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LETTER FROM RUSSELL INVESTMENT GROUP

Russell Investment Group
909 A Street
Tacoma, Washington 98402-5120
253-439-4243
Fax: 253-439-2491

December 15, 2010

To the Members of the Board:


Fiscal year 2010 was marked by continued volatility in most financial markets due to lingering concerns over the economic recovery and sovereign debt issues in Europe. Despite the uncertain environment, global equities and bonds were strongly positive for the year, driven by continued strong corporate earnings, improving U.S. balance sheets, and a low inflationary environment. Looking forward to the coming year, fears of a double dip recession remain, with the pace of the recovery slowing, stubbornly high unemployment, and continuing concerns over a Eurozone sovereign debt crisis. In contrast, China and Emerging Markets continue to be the bright spots in the global economy, and are expected to be drivers of global growth.

The Total Fund return for the fiscal year ended June 30, 2010 was 13.0% for PSRS and 12.7% for PEERS, ahead of the policy benchmark return of 11.3%. The PSRS fiscal year returns for the U.S. equity and global equity composites were strong at 16.1% and 12.5%, respectively (16.0% and 12.7% for PEERS). Public debt also exceeded the policy benchmark return of 6.9% for the fiscal year with returns of 7.4% for PSRS and 7.5% for PEERS. Strong performance by private credit and private equity assets also contributed to the overall portfolio's positive return.

Last year's restructuring of the Systems' policy portfolio supported a number of activities this fiscal year. Staff's attention to the securities lending program allowed the Systems to proactively manage both the liquid and illiquid securities in the collateral pool. A successful global custody search, assisted by RV Kuhns, resulted in a change of provider (after the end of the fiscal year) for this important function. Continued concerns about rising inflation and the devaluation of the U.S. dollar warranted an overweight to TIPS and the exploration of additional exposure to non-U.S. markets, especially emerging markets.

We at Russell have enjoyed another productive year working with Missouri PSRS/PEERS. We say goodbye to a number of exemplary Board members who left the service of the Systems and are excited about serving their capable replacements. As always, we are looking forward to the coming year.

Regards,



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



LETTER FROM THE CHIEF INVESTMENT OFFICER



December 17, 2010

To the Members of the Retirement Systems:

On behalf of the PSRS and PEERS Board of Trustees and the internal Investment Staff, I present the following report on the Systems' investments for the fiscal year ending June 30, 2010.

The first two quarters of fiscal year 2010 represented a significant recovery from the market lows experienced in 2009. The strength in the investment markets directly resulted in solid gains for PSRS/PEERS this past year. Specifically, the Systems' assets increased through investment earnings by almost \$3 billion over the previous year as the total fund performance was 13.0% for PSRS and 12.7% for PEERS.

Key Points within this year's Financial Report

As you review the financial information in this report, we believe it is important to be aware of the following points for the year ended June 30, 2010:

- PSRS and PEERS significantly outperformed the assumed investment return of 8.0%,
- The PSRS and PEERS investment returns for fiscal year 2010 were above the public fund median. The Systems generated the investment returns while taking less risk than 70% of comparable public funds,
- Each major asset category (stocks, bonds, etc.) generated returns in excess of established policy benchmarks,
- The PSRS/PEERS internal investment staff and external investment managers added value above the policy benchmark of over \$325 million, net of all fees and expenses. The outperformance in 2010 was due to both tactical asset allocation (overweighting and underweighting asset classes around targets) as well as active management on the part of external managers,
- The PSRS/PEERS investment expenses (including accrued performance based fees) for fiscal year 2010 were 0.86%, or 86 cents for every \$100 managed. The investment returns reported throughout this publication are partially net of these fees. The investment return net of all fees and expenses was 12.8% for PSRS and 12.5% for PEERS,
- Investment performance throughout this report is calculated using a time-weighted rate of return based on market values, and
- The total assets of both PSRS and PEERS were approximately \$26 billion on June 30, 2010, making the combined entity larger than all other public retirement plans in the state combined, and the 44th largest defined benefit plan in the United States.

Fiscal Year 2010 Year in Review

The PSRS/PEERS Board of Trustees has embraced a philosophy to institute a disciplined and diversified investment portfolio. This philosophy has been implemented over the past several years by the internal investment staff as the portfolio has expanded into multiple asset classes outside of stocks and bonds. In this fiscal year, the PSRS/PEERS stock and bond portfolios produced above average returns. Additionally, the non-traditional asset classes provided strong returns. The Systems' hedged asset portfolio represented just over 10% of Total Fund assets at fiscal year end and generated a return of 17.2%. The return for the industry standard Hedge Fund Research Inc. (HFRI) Weighted Composite was 9.1% over the same time period. Diversification into both private equity and private credit proved beneficial for the year as the private equity composite returned 19.8% and the private credit composite increased 36.5%.

Address: P.O. Box 268, 3210 West Truman Blvd., Jefferson City, MO 65102; **Telephone Number:** (573) 634-5290; **Toll Free:** (800) 392-6848
FAX Numbers: Membership (573) 634-7934; Investments (573) 634-6248; Employer Services (573) 634-7911; Administration (573) 634-5375

 www.psr-peers.org

Primary portfolio drivers

As I discussed in my letter last year, risk management and the pursuit of competitive investment returns are primary drivers of the PSRS/PEERS portfolio. To further ensure the achievement of these basic investment objectives, the Board adopted a new asset allocation at the June 8, 2009 Board meeting. The results of the new allocation are evident as you review the financial report this year. For example, the asset allocation has been subdivided into three separate categories: Public Risk Assets (primarily liquid), Safe Assets (totally liquid) and Private Risk Assets (primarily illiquid). The new asset allocation did not dramatically alter the investments of the Systems, but it did change how the assets are structured and how risk is assessed. Specifically, the new asset allocation more directly takes into account a primary risk to public pension plans like PSRS/PEERS: liquidity.

As an in-perpetuity investor, the long-term investment horizon for PSRS/PEERS allows the Systems to assume prudent levels of illiquidity (and potentially higher returns) through Private Risk Assets. The illiquidity risk associated with private investments in the portfolio is offset in part by an allocation to Safe Assets, including U.S. Treasury securities. Additionally, the Safe Assets ensure that adequate liquidity is available to meet all benefit payments and cash needs for an extended period of time regardless of the economic environment.

The Systems began building private investment portfolios (including private equity, private credit and private real estate) in 2003 in order to generate long-term returns superior to the public markets, take advantage of market inefficiencies, and further increase diversification. The nature of private investing requires a process of portfolio construction that takes a period of years to develop. This is particularly true for a plan with the substantial asset levels of PSRS/PEERS. Over the years, the Systems have continued to build on this successful investment platform that serves as an alternative to traditional public markets. Today, the Systems have invested almost \$3 billion in Private Risk Assets. In total, the long-term results have been very beneficial to the Systems' overall portfolio. For example, the private equity portfolio has outperformed public markets by over 7.0 percentage points (700 basis points) on an annualized basis over the last five years. The investment in Private Risk Assets has also been successful in terms of adding diversification and lowering the standard deviation of plan returns.

The Retirement Systems Board and Staff are focused on establishing, implementing, and continually reviewing/modifying investment policies and strategies in order to build and maintain an investment portfolio with risk-adjusted return characteristics necessary to meet the Systems' long-term goals. The Systems adhere to a strategic asset allocation that is structured to withstand short-term shocks to the markets but also to capture positive growth in the global economy (as was the case in fiscal year 2010).

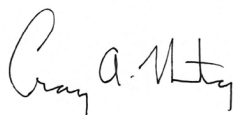
Fiscal Year 2011: A promising start

As I write the annual letter at the end of December 2010, the prospects for economic growth in the United States have increased and may improve further in 2011 as the effects of an improved fiscal climate flow through to the economy. The Systems have directly benefited from the recovering economy through strong investment returns in the first six months of fiscal year 2011. Specifically, the total assets of the Systems have increased through investment earnings by over \$2.5 billion since the end of fiscal year 2010 (June 30, 2010).

Despite the recent investment gains and a more positive outlook on the economy, the U.S. expansion (and the broader global expansion) does remain somewhat fragile due to high levels of unemployment, current deflationary pressures, the U.S. housing overhang and the European debt crisis. Given the uncertainty and the headwinds that many investors face, we remain focused on prudently investing in opportunities that will protect the Systems' capital and produce attractive returns over the longer term. From a broader perspective, we continue to view capital markets as global and thus will always consider the full spectrum of asset classes and investment vehicles on a fully global basis.

Under the support and guidance of the Board of Trustees, I am confident that the investment program at PSRS/PEERS will continue to meet the long-term investment objectives of the Systems within appropriate levels of risk. Most importantly, I believe the portfolio is well positioned to ensure that our more than 220,000 retirees, active teachers and school employees will receive the financial security they have earned through their hard work and dedication.

Respectfully,



Craig A. Husting, CFA
Chief Investment Officer

INVESTMENT HIGHLIGHTS

As of June 30, 2010

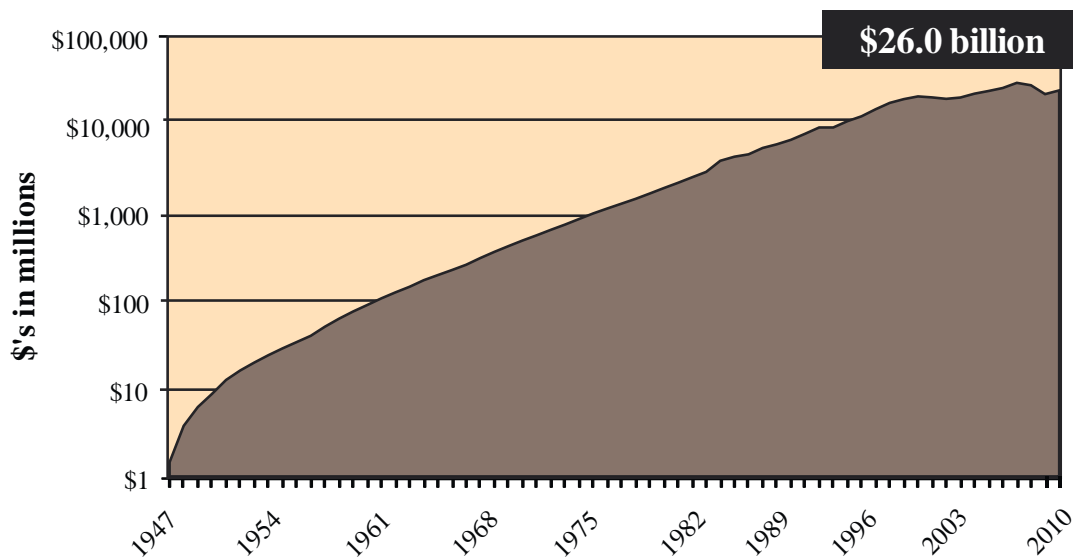
The Board of Trustees of the Public School and Public Education Employee Retirement Systems of Missouri (PSRS/PEERS) is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the 'prudent person' rule. To that end, the 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, and
- (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 invested assets increased to \$26.0 billion as of June 30, 2010 from \$23.6 billion at the beginning of the fiscal year, a change of approximately \$2.4 billion. This increase is directly related to investment market recoveries experienced during the fiscal year. The Systems' portfolios were well positioned to take advantage of the positive market shifts, which resulted in a significant increase in the fair value of investments. Each major asset category generated returns in excess of established benchmarks. The long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965 is shown in the graph below.

63 YEARS OF GROWTH



ASSET ALLOCATION

As of June 30, 2010

The Systems' portfolio is prudently invested across a broad array of assets by employing a long-term horizon that reflects the long-term nature of the PSRS/PEERS pension obligations. The principles of diversification, risk control, and competitive long-term rates of return provide the framework for selecting an asset allocation that is expected, over longer periods of time and in the aggregate, to give the Systems the most competitive long-term return within a prudent risk level.

