



Virginia  
Retirement  
System

# Investment Guide



Retirement Solutions Made Simple.  
Commonwealth of Virginia Defined Contribution Plans



The content of this guide is intended to introduce you to the types of risk, the importance of asset allocation and diversification and your plans' investment options so you can make sound, well-educated investment decisions.

# UNDERSTANDING YOUR INVESTMENTS

It's important to make sound, well-educated investment decisions, but before you get started, you should understand a few investment basics.

## Types of risk

Like many things, when it comes to investing, there's no way to avoid risk. There are many risks you should be aware of as you develop your investment strategy. Risks include, but are not limited to:

- **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.
- **Inflation risk** — The risk that your account will lose value because your returns are not outpacing the cost of living.
- **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.
- **Business risk** — The risk that an investment will lose value because of a decline in a specific company or industry.
- **Country risk** — The risk that domestic events, laws and/or regulations will negatively impact a country's securities markets.
- **Currency risk** — The risk that the value of a foreign investment, measured in U.S. dollars, will negatively impact fund returns because of unfavorable changes in currency exchange rates.

Not investing has its own level of risk: that you won't have enough retirement income to do the things you need or want to do. You can help reduce your risk of not meeting your retirement income objectives by investing in the plans on a consistent basis over the long term.

## The importance of asset allocation and diversification

Asset allocation involves assigning specific percentages of your investments to different asset classes according to your financial goals, risk tolerance and investment time horizon.

Diversification is a risk management technique that mixes a wide variety of investments within a portfolio. It involves distributing your money among different securities, sectors, industries and strategies within a number of asset classes.

Here are some ways you can help reduce risk:

- **Diversify** — Putting your money into a number of different types of investment options that include different types of asset classes and securities can help reduce risk. When you invest in different asset classes and types of investments, some may increase in value while others may decrease in value.
- **Invest for the long term** — The market will have ups and downs, but if you invest wisely and leave your investments to grow, you'll have a better chance of reaching your long-term investment goals.
- **Be aware of being too cautious** — Just as you should be aware of investing too aggressively, you also should be aware of being too cautious. When you're ready to retire, you'll most likely be living in a much more expensive world than today. If you don't diversify and instead invest all of your contributions in a conservative investment option, you run the risk that inflation will erode much of your investment gains.



# CREATING YOUR INVESTMENT STRATEGY

When developing your investment strategy, you need to consider:

- How much to save and invest today.
- Your investment time horizon.
- Your risk tolerance.

Once you determine the answers to these considerations you can create an investment mix that will help you work toward your objective.

## Asset classes

An asset class is a group of securities that typically behave similarly in the marketplace when compared to other groups of securities. The most well-known asset classes are stocks, bonds and cash equivalents (i.e. money market instruments). Each asset class has specific risk and return features to consider. And within each asset class are a range of investment types, each with its own risk factors. While past performance is not a guarantee of future performance, here is a brief overview of what you might expect from the three basic asset classes over the long term.

## Cash equivalents and stable value investments

Cash equivalents are short-term, highly-liquid securities that pay interest, such as money market funds and U.S. Treasury bills. Their objectives are current income and capital preservation. Generally speaking, investment in a money market fund offered through an employer's sponsored plan is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment, it is possible to lose money. While cash equivalents investments have a place in many portfolios, their returns are generally low and may not outpace inflation. Stable value investments seek to provide safety of principal while earning interest income and liquidity. Stable value funds typically invest in short to intermediate duration, high-quality bonds.

## Bonds

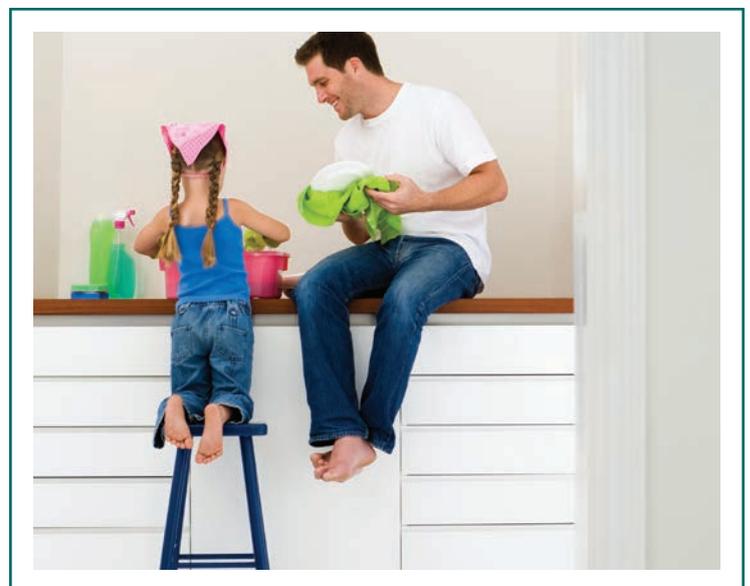
By investing in bonds (also called fixed-income investments), you are loaning money to an organization, such as a corporation or the government, in exchange for interest payments. Bond values fluctuate but ordinarily they will not vary as much as stocks. Bond investment options may help offset the higher risk of stocks in a more aggressive investment portfolio, and they may help keep pace with inflation in a more conservative investment portfolio.

