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# *Investment Section*



*W*e believe in balance: minimizing risk while maximizing return on investment.

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# Investment Section

Russell Investment Group  
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December 20, 2007

To the Members of the Board:

Fiscal year 2007 included market volatility, record highs in oil prices and a continued decline in the U.S. dollar relative to other currencies. PSRS and PEERS directly benefited from the strong economy as U.S. equity markets (S&P 500 and the Dow Industrial) reached new highs during the fiscal year.

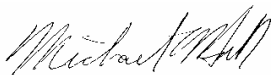
In the Summer of 2007, as the fiscal year came to a close, markets became more turbulent. It began with problems in the sub-prime lending market, which spread to the bond market, which impacted credit markets, which finally hit the stock market as fear of contagion sent investors to the safety of Treasuries. The volatility in the equity markets during the Fall of 2007 will be felt in the Systems' portfolios in the next fiscal year.

The Total Fund return for the fiscal year ended June 30, 2007 was 16.6% for both PSRS and PEERS, ahead of the policy benchmark return of 16.1%. U.S. equity results were strong in absolute returns for the year at 18.8%, but behind the benchmark return of 20.1%. Global equity had a very strong year, up 31.8% versus a benchmark return of 28.8%. The PSRS and PEERS fixed income composite ended the fiscal period up 6.3% percent, slightly behind the benchmark return of 6.5%.

The Systems continue to see evidence that efforts to more broadly diversify the portfolio are having the effect intended, delivering higher returns at a marginal increase in volatility relative to the legacy policy. The strong public market equity returns were again augmented by strong performance of real estate and private equity, active management and Staff's strategic implementation decisions.

We at Russell have enjoyed another productive year working with Missouri PSRS/PEERS, and are looking forward to the coming year.

Regards,



Michael M. Hall, ASA, EA, CFA  
Director – Investment Strategy  
Senior Consultant



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# Investment Section



December 28, 2007

To the Members of the Systems:

On behalf of the PSRS and PEERS Board of Trustees and the internal investment staff, I am pleased to present the following reports on the Systems' investments for the fiscal year ended June 30, 2007.

Fiscal year 2007 was the fourth consecutive year of strong investment returns for the combined Retirement Systems as both PSRS and PEERS achieved a 16.6% return. The four-year cumulative return for each System of just over 56% drove the market value of the total assets to \$31.8 billion as of June 30, 2007. The combined Systems ended the year as one of the 50 largest defined benefit plans in the United States.

The primary purpose of this annual letter is typically to review the investment activity of the prior fiscal year and to provide the members with an update on significant investment changes within the Systems' portfolios. However, as the PSRS and PEERS fiscal year came to a close (June 30, 2007), the general 'optimism' in the financial markets was swiftly replaced with 'pessimism.' Thus, I felt it important to broaden the reach of this year's letter to discuss three primary topics:

- Fiscal year 2007 performance,
- Implementation of the long-term strategic asset allocation, and
- Events in the financial markets in the first half of fiscal year 2008.

### ***Fiscal Year 2007 Review***

The solid investment performance in fiscal year 2007 was the result of a well-diversified asset mix for the Systems. All asset categories enjoyed positive returns last year, with global stocks providing the largest increase at a return of 31.8%. The PSRS/PEERS U.S. stock portfolio returned 18.8%, the bond portfolio increased 6.3% and the Systems' newer allocations to alternative investments provided strong returns and beneficial diversification. Private equity (investments in private companies) increased almost 22% the past year while the PSRS/PEERS real estate investments returned just over 16%. Finally, PSRS/PEERS initiated a small allocation to hedge funds in the last half of the fiscal year and those investments (as a group) outperformed their benchmark. In total, the Systems' investment return of 16.6% exceeded the policy benchmark of 16.1%. The investment expenses for fiscal year 2007 were 0.21% or 21 cents for every \$100 managed.

The total annualized fund performance for the five-year period ended June 30, 2007 was 10.5% for PSRS and 10.4% for PEERS. The total annualized fund performance for the 10-year period was 8.2% for both PSRS and PEERS. This long-term return exceeded the policy benchmark of 7.8%. The Systems' basic investment objective is to achieve a total return that exceeds the actuarial assumption of 8.0% over rolling five-year periods. Thus, both PSRS and PEERS have exceeded the 8.0% assumption for both shorter and longer term time horizons. Additionally, PSRS/PEERS' investment returns were generated while taking less risk than a large majority of other public pension funds in the nation over all time periods. Investment performance throughout this report is calculated using a time-weighted rate of return based on market values.

### ***Changing Asset Allocation***

The Board began making significant changes to the historical asset allocation in January 2002 with the decision to allocate 3% of total assets to private equity and 5% to real return assets. Since that time, the Board has followed a long-term strategic plan to further diversify the asset allocation and to systematically reduce the allocation to bonds. As I referenced in the last annual letter, the Board adopted another phase of the long-term plan in October 2006 to increase

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[www.psr-peers.org](http://www.psr-peers.org)

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# Investment Section

the target allocation of alternative assets. In April 2007, the Board continued with the strategic changes achieved in the previous fiscal year with the adoption of the Implementation Pool. The funding of this mandate specifically allowed the Systems to reduce the Public Debt exposure to the target of 25%. The Implementation Pool will act as a placeholder for assets that will eventually be invested in the PSRS/PEERS alternative asset classes: Real Estate, Private Equity and the Absolute Return Pool.

The following table indicates the long-term target asset allocation as well as the actual asset allocation at the end of the fiscal year (June 30, 2007) and for the most recent time period (November 30, 2007):

<b>Asset Class</b>	<b>Long-Term Target Asset Allocation</b>	<b>Asset Allocation June 30, 2007</b>	<b>Asset Allocation November 30, 2007</b>
U.S. Equity	33.5%	37.3%	36.2%
Global Equity	19.5%	22.0%	20.7%
<b>Total Public Equity</b>	<b>53.0%</b>	<b>59.3%</b>	<b>56.9%</b>
Core Fixed Income	20.0%	20.2%	20.6%
High Yield	2.0%	1.6%	1.6%
TIPS (Real Return)	3.0%	3.2%	3.4%
<b>Total Public Debt</b>	<b>25.0%</b>	<b>25.0%</b>	<b>25.6%</b>
Private Equity	7.5%	1.4%	2.3%
Real Estate	7.5%	3.9%	4.0%
Absolute Return	7.0%	0.5%	1.2%
<b>Total Alternatives</b>	<b>22.0%</b>	<b>5.8%</b>	<b>7.5%</b>
Implementation Pool	0.0%	9.9%	10.0%
<b>Total Plan</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

We have included a ‘snapshot’ look at the asset allocation at two recent time periods to indicate the steady progress that is being made toward reaching the long-term asset allocation targets. For example, the allocation to alternative assets (private equity, real estate and absolute return) has increased from 5.8% at the end of the fiscal year to 7.5% at the end of November. The allocation to the Implementation Pool and to Public Equity will decline over time as assets are transitioned into the alternative asset classes. It is anticipated that the Implementation Pool and the over-allocation to Public Equity could be utilized for up to five years because of the long-term investment cycle involved with private assets. We believe that the target asset allocation has laid the foundation for a strong investment program, regardless of market environment, for PSRS/PEERS for many years to come.

### ***From Optimism to Pessimism***

Former Secretary of the Treasury, Larry Summers, was quoted as saying “in economics, things happen slower than you expected they would but when they finally do, they happen faster than you imagined they could.” Certainly, the recent transition in the investment markets from ‘optimism’ in early 2007 to ‘pessimism’ at the end of the fiscal year demonstrates this phenomenon.

The subprime issue, which more than a few pundits cautioned about as early as 2006, was relatively ignored until mid-July. At that point, what had been shrugged off as unimportant became everyone’s focus. The subprime problem, most simply, was brought on by the large amount of mortgage credit extended at below market rates, often without proper documentation of collateral. Much of the risk associated with these loans was distributed through the packaging and reselling of mortgage loans. In short, with risk dispersed (through the resale of the mortgage loans) and no one sure who was left holding the bag, everyone became suspect, thereby resulting in a worldwide reduction in risk tolerance. The fundamental, psychological and technical influences devastated the market for subprime investments, but they also had a contagion effect. Investor psychology turned in all markets, even those totally unrelated to subprime loans. Caution replaced optimism. Risk aversion took over from the prior risk seeking mentality.

There is no question that all investors (including PSRS/PEERS) have been negatively impacted to some degree by the overall effect of the subprime event on our economy. However, the Systems had **no** direct exposure to the problematic investments. Instead, any impact felt by PSRS/PEERS is a function of being a large institutional investor in an economy that has suffered from the negative consequences.

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# Investment Section

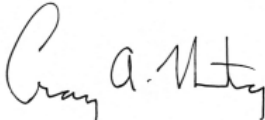
Is the market as good as it was in January 2007 or as bad as it seemed in August 2007? The answer is undoubtedly no. Instead, we have experienced another phase of a long market cycle. In reality, there is strong global economic growth, few current trade wars, relatively low inflation and ample liquidity. We have experienced five years of generally good economic growth, rising equity markets, low interest rates, ample credit, a housing boom and benign inflation. The markets were due for a correction when this past summer's mortgage-related bad news began to unsettle investors. While unpleasant to go through, we view this movement as a healthy and necessary correction of the overall financial market.

### **Your Portfolio and Our Focus**

We expect further volatility in the financial markets for much of fiscal year 2008. The global unwinding of risk is probably not over nor are the daily reports of new portfolio problems from market participants. As discussed in this letter, the Systems have increased exposure (in a deliberate manner) to alternative investments over the last several years. However, the Systems have **not** meaningfully increased the total portfolio risk or the exposure to various derivative instruments. Thus far, during the recent credit crisis, the higher risk strategies have suffered more on a relative basis.

The Systems continue to focus on a well diversified and disciplined investment program as the best course of action for the long-term. Ultimately, we believe that the investment environment will offer opportunities for patient, long-term investors such as PSRS and PEERS. As such, the Systems' investment staff will continue to analyze all investment opportunities within a total portfolio context to allow PSRS/PEERS to maintain a well-diversified and prudent portfolio. Over the long-term, we believe this approach will provide consistent and meaningful investment returns for all members of both PSRS and PEERS.