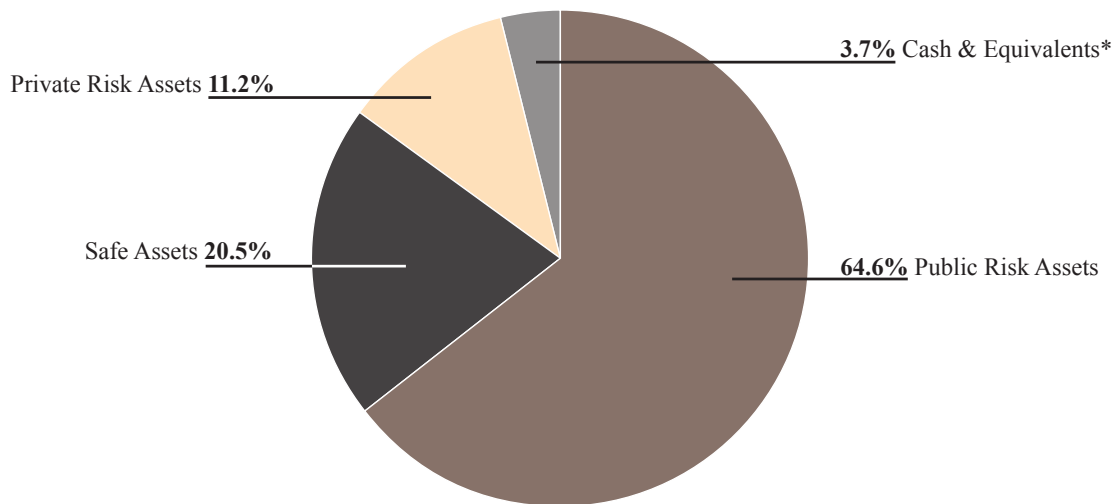
Selection of an appropriate asset allocation is one of the most important decisions made by a retirement plan. PSRS/PEERS employ an effective and intuitive risk-based approach to setting and reporting the asset allocation decision. The risk-based asset allocation was developed to clearly define the prudent risks taken by the Systems within their investment portfolios. The Systems consider a variety of risks including, but not limited to, liquidity, volatility, tail risk (the possibility that an investment will move much more than expected) and the ability to meet the

Systems' assumed rate of return when structuring the portfolio. This analysis results in an asset allocation to Public Risk Assets, Safe Assets and Private Risk Assets. Within each risk allocation, the Systems' investment portfolio includes strategic, long-term commitments to specific asset programs. Public Risk Assets include U.S. Public Equity, Global Public Equity, Credit Bonds and Hedged Assets. Safe Assets include U.S. Treasuries and TIPS. Private Risk Assets include Private Real Estate, Private Equity and Private Credit Assets.

The restructuring of the portfolio over time resulted in the elimination of several asset programs including the Absolute Return Pool. The Systems' internal investment staff and external consultants continuously monitor the asset allocation and risk and return characteristics of the portfolio. The Systems' long-term asset allocation is reviewed in conjunction with plan liabilities.

TARGET RISK-BASED ASSET ALLOCATION

June 30, 2010



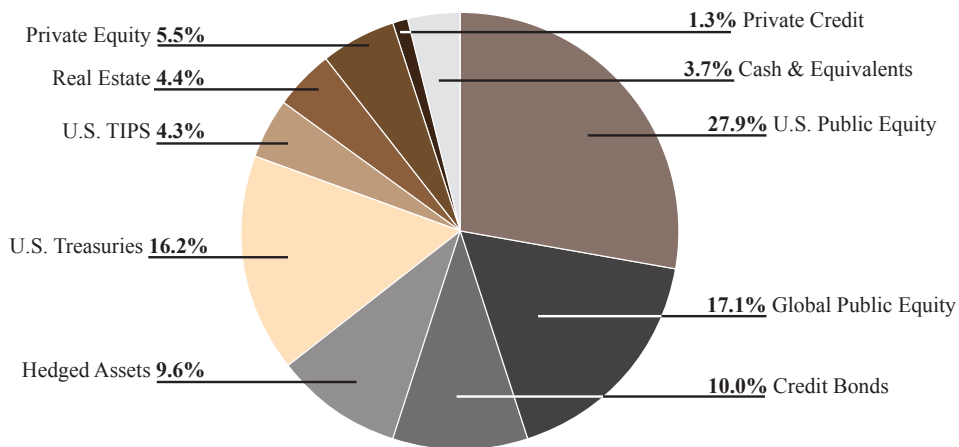
** All manager-held cash is reflected as Cash & Equivalents. Managers may hold cash or cash equivalents as part of an active management strategy.*

ASSET ALLOCATION

As of June 30, 2010

DETAILED PORTFOLIO ASSET ALLOCATION

June 30, 2010



Asset Type	PSRS Market Value	PEERS Market Value	Combined Funds	% of Total	Long-Term Allocation
<i>Public Risk Assets</i>					
U.S. Public Equity	\$ 6,588,574,228	\$ 666,201,395	\$ 7,254,775,623	27.9%	27.0%
Global Public Equity	4,026,573,648	413,385,936	4,439,959,584	17.1%	15.0%
Credit Bonds	2,347,493,539	271,160,467	2,618,654,006	10.0%	12.0%
Hedged Assets	2,273,826,732	226,489,383	2,500,316,115	9.6%	6.0%
Total Public Risk Assets	15,236,468,147	1,577,237,181	16,813,705,328	64.6%	60.0%
<i>Safe Assets</i>					
U.S. Treasuries	3,810,516,273	403,400,436	4,213,916,709	16.2%	16.0%
U.S. TIPS	1,029,390,903	95,136,981	1,124,527,884	4.3%	4.0%
Total Safe Assets	4,839,907,176	498,537,417	5,338,444,593	20.5%	20.0%
<i>Private Risk Assets</i>					
Real Estate	1,066,952,170	92,364,789	1,159,316,959	4.4%	7.5%
Private Equity	1,312,617,634	106,793,319	1,419,410,953	5.5%	10.5%
Private Credit	316,613,342	25,604,393	342,217,735	1.3%	2.0%
Total Private Risk Assets	2,696,183,146	224,762,501	2,920,945,647	11.2%	20.0%
Cash & Equivalents*	865,266,062	93,513,437	958,779,499	3.7%	0.0%
Total Investments**	\$ 23,637,824,531	\$ 2,394,050,536	\$ 26,031,875,067	100.0%	100.0%

* All manager-held cash is reflected as Cash & Equivalents. Managers may 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, 2010.

TOTAL FUND REVIEW

Periods Ended June 30, 2010

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 4.75% over long periods of time. The real rate of return is the rate by which the long-term total return exceeds the inflation rate. The one-year total returns for PSRS and PEERS were significantly above the long-term investment objective of 8.0%, while the three- and five-year total returns remained below the long-term investment objective of 8.0%. PSRS' total return for the fiscal year exceeded the median returns of other large public funds, while PEERS' total return equaled the median of other large public funds for the same time period. PSRS' and PEERS' total returns for the three- and five-year time periods were marginally below the public fund median return largely due to asset allocation and risk tolerance differences. The Systems significantly outperformed the policy benchmark returns for the one-year time period and marginally

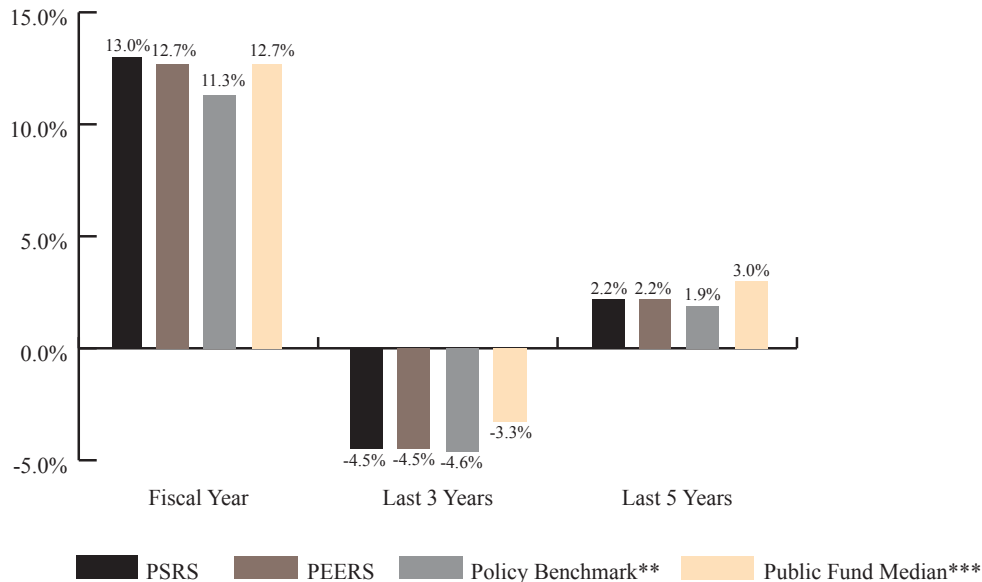
outperformed the policy benchmark returns for the three- and five-year time periods.

PSRS outperformed the policy benchmark for the fiscal year by 170 basis points, while PEERS outperformed the policy benchmark for the same time period by 140 basis points. The Systems outperformed the policy benchmark for each major asset class during the fiscal year. This is a direct result of the portfolio being well positioned to take advantage of appropriate investment opportunities and market shifts. The Systems' internal investment staff and external investment managers added value above the policy benchmark of over \$325 million for the year, net of all fees and expenses. The policy benchmark provides an indication of the returns that 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, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	13.0%	-4.5%	2.2%
PEERS	12.7%	-4.5%	2.2%
Policy Benchmark **	11.3%	-4.6%	1.9%
Public Fund Median ***	12.7%	-3.3%	3.0%



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

** As of June 30, 2010, the Policy Benchmark was comprised of 40.5% Russell 3000 Index, 16.0% Barclays Capital Treasury Blend, 15.0% MSCI All Country World ex-U.S. Free Index, 7.5% NCREIF Property Index (1-quarter lag), 4.0% Barclays Capital U.S. TIPS 1-10 Year Index, 15.0% Barclays Capital Credit Intermediate Index, and 2.0% Bank of America Merrill Lynch High Yield Master II Index.

*** The Public Fund Median return reflects the performance of a universe of public pension plans from the Master Trust Universe.

PUBLIC RISK ASSETS REVIEW

As of June 30, 2010

Market Value

As of June 30, 2010, the combined PSRS/PEERS Public Risk assets had a market value of approximately \$17.6 billion, representing 67.7% of total assets.

Public Risk Asset Structure

As of June 30, 2010, 43.1% of the PSRS/PEERS Public Risk assets were invested in the U.S. Public Equity program, 26.4% in the Global Public Equity program, 15.6% in the Credit Bonds program and 14.9% in the Hedged Assets program. Each of these programs are discussed in more detail on the following pages.

Public Risk Asset Investment Returns

The U.S. and global equity markets have experienced a strong rally since the global credit crisis of 2008 and 2009. The rally began in March 2009 and continued through the third quarter of the fiscal year. During the final quarter of the fiscal

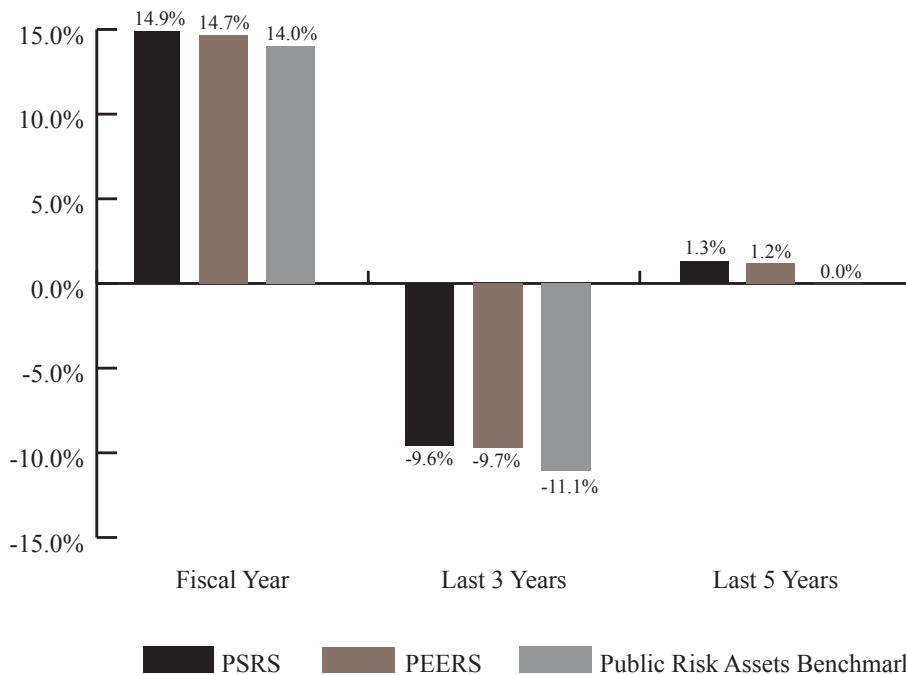
year, U.S. and global equity markets declined primarily due to financial uncertainty in many European countries. During the fiscal year, the markets were fueled by the easing of credit markets, increases in consumer spending and exports, business investment in new inventory and equipment and stimulus efforts by the federal government.

