Security

One of our primary goals is to develop an investment portfolio that is well positioned to ensure that our members will receive the financial ***security*** they have earned through their hard work and dedication. PSRS/PEERS is a long-term investor that manages assets with closely monitored risk. The assets are invested in a diversified portfolio structured to withstand short-term shocks to the markets, yet positioned to provide consistent asset growth over time.

INVESTMENT SECTION

LETTER FROM TOWERS WATSON

TOWERS WATSON

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Seattle, WA 98101
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November 17, 2011

To the Members of the Board:

The Systems benefited from strong global financial markets for most of the fiscal year. Volatility increased in the fourth quarter as the economic recovery and European sovereign debt woes again managed to dominate the news. GDP grew each quarter during the fiscal year which marked eight straight quarters of positive growth. Inflation concerns were once again on the horizon. Looking ahead, there are continuing concerns over a Eurozone debt crisis and little change has occurred in unemployment figures as we advance into fiscal year 2012.

The Total Fund returns for the fiscal year ended June 30, 2011 were 21.8% for PSRS and 21.4% for PEERS, ahead of the Policy Benchmark return of 20.4%. The PSRS fiscal year returns for the U.S. equity and Global equity composites were strong at 35.0% and 29.8%, respectively (34.6% and 30.1% for PEERS). Public risk assets also exceeded the Policy Benchmark return of 24.9% for the fiscal year with returns of 26.6% for PSRS and 26.1% for PEERS. Performance by the alpha overlay and private real estate composites also contributed to the overall portfolio's positive return.

Fiscal year 2011 saw the beginning of a new relationship between Towers Watson and Missouri PSRS/PEERS. We worked with staff initially on an Asset/Liability Study that was presented to the Board of Trustees on October 24, 2011. The study resulted in a reaffirmation of the current asset allocation in connection with the long-term return assumption. We will continue to work with staff throughout the year on the efficient implementation of the portfolio structure.

We at Towers Watson have enjoyed our first year working with Missouri PSRS/PEERS. It is a pleasure to serve you and we look forward to the coming year.

Regards,

Michael M. Hall, ASA, CFA
West Division Investment Leader

LETTER FROM THE CHIEF INVESTMENT OFFICER

PSRS/PEERS

PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

November 15, 2011

To the Members of the Retirement Systems:

Throughout this year's ***Comprehensive Annual Financial Report (CAFR)***, you will find mention of ***strength, stability*** and ***security***; three simple yet powerful words that describe the philosophy and values of the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS). As you will notice throughout the Investment Section of this report, the words also aptly describe the approach and mission of the PSRS/PEERS Investment Department. One of the primary goals of the PSRS/PEERS Board of Trustees is to develop an investment portfolio that is well positioned to ensure that our more than 220,000 retirees, actively working teachers and school employees will receive the financial ***security*** they have earned through their hard work and dedication.

With that in mind, and on behalf of the PSRS/PEERS Board of Trustees and internal investment staff, I present the following report on the Systems' investments for the fiscal year ending June 30, 2011. Please note that investment performance throughout this report is calculated using a time-weighted rate of return based on market values.

Strength

The Systems achieved record high investment returns in fiscal year 2011 due to the ***strength*** of a diversified asset allocation across global financial markets. PSRS and PEERS earned returns of 21.8% and 21.4%, respectively – the strongest fiscal year return for both Systems in over 20 years. The Systems' assets increased through investment earnings by approximately $5 billion over the previous year as the total fund performance, net of all fees and expenses, was 21.6% for PSRS and 21.2% for PEERS.

The Public Risk Asset class generated a return of 26.6% for PSRS and 26.1% for PEERS during the fiscal year, well in excess of the established Policy Benchmark of 24.9%. The Safe Asset class provided downside protection to the total fund returning 3.6% and 3.7% respectively for PSRS and PEERS, as compared to the benchmark of 3.4%. The Private Risk Asset class also provided strong returns for the fiscal year, as the category moved 20.4% higher for PSRS and 20.5% higher for PEERS.

The PSRS/PEERS total fund return has exceeded the Policy Benchmark in five of the last six years, an indication that internal staff and active investment management have consistently added value to the Systems. In the most recent fiscal year, the PSRS/PEERS internal investment staff and external investment managers added value of over $355 million above the Policy Benchmark, net of all fees and expenses. The ***strong*** outperformance in 2011 was due to both tactical asset allocation decisions (overweighting and underweighting asset classes around targets), as well as active management on the part of external managers.

Location 3210 W. Truman Blvd. / Jefferson City, MO 65109 **Mail** P.O. Box 268 / Jefferson City, MO 65102 **Phone** (573) 634-5290
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The PSRS investment return for fiscal year 2011 was above the public fund median while the PEERS investment return was just below median. The Systems generated competitive investment returns while taking less risk than 70% of comparable public retirement plans.

PSRS/PEERS' total assets were approximately $30.8 billion on June 30, 2011, making the combined entity larger than all other public retirement plans in Missouri combined, and the 42nd largest defined benefit plan in the United States.

Stability

The objective of the internal investment staff is to produce consistent and ***stable*** investment returns over long periods of time that exceed the actuarial assumed rate of return of 8.0%. We have been successful in achieving that goal over the last 20 years because PSRS/PEERS has a ***stable*** investment staff and a prudent and dynamic investment policy and process.

The superior investment decision-making model at PSRS/PEERS has been nationally recognized as one of the best in the industry, and the ***stability*** and experience of the investment staff have been critical to the success. The 11-member investment staff at PSRS/PEERS has over 120 years of combined investment experience, with each senior staff person averaging over 20 years. Three staff members have earned the Chartered Financial Analyst (CFA) designation. Indeed, it is the continuity provided by this deep investment experience, combined with both the dedication of the Board of Trustees and the prudent governance model, which drives the investment decision-making process at PSRS/PEERS. This ensures the ***strength*** and ***stability*** of the Systems' investment principles will continue over time and across a wide range of investment markets.

The investment staff at PSRS/PEERS has been recognized as one of the top institutional investment groups in the nation over the last two years. Specifically, the PSRS/PEERS investment team has been featured in five national publications, and received two prestigious national public pension awards.

Recognitions and Awards:

- 2011 Defined Benefit Plan Sponsor of the Year by *PLANSPONSOR* magazine,
- Large Public Plan of the Year 2010 by *Institutional Investor's* Money Management Letter,
- Best-Performing Large Public Plan Hedge Fund Portfolio in Fiscal Year 2011 by *Pensions & Investments*, an international newspaper of money management,
- Hedge Fund Portfolio featured in September 2011 issue of *Absolute Return* magazine, and
- Nominee for 2011 Hedge Fund Large Public Plan of the Year by *Institutional Investor* magazine.

Security

As the economy and the investment markets become more difficult, our focus will continue to be on the implementation and management of a portfolio that can offer long-term financial ***security*** to our members.

Since the end of the fiscal year (June 30, 2011), the public stock markets have been under significant pressure as risk, volatility and uncertainty have increased across the global investment landscape. Specifically, European sovereign debt concerns have heightened, Congress continues to debate over the deficit reduction program, there are mounting fiscal issues in the United States and the global economy is slowing.

LETTER FROM THE CHIEF INVESTMENT OFFICER (continued)

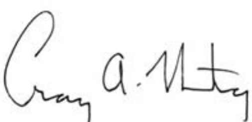
The PSRS/PEERS Board of Trustees and staff continue to embrace an investment philosophy centered on a disciplined and diversified investment approach. This philosophy has been implemented over the past few years by the internal investment staff as the portfolio has expanded into multiple asset classes including private equity, real estate and hedged assets. This diversification provides more ***stable*** investment returns, especially during a stock market downturn.

The Systems also continue to have a large investment allocation (almost $5 billion) in the safest, most ***secure*** and most liquid asset in the world, U.S. Treasury securities. These securities provide solid returns in a period of crisis (acting as a diversifier to public stocks) and also ensure the liquidity needed to pay retirement benefits.

Conclusion

Strength, stability and ***security*** are words that our internal investment staff embrace daily as part of our overall objective to manage the investment portfolio to maximize return with a prudent level of risk. We believe that the ***stable*** investment platform at PSRS/PEERS will allow us to continue to build on ***strong*** long-term performance to offer ultimate retirement ***security*** for our members.

Respectfully,



Craig A. Husting, CFA
Chief Investment Officer

INVESTMENT POLICY SUMMARY

The Board of Trustees of the Public School and Public Education Employee Retirement Systems of Missouri (PSRS and PEERS, also referred to as the Systems) 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 and 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. In total, approximately 60% of every dollar used to pay retirees is generated from investment earnings.

Sources of Funding

15-Year Average 1996-2011

Note: The 21¢ includes member contributions and purchases.

Investment Objective

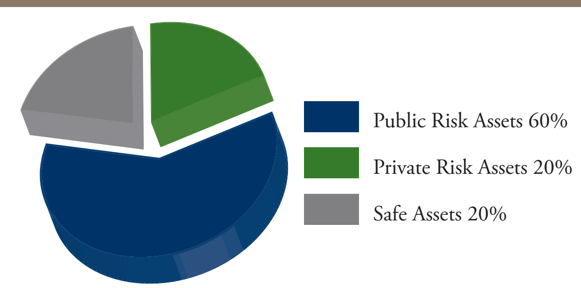
Based on the general beliefs about the long-term investment returns available from a well-diversified, prudently invested portfolio, the Board has adopted an objective to achieve a **total nominal investment return of 8.0% with a real rate of return of at least 5.5% per annum over time.**[1]

In order to achieve this rate of return, the Systems' have developed a portfolio that is prudently invested across a broad array of assets that reflects the long-term nature of the Systems' pension obligations. The principles of diversification, risk control, and competitive 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 return within a prudent level of risk.

Understanding Risk

Selection of an appropriate asset allocation is one of the most important decisions made by a retirement plan. Within that asset allocation, it has always been important to not only consider the expected investment return, but also to understand the risks. The importance of risk consideration has never been as significant as in the current global market environment. To that end, the Systems continue to employ an effective and intuitive risk-based approach to setting and reporting the asset allocation decision. The Systems developed a risk-based asset allocation to clearly define the prudent risks taken within its investment portfolios. The Systems consider a variety of risks including, but not limited to, liquidity risk, 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.

Target Risk-Based Asset Allocation



[1] *The real rate of return is the rate by which the long-term total return exceeds the long-term inflation rate. The Board shall employ an actuarial consultant for purposes of determining the inflation rate to be used in calculating the PSRS and PEERS pension obligations. The assumed inflation rate as of June 30, 2011 was 2.5% per annum.*

Roles and Responsibilities

Board of Trustees

It is the responsibility of the Board to establish and maintain policies and objectives for all aspects of the Systems' investment program including the determination of long-term policies for risk tolerance and asset allocation.

In keeping with its obligation to serve as the governing fiduciary, any changes to the Investment Policy or Investment Implementation Manuals require the Board's approval.