Sincerely,



Craig A. Husting, CFA  
Chief Investment Officer

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# Investment Section

## Investment Highlights

As of June 30, 2007

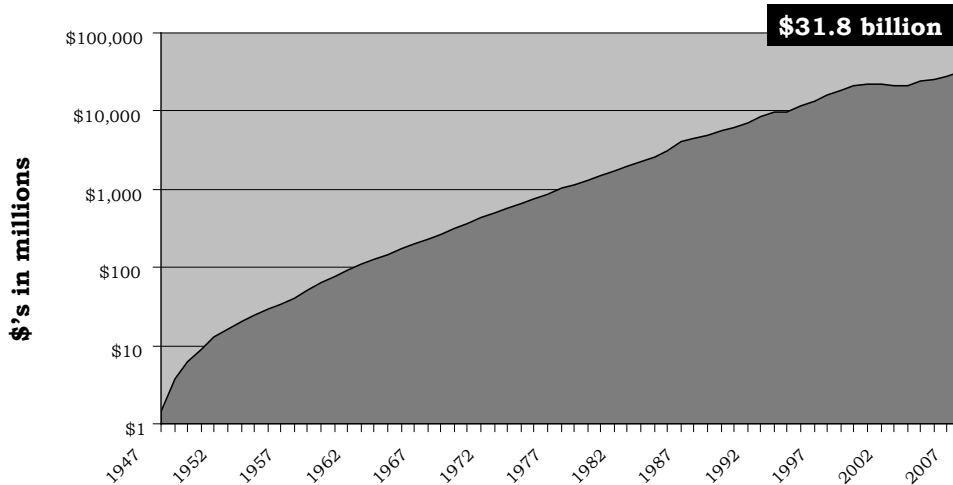
The Board of Trustees of the Public School and Public Education Employee Retirement Systems (PSRS/PEERS) is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the 'prudent person' rule. To that end, the Board has adopted the following principles to guide all investment-related decisions:

- (1) Act in the exclusive interest of the members of the Systems,
- (2) Maximize total return within prudent risk parameters,
- (3) Preserve the long-term purchasing power of the fund.

The investment portfolios of PSRS/PEERS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities.

Total combined assets grew to \$31.8 billion as of June 30, 2007 from \$27.7 billion at the beginning of the fiscal year, increasing by approximately \$4.1 billion. This growth resulted from very good investment performance in the U.S. and international equity markets. The long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965 is shown in the graph below.

**60 Years of Growth**



# Investment Section

## PSRS/PEERS Asset Allocation

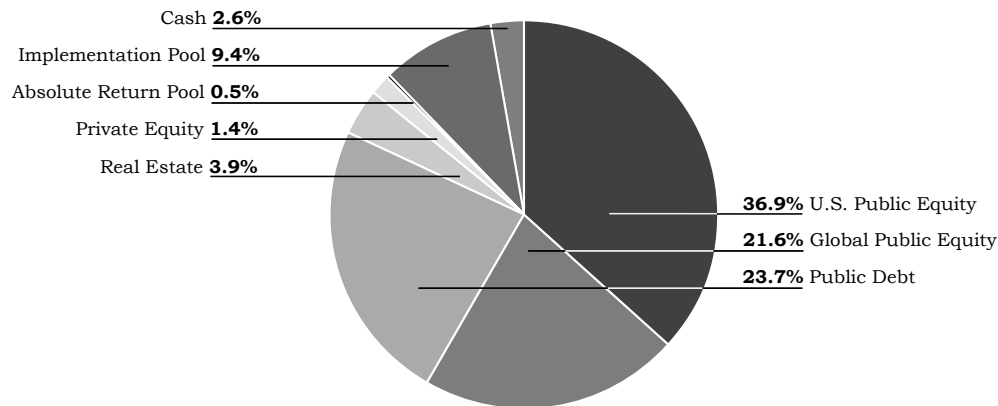
As of June 30, 2007

The time horizon of the Systems' investment portfolio reflects the long-term nature of the PSRS/PEERS pension obligations. Accordingly, diversification among investments displaying unique risk and return characteristics provides the framework for selecting an asset allocation that is expected, in the aggregate, to give the Systems the highest long-term return within a prudent risk level.

The Systems' investment portfolio includes strategic, long-term commitments in the following asset classes: U.S. Public Equity, Global Public Equity, Public Debt, Real Estate, Private Equity and Absolute Return Assets. An Implementation Pool was created to hold interim assets that will be utilized in funding the alternative asset classes: Real Estate, Private Equity and the Absolute Return Pool. The Systems' asset allocation is reviewed in conjunction with plan liabilities at least every three years.

### Asset Allocation

June 30, 2007



Asset Type	Market Value		Combined Funds	% of Total	Long-Term Target Allocation
	PSRS	PEERS			
U.S. Public Equity	\$ 10,745,801,025	\$ 982,734,343	\$ 11,728,535,368	36.9%	33.5%
Global Public Equity	6,278,741,926	581,432,862	6,860,174,788	21.6%	19.5%
Public Debt	6,901,821,136	638,639,277	7,540,460,413	23.7%	25.0%
Real Estate	1,122,251,600	98,875,016	1,221,126,616	3.9%	7.5%
Private Equity	418,001,487	33,276,639	451,278,126	1.4%	7.5%
Absolute Return Pool	153,095,721	13,312,379	166,408,100	0.5%	7.0%
Implementation Pool	2,744,133,755	257,938,441	3,002,072,196	9.4%	0.0%
Cash & Equivalents*	753,003,683	59,761,290	812,764,973	2.6%	0.0%
<b>Total Investments**</b>	<b>\$ 29,116,850,333</b>	<b>\$ 2,665,970,247</b>	<b>\$ 31,782,820,580</b>	<b>100.0%</b>	<b>100.0%</b>

\* All manager-held cash is reflected as Cash & Equivalents. Public Debt managers often hold cash or cash equivalents as part of an active management strategy.

\*\* Total Investments includes accrued income and excludes securities lending collateral as of June 30, 2007.

# Investment Section

## Total Fund Review

Periods Ended June 30, 2007

### Total Fund Investment Returns\*

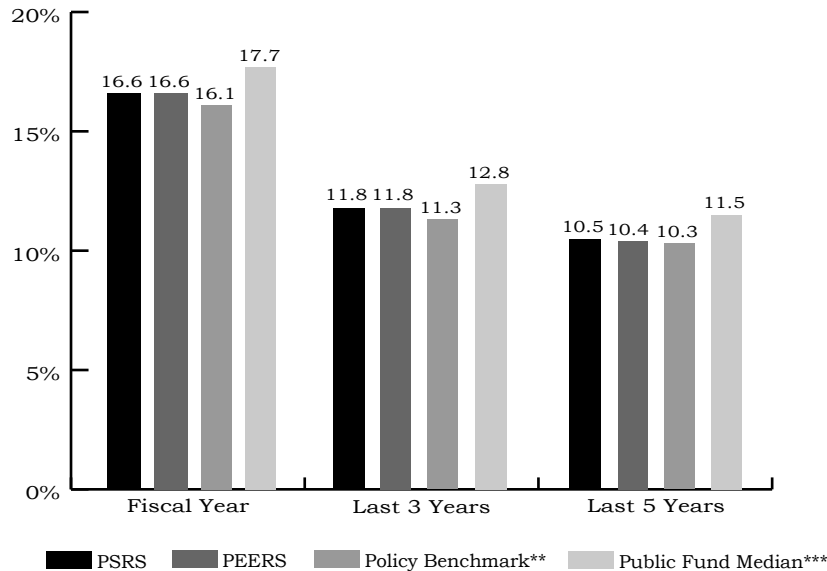
The Board has established a long-term goal to achieve a total investment return of at least 8.0% per year and a real rate of return of at least 4.5% per year. The real rate of return is the rate by which the long-term total return exceeds the inflation rate. The one-year, three-year and five-year total returns for PSRS and PEERS were above the long-term investment objective of 8.0% due primarily to the positive global equity market environment. The Systems' total returns for the three time periods were below the public fund median returns largely due to the more conservative asset allocation employed

by the Systems during a time when riskier assets performed well. PSRS/PEERS' performance exceeded the policy benchmark returns for all three time periods due primarily to the utilization of active investment management. The policy benchmark provides an indication of the returns that would have been achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in the PSRS/PEERS policy asset allocation.

### Total Fund Investment Returns

June 30, 2007

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	16.6%	11.8%	10.5%
PEERS	16.6%	11.8%	10.4%
Policy Benchmark **	16.1%	11.3%	10.3%
Public Fund Median ***	17.7%	12.8%	11.5%



\* Investment returns were prepared using a time-weighted rate of return based on market values.

\*\* The Policy Benchmark is comprised of 37.75% Russell 3000 Index, 26.25% Lehman Aggregate Index, 17.5% MSCI All Country World ex-U.S. Free Index, 5.0% MSCI All Country World Free Index, 4.0% Lehman U.S. TIPS Index, 3.0% NCREIF Property Index, 2.75% S&P 500 Index, 1.75% Merrill Lynch High Yield Master II Index, 1.0% Russell 2000 Index and 1.0% FTSE NAREIT Equity Index.

\*\*\* The Public Fund Median return reflects the performance of a universe of public pension plans with assets in excess of \$1 billion.



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# Investment Section

## U.S. Public Equity Review

As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS domestic public equity assets had a market value of approximately \$11.8 billion, representing 37.3% of total assets.

### U.S. Public Equity Statistics

The following table displays the statistical characteristics of the PSRS/PEERS U.S. Public Equity composite as of June 30, 2007 with comparisons shown to the portfolio's policy benchmark (Russell 3000 Index). In addition, the top 10 U.S. stock holdings as of June 30, 2007 are shown in the table below the characteristics.

