Virginia Retirement System®

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September 28, 2026

The Honorable Abigail D. Spanberger
Governor of Virginia
1111 East Broad Street
Richmond, Virginia 23219

The Honorable L. Louise Lucas
Chair, Senate Finance and Appropriations Committee
Senate of Virginia
General Assembly Building
201 North 9th Street, Room 1404
Richmond, Virginia 23219

The Honorable Luke E. Torian
Chair, House Appropriations Committee
House of Delegates
General Assembly Building
201 North 9th Street, Room 1223
Richmond, Virginia 23219

Re: Report on Virginia Retirement System Internal Asset Management

Dear Governor Spanberger, Chair Lucas, and Chair Torian:

Pursuant to Item 484 of Chapter 1 of the 2026 Acts of Assembly (2026 Appropriation Act), I am pleased to provide a report on the fiscal year 2026 results obtained by the internal investment management program at the Virginia Retirement System (VRS).

The VRS internal investment management program continues to make an important contribution to the total fund. As of June 30, 2026, the internal investment management team managed a total of approximately $43.6 billion in assets, representing approximately 32% of the fund. This amount consisted of approximately $24 billion managed in equity-related strategies, and approximately $19.6 billion managed in fixed income strategies. In addition, both programs engage in other money management activities to support other areas of the total fund.

Due to the nature of VRS' liabilities, VRS has a long-term investment time horizon. Accordingly, the VRS Board of Trustees has established certain external benchmarks for evaluating portfolio managers and believes that longer term time frames are the most useful for evaluating performance. I am pleased to report that the internally managed funds delivered strong performance relative to the policy benchmarks over the 3-, 5-, and 10-year periods ending on June 30, 2026, as demonstrated in the following table. We estimate the average annual value added to the total fund from these excess returns over the last 10 years is approximately $222 million, resulting in about $2.2 billion in additional dollars to the fund for the 10-year period.

IAM Track Record as of June 30, 2026 *(Expressed in Percentages, Net of Fees)*				
		3 Years	5 Years	10 Years
Fixed Income Mandates	**Internal Core Portfolio**	**4.8**	**0.7**	**2.4**
	Benchmark	*4.2*	*0.1*	*1.5*
	Excess	0.6	0.6	0.9
	Internal Emerging Market Debt	**10.2**	**2.7**	**na**
	Benchmark	*9.8*	*2.1*	*na*
	Excess	0.4	0.6	na
	Internal High Yield	**8.6**	**4.8**	**na**
	Benchmark	*8.4*	*3.9*	*na*
	Excess	0.2	0.9	na
Equity Mandates	**Composite Portfolio**	**20.4**	**12.5**	**12.9**
	Benchmark	*17.9*	*10.4*	*12.3*
	Excess	2.5	2.1	0.6

In addition to delivering performance exceeding policy benchmarks, the internal asset management team continues to operate at a low level of cost when compared to fees that would be charged by outside managers who offer similar strategies. By managing these strategies internally, VRS is saving approximately $101 million in fees annually based on an outside consultant's analysis. The consultant provides benchmarking information for large pools of capital including pension funds, endowments/foundations and sovereign wealth funds and serves more than 350 blue-chip corporate and government clients worldwide.

In summary, the internal asset management team at VRS delivered performance above the established benchmarks. Further, these efforts not only generated approximately $222 million annually in excess returns over the last 10 years but also achieved significant savings compared to external managers. The Board of Trustees is proud of the efforts and results of the internal asset management team at VRS, and we are confident that the fund will continue to benefit from their work in the years ahead.

Sincerely,

Susan T. Gooden, Ph.D.
Chair

cc: Mr. Mark D. Sickles, Secretary of Finance
Division of Legislative Automated Systems (reportdocs@dlas.virginia.gov)