The total returns for the PSRS and PEERS public risk portfolios were 14.9% and 14.7%, respectively, compared to the benchmark return of 14.0% for the fiscal year ended June 30, 2010. As shown in the table and graph below, the PSRS and PEERS annualized public risk portfolio returns outperformed the benchmark performance by 90 basis points and 70 basis points, respectively. For the three- and five-year time periods, both PSRS and PEERS significantly outperformed the benchmark as noted below.

PUBLIC RISK ASSET INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	14.9%	-9.6%	1.3%
PEERS	14.7%	-9.7%	1.2%
Public Risk Assets Benchmark *	14.0%	-11.1%	0.0%



* The PSRS/PEERS Public Risk Assets Benchmark was comprised of 50.0% Russell 3000 Index, 25.0% MSCI All Country World ex-U.S. Free Index and 25.0% Barclays Capital Credit Intermediate Index as of June 30, 2010.

U.S. PUBLIC EQUITY REVIEW

As of June 30, 2010

Market Value

As of June 30, 2010, the combined PSRS/PEERS U.S. Public Equity assets had a market value of approximately \$7.7 billion, representing 29.6% of total assets.

U.S. Public Equity Statistics

The following table displays the statistical characteristics of the PSRS/PEERS U.S. Public Equity program as of June 30, 2010 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, 2010 are shown in the table below the characteristics.

Characteristics	June 30, 2010 Combined Systems*	June 30, 2010 Russell 3000 Index
Number of securities	1,537	2,987
Dividend yield	1.9%	2.0%
Price-to-earnings ratio	16.7	17.5
Average market capitalization	\$51.3 billion	\$59.0 billion
Price-to-book ratio	3.0	2.9

Top 10 Largest Holdings*

June 30, 2010	Combined Market Value	% of Total U.S. Public Equity
Apple, Inc.	\$ 83,572,352	1.2%
JP Morgan Chase and Co.	66,651,983	0.9%
Google, Inc.	65,878,407	0.9%
Wells Fargo and Co.	58,857,088	0.8%
Chevron Corp.	56,641,792	0.8%
AT&T, Inc.	47,009,056	0.6%
Johnson and Johnson	43,953,515	0.6%
Cognizant Tech Solutions	40,328,336	0.6%
Exxon Mobil Corp	39,859,616	0.5%
Microsoft Corp.	37,696,363	0.5%
TOTAL	\$ 540,448,508	7.4%

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

U.S. PUBLIC EQUITY REVIEW

As of June 30, 2010

U.S. Public Equity Structure

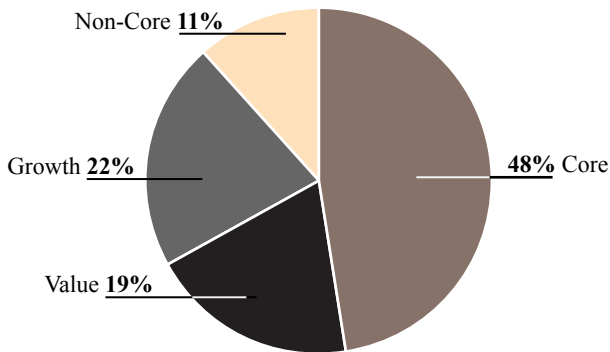
As of June 30, 2010, 34.4% of the PSRS/PEERS U.S. Public Equity composite was passively managed. The remainder of the portfolio was actively managed and diversified across a broad array of capitalization ranges and investment styles, including the Small Cap Alpha Pool (S-CAP) and the Alpha Overlay program. Both programs represent multi-manager pools of assets managed within the overall PSRS/PEERS U.S. Public Equity structure. The S-CAP Program encompasses all small

capitalization assets. The Alpha Overlay composite focuses on the separation of returns into alpha and beta, and includes alternative equity mandates (including hedge fund portfolios).

The pie charts below depict the U.S. Public Equity portfolio by presenting the current style structure of the portfolio as well as the allocation by composite.

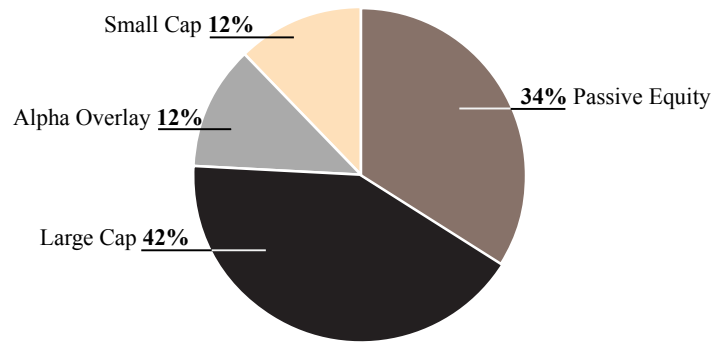
STYLE ALLOCATION

June 30, 2010

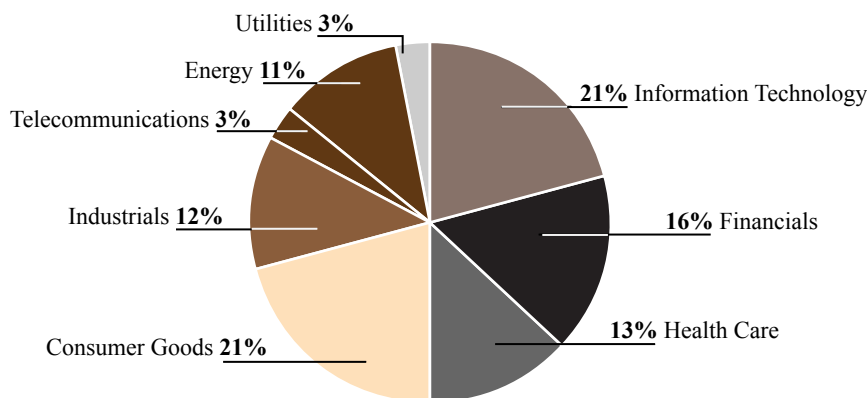


COMPOSITE ALLOCATION

June 30, 2010



The following pie chart shows the allocation to market sectors within the U.S. Public Equity portion of the PSRS/PEERS portfolio as of June 30, 2010.



U.S. PUBLIC EQUITY REVIEW

As of June 30, 2010

U.S. Public Equity Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2010 for management of U.S. Public Equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2010	% of Total Market Value
AllianceBernstein Institutional Management	Active Large Cap Growth	\$ 409,845,151	1.6%
Analytic Investors	Structured Large Cap 120/20 Core	26,080,045	0.1%
Analytic Investors	Structured Large Cap Value	302,374,644	1.2%
Analytic Investors	U.S. Low Volatility Equity	179,173,953	0.7%
AQR Capital Management	Large Cap 140/40 Core	166,400,025	0.6%
Aronson + Johnson + Ortiz	Active Large Cap 130/30 Value	173,419,708	0.7%
Aronson + Johnson + Ortiz	Active Large Cap Value	365,556,815	1.4%
Martingale Asset Management	Active Large Cap 130/30 Growth	235,602,372	0.9%
SSgA - Russell 1000 Index Fund	Passive Russell 1000 Index	772,088,699	3.0%
SSgA - S&P 500 Index Fund	Passive S&P 500 Index	1,877,450,552	7.2%
Westwood Management	Active Large Cap Value	539,128,626	2.1%
Westwood Management	Master Limited Partnerships	184,456,661	0.7%
Zevenbergen Capital	Active All Cap Growth	609,393,551	2.4%
Alpha Overlay: Algert Coldiron Investors	Multi-Strategy Market Neutral	61,579,168	0.2%
Alpha Overlay: Analytic Investors	Japan Market Neutral	55,823,582	0.2%
Alpha Overlay: AQR Capital Management	Multi-Strategy	56,199,456	0.2%
Alpha Overlay: Bridgewater Associates	Multi-Strategy	147,287,669	0.6%
Alpha Overlay: Davidson Kempner	Multi-Strategy	133,864,802	0.5%
Alpha Overlay: NISA Investment Advisors	Beta Overlay	139,776,957	0.5%
Alpha Overlay: Och-Ziff	Multi-Strategy	61,279,320	0.2%
Alpha Overlay: UBS O'Connor	Global Market Neutral	131,864,960	0.5%
Alpha Overlay: UBS O'Connor	Multi-Strategy	53,772,398	0.2%
Alpha Overlay: Zevenbergen Capital	Active All Cap Growth	98,127,715	0.4%
Alpha Overlay Subtotal		939,576,027	3.5%
S-CAP: AQR Capital Management	Active Small Cap Value	119,436,183	0.5%
S-CAP: Chartwell Investment Partners	Active Small Cap Value	118,156,585	0.5%
S-CAP: Columbus Circle	Active Small Cap Growth	90,084,337	0.4%
S-CAP: Next Century Growth Investors	Active Small Cap Growth	121,285,223	0.5%
S-CAP: Next Century Growth Investors	Active Micro Cap Growth	8,584,828	0.0%
S-CAP: Nicholas - Applegate	Active Micro Cap Growth	84,649,745	0.3%
S-CAP: NISA Investment Advisors	Russell 2000 Overlay	187,215,411	0.7%
S-CAP: Thomson, Horstmann & Bryant	Active Small Cap Core	193,067,597	0.7%
Small Cap Alpha Pool (S-CAP) Subtotal		922,479,909	3.6%
Total		\$ 7,703,026,738	29.6%

* Includes manager cash.

U.S. PUBLIC EQUITY REVIEW

Periods Ended June 30, 2010

U.S. Public Equity Investment Returns

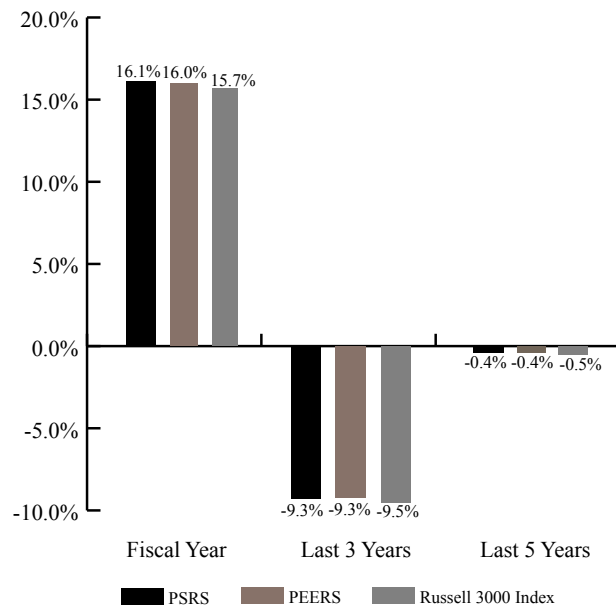
The U.S. equity market experienced a strong rally after the global credit crisis of 2008 and 2009. The rally began in March 2009 and continued through the third quarter of the fiscal year. During the final quarter of the fiscal year, U.S. equity markets declined mainly due to financial uncertainty in many European countries. Overall during the fiscal year, the markets were fueled by the easing of credit markets, increases in consumer spending and exports, business investment in new inventory and equipment and stimulus efforts by the federal government.

The total returns for the PSRS and PEERS U.S. Public Equity programs were 16.1% and 16.0%, respectively, compared to the benchmark return of 15.7% for the fiscal year ended June 30, 2010. As shown in the table and graph below, the PSRS and PEERS annualized U.S. equity composite returns outperformed the benchmark by 40 basis points and 30 basis points respectively. For the three-year time period, both PSRS and PEERS outperformed the benchmark by 20 basis points. The Systems' U.S. Public Equity composite performance outperformed the benchmark by 10 basis points for the five-year time period.