Characteristics	June 30, 2007 Combined Systems	June 30, 2007 Russell 3000 Index
Number of securities	2,895	2,962
Dividend yield	1.4%	1.7%
Price-to-earnings ratio	18.2	18.8
Avg. market capitalization	\$ 76.6 billion	\$ 81.5 billion
Price-to-book ratio	4.3	4.0

Top 10 Largest Holdings* June 30, 2007	Combined Market Value	% of Total U.S. Public Equity
Exxon Mobil Corp	\$ 181,421,032	1.6%
JPMorgan Chase & Co	131,192,716	1.1%
Citigroup Inc	128,637,013	1.1%
Google Inc	126,253,911	1.1%
Microsoft Corp	121,202,801	1.0%
AT&T Inc	98,984,988	0.9%
Chevron Corp	85,523,818	0.7%
Cisco Systems Inc	85,434,777	0.7%
Pfizer Inc	84,513,427	0.7%
Apple Inc	83,825,737	0.7%
<b>TOTAL</b>	<b>\$ 1,126,990,220</b>	<b>9.6%</b>

*\*Includes only actively managed separate accounts.  
A complete list of portfolio holdings is available upon request.*

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# Investment Section

## U.S. Public Equity Review

As of June 30, 2007

### U.S. Public Equity Structure

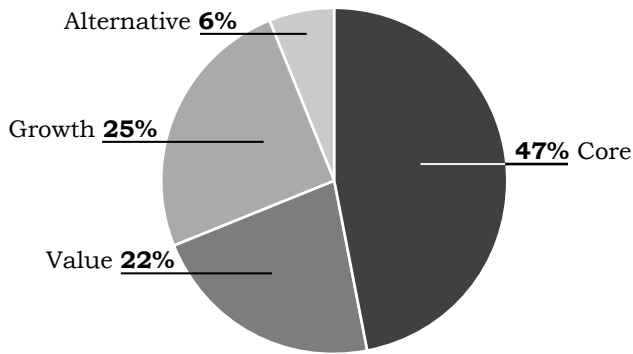
As of June 30, 2007, 22.4% of the PSRS/PEERS domestic public equity composite was passively managed and 6.2% was managed in an enhanced index style. The remainder of the portfolio was actively managed and diversified across a broad array of capitalization ranges and investment styles, including the Small Cap Alpha Pool (S-CAP) and the Equity Manager Alpha Pool (E-MAP). Both programs

represent multi-manager pools of assets managed within the overall PSRS/PEERS domestic equity structure. The S-CAP Program encompasses all small capitalization assets and began on July 1, 2005. The E-MAP (Equity Manager Alpha Pool) Program focuses on higher 'alpha' generating strategies and includes alternative equity mandates.

The pie charts below depict the domestic public equity portfolio by presenting the current style structure of the portfolio as well as the allocation by composite.

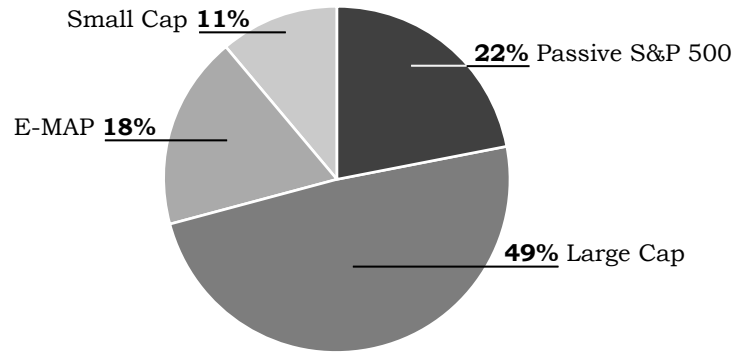
### Style Allocation

June 30, 2007

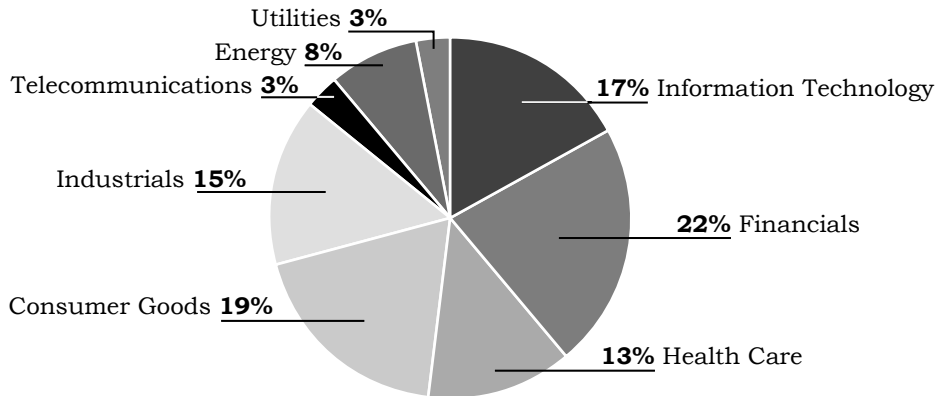


### Composite Allocation

June 30, 2007



The following pie chart shows the allocation to market sectors within the domestic equity portion of the PSRS/PEERS portfolio as of June 30, 2007.



# Investment Section

## U.S. Public Equity Review

As of June 30, 2007

### U.S. Public Equity Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2007 for management of U.S. public equity securities.

<b>Investment Advisor</b>	<b>Investment Style</b>	<b>Combined Portfolio Market Value* As of June 30, 2007</b>	<b>% of Total Market Value</b>
Alliance Capital Management	Active Large Cap Growth	\$ 876,780,235	2.8%
Aronson + Johnson + Ortiz	Active Large Cap Value	1,116,333,090	3.5%
Delaware Investments	Active Large Cap Growth	586,245,682	1.8%
Goldman Sachs Asset Management	Large Cap Quantitative Core	945,406,293	3.0%
Jacobs Levy Equity Management	Structured Large Cap Growth	630,755,906	2.0%
SSgA - Enhanced S&P 500 Index	Enhanced Large Cap Core	739,468,116	2.3%
SSgA - S&P 500 Index Fund	Passive S&P 500 Index	2,661,833,681	8.4%
UBS Global Asset Management	Active Large Cap Value	842,748,262	2.7%
<i>E-MAP: Algert Coldiron Investors</i>	Multi-Strategy Market Neutral	74,186,750	0.2%
<i>E-MAP: Algert Coldiron Investors</i>	U.S. Market Neutral	49,051,604	0.2%
<i>E-MAP: AllianceBernstein Institutional</i>	Global Market Neutral	132,645,012	0.4%
<i>E-MAP: Analytic Investors</i>	Structured Large Cap 120/20 Core	174,589,449	0.5%
<i>E-MAP: Analytic Investors</i>	Structured Large Cap Value	118,877,845	0.4%
<i>E-MAP: Analytic Investors</i>	Japan Market Neutral	102,217,520	0.3%
<i>E-MAP: AQR Capital Management</i>	Multi-Strategy Market Neutral	100,550,680	0.3%
<i>E-MAP: AQR Capital Management</i>	Large Cap 140/40 Core	146,227,107	0.5%
<i>E-MAP: Aronson + Johnson + Ortiz</i>	Active Large Cap 130/30 Value	114,175,278	0.4%
<i>E-MAP: Bridgewater Associates</i>	Multi-Strategy Market Neutral	30,976,146	0.1%
<i>E-MAP: Legg Mason Capital Management</i>	Active Large Cap Core	113,516,972	0.4%
<i>E-MAP: Martingale Asset Management</i>	Active Large Cap 130/30 Growth	201,291,478	0.6%
<i>E-MAP: New Amsterdam Partners</i>	Active Large Cap Core	132,811,541	0.4%
<i>E-MAP: NISA Investment Advisors</i>	Beta Overlay	32,782,408	0.1%
<i>E-MAP: Renaissance Institutional Management</i>	Multi-Strategy	215,762,130	0.7%
<i>E-MAP: Westwood Management</i>	Active Large Cap Value	199,155,530	0.6%
<i>E-MAP: Zevenbergen Capital</i>	Active All Cap Growth	220,407,348	0.7%
<b>Equity Manager Alpha Pool (E-MAP) Subtotal</b>		<b>2,159,224,798</b>	<b>6.8%</b>
<i>S-CAP: AQR Capital Management</i>	Active Small Cap Core	185,591,931	0.6%
<i>S-CAP: Chartwell Investment Partners</i>	Active Small Cap Growth	141,569,661	0.4%
<i>S-CAP: Chartwell Investment Partners</i>	Active Small Cap Value	90,332,581	0.3%
<i>S-CAP: Duncan-Hurst Capital Management</i>	Active Micro Cap Growth	104,857,268	0.3%
<i>S-CAP: Next Century Growth Investors</i>	Active Small Cap Growth	200,643,042	0.6%
<i>S-CAP: Next Century Growth Investors</i>	Active Micro Cap Growth	12,425,835	0.1%
<i>S-CAP: Systematic Financial Management</i>	Active Small Cap Value	119,178,433	0.4%
<i>S-CAP: Thomson, Horstmann &amp; Bryant</i>	Active Small Cap Core	432,591,917	1.3%
<b>Small Cap Alpha Pool (S-CAP) Subtotal</b>		<b>1,287,190,668</b>	<b>4.0%</b>
<b>Total</b>		<b>\$ 11,845,986,731</b>	<b>37.3%</b>

\* Includes manager cash.

# Investment Section

## U.S. Public Equity Review

Periods ended June 30, 2007

### U.S. Public Equity Investment Returns

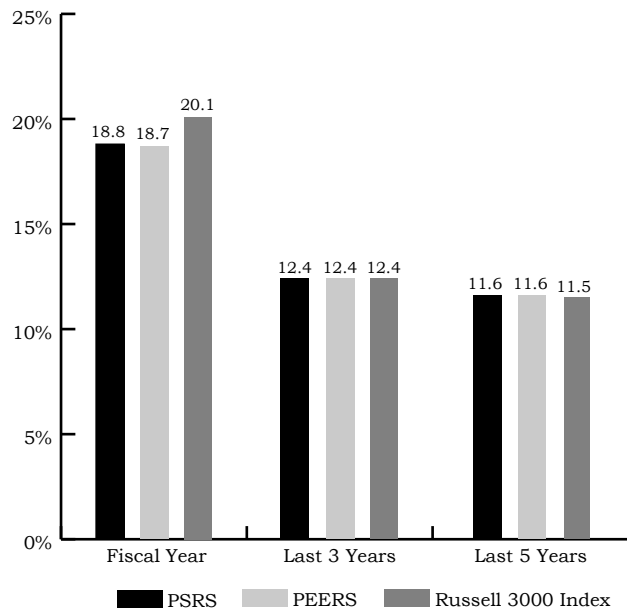
The U.S. equity market provided solid returns during fiscal year 2007. The total returns on the PSRS and PEERS U.S. public equity portfolios were 18.8% and 18.7%, respectively, compared to the benchmark return of 20.1% for the fiscal year ended June 30, 2007. Portfolios concentrated in large capitalization stocks tended to outperform portfolios holding smaller capitalization stocks in fiscal year 2007 while value oriented large-cap portfolios marginally outperformed growth style large-cap funds during the year.