As one of the largest public pension funds in the United States, the Systems' operational requirements are complex. In order to properly administer the Systems and carry out investment strategies, the Board relies heavily on both internal staff and external service providers. Due to the number of parties involved, their roles as fiduciaries are clearly identified to ensure distinct lines of responsibility and proper controls exist, while providing increased operational efficiency and elimination of duplication of effort.

Executive Director

The Executive Director (Director) is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing, and administering all operations of the Systems under the broad policy guidance and direction of the Board. The Director, with the assistance of the investment staff, monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; and ensures that proper internal controls are developed to safeguard the assets of the Systems. In fulfilling these responsibilities, the Director relies heavily on the Chief Investment Officer and consultants.

Chief Investment Officer

The Chief Investment Officer (CIO) serves at the pleasure of the Director yet has a direct, but limited, link to the Board on investment-related issues. The CIO's sole access to the Board is for submission of investment reports, information, or communications required by the Investment Policy and any other information or opinions specifically requested by the Board with regard to the investment program. The CIO is the individual primarily responsible for providing direction for the investment program. It is the CIO's responsibility to work with the Director, the General Consultant, specialty consultants, and other external service providers with the assistance of the internal staff in advising the Board on policies related to the investment program. The CIO has responsibilities related to hiring and terminating service providers.

A main function of the CIO is to recommend implementation decisions related to the investment plan. Another primary responsibility of the CIO is to recommend the strategic allocation of the portfolio within broad ranges approved by the Board.

External Asset Consultants

The Systems employ Towers Watson as a General Consultant and Albourne America, LLC (Albourne), Pathway Capital Management (Pathway), and The Townsend Group (Townsend) as specialty consultants. Towers Watson's primary duty is to work with the Board and staff to manage the investment process. This includes regular meetings with the Board to provide an independent perspective on the Systems' goals, structure, performance and external service providers. Additionally, Towers Watson is involved with the strategic allocation shifts for the portfolio. While strategic changes are the responsibility of the CIO, good checks and balances dictate that the CIO must discuss material desired strategic changes with the General Consultant and Director.

The specialty consultants work on specific programs within the overall investment program. Albourne is utilized for the Hedged Assets and Alpha Overlay programs, Pathway is the sole consultant for the Private Equity program and Townsend consults on the Real Estate program.

External Investment Managers

The Systems employ external investment managers that include external money managers which may be structured as public or private entities in the form of a partnership, limited liability company, trust, separately managed account, commingled account, or some other form of operational structure in which assets may be held by an external custodian selected and monitored by the external manager.

Managers are given explicit written directions detailing their particular assignments or they follow the investment program outlined in their offering documents or Limited Partnership Agreements, and will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which they were hired. Discretion is delegated to the managers to carry out investment actions as directed by the Systems.

Master Custodian

JP Morgan Chase Bank, NA (JP Morgan) serves as the master custodian for the Systems. The master custodian holds all cash and securities for PSRS and PEERS, except in cases where investment in a partnership, commingled account, or unique asset class makes it impossible to do so. The Systems thoroughly evaluate the structure of all investments and their custody arrangements prior to investing. JP Morgan is responsible for providing the official book of records for performance reporting and accounting, and serves as an additional layer of risk control in safekeeping the Systems' assets.

Asset Allocation

The asset allocation decision is generally regarded as the most important decision in the investment management process, since it is crucial to achieving the long-term objectives established by the Board. In that light, it is the Board's responsibility to determine the appropriate policy asset allocation based upon several criteria with input and guidance from internal staff and Towers Watson. These criteria are as follows:

1. The expected rate of return for each asset classification,
2. The expected risk of each asset classification (expressed as the standard deviation of the rate of return),
3. The correlation of returns between asset types,
4. The investment objectives and risk constraints of the Systems (including but not limited to liquidity needs and the expected time horizon),
5. The funded ratio and cash flow requirements for PSRS and PEERS, and
6. The impact of the Systems' return volatility on the contribution rates.

The long-term policy allocation as of June 30, 2011 is illustrated in the following table. The allocation to each investment program considers both the risk tolerance of the Systems and the long-term return objective.

Asset Allocation

Investment Type	Long-term Target	Policy Ranges
Public Risk Asset Programs		
U.S. Equity	27.00%	16% - 48%
Public Credit	12.00%	0% - 20%
Hedged Assets	6.00%	0% - 15%
Global Equity	15.00%	8% - 28%
Total Public Risk Assets	**60.00%**	**35% - 75%**
Safe Assets		
U.S. Treasuries	16.00%	0% - 40%
U.S. TIPS	4.00%	0% - 40%
Total Safe Assets	**20.00%**	**15% - 40%**
Private Risk Asset Programs		
Private Equity	10.50%	4% - 14%
Private Real Estate	7.50%	4% - 10%
Private Credit	2.00%	0% - 7%
Total Private Risk Assets	**20.00%**	**5% - 25%**
Total Fund	**100.0%**	

The Board recognizes the cyclical nature of the investment markets and it has allowed the internal staff to capitalize upon opportunities by changing the allocation of each asset class or sub-asset class within broad strategic bands or policy ranges (as indicated in the table above). The flexibility given to the internal staff in establishing the strategic mix provides opportunities for the Systems to take advantage of changing market conditions. To ensure appropriate controls, the Director, CIO and Towers Watson must unanimously agree upon all material desired strategic changes prior to implementation.

Performance Objectives and Monitoring Process

Generating a total nominal rate of return net of expenses of at least 8% and a real rate of return net of expenses of at least 5.5% per annum is an important consideration in the asset allocation decision and the primary performance objective for the Systems over long periods of time. The need for a long-term focus is necessary to preclude the temptation to overreact to events in the financial markets that have no relevance to long-term asset/liability management of the Systems. The resulting dilemma is the conflicting need to evaluate investment policy implementation over shorter time periods while maintaining a longer-term focus on meeting the return objectives. In order to determine if the Systems' shorter-term and long-term objectives are being achieved, the Board evaluates performance relative to policy and strategic benchmarks. The Policy Benchmarks allow the Systems to be judged by performance relative to a defined set of broad market indices (i.e., the Systems' long-term asset allocation objective). The strategic benchmarks allow the Board to consider the additional value generated from the latitude given to the internal staff to alter the asset class or sub-asset class allocations.

Policy Decisions

The value added through policy decisions is measured by the difference between the Policy Benchmark return and the actuarial required rate of return objective (defined as Real Return Objective + Inflation). A Policy Benchmark return greater than the actuarial required rate of return reflects value added. A Policy Benchmark return less than the actuarial required rate of return reflects losses or shortfalls in performance in funding the liabilities of the Systems. These policy decisions are measured over long periods of time.

Strategy Decisions

Strategy decisions are asset class or sub-asset class allocation choices made by the internal staff to deviate from the Policy Benchmark weights, with approval from the General Consultant and the Director that the proposed material deviation is in compliance with the Board's Investment Policy. The value added through these decisions to overweight and/or underweight these sub-asset classes is measured by the difference between the Strategy Benchmark return and the Policy Benchmark return. This difference captures the value added by internal staff. A Strategy Benchmark return greater than the Policy Benchmark return reflects value added through the allocation decisions. A Strategy Benchmark return less than the Policy Benchmark return reflects losses to the fund's performance based upon strategy decisions.

Implementation Decisions

Implementation decisions are money manager selection choices made by the internal staff with the approval of a Consultant(s) and the Director. The value added through these manager selection decisions is measured by the difference between the Actual Portfolio return and the Strategy Benchmark return. An Actual Portfolio return greater than the Strategy Benchmark return reflects value added through these manager selection decisions. An Actual Portfolio return less than the Strategy Benchmark return reflects losses to the fund's performance based upon implementation decisions.

Risk Controls

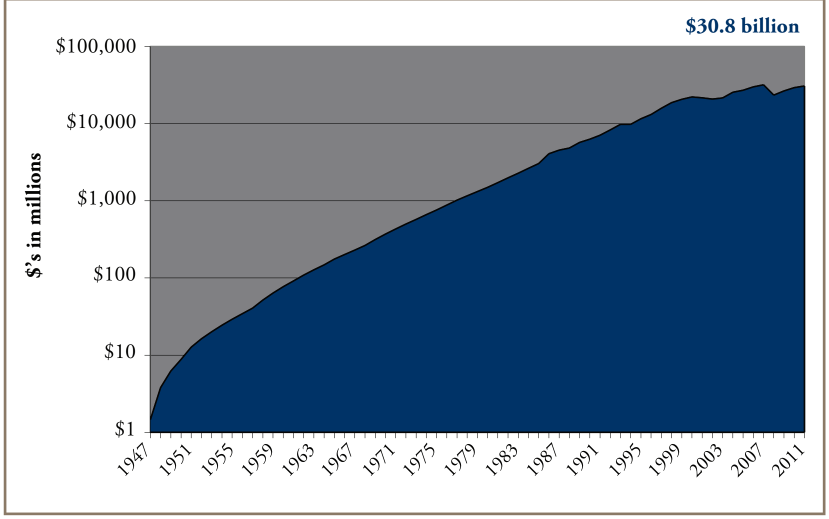
The Board recognizes that even though the Systems' investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. Given the importance of the broad asset allocation decision to the Systems' long-term investment success, internal staff is required to conduct an asset allocation/liability study at least every five years and to report the results of that study to the Board. In addition, the CIO must annually evaluate the asset allocation mix and any strategic allocation of the portfolio and provide a report to the Board on the results of that evaluation. This ongoing review of the asset allocation process helps to ensure the asset allocation is being monitored and modified as needed to meet the financial obligations of the Systems.

Towers Watson and the internal staff conducted an asset allocation/liability study in October 2011. The study was presented to the Board and the current asset allocation was reaffirmed.

TOTAL FUND REVIEW

The Systems' total assets were $30.8 billion as of June 30, 2011. There has been a consistent and long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965.

64 Years of Asset Growth



Investment Performance[1]

The Systems achieved record high investment returns in fiscal year 2011. PSRS and PEERS earned returns of 21.8% and 21.4%, respectively, for fiscal year July 1, 2010 through June 30, 2011 – the highest fiscal-year returns for both Systems in over 20 years. The PSRS and PEERS returns net of all fees and expenses were 21.6% and 21.2%, respectively.

These earnings resulted in an increase in total assets of approximately $5 billion over the previous year, largely due to strong gains in publicly traded stocks. The returns exceeded both the Systems' investment return benchmark of 20.4%, and the 8.0% actuarially assumed rate of return. Additionally, the strong returns were achieved while taking less investment risk than a large majority of other public pension funds in the nation.

As illustrated in the tables below, within the respective PSRS and PEERS investment portfolios, U.S. stocks delivered returns of 35.0% and 34.6%, global stocks returned 29.8% and 30.1%, private equity (investments in private companies) increased 20.4% in each plan, real estate produced 20.4% and 20.6% returns, and hedged assets returned 18.8% and 18.2%. Each of these asset classes strongly contributed to the total fund returns for PSRS and PEERS in fiscal year 2011.