U.S. PUBLIC EQUITY INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	16.1%	-9.3%	-0.4%
PEERS	16.0%	-9.3%	-0.4%
Russell 3000 Index	15.7%	-9.5%	-0.5%



GLOBAL PUBLIC EQUITY REVIEW

As of June 30, 2010

Market Value

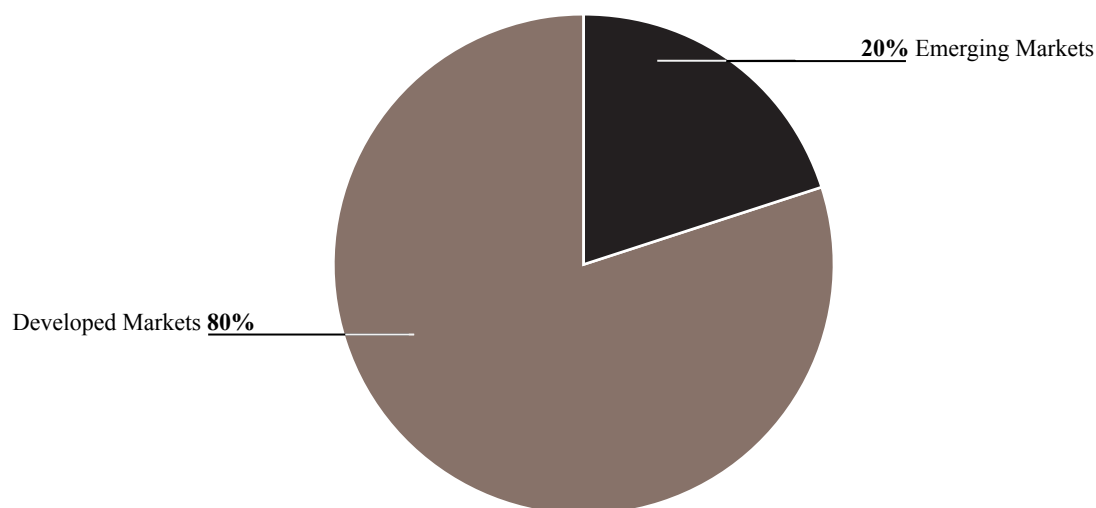
As of June 30, 2010, the combined PSRS/PEERS global equity assets had a market value of approximately \$4.6 billion, representing 17.5% of total assets.

Global Public Equity Statistics

The pie chart below presents a breakdown of investments across developed and emerging markets in the global public equity composite. In addition, the top 10 global stock holdings as of June 30, 2010 are shown in the table below the pie chart.

MARKET ALLOCATION

June 30, 2010



Top 10 Largest Holdings* June 30, 2010

	Combined Market Value	% of Total Global Public Equity
Nestle SA	\$ 54,692,830	1.2%
Roche Holdings AG	40,443,176	0.9%
AstraZeneca PLC	39,101,488	0.9%
Novartis AG	35,693,613	0.8%
Vodafone Group	35,069,416	0.8%
Sanofi Aventis	34,572,224	0.8%
Samsung Electronics Co. Ltd.	33,097,999	0.7%
GlaxoSmithKline	31,272,496	0.7%
Rio Tinto PLC	25,380,263	0.6%
Standard Chartered PLC	25,344,422	0.6%
TOTAL	\$ 354,667,927	8.0%

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

GLOBAL PUBLIC EQUITY REVIEW

As of June 30, 2010

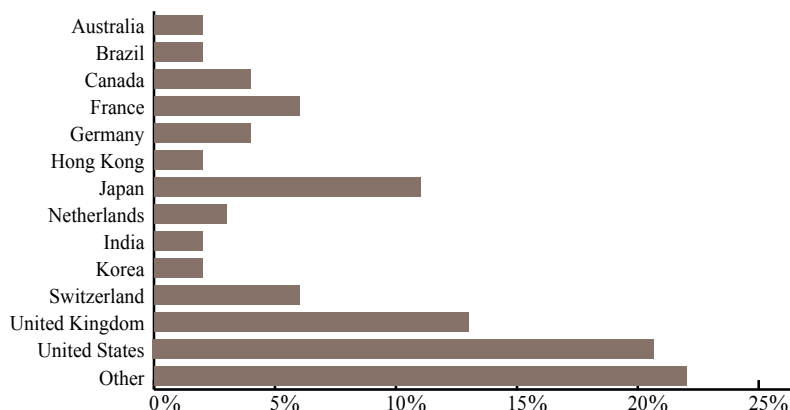
Global Public Equity Structure

As of June 30, 2010, the PSRS/PEERS global equity portfolios were 9.3% passively managed. The remaining 90.7% of the portfolio was 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, 2010



Global Public Equity Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2010 for management of global equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2010	% of Total Market Value
AllianceBernstein Institutional Mgmt.	Active Intl Value	\$ 280,950,898	1.1%
AllianceBernstein Institutional Mgmt.	Active Global	283,358,338	1.1%
Analytic Investors	Active Global	245,966,701	0.9%
AQR Capital Management	Active Intl Core	431,645,433	1.7%
Arrowstreet Capital	Active Emerging Markets	96,535,000	0.4%
Arrowstreet Capital	Active Global	449,905,218	1.7%
Artio Global Investors	Active Intl Core	401,218,711	1.5%
Esemplia Emerging Markets	Active Emerging Markets	353,788,841	1.4%
INVESCO Global Asset Management	Active Intl Value	385,094,590	1.5%
McKinley Capital Management	Active Intl Growth	383,559,940	1.5%
MFS Investment Management	Active Intl Core	475,222,477	1.8%
SSgA - MSCI ACWI ex-US Index	Passive Intl Core	424,469,506	1.6%
T. Rowe Price Associates	Active Global Growth	343,206,976	1.3%
Global Equity Transition Assets	Core	909,115	0.0%
Total		\$ 4,555,831,744	17.5%

* Includes manager cash.

GLOBAL PUBLIC EQUITY REVIEW

Periods Ended June 30, 2010

Global Public Equity Investment Returns

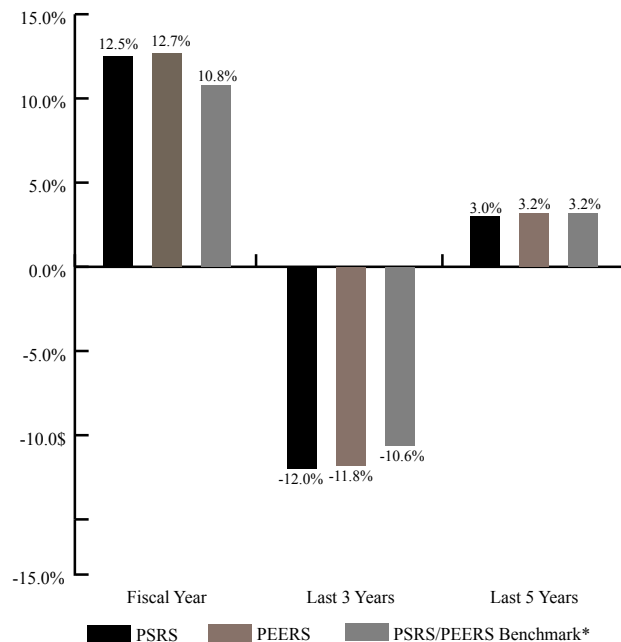
The global equity markets experienced a strong rally after the global credit crisis of 2008 and 2009. The rally began in March 2009 and continued through the third quarter of the fiscal year. Emerging markets experienced a stronger recovery than the developed non-U.S. equity markets but both provided significant returns for the fiscal year. Asian equity markets have rebounded the strongest since the financial crisis. During the final quarter of the fiscal year, global equity markets declined mainly due to financial uncertainty in many European countries. Overall during the fiscal year, the markets were fueled by the easing of credit markets, increases in consumer spending and exports and business investment in new inventory and equipment.

The total returns for the PSRS and PEERS global equity programs were 12.5% and 12.7%, respectively, compared to the benchmark return of 10.8% for the fiscal year ended June 30, 2010. As shown in the table and graph below, the PSRS and PEERS annualized global equity composite returns outperformed the benchmark performance by 170 basis points and 190 basis points, respectively. For the three-year time period, PSRS and PEERS underperformed the benchmark by 140 basis points and 120 basis points, respectively. PEERS' five-year return equaled the benchmark return while PSRS slightly underperformed the benchmark for the same time period.

GLOBAL PUBLIC EQUITY INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	12.5%	-12.0%	3.0%
PEERS	12.7%	-11.8%	3.2%
PSRS/PEERS Benchmark*	10.8%	-10.6%	3.2%



* The PSRS/PEERS Global Equity Benchmark was comprised of 74.0% MSCI All Country World ex-U.S. Free Index and 26.0% MSCI All Country World Free Index as of June 30, 2010.

CREDIT BONDS REVIEW

As of June 30, 2010

Market Value

As of June 30, 2010, the combined PSRS/PEERS Credit Bond assets had a market value of approximately \$2.7 billion, representing 10.2% of total assets.

Credit Bonds Structure

This program is intended to provide a source of current income and capital appreciation and create substantial diversification for the Systems, while having a low correlation to other asset classes. The securities in this program exhibit high liquidity.

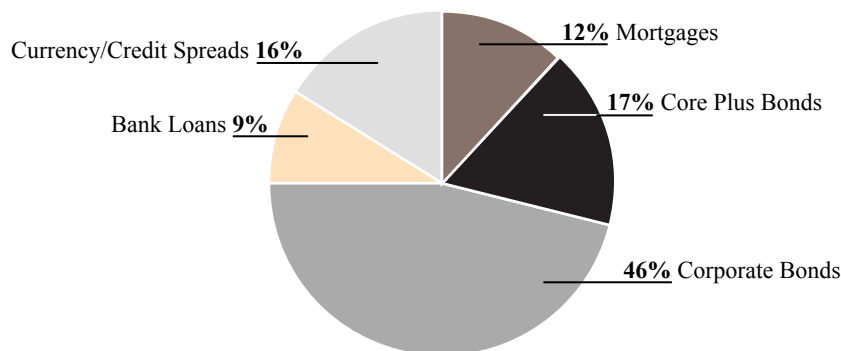
Credit Bonds Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2010 for management of credit bond securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2010	% of Total Market Value
BlackRock Financial Management	Active Mortgages	\$ 308,894,418	1.2%
NISA Investment Advisors	Corporate Credit	1,209,519,445	4.6%
Oaktree Bank Loans	Senior Bank Loans	250,353,486	1.0%
Pacific Investment Management Co.	Core Plus	459,369,181	1.8%
Pacific Investment Management Co.	LIBOR Plus	359,152,904	1.3%
Pacific Investment Management Co.	Developing Local Markets	71,952,096	0.3%
Total		\$ 2,659,241,530	10.2%

* Includes manager cash.

The pie chart below presents the strategy allocation of the Systems' Credit Bond assets as of June 30, 2010.



CREDIT BONDS REVIEW

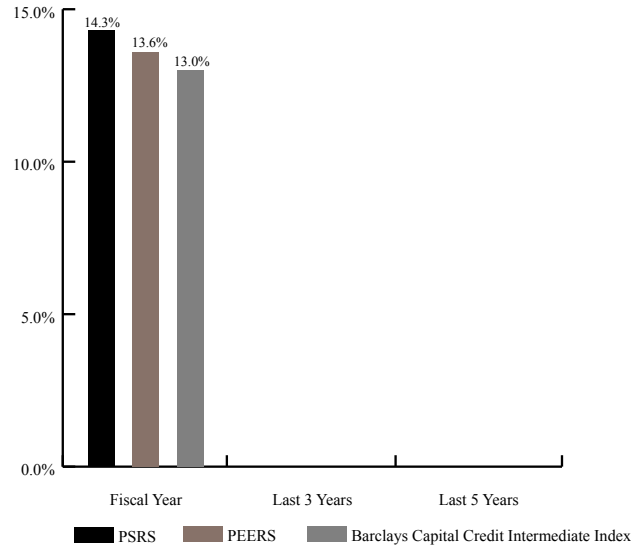
As of June 30, 2010

Credit Bond Investment Returns

The total annualized returns on the PSRS and PEERS Credit Bonds Programs for the fiscal year were 14.3% and 13.6%, respectively. As shown in the table and graph below, the credit

bonds programs for both PSRS and PEERS outperformed the benchmark by 130 basis points and 60 basis points, respectively.

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	14.3%	N/A	N/A
PEERS	13.6%	N/A	N/A
Barclays Capital Credit Intermediate Index	13.0%	N/A	N/A



HEDGED ASSETS REVIEW

As of June 30, 2010

Market Value

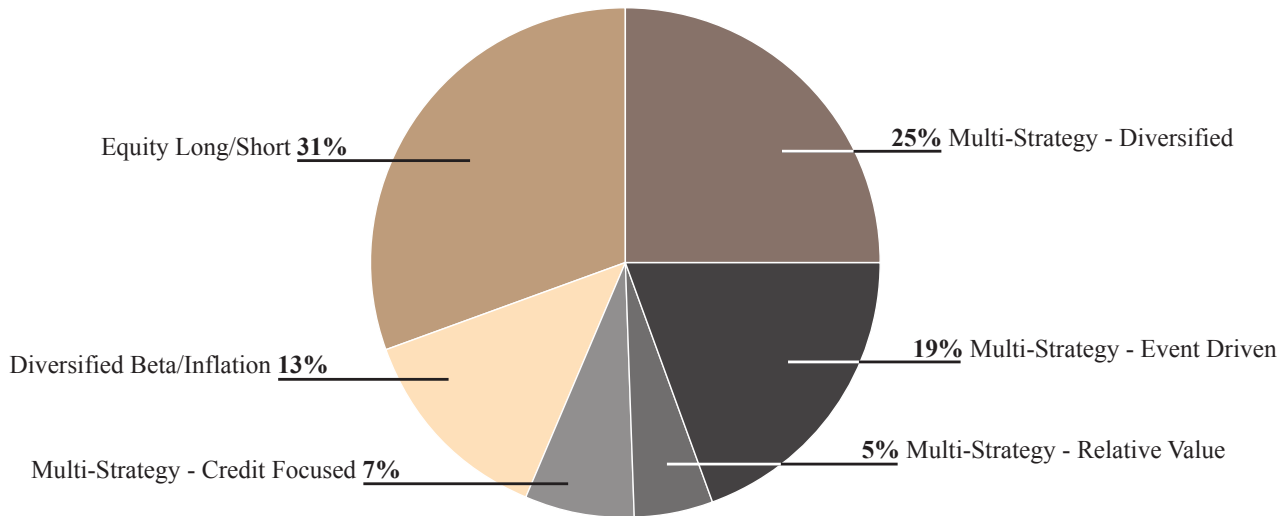
As of June 30, 2010, the combined PSRS/PEERS Hedged Assets Program had a market value of approximately \$2.7 billion, representing 10.4% of total assets.