As shown in the table and graph below, the Systems' annualized U.S. equity composite returns trailed the benchmark in fiscal year 2007. For the three-year time period, the U.S. public equity composite performance equaled benchmark performance and, for the five-year timeframe, exceeded the benchmark return by 10 basis points. The higher absolute returns for the fiscal year period reflect the recent positive domestic equity market environment.

### U.S. Public Equity Investment Returns

June 30, 2007

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	18.8%	12.4%	11.6%
PEERS	18.7	12.4	11.6
Russell 3000 Index	20.1	12.4	11.5



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# Investment Section

## Global Public Equity Review

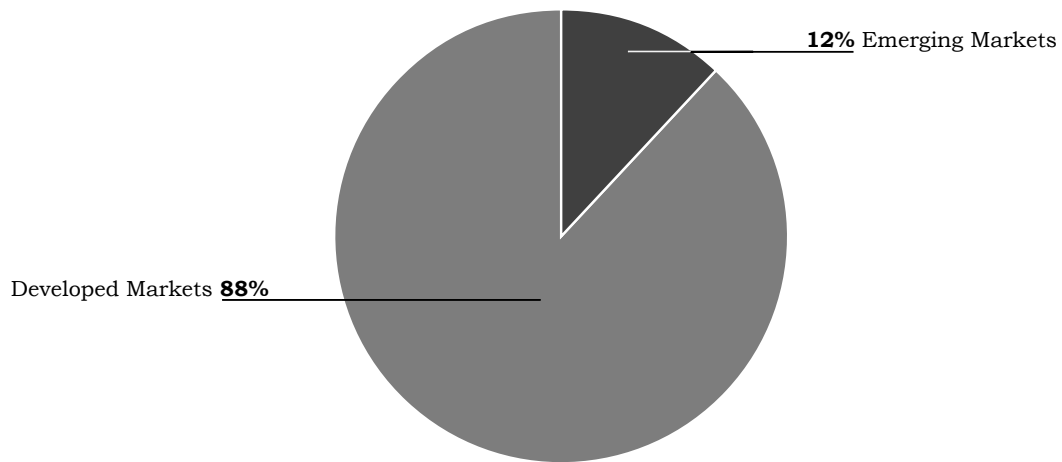
As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS global equity assets managed by external investment advisors had a market value of approximately \$7.0 billion, representing 22.0% of total assets.

### Global Public Equity Statistics

The pie chart below presents a breakdown of investments across developed and emerging markets in the global public equity composite. The following table displays the top 10 global stock holdings as of June 30, 2007.



### Top 10 Largest Holdings\* June 30, 2007

	Combined Market Value	% of Total Global Public Equity
Vodaphone Group	\$ 104,776,010	1.5%
Nestle SA	78,642,063	1.1%
Roche Holdings AG	77,051,945	1.1%
Total SA	71,331,419	1.0%
E.ON AG	67,272,028	1.0%
GlaxoSmithKline	65,453,833	1.0%
Canon Inc	61,918,295	0.9%
Diageo	60,105,462	0.9%
Toyota Motor Corp	59,983,481	0.9%
ING Groep NV	51,718,142	0.8%
<b>Total</b>	<b>\$ 698,252,678</b>	<b>10.2%</b>

*\*Includes only actively managed separate accounts.  
A complete list of portfolio holdings is available upon request.*

# Investment Section

## Global Public Equity Review

As of June 30, 2007

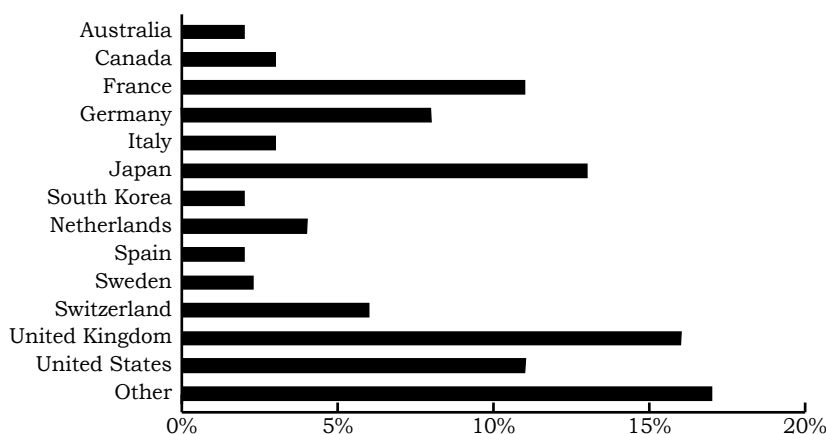
### Global Public Equity Structure

As of June 30, 2007, the PSRS/PEERS global equity portfolios were 100% actively managed and diversified across capitalization ranges, styles and a number of

developed and emerging market countries. The bar graph below displays the specific country exposure within the composite.

### Country Allocation

June 30, 2007



### Global Public Equity Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2007 for management of global equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2007	% of Total Market Value
AllianceBernstein Institutional Mgmt.	Active Intl Value	\$ 521,711,891	1.6%
AllianceBernstein Institutional Mgmt.	Active Global	656,433,453	2.1%
AQR Capital Management	Active Intl Core	1,121,043,236	3.5%
Arrowstreet Capital	Active Global	820,900,216	2.6%
INVESCO Global Asset Management	Active Intl Value	782,994,602	2.5%
Julius Baer Investment Management	Active Intl Core	994,673,658	3.1%
Legg Mason International Equities	Active Emerging Markets	376,950,039	1.2%
McKinley Capital Management	Active Intl Growth	771,153,660	2.4%
MFS Investment Management	Active Intl Core	949,217,530	3.0%
Global Equity Transition Assets	Core	2,554,242	0.0%
<b>Total</b>		<b>\$ 6,997,632,527</b>	<b>22.0%</b>

\*Includes manager cash.

# Investment Section

## Global Public Equity Review

Periods ended June 30, 2007

### Global Public Equity Investment Returns

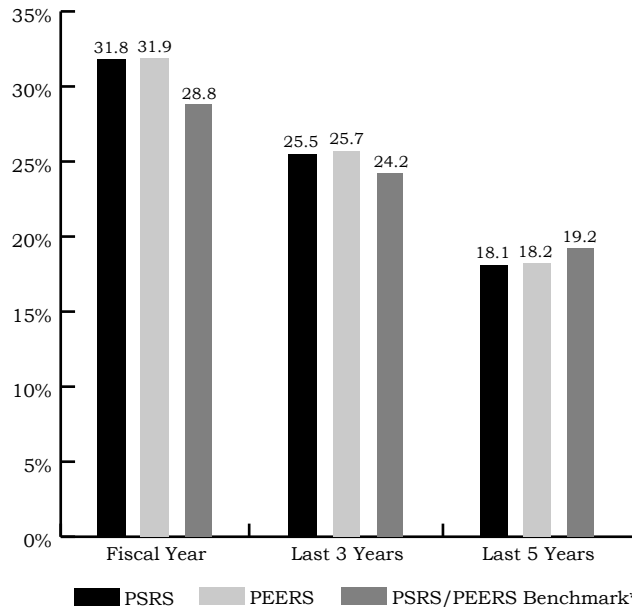
The fiscal year 2007 returns for both developed and emerging non-U.S. markets were significantly above long-term expectations for the fourth year in a row as the Systems' global equity benchmark\* gained 28.8%. The total returns for the PSRS and PEERS global equity portfolios for the fiscal year ended June 30, 2007 exceeded the global equity benchmark by 300 and 310 basis points, respectively. Three-year global equity composite returns outperformed the benchmark as well. The positive performance of the actual portfolios relative to the policy benchmark can primarily be attributed to the value added by the Systems' active management strategies including a modest overweight to emerging market stocks.

Emerging markets led all developed international markets with a return of 45% for the fiscal year. Additionally, the U.S. dollar weakened against most major currencies throughout the year. A declining dollar has a positive impact on PSRS/PEERS' global stock investments as returns in most foreign markets are enhanced when translated back to dollars. Longer-term global equity composite returns (as depicted in the bar graphs below) indicate underperformance relative to the policy benchmark for the five-year time period.

## Global Public Equity Investment Returns

June 30, 2007

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	31.8%	25.5%	18.1%
PEERS	31.9	25.7	18.2
PSRS/PEERS Benchmark*	28.8	24.2	19.2



\* The PSRS/PEERS global equity benchmark was comprised of 81% MSCI All Country World ex-U.S. Free Index and 19% MSCI All Country World Free Index as of June 30, 2007.

# Investment Section

## Public Debt Review

As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS public debt assets managed by external investment advisors had a market value of approximately \$7.8 billion, representing 24.6% of total assets.

### Fixed Income Statistics

The following table displays the statistical characteristics of the PSRS/PEERS bond portfolio as of June 30, 2007 with comparisons shown to the Lehman Brothers U.S. Aggregate Bond Index\*. Additionally, the top 10 public debt holdings as of June 30, 2007 are shown in the table below the characteristics.

Characteristics	June 30, 2007 Combined Systems	June 30, 2007 Lehman Aggregate Index*
<b>Number of Securities</b>	10,795	8,956
<b>Average Coupon</b>	5.2%	5.5%
<b>Yield to Maturity</b>	5.8%	5.7%
<b>Average Maturity (Years)</b>	9.2	7.1
<b>Duration (Years)</b>	5.0	4.8

### Top 10 Largest Holdings\*\* June 30, 2007

	Combined Market Value	% of Total Public Debt
FHLMC TBA AUG 30, 5.5%, GLD SNGL	\$ 165,027,435	2.2%
USTN, INFLATION INDEXED, 2.0%, 1/15/14	143,664,144	1.9%
FNMA TBA JUL 30, 6.0%, SNGL FAM	142,117,058	1.9%
USTN, INFLATION INDEXED, 1.625%, 1/15/15	130,281,129	1.7%
USTN, INFLATION INDEXED, 0.875%, 4/15/10	126,924,168	1.7%
USTN, INFLATION INDEXED, 3.375%, 1/15/12	118,705,686	1.6%
USTN, INFLATION INDEXED, 2.5%, 7/15/16	112,148,351	1.4%
FNMA Pool 745511, 5.0%	79,048,379	1.0%
USTN, INFLATION INDEXED, 3.0%, 7/15/12	72,910,456	1.0%
FNMA TBA JUL 30, 5.5%, SNGL FAM	72,009,635	1.0%
<b>Total</b>	<b>\$ 1,162,836,441</b>	<b>15.4%</b>