## Stocks

By investing in stocks, you are buying shares of ownership in a company. Stocks may have the highest potential for growth over the long term, but also carry a higher degree of risk. Their unpredictable movement up and down in value is called volatility.

One way of classifying stocks is through market capitalization. Market capitalization, or market cap, measures a company's size by multiplying the number of shares outstanding by the stock's price. For example, if a company has 10 million shares outstanding at a price of \$50 per share, the company's market cap is equal to \$500 million. Market cap size is often categorized as:

- Large (referred to as large cap).
- Medium (referred to as mid or mid cap).
- Small (referred to as small cap).



## Major types of stocks

**Large-cap stocks** are often called blue-chip stocks, a term that comes from the highest valued chips on a poker table. They are stocks of well-established companies that generally pay steady dividends. The vast size and maturity of these companies can make them well positioned to weather inevitable economic downturns.

**Mid-cap stocks** are of companies that generally are established, yet innovative and responsive, and have the potential for continued earnings growth. Their larger capitalization base tends to make them less risky than smaller-cap stocks, though they typically have slightly lower historical returns.

**Small-cap stocks** have the potential for rapid acceleration in earnings and growth, such as Microsoft exhibited in its early stages. Small-cap stocks can be highly volatile, but the companies are often viewed as being on the cutting edge of their industries. Many small-cap companies effectively respond to market changes, but they may also have difficulty weathering economic downturns.

**International stocks** are issued by companies outside of the United States. Whether you invest in the stock of a Japanese auto manufacturer, a German design firm or more volatile emerging markets, international stocks tend to have a high risk and return potential. Political climates may change and currency valuations may rise or fall. But international stocks also may offer you the opportunity to diversify into young, dynamic markets that are early in their growth cycle.



## Regional educational meetings

To help you reach your long-term financial goals, meetings are held throughout the Commonwealth on a variety of topics, including investment basics, retirement planning, retirement distribution strategies, managing your account online and more. To locate a meeting near you, visit the plan website or call the Plan Information Line.

## Investment option types

Your plans provide you with a wide array of investment options that may include mutual funds, collective trust funds and separately managed funds. When you invest in mutual funds, your money is pooled together with the money of other investors who have the same, or “mutual,” investment goals.

A collective trust fund is a fund created by a bank or trust company that pool the assets of institutional investors for investment purposes.

Where a mutual fund and collective trust fund differ is that a mutual fund primarily serves individual shareholders (retail market), while a collective trust fund is available only to institutional investors, such as employers who sponsor retirement plans (like VRS), foundations and endowments. Therefore, collective trust funds tend to have lower fees and expenses than mutual funds because the employer can negotiate investment management fees with the investment manager. In addition, mutual funds and collective trust funds are overseen by different regulatory bodies.

A separately managed fund is a fund managed by an investment advisor for a specific employer’s plan.

All investment option types referenced above typically have a team of investment professionals who handle the buying and selling of investments on behalf of a fund, based on the fund’s investment philosophy and objective.

# YOUR PLANS' INVESTMENT OPTIONS

The investment options are organized into three pathways. The path approach is designed to make it easier for you to implement your investment decisions. The path approach is flexible; you do not need to choose just one path or investment option. You can mix and match investment options within each path to help you meet your objectives, risk tolerance and overall investing style. Following is a more detailed description of the three investment paths.