PSRS Total Fund Performance

Assets	Total Return	Weighted Contribution*
U.S. Public Equity	35.0%	10.3%
Public Credit	6.5%	0.6%
Hedged Assets	18.8%	2.5%
Global Public Equity	29.8%	5.1%
Public Risk Assets	**26.6%**	**18.5%**
U.S. Treasuries	2.7%	0.4%
U.S. TIPS	7.6%	0.2%
Safe Assets	**3.6%**	**0.6%**
Private Equity	20.4%	1.3%
Private Real Estate	20.4%	1.2%
Private Credit	21.9%	0.2%
Private Risk Assets	**20.4%**	**2.7%**
Total PSRS	**21.8%**	**21.8%**

PEERS Total Fund Performance

Assets	Total Return	Weighted Contribution*
U.S. Public Equity	34.6%	10.2%
Public Credit	6.6%	0.6%
Hedged Assets	18.2%	2.4%
Global Public Equity	30.1%	5.4%
Public Risk Assets	**26.1%**	**18.6%**
U.S. Treasuries	2.7%	0.4%
U.S. TIPS	7.6%	0.2%
Safe Assets	**3.7%**	**0.6%**
Private Equity	20.4%	1.0%
Private Real Estate	20.6%	1.0%
Private Credit	22.0%	0.2%
Private Risk Assets	**20.5%**	**2.2%**
Total PEERS	**21.4%**	**21.4%**

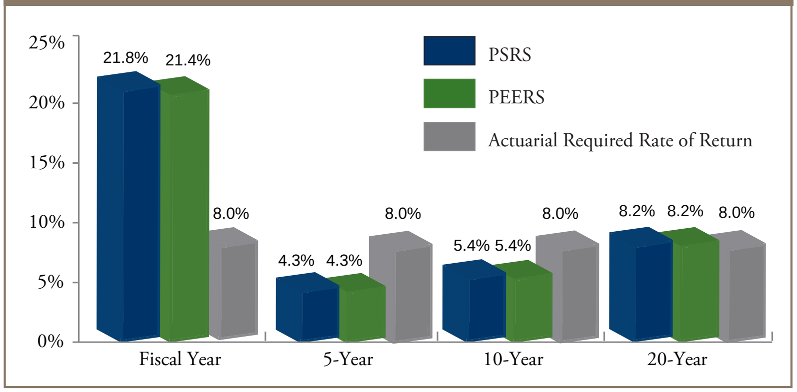
**Percentages have been adjusted to reflect compounding effects and changes in asset weights.*

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

Investment Performance Relative to Benchmarks

The Board has established a long-term goal to achieve a total investment return of at least 8.0% per annum and a real rate of return of at least 5.5% per year. The investment returns of the last two fiscal years are substantially higher than the long-term investment objective due to the strong market recovery that started in March 2009 and continued into 2011. Additionally, as the table indicates, the 20-year annualized total returns of 8.2% for PSRS and PEERS exceeds the long-term return objective of 8.0%. The annualized returns for the medium-term time periods are less than the long-term investment objective of 8.0% due to the severe credit crisis and resulting market decline experienced during 2008 and early 2009.

Total Fund Returns



As discussed previously, in order to determine if the Systems' shorter-term and long-term objectives are being achieved, the Board utilizes three benchmarks by which the Systems' progress may be judged: (1) performance relative to a **Policy Benchmark** (defined set of broad market indices that reflects the Systems' long-term asset allocation, or market beta), (2) performance relative to a **Strategic Benchmark** which indicates value added by the internal staff, and, to a lesser extent, (3) performance relative to other public pension systems and their investment managers as a reference point of oversight.

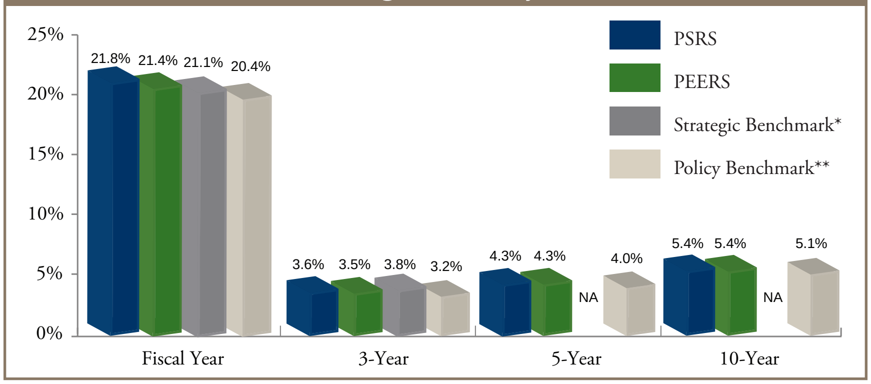
The internal staff presents to the Board a detailed attribution of the total fund performance at the end of each fiscal year. Value is added over and above the expected market returns if the Strategic Benchmark exceeds the Policy Benchmark (i.e., the internal staff made positive strategic decisions) and/or if the actual total fund return exceeds the Strategic Benchmark. The table below summarizes the value that was created in fiscal year 2011.

Performance Attribution

	PSRS	PEERS
Strategic Benchmark	21.07%	21.07%
Policy Benchmark	20.42%	20.42%
Value Added Through Strategic Decisions to Reposition Portfolio	**0.65%**	**0.65%**
Actual Fund Return	21.80%	21.36%
Strategic Benchmark	21.07%	21.07%
Value Added Through Implementation	**0.73%**	**0.29%**
Total Value Added	1.38%	0.94%
Fees Paid Outside of Investment Structures	-0.21%	-0.21%
Total Value Added (Net of Fees and Expenses)	**1.17%**	**0.73%**

The total PSRS and PEERS returns exceeded the Policy Benchmark by 1.17% and 0.73% (net of all fees and expenses), respectively, for fiscal year 2011. This resulted in over $355 million in excess performance to the Systems. The PSRS and PEERS total fund returns have exceeded the Policy Benchmark in five of the last six fiscal years, an indication that internal staff and active investment management have added value to the Systems.

Actual Returns vs. Strategic and Policy Benchmark Returns



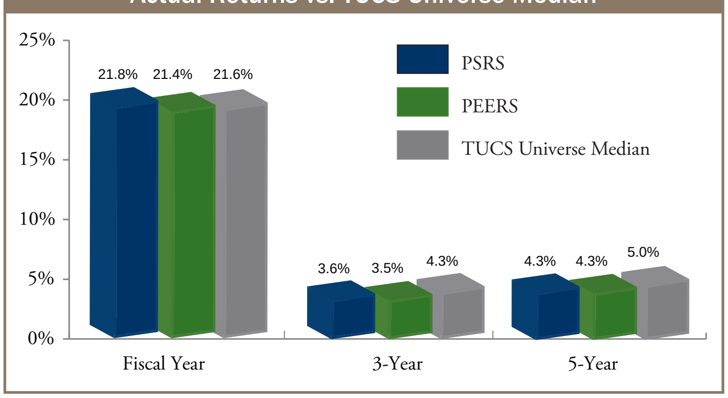
**As of June 30, 2011: 43.1% Russell 3000 Index, 18.9% MSCI All Country World ex-U.S. Free Index, 15.5% Barclays Capital Credit Intermediate Index, 12.8% Barclays Capital Treasury Blend, 5.6% NCREIF Property Index, 3.1% Barclays Capital U.S. TIPS 1-10 Year Index, and 1.0% Bank of America Merrill Lynch High Yield Master II Index. Strategic Benchmark data is not available for periods dating back five years or more.*

***As of June 30, 2011: 40.5% Russell 3000 Index, 16% Barclays Capital Treasury Blend, 15% MSCI All Country World ex-U.S. Free Index, 15% Barclays Capital Credit Intermediate Index, 7.5% NCREIF Property Index, 4% Barclays Capital U.S. TIPS 1-10 Year Index, and 2% Bank of America Merrill Lynch High Yield Master II Index.*

The Systems utilize the Trust Universe Comparison Services (TUCS) to compare the total return and risk levels of PSRS and PEERS relative to other public pension funds with assets in excess of $1 billion.

As the chart below indicates, the PSRS total return for the fiscal year exceeded the median returns of other large public funds. PSRS' and PEERS' total returns for the three- and five-year time periods were marginally below the public fund median return primarily due to asset allocation and risk tolerance differences. The 2011 TUCS universe data indicates that PSRS and PEERS have taken less risk than 70% of other comparable public funds over the last five years.

Actual Returns vs. TUCS Universe Median

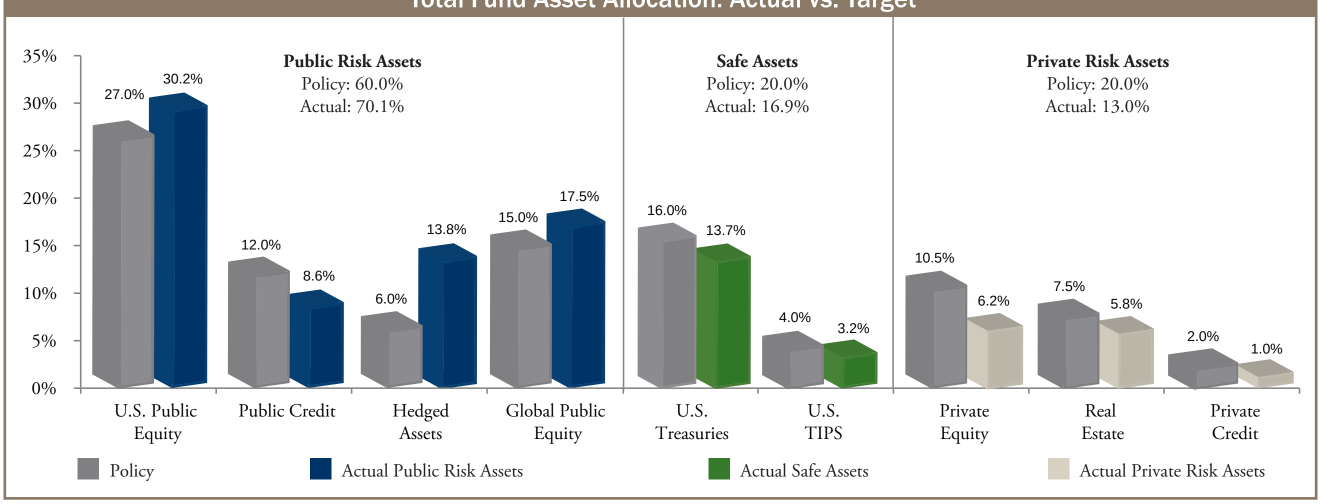


Asset Allocation: Actual Versus Target

The Board's broad Policy Allocation target as of June 30, 2011 was 60% Public Risk Assets, 20% Safe Assets and 20% Private Risk Assets. Within each broad Policy target, the Board has established sub-asset class targets. For example, as the chart below indicates, the target allocation to U.S. equity was 27% as of June 30, 2011. The Board made no changes to the policy targets during fiscal year 2011.

As illustrated in the chart, internal staff utilized the flexibility built into the Investment Policy to strategically overweight or underweight certain investment asset classes throughout the year. Two moves of significance included the strategic underweight to the Safe Assets class by approximately 3% for most of the fiscal year, and the strategic overweight to Hedged Assets (relative to Credit). Both of these strategic moves contributed significantly to the value added above the Policy Benchmark for the fiscal year.