### Key to Holdings

FHLMC = Federal Home Loan Mortgage Corporation

FNMA = Federal National Mortgage Association

USTN = U.S. Treasury Note

*\*The PSRS/PEERS Public Debt Composite Benchmark consisted of 82.5% Lehman Aggregate Bond Index, 11.0% Lehman U.S. TIPS Index and 6.5% Merrill Lynch High Yield Master II Index.*

*\*\*Includes only actively managed separate accounts.*

*A complete list of portfolio holdings is available upon request.*



# Investment Section

## Public Debt Review

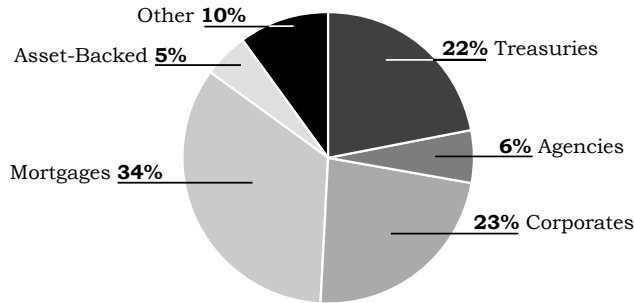
As of June 30, 2007

### Public Debt Structure

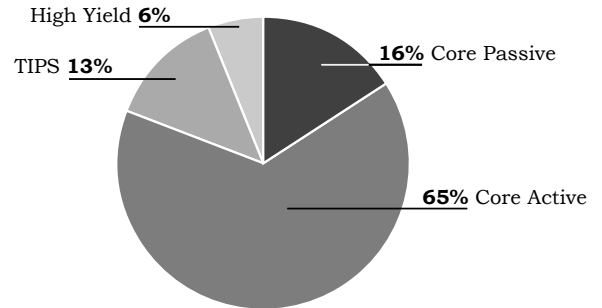
As of June 30, 2007, approximately 15.8% of the PSRS/PEERS fixed income portfolio was passively managed by State Street Global Advisors while the remaining 84.2% was actively managed by four separate external managers across six mandates. Throughout fiscal year 2007, the Systems continued to utilize public

debt assets as a source of funding for the Real Estate, Private Equity and Absolute Return Pool allocations. The pie charts below depict the public debt composite by showing the current sector and composite allocations for the PSRS/PEERS public debt portfolio.

**Sector Allocation**



**Composite Allocation**



### Public Debt Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2007 for management of public debt securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value*	% of Total Market Value
BlackRock Financial Management	Active Core Plus	\$ 951,966,275	3.0%
BlackRock Financial Management	Active Mortgages	944,092,972	3.0%
NISA Investment Advisors	Active Core	1,811,180,180	5.7%
NISA Investment Advisors	U.S. TIPS	1,015,794,543	3.2%
Seix Investment Advisors	High Yield	498,869,745	1.5%
State Street Global Advisors	Passive U.S. Bonds	1,238,661,828	3.9%
Wellington Management Company	Active Core Plus	1,359,381,556	4.3%
Public Debt Transition Assets	Core	1,987,033	0.0%
<b>Total</b>		<b>\$ 7,821,934,132</b>	<b>24.6%</b>

\*Includes manager cash.

# Investment Section

## Public Debt Review

Periods Ended June 30, 2007

### Public Debt Investment Returns

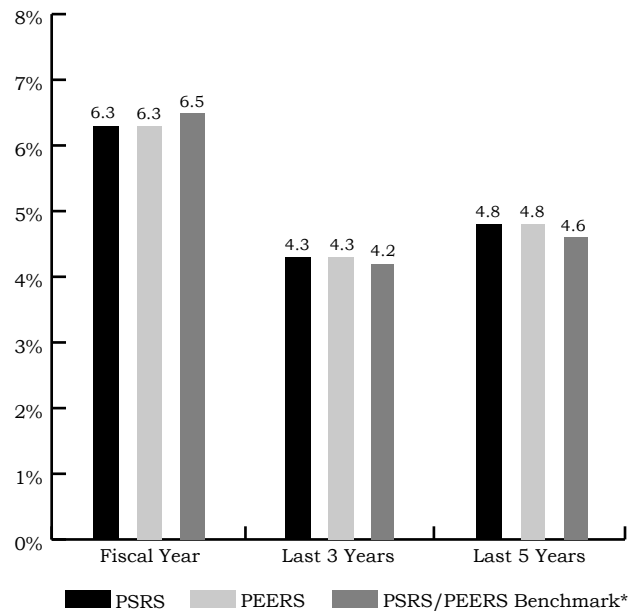
The public debt market provided positive returns for PSRS/PEERS for the fiscal year ended June 30, 2007 in contrast to the negative performance experienced in fiscal year 2006. The yield on the 10-year Treasury-note, which moves in the opposite direction from the price, ended the fiscal year at virtually the same level (5.1%) as it began the year. The Systems' allocation to high yield bonds within its public debt allocation added to composite performance in fiscal year 2007 with a return of 10.0%.

The annualized total returns on the PSRS and PEERS public debt portfolios for the three-year and five-year time periods (as depicted in the bar graphs below) exceeded the performance of the Systems' Public Debt Benchmark\* by 10 basis points and 20 basis points, respectively. On a fiscal year basis, total returns trailed benchmark performance by 20 basis points.

### Public Debt Investment Returns

June 30, 2007

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	6.3%	4.3%	4.8%
PEERS	6.3	4.3	4.8
PSRS/PEERS Benchmark*	6.5	4.2	4.6



\* The PSRS/PEERS Public Debt Benchmark was comprised of 82.5% Lehman Aggregate Bond Index, 6.5% Merrill Lynch High Yield Master II Index and 11.0% Lehman U.S. TIPS Index as of June 30, 2007.

# Investment Section

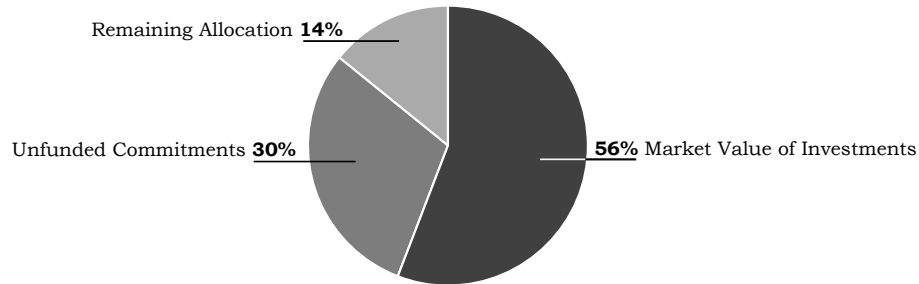
## Real Estate Review

As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS real estate assets committed\* for investment were \$1.79 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2007 was approximately \$1.23 billion, representing 3.9% of total assets. The following pie chart shows the percentage

of the Systems' real estate allocation that had been invested (at market value), the percentage that had been committed but not yet funded and the percentage that remained to be committed to reach PSRS/PEERS' target allocation.

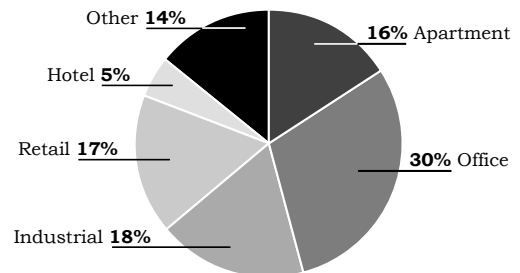
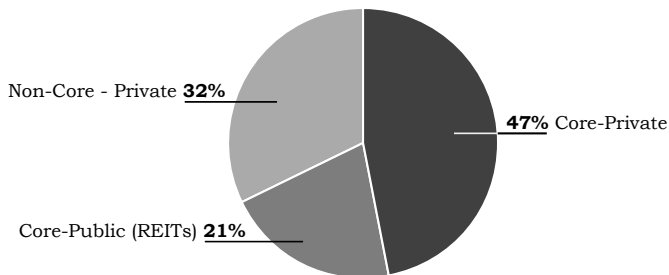


### Real Estate Structure

In October 2006, the PSRS/PEERS Board of Trustees approved an increase to 7.5% for the target allocation to the real estate asset class. Within the overall real estate allocation, the Systems have established a 50% target allocation to non-core real estate, a 30% allocation to core private real estate and a 20% allocation to core public real estate (REITs). The non-core allocation includes

both high return and enhanced strategies. The objective of the real estate allocation is to achieve superior risk-adjusted returns, as well as to benefit from the diversification effect provided by real estate investments. The 7.5% allocation equates to a total commitment (based on current assets) for the Systems of approximately \$2.4 billion with implementation progressing as planned.

The left pie chart below shows the current allocation to real estate investment strategies utilizing the market value of the Systems' invested real estate assets. The right pie chart shows the diversification within the real estate composite by property type.



\* Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.

# Investment Section

## Real Estate Review

As of June 30, 2007

### Real Estate Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Retirement Systems' real estate assets as of June 30, 2007.

Investment Advisor	Investment Style	Combined Market Value* As of June 30, 2007	% of Total Market Value
AMB Alliance III	Non-Core - Private	\$ 62,711,284	0.2%
AMB Japan Fund I	Non-Core - Private	13,195,071	0.0%
Blackstone R.E. Partners V	Non-Core - Private	35,236,212	0.1%
Blackstone R.E. Partners VI	Non-Core - Private	15,315,517	0.1%
Capmark Structured R.E. Partners	Non-Core - Private	10,896,297	0.0%
Carlyle Europe Real Estate Partners III	Non-Core - Private	667,234	0.0%
Carlyle Realty V	Non-Core - Private	447,626	0.0%
CBRE Fund IV	Non-Core - Private	12,211,924	0.0%
CB Richard Ellis Investors	Core - Public (Intl. REITs)	46,181,061	0.2%
CIM Urban REIT	Non-Core - Private	9,519,255	0.0%
Colony Investors VIII	Non-Core - Private	0	0.0%
CPI Capital Partners Europe	Non-Core - Private	6,085,271	0.0%
Dune Real Estate Fund I	Non-Core - Private	10,399,341	0.0%
Forum Asian Realty Income II	Non-Core - Private	14,915,203	0.1%
Guggenheim Structured R.E. II	Non-Core - Private	12,995,173	0.0%
Heitman Value Partners	Non-Core - Private	25,579,069	0.1%
Heitman Value Partners II	Non-Core - Private	0	0.0%
JPMorgan Strategic Property Fund	Core - Private	153,962,258	0.5%
LaSalle Asia Opportunity Fund II	Non-Core - Private	14,409,384	0.0%
LaSalle Income & Growth IV	Non-Core - Private	19,928,352	0.1%
Lone Star V	Non-Core - Private	9,005,678	0.0%
MSREF V International	Non-Core - Private	22,720,763	0.1%
Morgan Stanley Prime Property Fund	Core - Private	131,988,713	0.4%
Noble Hospitality Fund	Non-Core - Private	0	0.0%
Prudential PRISA Fund	Core - Private	144,073,372	0.5%
Prudential PRISA II Fund	Non-Core - Private	14,240,000	0.0%
RREEF America REIT II	Core - Private	155,450,739	0.5%
RREEF America REIT III	Non-Core - Private	60,837,725	0.2%
Starwood Hospitality Fund	Non-Core - Private	17,799,139	0.1%
Urdang Securities Management	Core - Public (U.S. REITs)	207,334,922	0.7%
Westbrook R.E. Fund VII	Non-Core - Private	0	0.0%
<b>Total</b>		<b>\$ 1,228,106,583</b>	<b>3.9%</b>

\* Includes manager cash and reflects valuations reported by the Systems' custodian, State Street Bank & Trust. Market values of private holdings reflect March 31, 2007 valuations that are cash flow adjusted through June 30, 2007. Public holdings reflect market values as of June 30, 2007.