Path	Asset Class	Investment Options
<p><b>Do-It-For-Me Path</b></p> <p>The <i>Do-It-For-Me Path</i> includes a series of target date portfolios for participants who prefer a pre-mixed portfolio that is already diversified. Participants select portfolios based on a projected retirement date and individual needs.</p>	Asset Allocation	<ul style="list-style-type: none"> <li>Retirement Portfolio</li> <li>Target Date 2015 Portfolio</li> <li>Target Date 2020 Portfolio</li> <li>Target Date 2025 Portfolio</li> <li>Target Date 2030 Portfolio</li> <li>Target Date 2035 Portfolio</li> <li>Target Date 2040 Portfolio</li> <li>Target Date 2045 Portfolio</li> <li>Target Date 2050 Portfolio</li> <li>Target Date 2055 Portfolio</li> </ul>
<p><b>Help-Me-Do-It Path</b></p> <p>The <i>Help-Me-Do-It Path</i> includes a carefully selected menu of 11 funds for participants who prefer to take a more active role in investing and want to construct a portfolio that addresses their individual needs.</p>	<ul style="list-style-type: none"> <li>Capital Preservation</li> <li>Capital Preservation</li> <li>U.S. Bonds</li> <li>Inflation-Indexed Bonds</li> <li>High-Yield Bonds</li> <li>Asset Allocation</li> <li>U.S. Large-Cap Stocks</li> <li>International Stocks (Developed)</li> <li>U.S. Small/Mid-Cap Stocks</li> <li>Real Estate</li> <li>Emerging Markets Stocks</li> </ul>	<ul style="list-style-type: none"> <li>Money Market Fund</li> <li>Stable Value Fund</li> <li>Bond Fund</li> <li>Inflation-Protected Bond Fund</li> <li>High-Yield Bond Fund</li> <li>Virginia Retirement System Investment Portfolio (VRSIP)</li> <li>Stock Fund</li> <li>International Stock Fund</li> <li>Small/Mid-Cap Stock Fund</li> <li>Global Real Estate Fund</li> <li>Emerging Markets Stock Fund</li> </ul>
<p><b>Do-It-Myself Path</b></p> <p>The <i>Do-It-Myself Path</i> includes a self-directed brokerage account (SDBA) for those who believe they are skilled and knowledgeable about investments. Investments include mutual funds, exchange-traded funds (ETFs) and individual securities.</p>	Brokerage	Self-Directed Brokerage Account (SDBA) <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><b>To open an SDBA:</b></p> <ul style="list-style-type: none"> <li>Go to <a href="http://www.varetire.org">www.varetire.org</a> and select the Account Login option under the <i>Defined Contribution Plans</i> tab.</li> <li>Click the <i>Investments</i> tab.</li> <li>Click on <i>Brokerage</i> and then <i>Open a Brokerage Account</i>.</li> </ul> <p><b>Note:</b> When transferring assets to your brokerage account, you are required to leave at least \$2,500 in your core investments.</p> <p>If you have additional questions about the SDBA, you may call TD Ameritrade at <b>1-866-766-4015</b>.</p> </div>

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	Investment Option	Asset Class	Benchmark	Objective
Do-It-For-Me Path	Retirement Portfolio	Asset Allocation	Custom benchmarks are calculated using blended returns of third-party indices that proportionately reflect the respective weightings of the Portfolios' asset classes. Index weightings are adjusted quarterly to reflect the Portfolios' asset allocation shifts over time.	Seeks to maximize total return with a risk level that may be appropriate for a portfolio's particular timeframe and provide those who are close to or already retired with an appropriate blend of income and inflation protection.  The Target Date Portfolios invest in BlackRock's LifePath Index Funds O.
	Target Date 2015 Portfolio			
	Target Date 2020 Portfolio			
	Target Date 2025 Portfolio			
	Target Date 2030 Portfolio			
	Target Date 2035 Portfolio			
	Target Date 2040 Portfolio			
	Target Date 2045 Portfolio			
	Target Date 2050 Portfolio			
	Target Date 2055 Portfolio			
Help-Me-Do-It Path	Money Market Fund	Capital Preservation	Barclays 3-Month Treasury Bill Index is considered indicative of the average yield of 3-month Treasury Bills.	Seeks a high level of current income as is consistent with liquidity and stability of principal. The Fund may invest in BlackRock's Government Cash or Money Market Funds.
	Stable Value Fund <i>Trading Restriction:</i> Money cannot be transferred directly from the Stable Value Fund to the Money Market Fund, the Inflation-Protected Bond Fund or the Self-Directed Brokerage Account (considered competing funds). Money must be exchanged into a non-competing fund and remain there for 90 days prior to it being transferred into the Money Market Fund, the Inflation-Protected Bond Fund or the Self-Directed Brokerage Account.	Capital Preservation	Custom benchmark represents a hypothetical return generated by the monthly yield of actively traded U.S. Treasuries with a 3-year maturity, plus an annualized spread of 0.50% and is representative of the Fund's expected return profile, given its mandate and book value accounting treatment.	Seeks to provide safety of principal while earning a reasonable level of interest income consistent with an underlying portfolio of short- to intermediate-duration high-quality bonds, and liquidity to accommodate participant transactions.
	Bond Fund	U.S. Bond Market	Barclays Aggregate Bond Index is considered indicative of the domestic bond market.	Seeks to track the performance of the Barclays Aggregate Bond Index by investing in a diversified sample of the bonds that make up the index. The Fund invests in BlackRock's U.S. Debt Index Fund M.
	Inflation-Protected Bond Fund	Inflation-Indexed Bonds	Barclays U.S. Treasury Inflation-Protected Securities Index is considered indicative of inflation-protected securities issued by the U.S. Treasury.	Seeks to track the performance of the Barclays U.S. Treasury Inflation-Protected Securities Index by investing in some or all of the bonds that make up the index. The Fund invests in BlackRock's U.S. Treasury Inflation-Protected Securities Fund M.
	High-Yield Bond Fund	High-Yield Bonds	Bank of America (BofA) Merrill Lynch High-Yield BB-B Rated Constrained Index is considered indicative of the higher-quality, high-yield bond market.	Seeks to achieve returns that overtime exceed the benchmark of Bank of America (BofA) Merrill Lynch U.S. High-Yield BB-B Rated Constrained Index by investing in a diversified portfolio of primarily high-yield securities; may also invest in other securities. The Fund invests in JPMorgan's Corporate High-Yield Fund-Investment Class.