Total Fund Asset Allocation: Actual vs. Target



Statistical Performance

One of the primary investment objectives of the Systems is to achieve returns similar to the market but at lower risk or volatility levels. To that end, the internal staff monitors a number of quantitative risk statistics related to the total investment portfolio as well as individual composites. The table below indicates that the Systems have taken less risk than the Policy Benchmark (as measured by standard deviation) over the last one-year, three-year and five-year time periods, while achieving higher returns; indicating strong risk-adjusted performance.

Beta measures the volatility, or systematic risk, of a security or portfolio in comparison to the market as a whole. If a portfolio has a beta of 1.0, it indicates that the portfolio moves in unison with the market. The Systems' portfolios have a beta of less than 1.0 relative to the Policy Benchmark, indicating less market volatility. The Systems beta relative to the world stock index (MSCI All Country World Index) is approximately 0.50. This signifies that the Systems' portfolio moves up or down approximately half as much as the world stock index.

Total Plan Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	21.8%	3.6%	4.3%
Annualized PEERS Return	21.4%	3.5%	4.3%
Annualized Policy Benchmark Return*	20.4%	3.2%	4.0%
Annualized Strategic Benchmark Return**	21.1%	3.8%	N/A
Excess return†	1.4%	0.4%	0.3%
Annualized Standard Deviation of Composite***	7.6%	12.7%	10.8%
Annualized Standard Deviation of Policy Benchmark***	8.1%	14.8%	12.3%
Beta to Policy Benchmark***	0.92	0.84	0.86
Beta to MSCI All Country World Index***	0.49	0.52	0.53

**The Total Plan Policy Benchmark is composed as follows: 16.0% Barclays Capital U.S. Treasury Blend, 4.0% Barclays Capital U.S. TIPS 1-10 Year Index, 40.5% Russell 3000 Index, 15.0% MSCI All Country World Free Ex-U.S. (Net) Index, 15.0% Barclays Capital Intermediate Credit Index, 7.5% NCREIF Property Index, and 2.0% Merrill Lynch High Yield Master II Index.*

***The Total Plan Strategic Benchmark changes monthly based on the actual asset allocation at the end of the previous month. It was established more recently so a 5 year return is not available.*

†PSRS excess return relative to the Total Plan Policy Benchmark.

****Risk statistics are calculated on the PSRS portfolio but are indicative of the PEERS portfolio.*

PUBLIC RISK ASSETS CLASS SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Public Risk assets had a market value of approximately $21.6 billion, representing 70.1% of total assets.

Investment Program Description

The Board adopted an asset allocation policy at the June 8, 2009 Board meeting that includes a broad allocation to Public Risk Assets. The four programs within the Public Risk Asset composite are U.S. Public Equity, Public Credit, Hedged Assets and Global Public Equity. Each program within the Public Risk allocation is a separate multi-manager composite that is treated generally as a single portfolio. Each program serves a specific and distinct role within the overall Public Risk Composite and also within the overall total plan allocation. Over time, the Public Risk Composite and its sub-components serve as an effective and efficient vehicle to supply the underlying beta exposure to a portfolio of global risk assets required by the Systems' asset allocation policy, while providing the opportunity to achieve excess returns above that of a passive equity benchmark[1] through the prudent combination of passive investment vehicles and a wide range of active investment strategies.

Structure

As of June 30, 2011, 43.1% of the PSRS/PEERS Public Risk assets were invested in the U.S. Public Equity program, 25.0% in the Global Public Equity program, 12.3% in the Credit program and 19.6% in the Hedged Assets program. Each of these programs is discussed in more detail on the following pages.

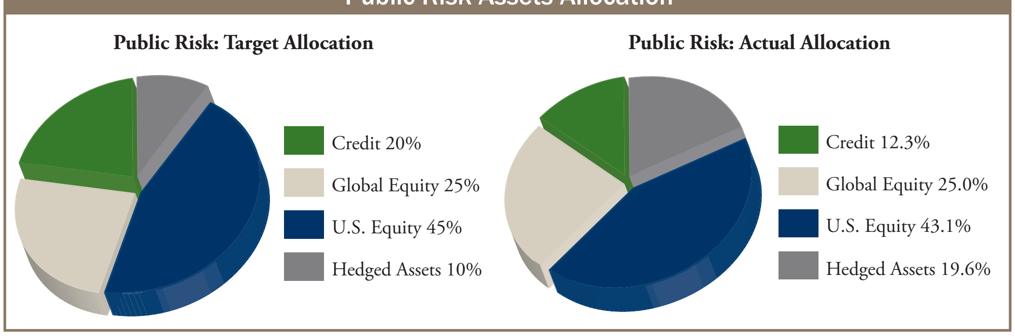
The internal staff strategically overweighted Hedged Assets relative to Public Credit within the Public Risk Asset composite for the year while maintaining weights near the Policy Benchmark to both U.S. Public Equity and Global Public Equity. Credit spreads tightened significantly in 2010, reducing the expected return for the overall Public Credit composite in fiscal year 2011. Alternatively, the internal staff continued to invest with high quality managers within the Hedged Assets composite throughout the fiscal year. The Hedged Assets program, in aggregate, offered the potential for better risk adjusted returns within the Public Risk composite.

Market Overview

The global markets were buoyed for much of fiscal year 2011 by quantitative easing and the various monetary measures undertaken by the large central banks. Although the global economy began to slow down in the fourth quarter of the fiscal year, most public risk assets performed well above expectations for the year. Equity indices were particularly strong for the year with the Russell 3000 Index (broad measure of the U.S. stock market) up 32.4% and the MSCI All Country World Free Ex-U.S. Index (broad measure of the international stock markets) up 29.7%. The Hedged Assets program provided excellent risk-adjusted returns for the year, increasing 18.8% for PSRS and 18.2% for PEERS. Bond market yields and credit spreads increased incrementally during the fiscal year, leading to a modest return for the Credit benchmark (Barclays Capital Intermediate Credit Index) of 6.1%.

The public risk markets were very strong in the first half of the year before trailing off in the second half due to concerns domestically about retail sales, real incomes, unemployment and increased concern associated with European debt woes. The dichotomy in the year led to outsized returns in the first half of the year followed by moderate returns in the second half. For example, the Russell 3000 Index returned 24.5% for the six months ended December 31, 2010, followed by a return of 6.4% for the last six months of the fiscal year.

Public Risk Assets Allocation

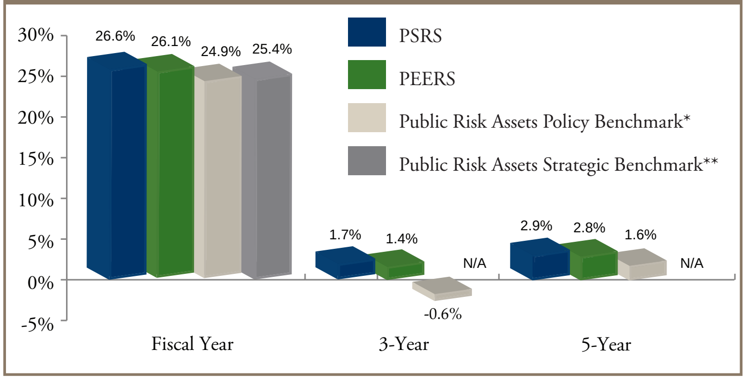


[1] *The customized Public Risk Policy Benchmark is comprised of 50.0% Russell 3000 Index, 25.0% MSCI All Country World Free Ex-U.S. (Net) Index and 25.0% Barclays Capital Intermediate Credit Index.*

Performance

The total returns for the PSRS and PEERS Public Risk portfolios were 26.6% and 26.1%, respectively, compared to the Policy Benchmark return of 24.9% for the fiscal year ended June 30, 2011. As shown in the table and graph, the PSRS and PEERS Public Risk portfolio outperformed the Policy Benchmark by 170 basis points and 120 basis points, respectively. The strong performance relative to the benchmarks can be primarily attributed to solid active management from external money managers and the overweight of the Hedged Assets program relative to the Public Credit program. For the three- and five-year time periods, both PSRS and PEERS significantly outperformed the Policy Benchmark as noted on the chart.

Public Risk Assets Performance



Public Risk Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	26.6%	1.7%	2.9%
Annualized PEERS Return	26.1%	1.4%	2.8%
Annualized Policy Benchmark Return*	24.9%	-0.6%	1.6%
Annualized Strategic Benchmark Return**	25.4%	N/A	N/A
Excess return†	1.7%	2.3%	1.3%
Annualized Standard Deviation of Composite***	11.2%	19.7%	16.9%
Annualized Standard Deviation of Policy Benchmark***	11.1%	20.7%	17.6%
Beta to Policy Benchmark***	1.00	0.95	0.96
Beta to MSCI All Country World Index***	0.73	0.82	0.84

**The Public Risk Assets Policy Benchmark is composed of: 50.0% Russell 3000 Index, 25.0% MSCI All County World Free Ex-U.S. (Net) Index, 25.0% Barclays Capital Intermediate Credit Index.*

***The Public Risk Assets Strategic Benchmark changes monthly based on the actual asset allocation at the end of the previous month. It was established more recently so three-year and five-year returns are not available.*

†PSRS excess return relative to the Public Risk Assets Policy Benchmark.

****Risk statistics are calculated on the PSRS portfolio but are indicative of the PEERS portfolio.*

The table indicates that the Systems have taken less risk than the Policy Benchmark (as measured by standard deviation) over the last three-year and five-year time periods, while achieving higher returns; indicating strong risk-adjusted performance. Additionally, the Systems' portfolios have a beta of less than 1.0 relative to the Policy Benchmark over longer time periods, indicating less market risk.

U.S. PUBLIC EQUITY PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS U.S. Public Equity assets had a market value of approximately $9.3 billion, representing 30.2% of total assets.

Investment Program Description

U.S. Public Equity is comprised of the Large-Cap and Small-Cap programs which seek to provide long-term capital appreciation and dividend income in excess of inflation through the investment in domestic equity securities. Returns above a purely passive investment benchmark are targeted through the use of a wide variety of active investment strategies that may employ exposure to both equity securities and other types of investments. The primary ***beta*** exposure is achieved through investments in passive investment vehicles (including derivatives); traditional long-only active domestic equity management; and active long/short approaches. ***Alpha*** (or, excess returns above a passive alternative) is expected to be achieved through traditional long-only active domestic equity management, active long/short approaches and alpha overlay strategies (described in greater detail at the end of this section).

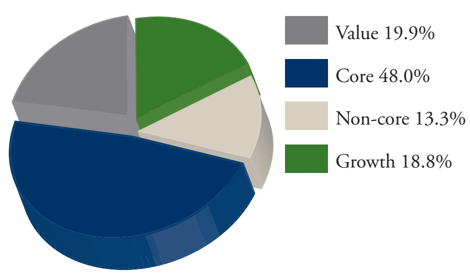
Structure

As of June 30, 2011, 30.9% 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 encompasses alternative equity mandates including hedge fund portfolios.