# Investment Section

## Real Estate Review

Periods ended June 30, 2007

### Real Estate Investment Returns

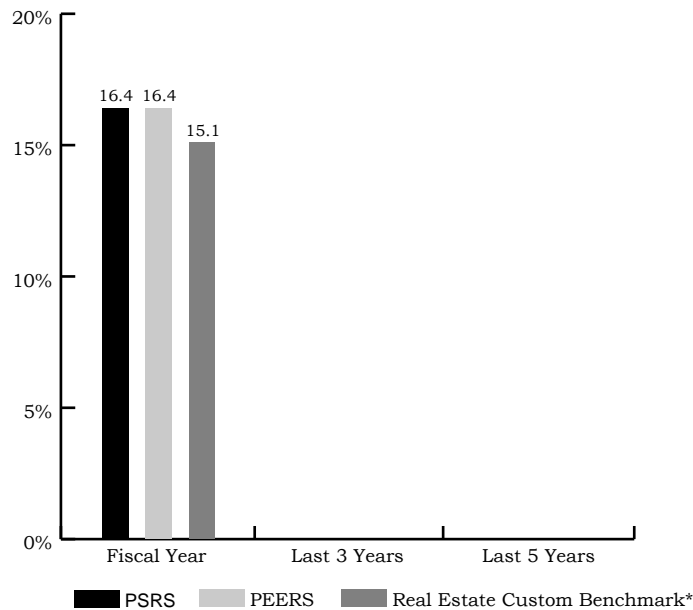
Fiscal year 2007 represented the second year that PSRS and PEERS had meaningful assets invested in the real estate asset class. The Systems have benefited from the strong real estate market through that time period. The funds and partnerships within the PSRS/PEERS real estate allocation were selected in conjunction with the Systems' real estate consultant, The Townsend Group.

Within the overall real estate universe, public REITs gained 12.6% for the fiscal year while private real estate provided a total return of 16.6%. As the table and chart below indicate, the Systems' combined real estate portfolio outperformed the PSRS/PEERS Real Estate Custom Benchmark\* by 130 basis points for the fiscal year ended June 30, 2007.

### Real Estate Investment Returns

June 30, 2007

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	16.4%	NA	NA
PEERS	16.4	NA	NA
Real Estate Custom Benchmark*	15.1	NA	NA



\* The Custom Benchmark utilized by the Retirement Systems consisted of 75% NCREIF Property Index and 25% NAREIT Equity Index.

# Investment Section

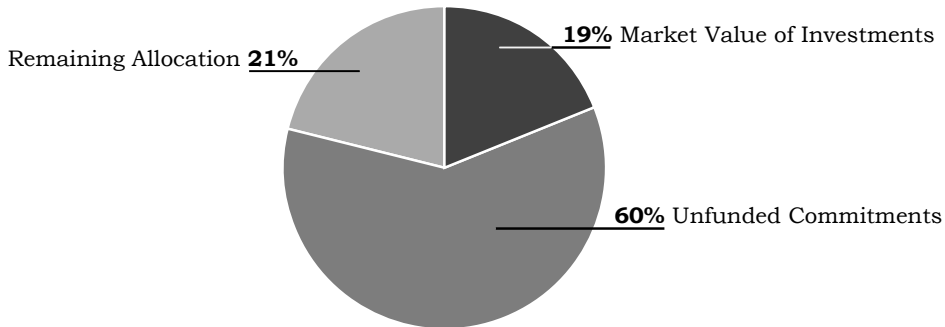
## Private Equity Review

As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS private equity assets committed\* for investment were \$1.89 billion. The market value of funds that have been drawn down and actually invested as of June 30, 2007 was approximately \$451.3 million, representing 1.4% of total assets. The following pie chart shows the percentage of

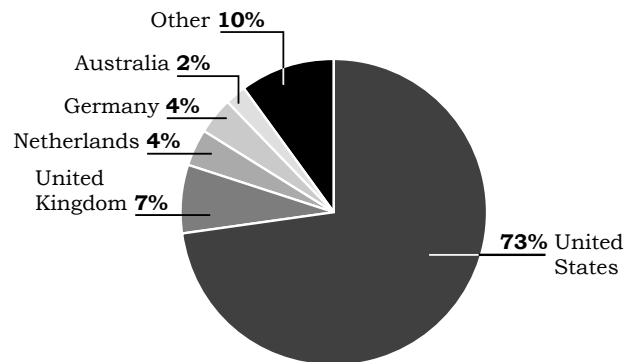
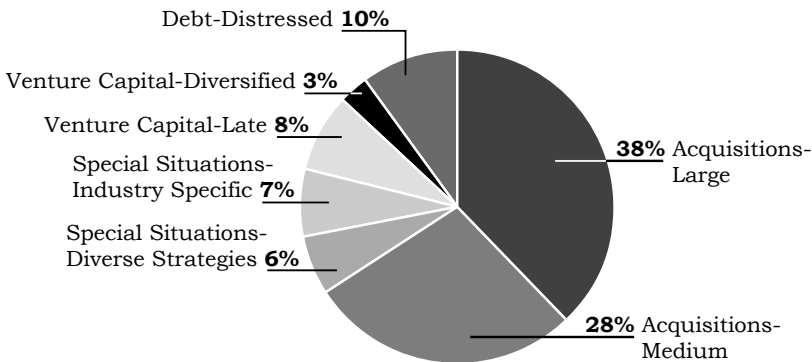
PSRS/PEERS' private equity allocation that had been invested (at market value), the percentage that had been committed but not yet funded and the percentage that remained to be committed to reach the Systems' target allocation.



### Private Equity Structure

The objective for the Systems' allocation to private equity is to achieve returns that are higher than those attainable in the public equity markets with the added benefit of diversification. The PSRS/PEERS Board of Trustees approved an increase to 7.5% for the target allocation to the private equity asset class in October 2006. The long-term and illiquid nature of the private equity asset class dictates that capital must be invested at a measured pace. Pathway Capital Management has been retained

by the Systems to provide private equity investment management services through two structures; a discretionary fund-of-funds relationship and an advisory relationship. The pie charts below show the diversification (utilizing the market value of the assets that have been invested) of the Systems' private equity holdings as of June 30, 2007 from both strategy and country perspectives.



\* Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.

# Investment Section

## Private Equity Review

As of June 30, 2007

### Private Equity Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Retirement Systems' private equity assets as of June 30, 2007.

Investment Advisor	Investment Style	Combined Market Value* As of June 30, 2007	% of Total Market Value
Blackstone Capital Partners V	Acquisition - Large	\$ 8,279,455	0.0%
Carlyle Europe Partners III	Acquisition - Medium	0	0.0%
Carlyle Partners IV	Acquisition - Large	19,493,942	0.1%
Carlyle Partners V	Acquisition - Large	0	0.0%
Centerbridge Capital Partners	Acquisition & Debt	592,701	0.0%
CVC European Equity Partners IV	Acquisition - Large	10,293,714	0.1%
CVC European Equity Tandem Fund	Acquisition - Large	1,670,775	0.0%
First Reserve Fund XI	Acquisition - Energy	2,735,550	0.0%
Genstar Capital Partners V	Acquisition - Medium	0	0.0%
GTCR Fund IX	Acquisition - Medium	4,359,276	0.0%
Hellman & Friedman Capital Partners VI	Acquisition - Large	6,031,380	0.0%
Kelso Investment Associates VIII	Acquisition - Medium	0	0.0%
KKR 2006 Fund	Acquisition - Large	3,460,999	0.0%
Lexington Capital Partners VI-B	Secondary Fund	34,910,963	0.1%
Montagu III	Acquisition - Medium	6,988,552	0.0%
OCM Principal Opportunities Fund IV	Debt - Distressed	8,418,977	0.0%
OCM Opportunities Fund VII	Debt - Distressed	5,975,437	0.0%
OCM Opportunities Fund VIIb	Debt - Distressed	0	0.0%
Onex Partners II	Acquisition - Medium	10,142,475	0.1%
Pantheon Global Secondary Fund III	Secondary Fund	30,649,363	0.1%
Pathway Capital Management	Fund-of-Funds (A)	214,994,269	0.7%
Pathway Capital Management	Fund-of-Funds (B)	25,773,628	0.1%
Pathway Capital Management	Fund-of-Funds (C)	3,055,683	0.0%
Paul Capital Partners IX	Secondary Fund	0	0.0%
Permira IV	Acquisition - Large	5,708,024	0.0%
Providence Equity Partners VI	Acquisition - Media	4,684,695	0.0%
The Resolute Fund II	Acquisition - Medium	1,011,353	0.0%
Silver Lake Partners III	Acquisition - Technology	0	0.0%
TCV VI	Venture Capital	7,079,565	0.0%
Thoma Cressey Fund VIII	Acquisition - Medium	7,758,034	0.0%
TPG Partners V	Acquisition - Large	7,105,358	0.0%
Wayzata Opportunities Fund	Debt - Distressed	14,225,120	0.1%
Wind Point Partners VI	Acquisition - Medium	5,878,838	0.0%
<b>Total</b>		<b>\$ 451,278,126</b>	<b>1.4%</b>

\* Market values as reported by the Systems' custodian, State Street Bank & Trust, that reflect March 31, 2007 valuations cash flow adjusted through June 30, 2007.