*There is no assurance that the funds will achieve their objectives.*

*Benchmarks are current as of this printing. You cannot invest directly in the benchmark.*

*The VRS Board and the Plans' investment managers may impose restrictions and/or fees that discourage investment trading that could have an adverse impact on the management of a fund, other participants or clients of the fund's management.*



	Investment Option	Asset Class	Benchmark	Objective
Help-Me-Do-It Path (continued)	Virginia Retirement System Investment Portfolio (VRSIP)	Asset Allocation	The VRS Custom Benchmark is a blend of the asset class benchmarks at policy weights.	Seeks to maximize return while managing risk within an acceptable range, as it relates to the VRS defined benefit plan. A target date portfolio will serve as the Pending Account VRSIP.
	Stock Fund	U.S. Large-Cap Stocks	S&P 500 Index is considered indicative of the domestic large-cap stock market.	Seeks to track the performance of the S&P 500 Index by investing in stocks that make up the index. The Fund invests in BlackRock's Equity Index Fund F.
	International Stock Fund	International Stocks (Developed)	MSCI World ex-U.S. Index is considered indicative of the international stock market of developed countries across western Europe, the Pacific Rim and Canada.	Seeks to track the performance of the MSCI World ex-U.S. Index by investing in stocks that make up the index. The Fund invests in BlackRock's MSCI World ex-U.S. Index Fund F.
	Small/Mid-Cap Stock Fund	U.S. Small/Mid-Cap Stocks	Russell 2500 Index is considered indicative of the small- to mid-cap segment of the domestic stock market.	Seeks to track the performance of the Russell 2500 Index by investing in a diversified sample of the stocks that make up the index. The Fund invests in BlackRock's Russell 2500 Index Fund F.
	Global Real Estate Fund	Real Estate	FTSE EPRA/NAREIT Developed Index is considered indicative of listed real estate companies and REITs worldwide, including in the U.S.	Seeks to track the performance of the FTSE EPRA/NAREIT Developed Index by investing in securities that make up the index. The Fund invests in BlackRock's Developed Real Estate Index Fund F.
	Emerging Markets Stock Fund	Emerging Markets Stocks	MSCI Emerging Markets Index is considered indicative of the emerging markets stock universe.	Seeks to track the performance of the MSCI Emerging Markets Index by investing in stocks that make up the index. The Fund invests in BlackRock's Emerging Markets Index Non-Lendable Fund F.
Do-It-Myself Path	Self-Directed Brokerage Account (SDBA)	Brokerage	Information about the Self-Directed Brokerage Account is available online at <a href="http://www.varetire.org">www.varetire.org</a> under the <i>Defined Contribution Plans</i> tab.	