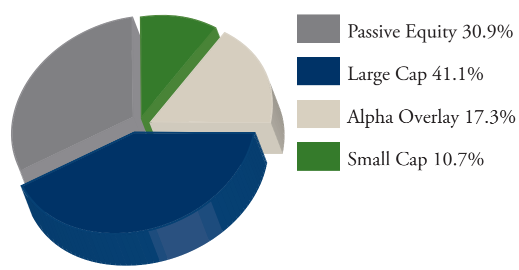
Exposure to the various segments of the domestic equity market (i.e., growth-oriented, value-oriented, and core) and to the approved investment strategy types are achieved through the identification, selection and on-going management of SEC-registered investment advisors qualified to serve as fiduciaries to the Systems.

U.S. Public Equity Allocations: Style and Composite

Style Allocation
June 30, 2011



Composite Allocation
June 30, 2011

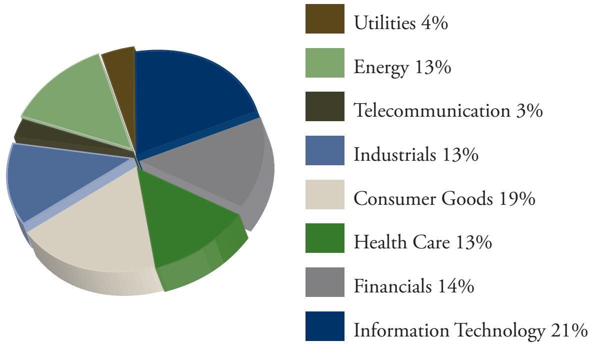


The pie charts depict the U.S. Public Equity portfolio by presenting the current style structure of the portfolio as well as the allocation by composite and market sector.

The internal staff maintained a strategic overweight to the Alpha Overlay program throughout the year to take advantage of strong skill-based managers within that program. The Systems were also overweight to small-cap stocks through S-CAP for most of the year but systematically reduced the exposure in the fourth quarter to a neutral target.

The internal staff rebalanced assets from U.S. Public Equity into Safe Assets in the last quarter of the fiscal year to reduce the overall risk in the total portfolio. The allocation to U.S. public equities reached a high of 32.6% in March 2011 and the allocation was reduced to 30.2% at the end of the fiscal year.

U.S. Public Equity Market Sectors



Market Overview

The U.S. stock markets had a strong year across both market capitalization and styles as the broad measure of the U.S. stock market (Russell 3000 Index) increased 32.4%. Small-cap stocks (Russell 2000 Index) gained 37.4% for the year with growth stocks (Russell 1000 Growth Index) outperforming value stocks (Russell 1000 Value Index) with a return of 35.0% compared to 28.9%.

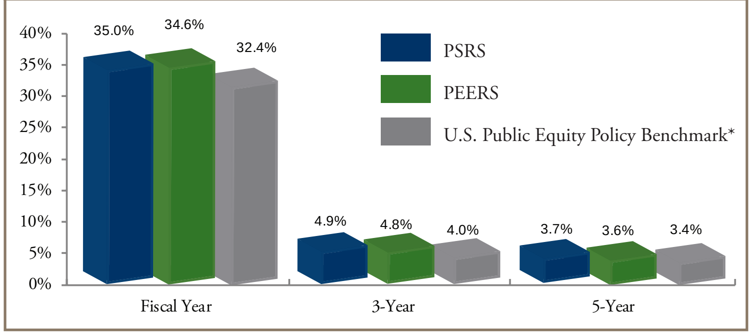
Stocks in the U.S. performed well for most of the year due to unprecedented quantitative easing from the Federal Reserve and improvement in investor sentiment regarding global growth. However, that sentiment receded in the latter part of the year as fears of historically high unemployment, a continued slow housing market and developments in Europe called into question the sustainability of U.S. stocks' year-long run. As we move into fiscal year 2012, the expectations are for slower growth, less intervention by the government and lower returns for U.S. stocks.

Performance

The total returns for the PSRS and PEERS U.S. Public Equity programs were 35.0% and 34.6%, respectively, compared to the Policy Benchmark return of 32.4% for the fiscal year ended June 30, 2011. The positive performance of the portfolio relative to the Policy Benchmark indicates value added by the internal staff through both strategic decisions (i.e. decision to overweight Alpha Overlay) and manager selection decisions. Active management strategies contributed significantly to the outperformance, with the Alpha Overlay program exceeding its Policy Benchmark by more than 900 basis points for the year for both PSRS and PEERS and S-CAP exceeding the Russell 2000 Index (its Policy Benchmark) by 470 basis points for PSRS and 420 basis points for PEERS for the same time period.

As indicated in the table and graph above, both PSRS and PEERS outperformed the Policy Benchmark by 90 basis points and 80 basis points respectively for the three-year time period. The U.S. Public Equity composites for PSRS and PEERS outperformed the Policy Benchmark by over 30 basis points and 20 basis points, respectively for the five-year time period. Over longer periods of time, the Systems' U.S. Public Equity portfolio is designed to deliver approximately 50-100 basis points of excess return through a combination of active and passive investment strategies.

U.S. Public Equity Performance



U.S. Public Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	35.0%	4.9%	3.7%
Annualized PEERS Return	34.6%	4.8%	3.6%
Annualized Policy Benchmark Return*	32.4%	4.0%	3.4%
Excess return†	2.6%	0.9%	0.3%

**The U.S. Public Equity Policy Benchmark is the Russell 3000 Index.*
†PSRS excess return relative to the U.S. Public Equity Policy Benchmark

Top 10 Holdings and Characteristics

The following table displays the characteristics of the PSRS/PEERS U.S. Public Equity program as of June 30, 2011 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, 2011 are shown in the table below the characteristics.

U.S. Public Equity Characteristics

Characteristics	June 30, 2011 Combined Systems*	June 30, 2011 Russell 3000 Index
Number of Securities	1,475	2,970
Dividend Yield	1.7%	1.8%
Price-to-Earnings Ratio	17.1	15.9
Avg. Market Capitalization	$63.2 bil.	$72.3 bil.
Price-to-Book Ratio	2.6	2.2

U.S. Public Equity - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2011	Combined Market Value	% of Total U.S. Public Equity
JP Morgan Chase and Co.	$86,378,610	1.0%
Qualcomm, Inc.	71,327,104	0.8%
Chevron Corp.	70,409,612	0.8%
Amazon.com Inc.	68,597,193	0.8%
Apple, Inc.	67,642,204	0.8%
Google, Inc.	62,933,413	0.7%
Priceline.com Inc.	59,389,511	0.7%
Wells Fargo and Co.	57,279,299	0.7%
Cognizant Tech Solutions	57,106,704	0.7%
AT&T, Inc.	52,663,796	0.6%
TOTAL	**$653,727,446**	**7.6%**

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

Investment Advisors

As of June 30, 2011, PSRS and PEERS had contracts with 14 external investment advisors that manage 22 portfolios comprising 82.6% of the U.S. Public Equity portfolio. The remaining 17.4% of the portfolio is in the Alpha Overlay program described in the next section.

In Fiscal Year 2011, a passive Russell 1000 Growth assignment was added and Analytic Investors was terminated from a Large-Cap Core assignment.

U.S. Public Equity Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
AllianceBernstein Institutional Mgmt.	Active Large Cap Growth	$ 239,897,738	0.8%
Analytic Investors	Structured Large Cap Value	376,256,828	1.2%
Analytic Investors	U.S. Low Volatility Equity	413,615,616	1.3%
AQR Capital Management	Large Cap 140/40 Core	260,689,447	0.8%
Aronson + Johnson + Ortiz	Active Large Cap 130/30 Value	231,931,835	0.7%
Aronson + Johnson + Ortiz	Active Large Cap Value	432,855,081	1.4%
Martingale Asset Management	Active Large Cap 130/30 Growth	215,402,296	0.7%
SSgA - Russell 1000 Index Fund	Passive Russell 1000 Index	1,725,377,393	5.6%
SSgA - Russell 1000 Growth Index Fund	Passive Russell 1000 Growth Index	433,032,664	1.4%
SSgA - S&P 500 Index Fund	Passive S&P 500 Index	707,654,642	2.3%
Westwood Management	Active Large Cap Value	658,852,144	2.1%
Westwood Management	Master Limited Partnerships	169,733,411	0.6%
Zevenbergen Capital	Active All Cap Growth	823,826,234	2.7%
S-CAP: Allianz	Active Micro Cap Growth	90,407,498	0.3%
S-CAP: AQR Capital Management	Active Small Cap Value	147,947,498	0.5%
S-CAP: Chartwell Investment Partners	Active Small Cap Value	151,987,781	0.5%
S-CAP: Columbus Circle	Active Small Cap Growth	110,902,769	0.4%
S-CAP: Next Century Growth Investors	Active Small Cap Growth	125,314,240	0.4%
S-CAP: Next Century Growth Investors	Active Micro Cap Growth	12,963,446	0.0%
S-CAP: NISA Investment Advisors	Russell 2000 Overlay	142,297,889	0.5%
S-CAP: Thomson, Horstmann & Bryant	Active Small Cap Core	161,342,975	0.5%
S-CAP: Thomson, Horstmann & Bryant	Active Micro Cap Core	55,355,457	0.2%
Small Cap Alpha Pool (S-CAP) Subtotal		**998,519,553**	**3.3%**
Total		**$ 7,687,644,882**	**24.9%**

**Includes manager cash.*

ALPHA OVERLAY PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Alpha Overlay allocation had a market value of approximately $1.6 billion, representing 5.3% of total assets.

Investment Program Description

The Alpha Overlay portfolio resides within the U.S. Large-Cap Equity program. The Alpha Overlay portfolio has been constructed to assist in meeting the long-term goals established for the overall U.S. Large-Cap Equity allocation. Specifically, Alpha Overlay provides broad exposure to large-cap U.S. stocks using S&P 500 total return swaps, while the returns of a select portfolio of hedge fund strategies provides the opportunity to earn excess returns above the passive S&P 500 Index. By combining the market exposure obtained through the S&P 500 total return swaps with the diversified exposures to investment strategies focused on alpha generation, the combined portfolio is constructed and managed to produce a return stream with volatility and beta characteristics similar to the passive S&P 500 Index, while generating excess returns (or alpha) of approximately 200-250 basis points over longer periods of time.

Structure

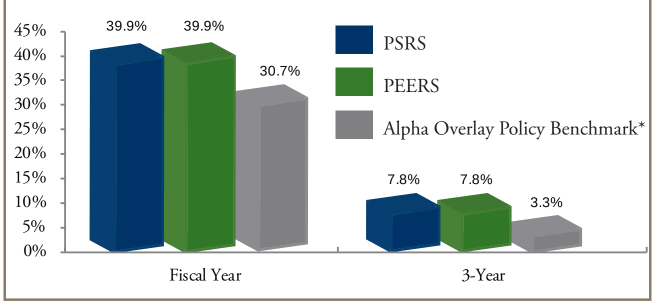
As of June 30, 2011, 25.9% of the PSRS/PEERS Alpha Overlay composite was passively managed by NISA Investment Advisors using S&P 500 total return swaps to attain equitization. An additional 65.9% of the portfolio was actively managed across a diversified range of multi-strategy and market neutral hedge fund mandates. The remaining 8.2% of the portfolio was actively managed by Zevenbergen Capital in a long-only mandate. During the fiscal year ended June 30, 2011, one additional manager assignment was added to the composite, Carlson Capital Management. No managers were eliminated. The adjacent table displays the specific investment advisor exposure within the composite as of June 30, 2011.