# Investment Section

## Private Equity Review

Periods ended June 30, 2007

### Private Equity Investment Returns

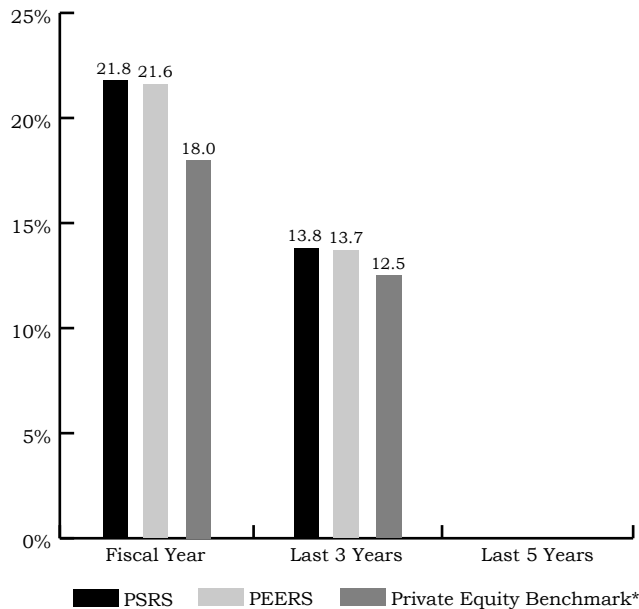
Fiscal year 2007 represented the fourth year of the implementation process for PSRS/PEERS' allocation to the private equity asset class. Private equity fundraising in the three primary geographic markets (the United States, Europe and Asia) remained strong throughout the fiscal year. Of the individual private equity sectors, U.S. buyout funds exhibited the greatest strength. The robust equity market provided strong demand for initial public offerings, assisting private equity funds in realizing portfolio gains.

The table and chart below show the Systems' private equity performance relative to its private equity benchmark.\* For the fiscal year ended June 30, 2007, the PSRS and PEERS private equity composite outperformed by 380 and 360 basis points, respectively, and for the 3-year period, exceeded the benchmark return by 130 and 120 basis points, respectively.

### Private Equity Investment Returns

June 30, 2007

	<b>Fiscal Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>
<b>PSRS</b>	21.8%	13.8%	N/A
<b>PEERS</b>	21.6%	13.7%	N/A
<b>Private Equity Benchmark*</b>	18.0%	12.5%	N/A



\* As of June 30, 2007, the benchmark utilized by the Retirement Systems for the private equity composite was the Russell 3000 Index.



# Investment Section

## Absolute Return Pool Review

As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS absolute return assets committed\* for investment were \$279.0 million. The market value of funds that had been drawn down and actually invested as of June 30, 2007 was approximately \$166.4 million, representing 0.5% of total assets.

### Absolute Return Pool Structure

In October 2006, the PSRS/PEERS Board of Trustees approved the Absolute Return Pool as a separate and distinct asset class with a target allocation of 7.0%. This composite will differ from the Systems' other asset classes primarily through a greater focus on earning consistent, absolute returns across economic and market cycles, as well as providing diversification benefits to the total fund. Within the overall absolute return composite, guidelines have been adopted specifying the following

sub-asset class allocations:

- 25% to traditional investments such as public equity and debt,
- 25% to non-traditional investments such as hedge funds, and
- 50% to private investments.

The primary objective of this composite is to achieve a net-of-fees return in excess of 9.0% over a full market cycle with volatility (standard deviation, or risk) similar to the total fund. It is expected that the volatility will be significantly higher than the Public Debt asset class but lower than the Public Equity asset class over long periods of time. The 7.0% target allocation equates to a total commitment (based on current assets) for the Systems of approximately \$2.2 billion with the initial implementation underway.

### Absolute Return Pool Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Retirement Systems' absolute return assets as of June 30, 2007.

Investment Advisor	Investment Style	Combined Market Value** As of June 30, 2007	% of Total Market Value
Alinda Infrastructure Fund I	Infrastructure	\$ 15,418,168	0.0%
Bridgewater Associates	Multi-Strat Market Neutral	51,626,910	0.2%
Indigo Capital V	Debt - Mezzanine	0	0.0%
Macquarie Infrastructure Partners	Infrastructure	19,691,959	0.1%
Pathway Capital Management	Private Fund-of-Funds	26,983	0.0%
Stark Investments	Multi-Strat Market Neutral	79,644,080	0.2%
<b>Total</b>		<b>\$ 166,408,100</b>	<b>0.5%</b>

\* Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.

\*\* Includes manager cash and reflects valuations reported by the Systems' custodian, State Street Bank & Trust. Market values of private holdings reflect March 31, 2007 valuations that are cash flow adjusted through June 30, 2007. Public holdings reflect market values as of June 30, 2007.

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# Investment Section

## Implementation Pool Review

As of June 30, 2007

### Market Value

As of June 30, 2007, the combined PSRS/PEERS implementation assets had a market value of approximately \$3.2 billion, representing 10.0% of total assets.

It is anticipated that the Implementation Pool could be utilized for up to five years because of the long-term investment cycle involved with private assets.

### Implementation Pool Structure

In April 2007, the PSRS/PEERS Board of Trustees approved the Implementation Pool as a separate, but temporary, asset class for inclusion in the Systems' investment portfolios. This composite will act as a placeholder for assets that will eventually be invested in the PSRS/PEERS alternative asset classes: Real Estate, Private Equity and the Absolute Return Pool. The allocation to implementation assets will decline as assets are transitioned into the alternative asset classes.

The primary objective of this composite is to earn meaningful returns above public debt over a full market cycle while taking less risk than public equities. The Implementation Pool will include a diversified group of liquid investment vehicles that primarily provide favorable risk-adjusted rates of return. The expected volatility for the composite should be similar to that of the total fund while providing diversification benefits for the total portfolio. The initial funding of this composite has been completed.

### Implementation Pool Investment Advisors

The following investment advisors were under contract with PSRS/PEERS as of June 30, 2007 for management of the assets in the Implementation Pool.

Investment Advisor	Investment Style	Combined Portfolio Market Value*	% of Total Market Value
Analytic Investors	Global Low Volatility Equity	\$ 392,599,909	1.2%
Analytic Investors	U.S. Low Volatility Equity	152,164,103	0.5%
AQR Capital Management	Diversified Beta Fund	194,107,620	0.6%
Pacific Investment Management Company	Core Plus	603,617,670	1.9%
Pacific Investment Management Company	LIBOR Plus	480,583,364	1.5%
State Street Global Advisors	Passive EAFE Index	223,245,897	0.7%
State Street Global Advisors	Passive Russell 2000 Index	332,742,490	1.1%
State Street Global Advisors	Passive S&P 500 Index	349,215,268	1.1%
State Street Global Advisors	Passive U.S. TIPS	317,893,344	1.0%
Westwood Management	Master Limited Partnerships	120,927,328	0.4%
<b>Total</b>		<b>\$ 3,167,096,993</b>	<b>10.0%</b>

\* Includes manager cash.

# Investment Section

## U.S. Public Equity Broker Commissions Report

For the Fiscal Year Ended June 30, 2007

### PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
INVESTMENT TECHNOLOGY GROUP INC	57,419,027	\$ 2,090,128,980.20	\$ 531,173.47	\$ 0.01
GOLDMAN SACHS + CO	32,020,473	1,266,767,736.89	468,061.11	0.01
CREDIT SUISSE SECURITIES LLC	16,978,677	693,506,937.12	334,147.17	0.02
LEHMAN BROTHERS INC	21,269,363	795,639,139.18	331,431.13	0.02
INSTINET LLC	21,074,854	659,147,729.31	309,505.50	0.01
LIQUIDNET INC	13,252,680	430,859,961.18	295,936.04	0.02
CITIGROUP GLOBAL MARKETS INC	11,579,362	418,702,251.93	295,920.70	0.03
MORGAN STANLEY CO INC	27,981,543	987,693,632.68	241,171.05	0.01
BANC/AMERICA SECURITIES LLC	14,927,523	590,041,731.25	229,523.82	0.02
MERRILL LYNCH, PIERCE, FENNER + SMITH INC	12,859,792	594,853,162.22	219,331.42	0.02
BROADCORT CAPITAL	6,579,395	187,922,607.03	217,040.45	0.03
UBS SECURITIES LLC	6,662,729	263,106,653.15	188,051.63	0.03
STATE STREET BROKERAGE SERVICES	6,024,482	219,512,287.74	187,597.35	0.03
JP MORGAN SECURITIES INC	5,658,781	211,082,722.90	179,765.82	0.03
BEAR STEARNS + CO INC	5,668,282	246,432,569.40	166,055.53	0.03
Other (<\$160,000)	94,853,369	3,152,132,479.15	2,995,298.51	0.03
<b>Total</b>	<b>354,810,332</b>	<b>\$ 12,807,530,581.33</b>	<b>\$ 7,190,010.70</b>	<b>\$ 0.020</b>

### PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
INVESTMENT TECHNOLOGY GROUP INC	5,035,253	\$184,288,584.76	\$ 45,694.01	\$ 0.01
GOLDMAN SACHS + CO	2,830,478	113,469,902.15	42,366.71	0.01
CREDIT SUISSE SECURITIES LLC	1,588,745	64,937,504.38	31,531.20	0.02
LEHMAN BROTHERS INC	1,821,474	67,418,422.23	29,597.90	0.02
CITIGROUP GLOBAL MARKETS INC	1,133,847	40,070,843.48	28,417.14	0.03
INSTINET LLC	1,879,187	58,976,837.21	26,610.76	0.01
LIQUIDNET INC	1,150,520	38,060,896.13	25,852.23	0.02
UBS SECURITIES LLC	771,445	30,235,224.97	20,624.75	0.03
MORGAN STANLEY CO INC	2,359,100	84,075,835.11	20,547.22	0.01
BANC/AMERICA SECURITIES LLC	1,237,932	48,601,676.17	20,265.40	0.02
MERRILL LYNCH, PIERCE, FENNER + SMITH INC	1,171,036	54,433,853.39	20,097.19	0.02
JP MORGAN SECURITIES INC	551,899	20,073,144.05	17,551.31	0.03
STATE STREET BROKERAGE SERVICES	502,742	16,645,339.08	17,005.96	0.03
BEAR STEARNS + CO INC	526,401	22,711,161.95	15,654.40	0.03
BROADCORT CAPITAL	491,946	15,849,555.34	14,559.09	0.03
Other (<\$14,000)	8,193,207	277,720,242.69	256,479.08	0.03
<b>Total</b>	<b>31,245,212</b>	<b>\$ 1,137,569,023.09</b>	<b>\$ 632,854.35</b>	<b>\$ 0.020</b>