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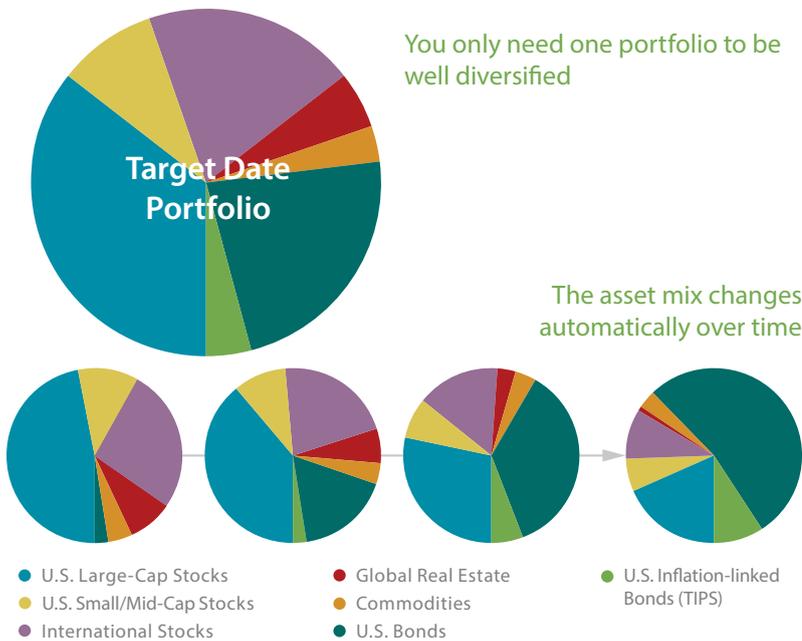


# TARGET DATE PORTFOLIOS

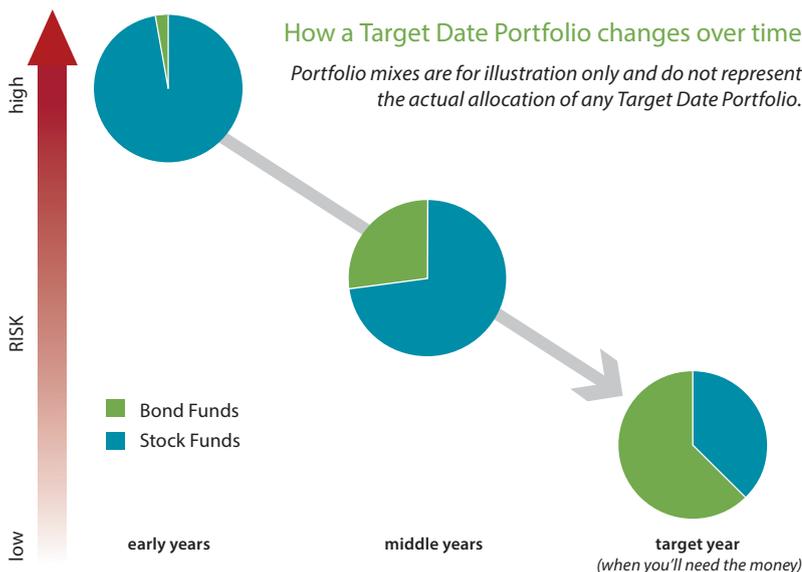
**A SIMPLE WAY TO SAVE FOR RETIREMENT** — Target date portfolios offer the ease and convenience of a professionally managed, diversified portfolio in one easy step. While target date portfolios offer a simple investing solution, you should continue to monitor your plan account and increase contributions to stay on track with your retirement objectives.

## A Portfolio That Evolves Over Time

Professionals make the diversification, asset allocation and rebalancing decisions for the target date portfolios. They are constructed to provide broad diversification so you typically only need one portfolio.



Over time, the investment mix gradually shifts from a greater concentration of higher-risk investments (such as stock funds) to a greater concentration of lower-risk investments (such as bond funds). The investment mix automatically becomes more conservative as the target date portfolio approaches its target date, so you don't have to constantly worry about the mix of individual funds.



## Picking Your Portfolio

Choose the target date portfolio whose target date is closest to the year you expect to begin withdrawing money from your Plan account.

If your birthday is...	Your Target Date Portfolio is...
On or before 1950	Retirement Portfolio
On or between 1951 and 1952	Target Date 2015 Portfolio
On or between 1953 and 1957	Target Date 2020 Portfolio
On or between 1958 and 1962	Target Date 2025 Portfolio
On or between 1963 and 1967	Target Date 2030 Portfolio
On or between 1968 and 1972	Target Date 2035 Portfolio
On or between 1973 and 1977	Target Date 2040 Portfolio
On or between 1978 and 1982	Target Date 2045 Portfolio
On or between 1983 and 1987	Target Date 2050 Portfolio
On or after 1988	Target Date 2055 Portfolio

Based on assumption that retirement age is 65.