Hedged Assets Structure

The Hedged Assets Program differs from the Systems' other Public Risk assets and is an important aspect of the overall asset

allocation. The Hedged Assets Program is intended to provide lower volatility, downside protection and diversification, while providing competitive returns.

The pie chart below shows the strategy diversification of the Hedged Assets Program.



HEDGED ASSETS REVIEW

As of June 30, 2010

Hedged Assets Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Systems' hedged assets as of June 30, 2010.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2010	% of Total Market Value
AQR Absolute Return Fund	Multi-Strategy - Relative Value	\$ 56,199,456	0.2%
AQR Diversified Beta Fund	Diversified Beta Fund	133,813,773	0.5%
Bridgewater All Weather	Diversified Beta	88,282,852	0.3%
Bridgewater Pure Alpha II	Multi-Strategy - Diversified	121,761,058	0.5%
Bridgewater Inflation Pool	Inflation Protection	123,168,934	0.5%
Brookside Capital	U.S. Long/Short	113,480,361	0.4%
Davidson Kempner	Multi-Strategy - Event Driven	85,672,870	0.3%
Davidson Kempner	Distressed Debt	55,116,011	0.2%
GoldenTree Asset Management	Relative Value - Credit	137,874,716	0.5%
Highbridge Asia	Multi-Strategy - Diversified	147,133,924	0.6%
Indus Capital Partners	Asia Pacific Long/Short	127,931,440	0.5%
Karsch Capital Management	Large Cap Core	101,293,838	0.4%
Karsch Capital Fund	U.S. Long/Short	100,301,702	0.4%
Maverick Capital	U.S. Long/Short	160,973,104	0.6%
NISA Investment Advisors	Diversified Beta	119,064,199	0.5%
Och-Ziff Domestic Partners	Multi-Strategy - Diversified	118,953,974	0.5%
Och-Ziff Europe Partners	Multi-Strategy - Diversified	44,554,162	0.2%
Och-Ziff Asia	Multi-Strategy - Diversified	45,971,927	0.2%
Owl Creek Overseas Fund	Multi-Strategy - Event Driven	108,094,496	0.4%
Paulson and Company	Multi-Strategy - Event Driven	97,292,700	0.4%
Pershing Square	U.S. Long/Short	110,000,000	0.4%
Renaissance	U.S. Long/Short	132,093,236	0.5%
Stark Investments	Multi-Strategy - Diversified	89,258,290	0.3%
UBS O'Connor	Multi-Strategy - Relative Value	74,257,121	0.3%
York Capital	Multi-Strategy - Event Driven	209,749,236	0.8%
Total		\$ 2,702,293,380	10.4%

* Includes manager cash and reflects valuations reported by the Systems' hedged assets investment advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2010, the net asset values utilized were cash flow adjusted through June 30, 2010.

HEDGED ASSETS REVIEW

Periods Ended June 30, 2010

Hedged Assets Investment Returns

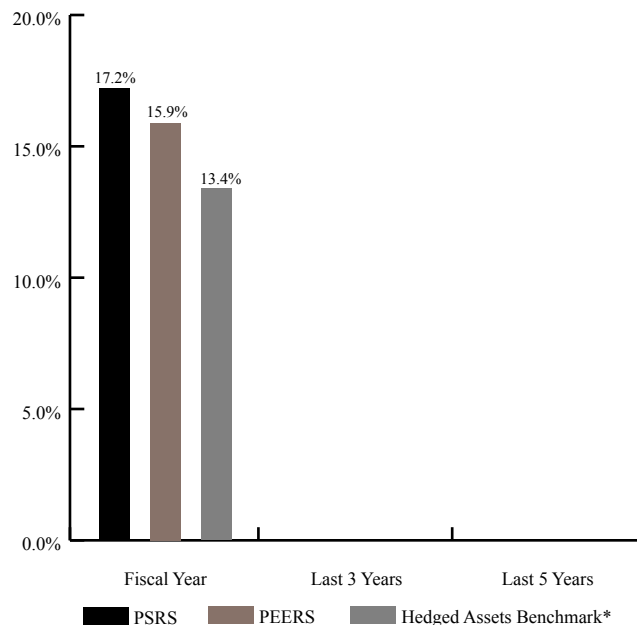
The total annualized returns on the PSRS and PEERS Hedged Assets portfolios for the fiscal year were 17.2% and 15.9%, respectively. PSRS' and PEERS' performance was significantly above the Systems' hedged assets benchmark and led large institutional investors in top performance. The Investment Staff

and external consultants have diligently developed this program over the last several years within the Absolute Return Pool, which was replaced with the Hedged Assets Program effective July 1, 2010.

HEDGED ASSETS INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	17.2%	N/A	N/A
PEERS	15.9%	N/A	N/A
Hedged Assets Benchmark*	13.4%	N/A	N/A



* As of June 30, 2010, the policy benchmark utilized by the Retirement Systems for the Hedged Assets Program was comprised of 25.0% MSCI All Country World ex-U.S. Free Index, 50.0% Barclays Capital Credit Intermediate Index and 25.0% Russell 3000 Index.

SAFE ASSETS REVIEW

As of June 30, 2010

Market Value

As of June 30, 2010, the combined PSRS/PEERS Safe Assets had a market value of approximately \$5.4 billion, representing 20.8% of total assets.

Safe Assets Statistics

The following table displays the statistical characteristics of the PSRS/PEERS Safe Assets Programs as of June 30, 2010 with comparisons shown to the Barclays Capital Intermediate U.S. Treasury Index.* Additionally, the top 10 safe asset holdings as of June 30, 2010 are shown in the table below the characteristics.

Characteristics	June 30, 2010 Combined Systems	June 30, 2010 Barclays Capital Intermediate U.S. Treasury Index
Number of Securities	86	145
Average Coupon	2.7%	2.8%
Yield to Maturity	1.7%	1.5%
Average Maturity (Years)	5.3	4.4
Duration (Years)	4.5	4.0

Top 10 Largest Holdings** June 30, 2010

	Combined Market Value	% of Total Safe Assets
United States Treasury Note, 2.25% , 10/31/14	\$ 329,232,169	6.2%
United States Treasury Note, 2.0%, 1/31/15	267,268,388	5.0%
United States Treasury Note, 0.25%, 9/16/10	266,599,993	5.0%
United States Treasury Note, 1.75%, 1/31/14	260,571,200	4.9%
United States Treasury Note, 2.75%, 10/31/13	241,667,205	4.5%
United States Treasury Note, 3.5%, 2/15/18	224,801,149	4.2%
United States Treasury Note, 1.0%, 8/31/11	220,897,198	4.1%
United States Treasury Note, 2.5%, 7/31/14	162,495,509	3.0%
United States Treasury Note, 1.875%, 7/15/15	147,838,024	2.8%
United States Treasury Note, 3.0%, 8/31/16	141,578,637	2.7%
Total	\$ 2,262,949,472	42.4%

* The PSRS/PEERS Safe Assets Benchmark consisted of 80.0% Barclays Capital Treasury Blend and 20.0% Barclays Capital U.S. TIPS 1-10 Year Index as of June 30, 2010.

** Includes only actively managed separate accounts.

A complete list of portfolio holdings is available upon request.

SAFE ASSETS REVIEW

As of June 30, 2010

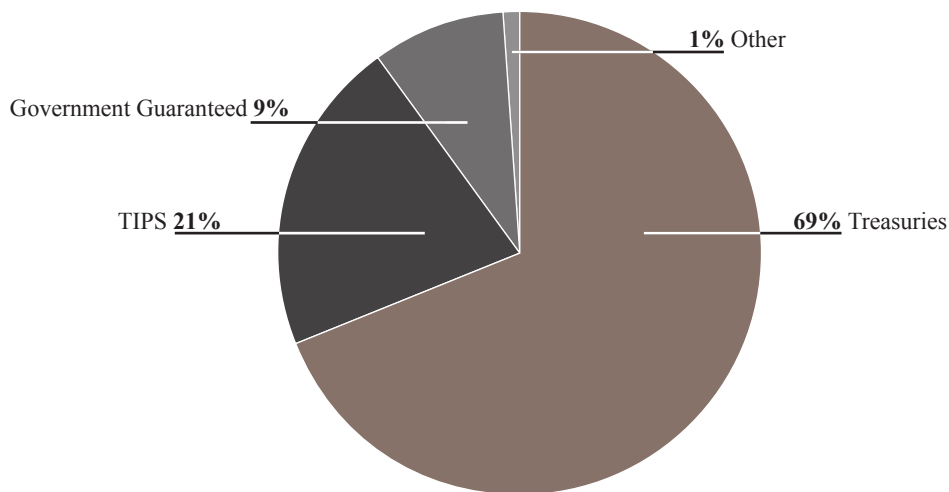
Safe Assets Structure

As of June 30, 2010, 100% of the PSRS/PEERS Safe Assets Program was actively managed by NISA Investment Advisors. The Safe Assets Program is intended to create substantial diversification for the Systems while having a low correlation to

other asset classes. The assets held within the program exhibit high liquidity and safety. The pie chart below depicts the Safe Assets Program by showing the sector and composite allocations for PSRS/PEERS as of June 30, 2010.

SECTOR AND COMPOSITE ALLOCATION

June 30, 2010



Safe Assets Investment Advisor

The following firm was under contract with PSRS/PEERS as of June 30, 2010 for management of safe asset securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2010	% of Total Market Value
NISA Investment Advisors	U.S. Treasuries	\$ 4,294,658,811	16.5%
NISA Investment Advisors	U.S. TIPS	1,126,076,741	4.3%
Total		\$ 5,420,735,552	20.8%

* Includes manager cash.

SAFE ASSETS REVIEW

Periods Ended June 30, 2010

Safe Assets Investment Returns

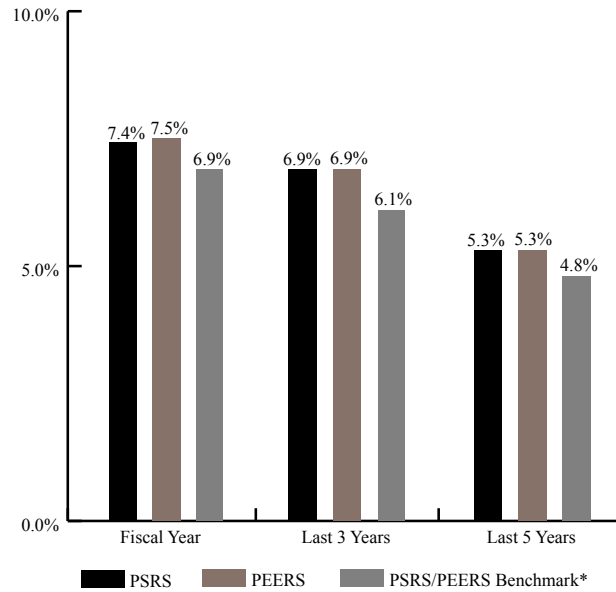
The total annualized returns on the PSRS and PEERS Safe Assets portfolios for the fiscal year were 7.4% and 7.5%, respectively. PSRS and PEERS outperformed the Systems' Safe Assets benchmark by 50 basis points and 60 basis points, respectively. The annualized total return on the PSRS and

PEERS Safe Assets portfolios for the three-year time period exceeded the performance of the Systems' benchmark by 80 basis points, while the annualized total return for the five-year time period exceeded the benchmark by 50 basis points.