# Investment Section

## Global Public Equity Broker Commissions Report

For the Fiscal Year Ended June 30, 2007

### PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
PERSHING LLC	30,301,685	\$ 382,781,295.87	\$ 659,676.01	17.2
MERRILL LYNCH INTERNATIONAL	90,510,279	400,852,063.37	615,406.70	15.4
MORGAN STANLEY CO INC	96,844,948	744,154,422.16	568,829.43	7.6
CREDIT SUISSE SECURITIES LLC	58,893,496	406,984,591.13	548,085.56	13.5
GOLDMAN SACHS + CO	55,297,243	713,549,238.07	471,952.48	6.6
LEHMAN BROTHERS INC	55,135,694	691,737,536.17	400,553.52	5.8
UBS SECURITIES LLC	46,302,887	292,209,029.01	388,243.69	13.3
DEUTSCHE BANK SECURITIES INC	108,839,462	539,411,077.32	381,287.11	7.1
CITIGROUP GLOBAL MARKETS INC	38,186,826	326,105,115.03	360,055.79	11.0
JP MORGAN SECURITIES INC	39,622,976	270,709,984.19	358,676.10	13.2
BEAR STEARNS SECURITIES CORP	20,851,361	382,317,567.36	340,717.10	8.9
SOCIETE GENERALE	12,168,591	250,504,319.72	197,123.60	7.9
INSTINET LLC	8,718,351	278,047,642.83	152,913.19	5.5
CREDIT LYONNAIS SECURITIES	28,796,104	92,430,247.95	125,816.22	13.6
INVESTMENT TECHNOLOGY GROUP LTD	11,656,580	194,758,888.20	106,505.04	5.5
Other (<\$100,000)	284,858,337	1,087,305,741.26	1,437,443.68	13.2
<b>Total</b>	<b>986,984,820</b>	<b>\$ 7,053,858,759.64</b>	<b>\$ 7,113,285.22</b>	<b>10.1</b>

### PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
PERSHING LLC	2,682,507	\$ 33,064,940.10	\$ 57,757.55	17.5
MERRILL LYNCH INTERNATIONAL	8,216,114	37,852,070.18	57,102.37	15.1
MORGAN STANLEY CO INC	9,211,361	69,549,015.90	52,856.92	7.6
CREDIT SUISSE SECURITIES LLC	5,670,675	35,780,361.39	47,579.15	13.3
GOLDMAN SACHS + CO	5,145,329	64,156,601.96	42,241.12	6.6
DEUTSCHE BANK SECURITIES INC	9,720,455	50,275,904.65	34,665.60	6.9
CITIGROUP GLOBAL MARKETS INC	3,718,894	30,145,101.80	33,762.56	11.2
LEHMAN BROTHERS INC	4,724,803	54,907,419.92	33,416.89	6.1
JP MORGAN SECURITIES INC	3,414,274	23,958,529.43	33,257.31	13.9
UBS SECURITIES LLC	4,077,805	20,954,355.43	31,350.27	15.0
BEAR STEARNS SECURITIES CORP	1,676,237	35,962,740.23	30,491.87	8.5
NOMURA	1,052,220	10,517,618.90	28,396.39	27.0
SOCIETE GENERALE	1,103,895	22,999,966.66	17,653.65	7.7
INSTINET LLC	717,836	23,502,121.59	12,600.38	5.4
CREDIT LYONNAIS SECURITIES	2,989,305	8,292,669.90	11,519.47	13.9
Other (<\$11,000)	26,144,476	104,834,176.64	116,802.88	11.1
<b>Total</b>	<b>90,266,186</b>	<b>\$ 626,753,594.68</b>	<b>\$ 641,454.38</b>	<b>10.2</b>

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# Investment Section

## Investment Summary

As of June 30, 2007

<b>Total Market Value</b>	<b>PSRS/PEERS</b>	<b>Percent of Total Market Value</b>		
	<b>Combined Funds - FY 2007</b>	<b>FY 2007</b>	<b>FY 2006</b>	<b>FY 2005</b>
U.S. Public Equity	\$ 11,728,535,368	36.9%	38.5%	39.7%
Global Public Equity	6,860,174,788	21.6	20.4	17.6
Public Debt	7,540,460,413	23.7	34.7	38.1
Real Estate	1,221,126,616	3.9	3.0	0.7
Private Equity	451,278,126	1.4	0.5	0.1
Absolute Return Pool	166,408,100	0.5	0.0	0.0
Implementation Pool	3,002,072,196	9.4	0.0	0.0
Cash and Equivalents	812,764,973	2.6	2.9	3.8
<b>Total</b>	<b>\$ 31,782,820,580</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Reconciliation with financial statements

Total from above	\$ 31,782,820,580
Accrued payable for investments purchased	5,510,436,395
Accrued income payable	13,041,513
Accrued receivable for investments sold	(4,878,750,409)
Accrued income receivable	(307,072,064)
Securities lending receivable	1,487,213
Short-term investments designated for benefits	(84,356,101)
<b>Statement of Plan Net Assets</b>	<b>\$ 32,037,607,127</b>

# Investment Section

## Investment Expenses

For the year ended June 30, 2007

Investment Managers	PSRS	PEERS	Total
<b>Investment Management Fees</b>			
BlackRock Financial Management - Core	\$ 597,508	\$ 51,956	\$ 649,464
BlackRock Financial Management - Mortgages	699,304	60,808	760,112
Bridgewater Associates, Inc.- TIPS	346,598	30,134	376,732
NISA Investment Advisors - Core	885,192	76,972	962,164
NISA Investment Advisors - TIPS	459,982	42,599	502,581
Payden & Rygel Investments	516,366	44,901	561,267
Seix Investment Advisors	1,156,345	98,101	1,254,446
Wellington Management Company	807,949	70,256	878,205
<b>Public Debt Fees</b>	5,469,244	475,727	5,944,971
Alliance Capital Management	1,499,600	130,400	1,630,000
Aronson & Johnson & Ortiz	1,766,698	161,441	1,928,139
Delaware Investment Advisors	1,656,784	143,216	1,800,000
Goldman Sachs Asset Management	4,141,857	348,301	4,490,158
Jacobs Levy	2,053,261	177,673	2,230,934
SSGA-Enhanced S&P 500 Index	775,207	85,902	861,109
SSGA-S&P 500 Index Fund	231,950	20,924	252,874
TCW Asset Management Company	388,028	33,668	421,696
UBS Global Asset Management	1,305,957	102,083	1,408,040
<b>U.S. Public Equity Fees</b>	13,819,342	1,203,608	15,022,950
Alliance Bernstein Institutional Mgmt. - Global	2,392,401	220,201	2,612,602
Alliance Bernstein Institutional Mgmt. - Value	1,656,685	147,676	1,804,361
AQR Capital Management	3,646,606	317,096	3,963,702
Arrowstreet Capital	2,238,583	197,194	2,435,777
INVESCO Global Asset Management	1,607,476	143,680	1,751,156
Julius Baer Investment Management	3,011,758	272,495	3,284,253
Legg Mason International Equities	836,026	72,698	908,724
McKinley Capital Management	2,549,499	221,846	2,771,345
MFS Institutional Advisors	2,472,503	225,266	2,697,769
<b>Global Public Equity Fees</b>	20,411,537	1,818,152	22,229,689
AQR Capital Management	784,283	68,198	852,481
Chartwell Investment Partners -Growth	674,978	57,874	732,852
Chartwell Investment Partners -Value	373,520	32,480	406,000
Duncan Hurst Capital Management	1,035,082	88,024	1,123,106
Next Century Growth Investors Micro Cap	65,551	5,695	71,246
Next Century Growth Investors - Small Cap	1,244,357	109,258	1,353,615
Systematic Financial Management	595,680	46,376	642,056
Thomson, Horstmann & Bryant	818,285	68,264	886,549
Westcap Investors	52,609	4,325	56,934
<b>S-Cap Fees</b>	5,644,345	480,494	6,124,839
Pacific Investment Management Co - Core	1,147,478	99,140	1,246,618
Pacific Investment Management Co - Libor Plus	75,291	6,547	81,838
Westwood MLPs	5,486	477	5,963
State Street Global Advisors - Passive Russell 2000	130,318	13,380	143,698
State Street Global Advisors - Passive S&P 500	33,135	3,260	36,395
<b>Implementation Pool Fees</b>	1,391,708	122,804	1,514,512
<b>EMAP Fees</b>	4,787,756	412,048	5,199,804
<b>Real Estate Fees</b>	1,100,706	106,864	1,207,570
<b>Private Equity Fees</b>	6,999,015	526,808	7,525,823
<b>Commission Recapture Income</b>	(456,136)	(27,489)	(483,625)
<b>Investment Management Expense</b>	59,167,517	5,119,016	64,286,533

(continued on page 78)

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# Investment Section

## Investment Expenses

For the year ended June 30, 2007

<b>Investment Managers</b> <i>(continued from page 77)</i>	<b>PSRS</b>	<b>PEERS</b>	<b>Total</b>
<b>Investment Management Fees</b>			
<b>Custodial Services</b>			
State Street Bank & Trust Co.	4,033,802	375,740	4,409,542
<b>Investment Consultants</b>			
Townsend	312,800	27,200	340,000
Albourne America, LLC	220,800	19,200	240,000
Pathway Consulting	954,121	71,816	1,025,937
Pathway Absolute Return Consulting	188,609	14,196	202,805
Russell Investment Group	314,320	27,332	341,652
Russell/Mellon Analytical Services	137,413	21,588	159,001
<b>Investment Consultant Fees</b>	2,128,063	181,332	2,309,395
<b>Staff Investment Expenses</b>	1,006,689	659,394	1,666,083
<b>Total Investment Expenses</b>	<b>\$ 66,336,071</b>	<b>\$ 6,335,482</b>	<b>\$ 72,671,553</b>

*Note: An additional \$2.8 million in private equity fees and \$15.1 million in real estate fees were recorded as adjustments to the net value of the investments. These totals include \$0.6 million in private equity incentive fee accruals and \$1.8 million in real estate incentive fee accruals.*