Performance

The total return for both the PSRS and PEERS Alpha Overlay programs was 39.9%, compared to the Policy Benchmark return of 30.7% for the fiscal year ended June 30, 2011. As shown in the table and graph below, the PSRS and PEERS annualized Alpha Overlay composite returns substantially exceeded the Policy Benchmark while maintaining a risk profile (standard deviation and beta) similar to that of the Policy Benchmark.

For the three-year time period, both PSRS and PEERS outperformed the Policy Benchmark by 450 basis points.

Alpha Overlay Performance



Alpha Overlay Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	39.9%	7.8%
Annualized PEERS Return	39.9%	7.8%
Annualized Policy Benchmark Return*	30.7%	3.3%
Excess return†	9.2%	4.5%
Annualized Standard Deviation of Composite**	14.5%	21.3%
Annualized Standard Deviation of Benchmark**	13.8%	21.2%
Beta to Benchmark**	1.05	0.99

**The Alpha Overlay Policy Benchmark is the S&P 500 Index. Five-Year returns are not available due to the age of the asset class.*

†PSRS excess return relative to the Alpha Overlay Policy Benchmark.

***Risk statistics are calculated on the PSRS portfolio but are indicative of the PEERS portfolio.*

Alpha Overlay Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
Algert Coldiron Investors	Multi-Strategy Market Neutral	$ 72,031,906	0.3%
Analytic Investors	Japan Market Neutral	53,866,316	0.2%
AQR Capital Management	Multi-Strategy	79,833,822	0.3%
Bridgewater Associates	Multi-Strategy	199,555,658	0.6%
Carlson Capital Management	Multi-Strategy	129,452,488	0.4%
Davidson Kempner	Multi-Strategy	172,076,542	0.6%
NISA Investment Advisors	Beta Exposure	417,571,302	1.4%
Och-Ziff	Multi-Strategy	113,455,654	0.4%
UBS O'Connor	Global Market Neutral	137,704,204	0.4%
UBS O'Connor	Multi-Strategy	104,316,482	0.3%
Zevenbergen Capital	Active All Cap Growth	132,048,817	0.4%
Total		**$1,611,913,191**	**5.3%**

** Includes manager cash.*

GLOBAL PUBLIC EQUITY PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Global Public Equity assets had a market value of approximately $5.4 billion, representing 17.5% of total assets.

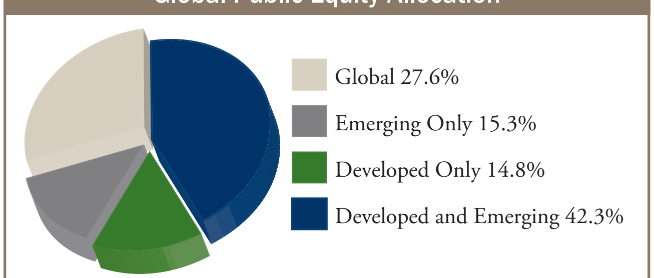
Investment Program Description

The Global Public Equity program provides long-term capital appreciation in excess of inflation and dividends through exposure to public equity securities on a global basis. Specific investment strategies approved for the Global Public Equity Program include passive investment vehicles, traditional long-only active equity management and active long/short approaches. Exposure to the various segments of the global equity market (i.e., U.S., developed non-U.S., emerging, growth-oriented, value-oriented, and core) and to the approved investment strategy types are achieved through the identification, selection and on-going management of SEC-registered investment advisors qualified to serve as fiduciaries to the Systems. The global portfolios provide an element of diversification relative to the domestic equity portfolios. Currency is another aspect of international investing that can impact performance and volatility of the asset class over the short-term; however, over the long-term no return is expected from currency.

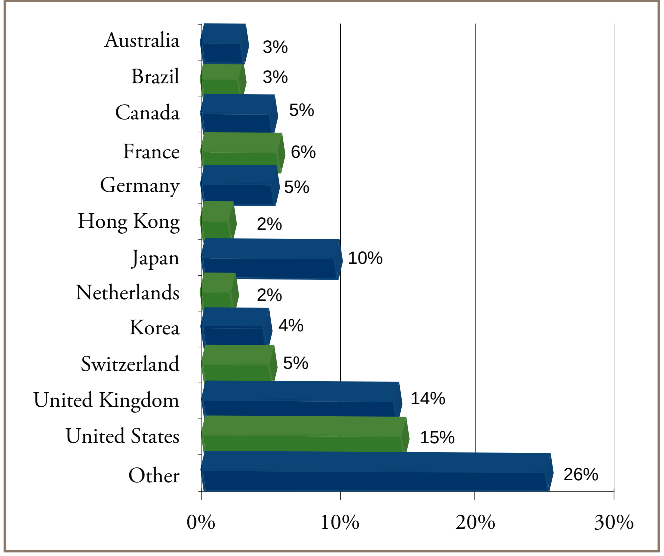
Structure

As of June 30, 2011, 10.3% of the PSRS/PEERS Global Public Equity composite was passively managed. The remainder of the portfolio was actively managed and diversified across capitalization ranges, styles and a number of developed and emerging market countries. The bar graph above displays the specific country exposure within the composite while the pie chart below indicates broader exposure by investment mandate.

Global Public Equity Allocation



Global Public Equity Country Allocation



The internal staff maintained a strategic overweight to emerging markets, relative to developed markets, throughout the year to take advantage of stronger growth prospects and improving demographics. The internal staff rebalanced assets from Global Public Equity into Safe Assets in the last quarter of the fiscal year to reduce the overall risk in the total portfolio. The allocation to global stocks reached a high of 18.6% in March 2011 and the allocation was reduced to 17.5% at the end of the fiscal year.

Market Overview

The global stock markets had a strong year across market capitalization ranges and in both developed and emerging countries. The broad measure for developed global markets (MSCI EAFE Index) increased 30.4%, emerging markets (MSCI EM Index) increased 27.8% higher and global stocks (MSCI World) increased 30.5%.

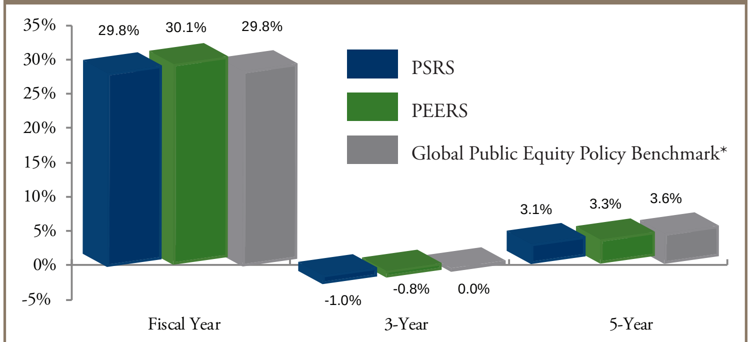
Global stocks performed well for most of the year due to unprecedented quantitative easing from central banks. The returns in developed markets moderated in the last quarter of the fiscal year due to slowing global growth and escalating concerns about European sovereign debt. Emerging markets posted negative returns in the last quarter due to sputtering global growth and falling commodity prices in addition to central bank tightening to combat inflation. As we move into fiscal year 2012, the sovereign debt crisis in Europe will be the dominant news story affecting much of the global equity markets.

Performance

The total returns for the PSRS and PEERS Global Public Equity programs were 29.8% and 30.1%, respectively, compared to the benchmark return of 29.8% for the fiscal year ended June 30, 2011. As shown in the table and graph below, the PSRS and PEERS annualized Global Public Equity composite returns were in-line with the Policy Benchmark. Active management strategies (manager selection decisions) were broadly positive within the Global Public Equity portfolio. However, the investment manager alpha was offset by our modest overweight to emerging market stocks throughout the year. The Systems are expected to maintain an overweight to emerging market stocks into fiscal year 2012 to capture higher expected growth relative to developed markets.

For the three-year time period, both PSRS and PEERS underperformed the Policy Benchmark by 100 basis points and 80 basis points respectively. The Systems' five-year returns slightly underperformed the Policy Benchmark.

Global Public Equity Performance



Global Public Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	29.8%	-1.0%	3.1%
Annualized PEERS Return	30.1%	-0.8%	3.3%
Annualized Policy Benchmark Return*	29.8%	0.0%	3.6%
Excess return†	0.0%	-1.0%	-0.5%

**The Global Public Equity Policy Benchmark is composed of: 74.0% MSCI All Country World ex-U.S. Free Index and 26.0% MSCI All Country World Free Index.*

†PSRS excess return relative to the Global Public Equity Policy Benchmark.

Top 10 Holdings

The following table displays the top 10 Global Public Equity holdings as of June 30, 2011.

Global Public Equity - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2011	Combined Market Value	% of Total Global Public Equity
AstraZeneca PLC	$42,746,192	0.8%
Nestle SA	35,557,614	0.7%
Rio Tinto PLC	33,576,902	0.6%
ING Groep N.V. CVA	33,562,655	0.6%
Samsung Electronics Co. Ltd.	33,438,436	0.6%
HSBC Holdings	31,472,374	0.6%
Schneider Electric	30,862,959	0.6%
Linde AG	29,869,934	0.6%
Novo-Nordisk	29,092,670	0.5%
GlaxoSmithKline	25,873,283	0.5%
TOTAL	**$326,053,019**	**6.1%**

** Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Investment Advisors

As of June 30, 2011, PSRS and PEERS had contracts with 13 external investment advisors that manage 15 portfolios within the Global Public Equity portfolio. In fiscal year 2011, two new emerging market assignments were added with Neon Capital Management and the Rock Creek Group. No managers were terminated.

Global Public Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
AllianceBernstein Institutional Mgmt.	Active Intl Value	$ 332,264,050	1.1%
AllianceBernstein Institutional Mgmt.	Active Global	154,318,805	0.5%
Analytic Investors	Active Global	431,997,083	1.4%
AQR Capital Management	Active Intl Core	522,402,502	1.7%
Arrowstreet Capital	Active Emerging Markets	144,760,700	0.5%
Arrowstreet Capital	Active Global	552,530,829	1.8%
Artio Global Investors	Active Intl Core	279,548,774	0.9%
Esemplia Emerging Markets	Active Emerging Markets	383,565,722	1.2%
INVESCO Global Asset Management	Active Intl Value	467,011,413	1.5%
McKinley Capital Management	Active Intl Growth	330,237,057	1.1%
MFS Investment Management	Active Intl Core	596,307,105	1.9%
Neon Capital Management	Active Emerging Markets	51,937,700	0.2%
Rock Creek Group	Active Emerging Markets	243,195,516	0.8%
SSgA - MSCI ACWI ex-US Index	Passive Intl Core	553,533,101	1.8%
T. Rowe Price Associates	Active Global Growth	349,095,941	1.1%
Total		**$ 5,392,706,298**	**17.5%**

** Includes manager cash.*

PUBLIC CREDIT PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Public Credit assets had a market value of approximately $2.6 billion, representing 8.6% of total assets.