SAFE ASSETS INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	7.4%	6.9%	5.3%
PEERS	7.5%	6.9%	5.3%
PSRS/PEERS Benchmark*	6.9%	6.1%	4.8%



* The PSRS/PEERS Safe Assets Benchmark consisted of 80.0% Barclays Capital Treasury Blend and 20.0% Barclays Capital U.S. TIPS 1-10 Year Index as of June 30, 2010.

PRIVATE RISK ASSETS REVIEW

As of June 30, 2010

Market Value

As of June 30, 2010, the combined PSRS/PEERS Private Risk assets had a market value of approximately \$2.9 billion, representing 11.3% of total assets.

Private Risk Asset Structure

As of June 30, 2010, 39.7% of the PSRS/PEERS Private Risk assets were invested in the Private Real Estate program, 48.6% in the Private Equity program and 11.7% in the Private Credit program. Each of these programs are discussed in more detail on the following pages.

Private Risk Asset Investment Returns

Credit markets stabilized during the fiscal year, allowing

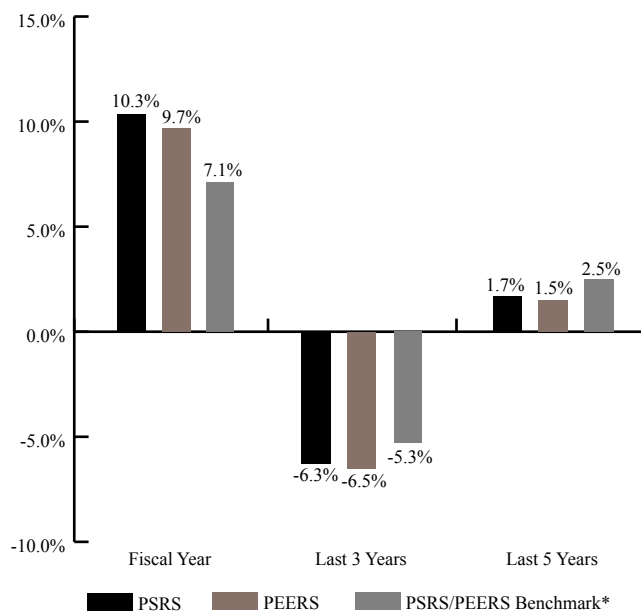
for greater access to debt financing and renegotiations. This provided all private risk assets with the necessary environment to refocus their activities and once again become active investors.

The total returns for the PSRS and PEERS Private Risk portfolios were 10.3% and 9.7%, respectively, compared to the benchmark return of 7.1% for the fiscal year ended June 30, 2010. As shown in the table and graph below, the PSRS and PEERS annualized Private Risk portfolio returns outperformed the benchmark by 320 basis points and 260 basis points, respectively. For the three- and five-year time periods, both PSRS and PEERS underperformed the benchmark as noted below.

PRIVATE RISK ASSET INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	10.3%	-6.3%	1.7%
PEERS	9.7%	-6.5%	1.5%
Private Risk Assets Benchmark*	7.1%	-5.3%	2.5%



* The PSRS/PEERS private risk assets benchmark was comprised of 52.5% Russell 3000 Index, 37.5 % NCREIF Property Index (1-quarter lag) and 10.0% Bank of America Merrill Lynch High Yield Master II Index as of June 30, 2010.

REAL ESTATE REVIEW

As of June 30, 2010

Market Value

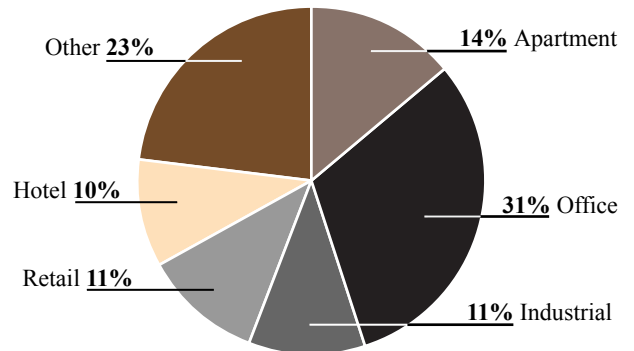
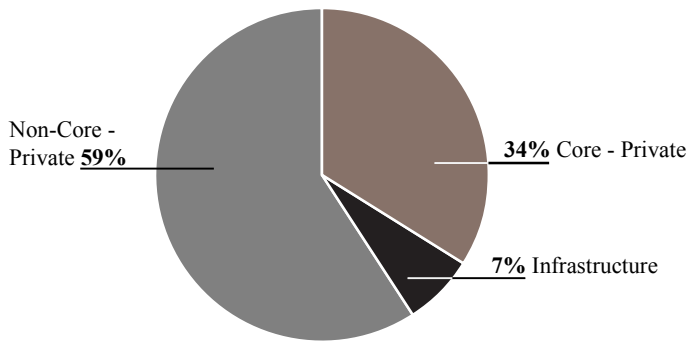
As of June 30, 2010, the combined PSRS/PEERS real estate assets committed* for investment were \$2.2 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2010 was approximately \$1.2 billion, representing 4.5% of total assets. PSRS/PEERS real estate investment commitments* that have not yet been funded were approximately \$644 million as of June 30, 2010.

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 55% target allocation to non-core real estate and a 45% allocation to core private real estate.

This sub-allocation was approved by the PSRS/PEERS Board of Trustees in June 2009. The previous allocation included a 20% allocation to core public real estate (REITs) which was eliminated at the beginning of the fiscal year. The non-core allocation includes high return and enhanced property types, as well as infrastructure investments. 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 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.

REAL ESTATE REVIEW

As of June 30, 2010

Real Estate Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Systems' real estate assets as of June 30, 2010.

Investment Advisor	Investment Style	Combined Market Value* As of June 30, 2010	% of Total Market Value
Alinda Infrastructure Fund I	Infrastructure	\$ 44,105,928	0.2%
AMB Alliance III	Non-Core - Private	29,767,516	0.1%
AMB Japan Fund I	Non-Core - Private	31,846,728	0.1%
AEW Core Property Fund	Core - Private	58,929,545	0.2%
Blackstone R.E. Partners V	Non-Core - Private	21,759,660	0.1%
Blackstone R.E. Partners VI	Non-Core - Private	30,299,172	0.1%
Capmark Structured R.E. Partners	Non-Core - Private	3,516,905	0.0%
Carlyle Europe Real Estate Partners III	Non-Core - Private	15,182,917	0.1%
Carlyle Realty V	Non-Core - Private	60,253,443	0.2%
CBRE Fund IV	Non-Core - Private	5,649,072	0.0%
CBRE Partners US Value 5	Non-Core - Private	33,105,801	0.1%
CIM Fund III	Non-Core - Private	7,303,119	0.0%
CIM Urban REIT	Non-Core - Private	31,447,626	0.1%
Colony Investors VIII	Non-Core - Private	26,736,900	0.1%
CPI Capital Partners Europe	Non-Core - Private	11,737,671	0.0%
Dune Real Estate Fund I	Non-Core - Private	11,915,080	0.0%
Forum Asian Realty Income II	Non-Core - Private	40,720,589	0.2%
Guggenheim Structured R.E. III	Non-Core - Private	29,428,763	0.1%
Heitman Value Partners	Non-Core - Private	14,963,078	0.1%
Heitman Value Partners II	Non-Core - Private	13,641,539	0.1%
JPMorgan Strategic Property Fund	Core - Private	118,685,558	0.5%
LaSalle Asia Opportunity Fund II	Non-Core - Private	11,581,300	0.0%
LaSalle Asia Opportunity Fund III	Non-Core - Private	7,626,018	0.0%
LaSalle Income & Growth IV	Non-Core - Private	14,540,846	0.1%
LaSalle Income & Growth V	Non-Core - Private	25,067,928	0.1%
LaSalle Japan Logistics Fund II	Non-Core - Private	3,548,215	0.0%
Lone Star V	Non-Core - Private	16,519,255	0.1%
Lone Star VI	Non-Core - Private	46,986,539	0.2%
Lone Star Real Estate Fund	Non-Core - Private	16,535,872	0.1%
Macquarie Infrastructure Partners	Infrastructure	37,588,862	0.1%
MSREF V International	Non-Core - Private	9,681,549	0.0%
Morgan Stanley Prime Property Fund	Core - Private	96,504,224	0.4%
Noble Hospitality Fund	Non-Core - Private	3,241,555	0.0%
Principal Enhanced Property Fund	Core - Private	25,403,357	0.1%
Prudential PRISA Fund	Core - Private	97,545,551	0.4%
Prudential PRISA II Fund	Non-Core - Private	44,846,396	0.2%
RREEF America REIT III	Non-Core - Private	13,482,327	0.1%
Starwood Hospitality Fund	Non-Core - Private	22,153,801	0.1%
Westbrook R.E. Fund VII	Non-Core - Private	16,280,047	0.1%
Westbrook R.E. Fund VIII	Non-Core - Private	9,186,707	0.0%
Total		\$ 1,159,316,959	4.5%

* Includes manager cash and reflects valuations reported by the Systems' real estate investment advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2010, the net asset values utilized were cash flow adjusted through June 30, 2010.

REAL ESTATE REVIEW

Periods Ended June 30, 2010

Real Estate Investment Returns

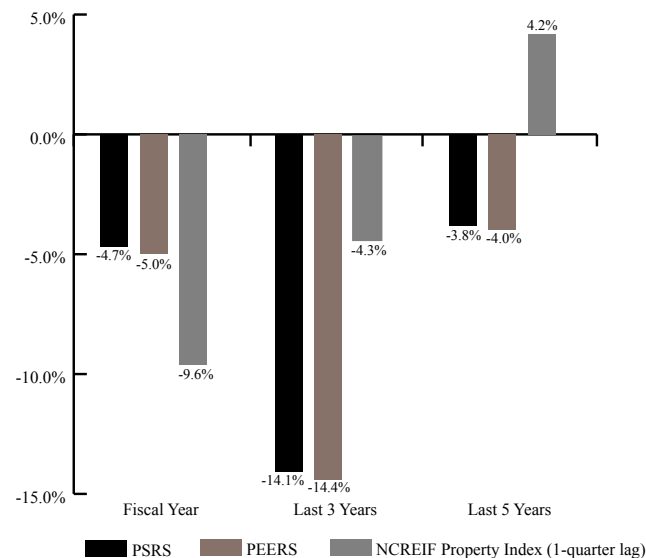
After experiencing significant deterioration during 2009 and 2008, real estate market fundamentals appear to have bottomed in fiscal year 2010. Additionally, the availability and pricing of financing improved significantly for high quality borrowers during the fiscal year. This opening of the credit markets has led to increased transaction activity within private and public real estate. During the second half of fiscal year 2010, this resulted in property values stabilizing and some write-ups occurring. The funds and partnerships within the PSRS/PEERS real estate allocation were selected in conjunction with the Systems' real estate consultant, The Townsend Group.

The total returns for the PSRS and PEERS real estate portfolios were -4.7% and -5.0%, respectively, compared to the Systems' benchmark return of -9.6% for the fiscal year ended June 30, 2010. As shown in the table and graph below, the PSRS and PEERS annualized real estate program returns outperformed the benchmark by 490 basis points and 460 basis points, respectively. For the three- and five-year time periods, both PSRS and PEERS underperformed the benchmark as noted below.

REAL ESTATE INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	-4.7%	-14.1%	-3.8%
PEERS	-5.0%	-14.4%	-4.0%
NCREIF Property Index (1-quarter lag)	-9.6%	-4.3%	4.2%



PRIVATE EQUITY REVIEW

As of June 30, 2010

Market Value

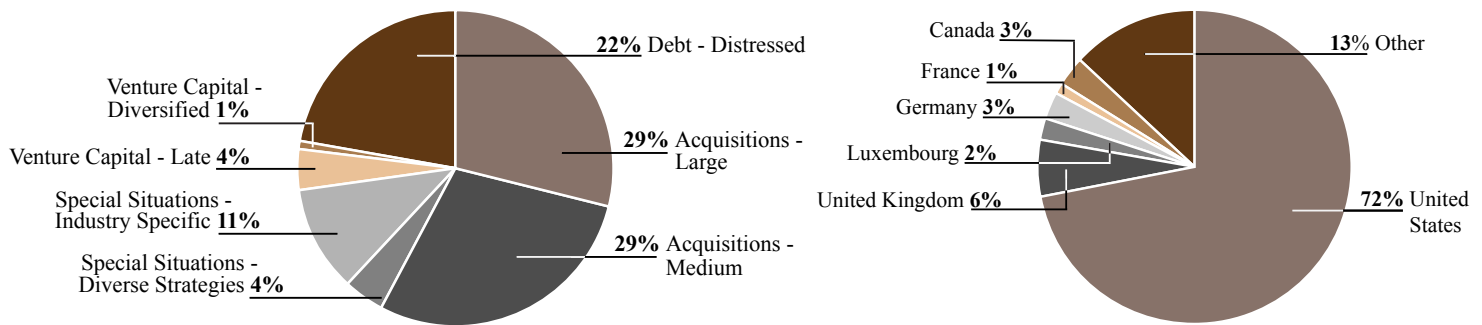
As of June 30, 2010, the combined PSRS/PEERS Private Equity assets committed* for investment were \$3.0 billion. The market value of funds that have been drawn down and actually invested as of June 30, 2010 was approximately \$1.4 billion, representing 5.5% of total assets. PSRS/PEERS private equity investment commitments* that have not yet been funded were approximately \$1.5 billion as of June 30, 2010.