Diversification and shifting to a conservative investment mix over time helps manage risk, but does not guarantee earnings growth. As with any investment, there is risk and the potential to lose value. Although target date portfolios seek to meet different investment objectives, meeting these objectives is not guaranteed. Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

# GLOSSARY OF TERMS

## **Assets**

Anything owned that has monetary value or can be exchanged for monetary value (a house or car, for example).

## **Benchmark**

A standard by which something can be measured or judged.

## **Capital**

Money available for investment purposes.

## **Capital Gain (or Loss)**

An increase (or decrease) in value of a capital asset, for example, of a stock that gives it higher (or lower) value than its purchase price. The gain is not realized until the asset is sold.

## **Diversification**

Spreading your money among different types of investments, such as stocks, bonds or cash equivalents.

## **Dividend**

A payment to shareholders that represents their share of a fund's or company's distributed earnings.

## **Earnings**

A company's or fund's profit after paying all costs, expenses and taxes.

## **Expense Ratio**

A ratio for comparing an investment option's efficiency by dividing its expenses by its net assets.

## **Fund Profile**

Provides information about each core investment option. It includes information about the fund's investment objective, risks, performance and other pertinent data. Posted quarterly on the plan website at [www.varetire.org](http://www.varetire.org).

## **Income**

Interest or dividends earned from an investment. Income is automatically reinvested in a participant's plan account.

## **Index**

An unmanaged group of securities whose overall performance is used as a benchmark against which financial or economic performance may be measured, such as the S&P 500 or the Consumer Price Index.

## **Interest**

Money a borrower pays to a lender as the cost of using its money, expressed as a percent per period of time. The period of time is usually one year, in which case it is called an annual rate of interest.

## **Investment Objective/Goal**

A statement of the goals an investment option seeks to achieve through its investments. Generally, investors match their financial objectives with investment options that have similar goals, balanced with the investor's risk tolerance.

## **Investment Option Performance Report (IOP)**

Listing of core investments available in the plans comparing performance to benchmarks, performance over time and expense ratios. Posted monthly on the plan website at [www.varetire.org](http://www.varetire.org) and available with your quarterly participant statement.

## **Liquidity**

A market is liquid when it has a high level of trading activity, allowing buying and selling with minimum price disturbance. A liquid asset is easily turned into cash.

## **Market Capitalization (Market Cap)**

The current value or price of a stock multiplied by the number of shares outstanding. For example, if a company has one million shares available and the price is \$10 per share, market cap is \$10 million.

## **Principal**

The original amount invested, not including interest or dividends on that amount.

## **Standard Deviation**

A measure of the variability of returns or prices about their mean value.

## **Total Return**

Return on an investment over a specific period of time. Total return includes income and share price appreciation and depreciation. Total return assumes that all dividends and capital gains paid during the period are reinvested to buy additional shares.

## **Volatility**

A measure of the dispersion of outcomes for the return on an investment; typically, this is stated as annualized standard deviation.



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Easy account access, 24/7 at [www.varetire.org](http://www.varetire.org)  
or **1-VRS-DC-PLAN1** (1-877-327-5261):

- Manage your account information online or through the Plan Information Line.
- View, download and print account statements, including 36 months of history.
- Automatic account rebalancing.
- Reallocation of account balances.
- Stay up-to-date on plan rules.
- Download account data to Quicken®.

**For more information:**

- Go to [www.varetire.org](http://www.varetire.org). Select a plan under the *Defined Contribution Plans* tab.
- Call **1-VRS-DC-PLAN1** (1-877-327-5261):
  - **Press 1** for an **Investor Services Representative Service Associate**  
Monday – Friday | 8:30 a.m. – 9:00 p.m. ET (*except stock market holidays*)
  - **Press 2** for a **Defined Contribution Plans Retirement Specialist**  
Monday – Friday | 8:30 a.m. – 5:00 p.m. ET (*except Commonwealth holidays*)
- For the hearing impaired: TDD at **1-800-669-7471**
- Defined Contribution Plans Retirement Specialists also are available to meet in person at 919 E. Main Street, Suite 1604 (SunTrust Building) in Richmond and visit your employer’s location for group presentations, enrollment sessions and individual account reviews.
- Walk-ins and scheduled appointments are available between 8:30 a.m. and 5:00 p.m. (To meet with a representative during the 12:00 p.m. to 1:00 p.m. lunch hour, please schedule an appointment.)