Investment Program Description

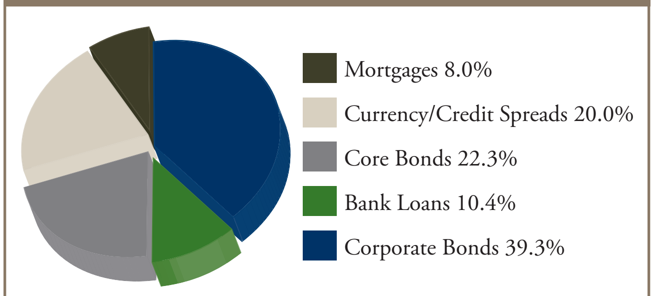
The Public Credit program is designed to provide a source of income and capital appreciation for PSRS and PEERS while creating substantial diversification to the total plan with a low correlation to other asset classes. The securities in this program exhibit high liquidity. Specific investments can include investment grade corporate securities, below investment grade debt instruments, distressed debt securities, convertible bonds, bank loans, agencies, mortgage-backed securities, asset-backed securities, and interest rate sensitive securities (including those issued or guaranteed by the United States government or its agencies). Investments in this program may include debt of both U.S. and non-U.S. issuers.

The performance objective for the Public Credit program is to exceed the returns of the investment grade credit markets through the use of a wide variety of active management approaches while incurring a level of risk that is generally consistent with the Policy Benchmark (Barclays Capital Intermediate Credit Index).

Structure

As of June 30, 2011, the Public Credit composite was actively managed and diversified across high quality corporate bonds, bank loans, mortgage-backed securities and non-dollar currencies of both developed and emerging countries. The pie chart below presents the strategy allocation of the Systems' Public Credit assets as of June 30, 2011.

Public Credit Strategy Allocation



The Systems' internal staff maintained a strategic underweight to the Public Credit program throughout the year because other asset classes within the total fund offered the potential for better risk-adjusted returns. The target allocation for the Public Credit program is 12.0% of total fund assets and the Systems allocation at the end of the fiscal year was just under 9.0%. Within the Public Credit composite, the Systems' internal staff has built a diversified portfolio with a base of almost 40% in high quality, shorter duration corporate bonds. The most significant position outside of the core bond allocation was to non-dollar bonds (and currencies) due to an expectation that the U.S. dollar would decline over the medium term.

Market Overview

Bond returns were modest in fiscal year 2011. The returns were positively impacted as credit spreads tightened (marginally for investment grade bonds but more significantly for high yield bonds) but were hurt as interest rates increased modestly across the yield curve. Specifically, the yield on the 10-year Treasury increased from 2.93% on June 30, 2010 to 3.16% on June 30, 2011. The increase in yields and the spread tightening acted as somewhat of a performance offset in the investment grade market for the year. Non-dollar bonds performed much stronger than U.S. bonds primarily because the U.S. dollar declined relative to most major currencies in the last year by approximately 13.6%.

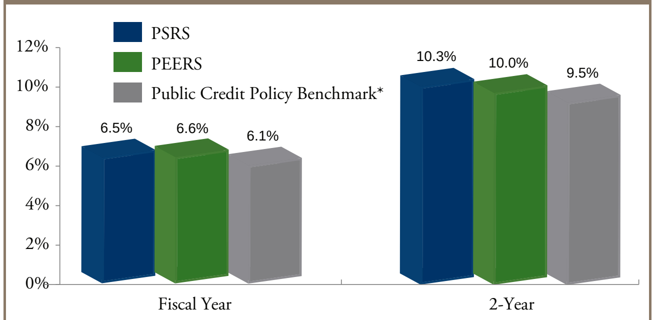
Investment grade credit corporate bonds (Barclays Capital Intermediate Credit Index) increased 6.1% for the year while a broader measure of the U.S. bond market (Barclays Capital Aggregate Index) increased 3.9%. High yield, or lower quality, bonds (Citigroup High Yield Index) increased 15.3% for the year with global bonds (Barclays Capital Global Bond Index) and emerging market bonds (JP Morgan Emerging Market Bond Index) increasing 10.5% and 18.9%, respectively.

Performance

The total returns for the PSRS and PEERS Public Credit programs were 6.5% and 6.6%, respectively, compared to the Policy Benchmark return of 6.1% for the fiscal year ended June 30, 2011. As shown in the table and graph on the following page, both the PSRS and PEERS annualized Public Credit composite returns outperformed the Policy Benchmark over the last two years.

Public risk assets in general, and specifically public stocks, offered much higher absolute returns than public credit bonds in fiscal year 2011. However, the Public Credit composite provided the Systems with stable returns. The Public Credit composite outperformed the Policy Benchmark in fiscal year 2011 primarily due to allocations to both non-dollar bonds and currencies. Each manager within the composite provided solid absolute returns for the year but the PIMCO Developing Local Markets fund and the PIMCO LIBOR Plus fund both benefited from emerging market currencies to post returns for the year of 15.1% and 9.1%, respectively, for both PSRS and PEERS.

Public Credit Performance



Public Credit Statistical Performance

Portfolio Characteristics	Fiscal Year	2-Year
Annualized PSRS Return	6.5%	10.3%
Annualized PEERS Return	6.6%	10.0%
Annualized Policy Benchmark Return*	6.1%	9.5%
Excess return†	0.4%	0.8%

**The Public Credit Policy Benchmark is the Barclays Capital Intermediate Credit Index.*

†PSRS excess return relative to the Public Credit Policy Benchmark.

The Public Credit Program was established in December 2008, so three-year and five-year returns are not available.

Top 10 Holdings

The following table displays the top 10 Public Credit holdings as of June 30, 2011.

Public Credit - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2011	Combined Market Value	% of Total Public Credit
PIMCO Short Term Floating NAV II Fund	$ 158,324,055	6.2%
PIMCO Developing Local Markets Fund	136,863,931	5.3%
United States Treasury Strip, 4.625%, 2/15/40	91,157,500	3.6%
United States Treasury Note, 3.125%, 5/15/21	72,146,697	2.8%
Nevada Power Company Note, 7.125%, 5/15/19	40,580,020	1.6%
BAE Systems Holdings Inc. Note, 6.375%, 6/1/19	38,928,752	1.5%
CNOOC Finance Note, 4.25%, 1/26/21	34,323,450	1.3%
PIMCO Emerging Markets Fund	32,570,538	1.3%
Time Warner Cable Note, 8.25% 4/1/19	32,477,088	1.3%
Comcast Corp. Note, 6.3%, 11/15/17	29,036,207	1.1%
Total	**$ 666,408,238**	**26.0%**

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

Investment Advisors

As of June 30, 2011, PSRS and PEERS had contracts with four external investment advisors that manage six portfolios in the Public Credit portfolio. In fiscal year 2011, there were no managers or assignments added or terminated.

Public Credit Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
BlackRock Financial Management	Active Mortgages	$ 213,345,386	0.7%
NISA Investment Advisors	Corporate Credit	1,040,952,898	3.4%
Oaktree Bank Loans	Senior Bank Loans	275,425,411	0.9%
Pacific Investment Management Co.	Core Plus	590,390,401	1.9%
Pacific Investment Management Co.	LIBOR Plus	391,739,612	1.3%
Pacific Investment Management Co.	Developing Local Markets	136,863,931	0.4%
Total		**$ 2,648,717,639**	**8.6%**

**Includes manager cash.*

HEDGED ASSETS PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Hedged Assets portfolio had a market value of approximately $4.2 billion, representing 13.8% of total assets.

Investment Program Description

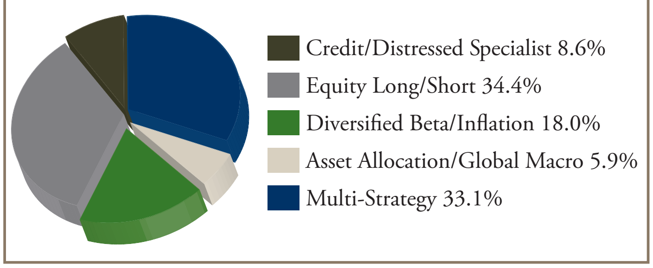
The Hedged Assets program's objective is to provide diversification to the total portfolio and reduce volatility within the Public Risk Composite. The purpose of this Program is to enhance the overall risk/return profile of the Public Risk Composite through the inclusion of specialized investment strategies that typically generate returns in a different fashion (i.e., absent a high correlation to equities or bonds). These strategies may utilize leverage as allowed within their governing documents. The returns from these strategies have historically had a low-to-moderate correlation with the traditional equity markets, thus providing diversification benefits in addition to portfolio return enhancement. These strategies seek to control risks and maintain a focus on absolute returns. The inherent nature of these vehicles to serve as a "hedge" provides for the expectation that the Program will lag the equity market during times when equities are performing above the long-term averages, however, when equities are performing below the long-term averages, the Program would be expected to outperform the equity market. In addition, managers within this asset class have historically possessed significantly lower volatility relative to traditional equity managers.

Structure

In December 2005, the Systems hired Albourne America, LLC (Albourne) as their hedge fund consultant. Albourne is an independent global advisory firm focused solely on hedge funds. PSRS and PEERS became one of the first large institutional public plans in the U.S. to embrace Albourne and the firm's alternatives consulting model. As the Systems ramped-up investments in alternatives, it was determined that direct investments into hedge funds would be utilized, as opposed to incorporating fund-of-funds. The System's Internal Staff believes that the benefits of direct investments, including lower fees, customized portfolio exposures, direct access to manager knowledge, and higher levels of transparency, outweigh the benefit of quicker implementation offered by fund-of-funds. Using this approach, the Systems hired their first hedge fund manager in January 2007.

As the chart below indicates, the Hedged Assets program is diversified across Multi-Strategy, Asset Allocation/Global Macro, Diversified Beta/Inflation, Credit/Distressed Specialists and Equity Long/Short strategies. Multi-Strategy managers include those focused on event-driven, credit, and relative value. The Systems manage the Hedged Assets portfolio to a blended Policy Benchmark of 25% Russell 3000 Index, 25% MSCI All County World Free Ex-U.S. Index, and 50% Barclays Capital Intermediate Credit Index.

Hedged Assets Diversification



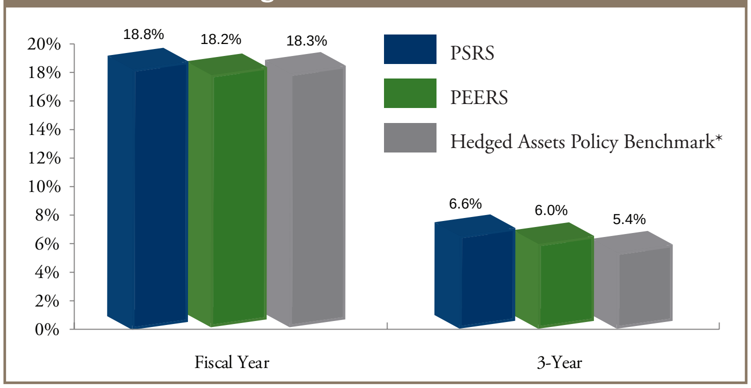
The Systems' internal staff maintained a strategic overweight to the Hedged Assets program throughout the year (relative to other parts of the total fund) due to the potential for better risk-adjusted returns and because opportunities were available to invest alongside higher alpha producing managers. The target allocation for the Hedged Assets program is 6.0% and the Systems allocation at the end of the fiscal year was almost 14.0%.