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. In October 2008, the PSRS/PEERS Board of Trustees approved

an increase to 10.5% for the target allocation to the private equity asset class. 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. Additionally, the Systems have invested in private equity secondary funds.

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, 2010 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.

PRIVATE EQUITY REVIEW

As of June 30, 2010

Private Equity Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Systems' private equity assets as of June 30, 2010.

Investment Advisor	Investment Style	Combined	
		Market Value* As of June 30, 2010	% of Total Market Value
Blackstone Capital Partners V	Acquisition - Large	\$ 14,953,357	0.1%
Carlyle Europe Partners III	Acquisition - Medium	8,209,822	0.0%
Carlyle Partners IV	Acquisition - Large	27,074,890	0.1%
Carlyle Partners V	Acquisition - Large	11,296,018	0.0%
Centerbridge Capital Partners	Acquisition & Debt	21,777,906	0.1%
CVC European Equity Partners IV	Acquisition - Large	19,297,542	0.1%
CVC European Equity Partners V	Acquisition - Large	5,933,129	0.0%
CVC European Equity Tandem Fund	Acquisition - Large	8,794,652	0.0%
Exponent Partners II	Acquisition - Medium	10,007,718	0.0%
First Reserve Fund XI	Acquisition - Energy	22,972,000	0.1%
First Reserve Fund XII	Acquisition - Energy	8,227,000	0.0%
Genstar Capital Partners V	Acquisition - Medium	4,818,547	0.0%
GTCR Fund IX	Acquisition - Medium	19,987,495	0.1%
Hellman & Friedman Capital Prtnrs VI	Acquisition - Large	28,213,880	0.1%
Kelso Investment Associates VIII	Acquisition - Medium	5,213,299	0.0%
KKR 2006 Fund	Acquisition - Large	27,988,032	0.1%
KRG Fund IV	Acquisition - Medium	7,141,126	0.0%
Lexington Capital Partners VI-B	Secondary Fund	90,508,468	0.4%
Lexington Capital Partners VII	Secondary Fund	548,888	0.0%
Madison Dearborn VI	Acquisition - Large	6,255,922	0.0%
Montagu III	Acquisition - Medium	12,547,916	0.1%
Nordic VII	Acquisition - Medium	6,490,975	0.0%
New Enterprise Associates XIII	Venture Capital	5,728,733	0.0%
OCM Principal Opportunities Fund IV	Debt - Distressed	33,143,583	0.1%
OCM Opportunities Fund VII	Debt - Distressed	27,462,239	0.1%
OCM Opportunities Fund VIIb	Debt - Distressed	12,432,599	0.1%
Odyssey Investment Partners IV	Acquisition - Medium	7,451,303	0.0%
Onex Partners II	Acquisition - Medium	24,406,280	0.1%
Onex Partners III	Acquisition - Medium	1,682,989	0.0%
Pantheon Global Secondary Fund III	Secondary Fund	93,656,194	0.4%
Pathway Capital Management	Fund-of-Funds (A)	342,908,966	1.3%
Pathway Capital Management	Fund-of-Funds (B)	149,741,072	0.6%
Pathway Capital Management	Fund-of-Funds (C)	114,381,612	0.4%
Paul Capital Partners IX	Secondary Fund	43,110,550	0.2%
Permira IV	Acquisition - Large	9,001,715	0.0%
Providence Equity Partners VI	Acquisition - Media	20,657,025	0.1%
Quantum Energy Partners V	Acquisition - Energy	581,487	0.0%
The Resolute Fund II	Acquisition - Medium	9,222,273	0.1%
Silver Lake Partners III	Acquisition - Technology	12,285,238	0.1%
TCV VI	Venture Capital	15,134,856	0.1%
TCV VII	Venture Capital	6,982,762	0.0%
Thoma Cressey Fund VIII	Acquisition - Medium	25,154,461	0.1%
TPG Partners V	Acquisition - Large	14,777,704	0.1%
TPG Partners VI	Acquisition - Large	4,936,048	0.0%
Wayzata Opportunities Fund	Debt - Distressed	19,413,086	0.1%
Wayzata Opportunities Fund II	Debt - Distressed	35,347,457	0.1%
Wind Point Partners VI	Acquisition - Medium	17,512,579	0.1%
Wind Point Partners VII	Acquisition - Medium	4,039,560	0.0%
Total		\$ 1,419,410,953	5.5%

* Market values as reported by the Systems' private equity investment advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2010, the net asset values utilized were cash flow adjusted through June 30, 2010.

PRIVATE EQUITY REVIEW

Periods Ended June 30, 2010

Private Equity Investment Returns

After experiencing one of the slowest investment periods in history during fiscal year 2009, the pace of investment has significantly accelerated in the private equity environment over the past year. The increase in activity is fueled by the stabilization of the credit markets and the renewed confidence of investors and general partners in the overall economy.

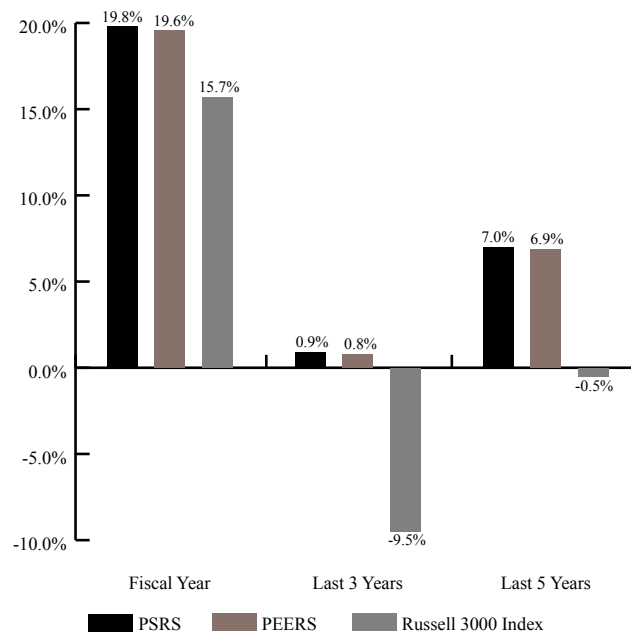
The table and chart below show the Systems' private equity

performance relative to its private equity benchmark. For the fiscal year ended June 30, 2010, the PSRS and PEERS private equity composites outperformed the benchmark by 410 and 390 basis points, respectively. PSRS' and PEERS' private equity composites, for the three-year period, exceeded the benchmark return by 1040 and 1030 basis points, respectively. For the five-year period, the composites also significantly exceeded the benchmark.

PRIVATE EQUITY INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	19.8%	0.9%	7.0%
PEERS	19.6%	0.8%	6.9%
Russell 3000 Index	15.7%	-9.5%	-0.5%



PRIVATE CREDIT REVIEW

As of June 30, 2010

Market Value

As of June 30, 2010, the combined PSRS/PEERS Private Credit assets committed* for investment were \$593.4 million. The market value of funds that have been drawn down and actually invested as of June 30, 2010 was approximately \$342.2 million, representing 1.3% of total assets. PSRS/PEERS private credit investment commitments* that have not yet been funded were approximately \$293.9 million as of June 30, 2010.

Private Credit Structure

The objective for the Systems' allocation to private credit is to achieve returns that are higher than those attainable in the public equity markets with the added benefit of diversification. In December 2009, the PSRS/PEERS Board of Trustees

approved 2.0% for the target allocation to the private credit asset class. The long-term and illiquid nature of the private credit asset class dictates that capital must be invested at a measured pace. Pathway Capital Management has been retained by the Systems to provide private credit investment management services through two structures; a discretionary fund-of-funds relationship and an advisory relationship.

Private Credit Investment Advisors

The following investment advisors and limited partnerships provided investment management for the Systems' private credit assets as of June 30, 2010.

Investment Advisor	Investment Style	Combined Market Value** As of June 30, 2010	% of Total Market Value
Avenue Capital Group Fund V	Debt - Distressed	\$ 104,052,449	0.4%
Caltius IV	Debt - Mezzanine	1,296,857	0.0%
Centerbridge Special Capital Partners	Debt - Distressed	37,464,085	0.2%
Encap Fund VII	Acquisition - Energy	14,949,311	0.1%
Indigo Capital V	Debt - Mezzanine	9,044,334	0.0%
OCM Opportunities Fund VIII	Debt - Distressed	8,581,112	0.0%
Pathway Capital Management	Funds-of-Funds	166,829,587	0.6%
Total		\$ 342,217,753	1.3%

* 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.

** Market values as reported by the Systems' private credit investment advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2010, the net asset values utilized were cash flow adjusted through June 30, 2010

PRIVATE CREDIT REVIEW

As of June 30, 2010

Private Credit Investment Returns

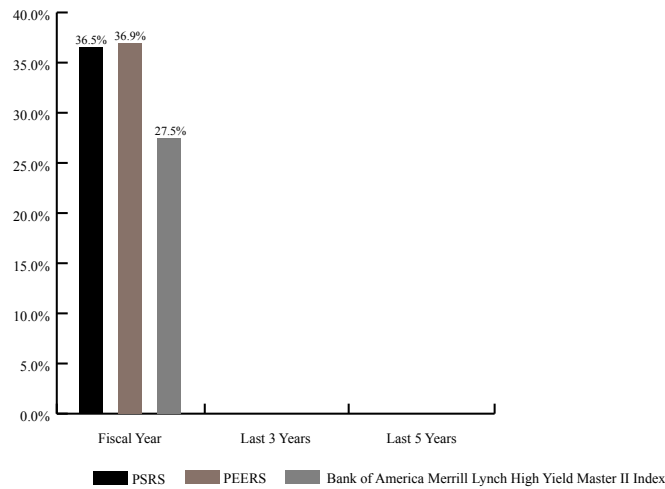
During fiscal year 2010, private credit funds noted increased transaction activity as an increased number of merger and acquisitions and initial public offerings started to appear in the market. These transactions became almost non-existent during the financial crisis of 2008 and 2009.

The table and chart below show the Systems' private credit performance relative to its private credit benchmark. For the fiscal year ended June 30, 2010, the PSRS and PEERS private credit composites outperformed the benchmark by 900 and 940 basis points, respectively.

