



Virginia
Retirement
System



Optional Retirement Plan for Higher Education (ORPHE)

How to Use a Benchmark Index as an Investment Performance Measurement Tool

One of many criteria used to judge an investment fund's performance is a benchmark index. An index tracks a particular group of investments — that is representative of a specified market — as a way of measuring that market's performance. Several firms produce various indices that capture different segments of the investable market.

A few examples include:

- **The S&P® 500 Index** is a market index that measures U.S. large-cap stocks comprised of about 500 widely held U.S. stocks chosen by Standard and Poor's.
- **The Bloomberg Barclays U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated fixed rate taxable bond market.
- **The MSCI EAFE Index** captures large and mid-cap stocks across developed market countries around the world, excluding the U.S. and Canada.

Understanding how to effectively compare a fund's performance to an appropriate benchmark index can greatly enhance your evaluation of that investment and contribute to sound investment decisions. Choosing the wrong benchmark index or comparing a fund's performance to another fund that uses a different performance benchmark index will impair your ability to make sound investment decisions.

When using a benchmark index to compare a fund's performance, an important question to consider is whether the benchmark reflects the fund's investment objective and style. You do not want to compare returns of a large-cap stock fund to those of a benchmark index that measures the performance of small-cap stocks.

To determine if you are comparing funds with similar investment objectives, it is important to take time to learn each fund's performance benchmark index. Of course, funds with different investment objectives and styles will have different return patterns. For comparison purposes, make sure the funds you are comparing use a similar benchmark index.

Another important consideration of how a fund's investment return compares to its benchmark index is to determine if the fund is passively managed or actively managed. An investment objective of a passively managed fund is to track its performance to the benchmark index, whereas an actively managed fund's objective is to outperform its performance benchmark index.

Keep in mind that an index is not professionally managed, does not have a defined investment objective and does not incur fees or expenses. You cannot invest directly in an index.



How to Use a Benchmark Index as an Investment Performance Measurement Tool (cont.)

Some providers include benchmark index information along with fund investment performance. For others, you may find benchmark information on fund profiles or a prospectus.

Because you are investing for the long-term goal of retirement, it's important to keep a long-term perspective when evaluating fund performance.

Learn more about your options

As an ORPHE participant, you will choose one of two investment providers. To learn more about the options available to you, visit the provider websites below. View a provider comparison guide online at www.orphe.varetire.org.

	
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Need Additional Information?

Check with your employer's human resource office, or contact VRS.

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