS investment program that fits the underlying assets.