PRIVATE CREDIT INVESTMENT RETURNS

June 30, 2010

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	36.5%	N/A	N/A
PEERS	36.9%	N/A	N/A
Bank of America Merrill Lynch High Yield Master II Index	27.5%	N/A	N/A



U.S. PUBLIC EQUITY BROKER COMMISSIONS REPORT

For the Fiscal Year Ended June 30, 2010

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
INSTINET, LLC	22,746,971	\$ 455,598,703	\$ 320,714	\$ 0.01
INVESTMENT TECHNOLOGY GROUP, INC.	9,306,358	305,898,767	140,160	0.02
LIQUIDNET, INC.	8,136,502	192,581,133	172,554	0.02
GOLDMAN SACHS + CO	39,617,739	1,102,754,188	411,381	0.01
J.P. MORGAN SECURITIES INC.	14,184,981	355,558,357	235,210	0.02
MORGAN STANLEY CO INCORPORATED	28,990,805	579,222,371	226,090	0.01
CREDIT SUISSE SECURITIES (USA) LLC	21,191,622	624,143,589	345,915	0.02
BARCLAYS CAPITAL INC.	38,677,553	497,397,522	155,568	0.00
MERRILL LYNCH, PIERCE, FENNER + SMITH, INC.	21,446,178	493,626,575	192,108	0.01
BROADCORT CAPITAL	2,708,485	92,065,210	169,777	0.06
CITIGROUP GLOBAL MARKETS, INC.	11,849,214	387,894,973	172,118	0.01
DEUTSCHE BANK SECURITIES, INC.	21,758,471	503,372,644	147,686	0.01
BNY CONVERGEX	3,100,557	45,857,870	122,001	0.04
STATE STREET GLOBAL MARKETS, LLC	19,489,325	535,346,286	392,675	0.02
JEFFRIES AND COMPANY INC.	5,320,445	279,137,001	129,508	0.02
UBS SECURITIES LLC	4,527,020	151,121,005	164,745	0.04
PIPER JAFFRAY	5,273,693	146,952,425	167,771	0.03
Other (<\$120,000)	92,961,898	2,328,380,541	2,191,492	0.02
Total	371,017,817	\$ 9,076,909,160	\$ 5,857,473	\$ 0.02

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
INSTINET, LLC	2,161,566	\$ 43,505,256	\$ 29,309	\$ 0.01
INVESTMENT TECHNOLOGY GROUP, INC.	873,681	28,837,767	13,336	0.02
BROADCORT CAPITAL	264,055	6,614,529	19,102	0.07
LIQUIDNET, INC.	736,479	17,918,411	14,876	0.02
GOLDMAN SACHS + CO	3,797,299	106,575,818	41,002	0.01
MORGAN STANLEY CO INCORPORATED	2,727,110	55,282,100	22,835	0.01
CREDIT SUISSE SECURITIES (USA) LLC	2,283,598	64,043,250	38,355	0.02
BNY CONVERGEX	337,291	4,674,712	13,447	0.04
MERRILL LYNCH, PIERCE, FENNER + SMITH, INC	2,072,113	47,083,541	19,265	0.01
DEUTSCHE BANK SECURITIES, INC.	2,058,555	47,408,038	14,411	0.01
CITIGROUP GLOBAL MARKETS, INC.	1,196,817	39,929,589	17,727	0.01
J P MORGAN CLEARING CORP.	1,464,253	36,098,848	24,581	0.02
STATE STREET GLOBAL MARKETS, LLC	1,708,516	47,106,324	35,849	0.02
JEFFRIES AND COMPANY INC.	540,446	29,567,170	11,295	0.02
UBS SECURITIES LLC	476,622	16,162,665	17,546	0.04
PIPER JAFFRAY	498,826	14,049,499	15,925	0.03
Other (<\$10,000)	12,405,972	275,550,002	227,145	0.02
Total	35,603,199	\$ 880,407,519	\$ 576,006	\$ 0.02

GLOBAL PUBLIC EQUITY BROKER COMMISSIONS REPORT

For the Fiscal Year Ended June 30, 2010

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
CREDIT SUISSE FIRST BOSTON	86,465,929	\$ 639,059,466	\$ 574,530	9.0
GOLDMAN SACHS + CO	77,045,784	820,275,773	538,203	6.6
MERRILL LYNCH INTERNATIONAL	71,183,431	552,204,278	532,622	9.6
MORGAN STANLEY CO INCORPORATED	80,152,314	615,483,775	463,847	7.5
BARCLAYS CAPITAL, INC.	4,535,618	61,960,849	112,012	18.1
DEUTSCHE BANK SECURITIES, INC.	77,921,601	486,600,495	414,324	8.5
CREDIT AGRICOLE INDOSUEZ	5,282,697	89,518,320	142,124	15.9
CREDIT LYONNAIS SECURITIES	27,327,295	40,611,591	89,666	22.1
J P MORGAN SECURITIES, INC.	82,208,955	398,393,634	473,782	11.9
CITIGROUP GLOBAL MARKETS, INC.	38,482,177	332,995,850	364,254	10.9
UBS SECURITIES, LLC	36,881,364	288,848,209	363,644	12.6
PERSHING SECURITIES LIMITED	20,941,216	223,532,552	317,431	14.2
INSTINET, LLC	32,483,801	535,218,016	239,820	4.5
SOCIETE GENERALE SECURITIES	10,411,417	154,872,187	130,932	8.5
MACQUARIE SECURITIES LIMITED	53,630,498	121,868,088	194,960	16.0
INVESTMENT TECHNOLOGY CORP.	9,297,890	184,080,879	80,443	4.4
NOMURA SECURITIES INTERNATIONAL INC.	17,830,605	147,414,473	175,237	11.9
WEEDEN AND CO.	8,338,776	198,195,230	82,175	4.1
Other (<\$80,000)	169,639,371	1,253,032,243	1,319,211	10.5
Total	910,060,739	\$ 7,144,165,908	\$ 6,609,217	9.3

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
CREDIT SUISSE FIRST BOSTON	8,386,834	\$ 61,883,407	\$ 55,509	9.0
GOLDMAN SACHS + CO	8,993,198	97,444,346	58,653	6.0
MERRILL LYNCH INTERNATIONAL	6,939,525	78,379,201	51,444	6.6
MORGAN STANLEY CO INCORPORATED	7,337,602	56,164,374	42,852	7.6
DEUTSCHE BANK SECURITIES, INC.	9,252,240	56,319,806	46,716	8.3
J P MORGAN SECURITIES, INC.	2,744,883	21,490,748	18,718	8.7
CITIGROUP GLOBAL MARKETS, INC.	3,830,409	33,350,785	36,641	11.0
UBS SECURITIES, LLC	3,759,676	29,809,711	36,631	12.3
PERSHING SECURITIES LIMITED	1,942,203	20,882,816	29,713	14.2
INSTINET, LLC	3,635,162	56,904,593	25,938	4.6
NOMURA SECURITIES INTERNATIONAL INC.	1,833,588	14,640,537	17,681	12.1
SOCIETE GENERALE SECURITIES	1,139,580	14,948,474	13,036	8.7
MACQUARIE SECURITIES LIMITED	5,171,937	11,907,792	18,859	15.8
BARCLAYS CAPITAL INC.	475,671	6,070,994	12,033	19.8
CREDIT AGRICOLE INDOSUEZ	481,786	8,709,609	14,283	16.4
CREDIT LYONNAIS SECURITIES	2,697,735	4,128,040	9,074	22.0
WEEDEN AND CO.	830,179	20,456,546	8,438	4.1
INVESTMENT TECHNOLOGY CORP.	1,024,450	21,079,953	8,995	4.3
Other (<\$8,000)	23,242,016	144,465,558	157,904	10.9
Total	93,718,674	\$ 759,037,290	\$ 663,118	8.7

INVESTMENT SUMMARY

As of June 30, 2010

Total Market Value	PSRS/PEERS	Percent of Total Market Value		
	Combined Funds - FY 2010	FY 2010	FY 2009	FY 2008
U.S. Public Equity	\$ 7,254,775,623	27.9%	32.3%	34.2%
Global Public Equity	4,439,959,584	17.1	17.8	19.5
Credit Bonds	2,618,654,006	10.0	N/A	N/A
Hedged Assets	2,500,316,115	9.6	N/A	N/A
U.S. Treasuries	4,213,916,709	16.2	N/A	N/A
U.S. TIPS	1,124,527,884	4.3	N/A	N/A
Real Estate	1,159,316,959	4.4	5.1	5.2
Private Equity	1,419,410,953	5.5	4.5	3.5
Private Credit	342,217,735	1.3	N/A	N/A
Public Debt	-	N/A	27.0	20.9
Absolute Return Pool	-	N/A	10.6	3.0
Implementation Pool	-	N/A	N/A	11.8
Cash and Equivalents	958,779,499	3.7	2.7	1.9
Total	\$ 26,031,875,067	100.0%	100.0%	100.0%

Reconciliation with financial statements

Total from above	\$ 26,031,875,067
Accrued payable for investments purchased	2,618,769,548
Accrued income payable	250,191
Accrued receivable for investments sold	(2,437,283,884)
Accrued income receivable	(222,779,831)
Securities lending receivable	367,700
Short-term investments designated for benefits	(64,079,664)
Statement of Plan Net Assets	\$ 25,927,119,127

INVESTMENT EXPENSES

For the Year Ended June 30, 2010

Investment Managers	PSRS	PEERS	Total
Investment Management Fees			
NISA Investment Advisors - Core	\$ 2,179,004	\$ 219,867	\$ 2,398,871
NISA Investment Advisors - TIPS	1,011,350	95,073	1,106,423
Safe Assets Fees	3,190,354	314,940	3,505,294
BlackRock Financial Management - Mortgages	670,672	99,925	770,597
NISA Investment Advisors - Corporate	1,068,535	116,407	1,184,942
Oaktree Bank Loans	1,079,017	77,461	1,156,478
Pacific Investment Management Co - Core and Libor Plus	4,887,093	718,462	5,605,555
Pacific Investment Management Co - Developing Local Markets	104,592	10,344	114,936
Credit Bond Fees	7,809,909	1,022,599	8,832,508
Alliance Capital Management	1,144,102	131,139	1,275,241
Analytic Investors, LLC - Core	67,275	5,622	72,897
Analytic Investors, LLC - Value	341,185	28,099	369,284
Analytic Investors, LLC - US Low Vol	253,910	22,371	276,281
Analytic Investors, LLC - Global Low Vol	439,097	46,036	485,133
AQR Capital Management -140/40	572,869	48,237	621,106
Aronson & Johnson & Ortiz	756,863	73,947	830,810
Aronson & Johnson & Ortiz -130/30	350,095	38,457	388,552
Delaware Investment Advisors	216,213	22,923	239,136
Martingale Asset Management	1,308,068	109,768	1,417,836
NISA S&P 500 Call Options	93,892	7,145	101,037
Renaissance	2,935,322	290,307	3,225,629
State Street Global Advisors - Russell 1000 Index Fund	217,597	22,558	240,155
State Street Global Advisors - S&P 500 Index Fund	263,998	30,198	294,196
Westwood Management	1,286,965	123,348	1,410,313
Westwood Management - Master Limited Partnerships	264,411	21,691	286,102
Zevenbergen Capital	926,745	89,201	1,015,946
U.S. Public Equity Fees	11,438,607	1,111,047	12,549,654
Alliance Bernstein Institutional Mgmt. - Global	1,454,099	134,973	1,589,072
Alliance Bernstein Institutional Mgmt. - Value	1,225,972	128,090	1,354,062
AQR Capital Management	1,600,936	183,668	1,784,604
Arrowstreet Capital	1,669,130	157,709	1,826,839
Arrowstreet Capital - Emerging Markets	308,938	34,326	343,264
Artio Investment Management	1,715,783	172,099	1,887,882
Esemplia	1,432,101	136,482	1,568,583
INVESCO Global Asset Management	924,065	101,375	1,025,440
McKinley Capital Management	1,743,361	160,176	1,903,537
MFS Institutional Advisors	1,628,814	166,773	1,795,587
State Street Global Advisors-ACWI EX. US GIMI PROV	309,271	26,945	336,216
T. Rowe Price International, Inc.	1,483,249	154,045	1,637,294
Global Public Equity Fees	15,495,719	1,556,661	17,052,380

(continued on page 91)

INVESTMENT EXPENSES

For the Year Ended June 30, 2010

Investment Managers <i>(continued from page 90)</i>	PSRS	PEERS	Total
AQR Capital Management	557,914	56,793	614,707
Chartwell Investment Partners -Growth	266,333	22,323	288,656
Chartwell Investment Partners -Value	433,548	42,339	475,887
Columbus Circle	261,916	21,969	283,885
Nicholas-Applegate Capital Management	767,718	68,546	836,264
NISA Investment Advisors	176,836	14,796	191,632
Next Century Growth Investors - Micro Cap	49,627	4,306	53,933
Next Century Growth Investors - Small Cap	998,604	97,687	1,096,291
Thomson, Horstmann & Bryant	1,242,463	136,356	1,378,819
S - Cap Fees	4,754,959	465,115	5,220,074
Alpha Overlay Fees	14,635,681	1,439,971	16,075,652
Hedged Assets Fees	45,612,100	4,540,827	50,152,927
Private Real Estate Fees	18,302,601	1,810,350	20,112,951
Private Credit Fees	20,754,659	1,995,500	22,750,159
Private Equity Fees	56,326,295	5,386,571	61,712,866
Commission Recapture Income	(447,849)	(49,423)	(497,272)
Investment Management Expense	197,873,035	19,594,158	217,467,193
Custodial Services			
State Street Bank & Trust Co.	1,204,265	118,835	1,323,100
Investment Consultants			
Albourne America, LLC	364,667	35,333	400,000
Frank Russell Co.	342,913	33,913	376,826
Pathway Consulting	1,498,338	84,788	1,583,126
Pathway Absolute Return Consulting	382,769	23,377	406,146
R.V. Kuhns and Associates, Inc.	108,543	10,735	119,278
Russell/Mellon Analytical Services	49,236	29,639	78,875
Townsend	318,500	31,500	350,000
Investment Consultant Fees	3,064,966	249,285	3,314,251
Staff Investment Expenses	1,459,292	906,847	2,366,139
Total Investment Expenses	\$ 203,601,558	\$ 20,869,125	\$ 224,470,683