Performance

The total returns for the PSRS and PEERS Hedged Assets portfolios were 18.8% and 18.2%, respectively, for the fiscal year ended June 30, 2011. As the following table indicates, the Hedged Assets program assumed less than one-half of the volatility of the world stock index (MSCI All Country World Index) and achieved a beta of .35 to the index, signifying that the Systems' portfolios move up or down less than half as much as the world stock index.

For the three-year time period, both PSRS and PEERS outperformed the Policy Benchmark by 120 basis points and 60 basis points, respectively. The Systems' Hedged Assets program was ranked amongst the top large institutional investors in performance for the last three years and was prominently recognized in the September 2011 issue of *Institutional Investor magazine, Absolute Return*. The Program's longer term performance was accomplished with a volatility of 9.7% versus the volatility of the MSCI All Country World Index at 23.9% (a volatility level of only 40% of that of the equity index). The beta of the portfolio over this time period was only .35.

Hedged Assets Performance



Hedged Assets Fiscal Year Statistical Performance

	Fiscal Year Return	Standard Deviation	Beta
Annualized PSRS Return	18.8%	6.1%	0.35
Annualized PEERS Return	18.2%	6.2%	0.35
Annualized Policy Benchmark Return*	18.3%	7.9%	0.51
Annualized S&P 500 Return	30.7%	13.8%	N/A
Annualized MSCI AC World Index Return	30.1%	15.2%	1.00

Hedged Assets 3-Year Statistical Performance

	3-Year Return	Standard Deviation	Beta
Annualized PSRS Return	6.6%	9.7%	0.35
Annualized PEERS Return	6.0%	9.6%	0.35
Annualized Policy Benchmark Return*	5.4%	14.1%	0.58
Annualized S&P 500 Return	3.3%	21.2%	N/A
Annualized MSCI AC World Index Return	0.9%	23.9%	1.00

**The Hedged Assets Policy Benchmark is composed as follows: 50% Barclays Capital Credit Intermediate Index, 25% MSCI All Country World Index ex U.S. (Net), and 25% Russell 3000 Index.*

The first investment in the Hedged Asset composite was funded in January 2007, so a five-year return is not available.

Investment Advisors

As of June 30, 2011, PSRS and PEERS had contracts with 19 external investment advisors that manage 28 portfolios in the Hedged Assets composite.

PSRS and PEERS added four additional investment mandates to the portfolio during fiscal year 2011, putting approximately $473 million to work with new manager relationships. Furthermore, the Systems allocated an additional $1.1 billion to existing managers in the composite, bringing total capital invested in the Program during fiscal year 2011 to $1.6 billion. One manager assignment was eliminated from the portfolio during the fiscal year.

Hedged Assets Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
AQR Absolute Return Fund	Multi-Strategy	$ 79,833,822	0.3%
AQR Diversified Beta Fund	Diversified Beta/Inflation	260,621,859	0.8%
AQR Real Asset Fund	Multi-Strategy	101,039,661	0.3%
Bridgewater All Weather	Equity Long/short	175,061,750	0.6%
Bridgewater Inflation Pool	Diversified Beta/Inflation	229,114,327	0.7%
Bridgewater Pure Alpha II	Asset Allocation/Global Macro	107,801,269	0.4%
Bridgewater Pure Alpha Major Markets	Asset Allocation/Global Macro	140,941,497	0.5%
Brookside Capital	Equity Long/short	120,903,401	0.4%
Carlson Black Diamond	Multi-Strategy	129,452,488	0.4%
Davidson Kempner	Multi-Strategy	125,301,178	0.4%
Davidson Kempner	Distressed Debt/Credit	108,678,054	0.4%
GoldenTree Asset Management	Distressed Debt/Credit	255,743,064	0.8%
Highbridge Asia	Multi-Strategy	41,565,902	0.1%
Indus Capital Partners	Equity Long/short	184,243,707	0.6%
Karsch Capital Management	Equity Long/short	162,147,589	0.5%
Karsch Capital Fund	Equity Long/short	159,234,237	0.5%
Maverick Capital	Equity Long/short	215,890,274	0.7%
NISA Investment Advisors	Diversified Beta/Inflation	272,748,443	0.9%
Och-Ziff Domestic Partners	Multi-Strategy	113,455,654	0.4%
Och-Ziff Europe	Multi-Strategy	49,472,482	0.2%
Och-Ziff Asia	Multi-Strategy	110,191,600	0.4%
Owl Creek Overseas Fund	Multi-Strategy	174,678,733	0.6%
Paulson and Company	Multi-Strategy	131,510,169	0.4%
Pershing Square	Equity Long/short	195,594,936	0.6%
Renaissance	Equity Long/short	155,152,112	0.5%
Stark Investments	Equity Long/short	91,006,677	0.3%
UBS O'Connor	Multi-Strategy	104,316,525	0.3%
York Capital	Multi-Strategy	248,569,298	0.8%
Total		**$ 4,244,270,708**	**13.8%**

**Includes manager cash.*

SAFE ASSETS CLASS SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Safe Assets had a market value of approximately $5.2 billion, representing 16.9% of total assets.

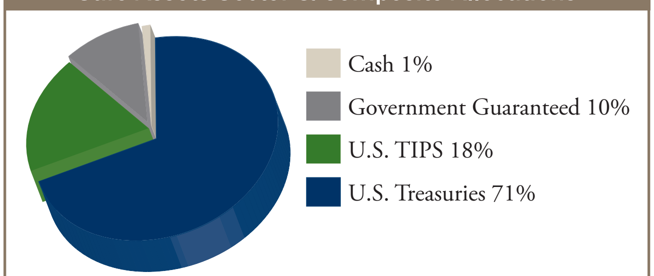
Investment Program Description

The Safe Assets program is intended to act as a source of safety and income for PSRS and PEERS. The program is designed to create substantial diversification to the total portfolio and reduce volatility through low correlation to other asset classes. Specifically, the Safe Assets portfolio should provide asset protection at the total fund level in periods of economic stress. The Policy Benchmark for the Safe Assets allocation is 80% Barclays Capital U.S. Treasury Blended Index (a combination of the Barclays Capital Treasury Intermediate Index and the Barclays Capital Treasury Long Index) and 20% Barclays Capital Intermediate U.S. TIPS 1-10 Year Index.

Structure

As of June 30, 2011, the Systems' entire Safe Assets program was actively managed by NISA Investment Advisors. The assets held within the program exhibit high liquidity and safety. The pie chart below depicts the PSRS and PEERS Safe Assets Program by showing the sector and composite allocations as of June 30, 2011.

Safe Assets Sector & Composite Allocations



Due to the historically low interest rates that created lower return expectations for U.S. government securities, the Systems' Internal Staff maintained a strategic underweight to the Safe Assets program throughout the year. The Internal Staff rebalanced assets from U.S. Public Equity into Safe Assets in the last quarter of the fiscal year to reduce the overall risk in the total portfolio. The allocation to Safe Assets was as low as 15.0% in March 2011 and the allocation was increased to 16.9% at the end of the fiscal year.

The internal staff strategically overweighted U.S. TIPS relative to U.S. Treasuries for a portion of the year as inflation expectations peaked. However, as the chart below indicates, the actual allocation was in line with the target allocation of 20% U.S. TIPS and 80% U.S. Treasuries/government guaranteed, at the end of the fiscal year.

Market Overview

The yield on the 10-year Treasury note increased from 2.93% on June 30, 2010 to 3.16% on June 30, 2011. There was an upward pressure on interest rates throughout the year due to perceived economic momentum and inflation concerns. The Systems' Treasury allocation provided some diversification and safety in the latter stages of fiscal year 2011 as there was downward pressure on yields and a flight to quality resulting from a growing uncertainty over global issues. However, the year-over-year increase in yields suppressed U.S. Treasury returns for the fiscal year as the PSRS and PEERS Treasury portfolios moved just 2.7% higher.

U.S. TIPS significantly outperformed U.S. Treasuries for the year as investors became concerned about rising core inflation, coupled with higher food and commodity prices, as an effect of the quantitative easing policies of the Federal Reserve. Real rates (TIPS) exhibited high volatility for much of the year as expectations regarding potential additional quantitative easing ("QE 2"), and then the reality of the actual QE 2 announcement, caused rates to move. Overall, the market's perception that the Federal Reserve wanted to drive real rates lower and inflation expectations higher led to a strong year for U.S. TIPS. The U.S. TIPS portfolios for both PSRS and PEERS had returns of 7.6% for the year.

Performance

The total returns for the PSRS and PEERS Safe Assets portfolios were 3.6% and 3.7%, respectively, compared to the Policy Benchmark return of 3.4% for the fiscal year ended June 30, 2011. The positive performance of the actual portfolio relative to the Policy Benchmark indicates value added by the Internal Staff primarily through strategic decisions to overweight U.S. TIPS for a portion for the year.

For the three-year time period, both PSRS and PEERS outperformed the Safe Assets Policy Benchmark by 90 basis points. Both Systems also outperformed the Safe Assets Policy Benchmark by 50 basis points for the five-year time period. The alpha generated above the Policy Benchmark for the three- and five-year time periods is much higher than expected and can be primarily attributed to the internal staff adjusting the internal strategic weights to both U.S. Treasuries and U.S. TIPS.

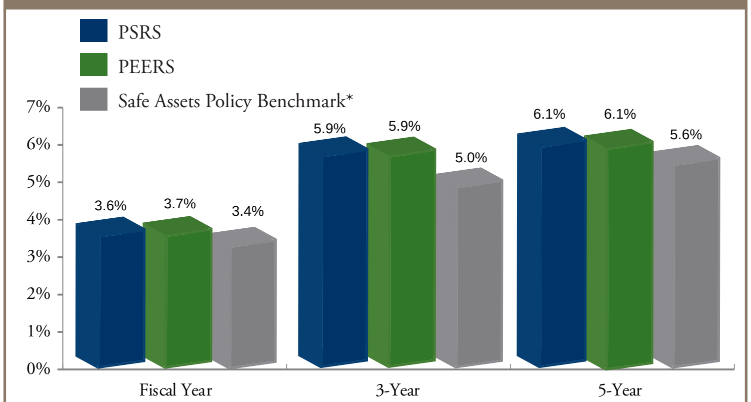
The absolute return of the Safe Assets portfolio is relatively modest over all time periods. However, the Safe Assets portfolio continues to provide asset protection at the total fund level in periods of economic stress and ultimate liquidity to PSRS and PEERS. An allocation to truly Safe Assets allows the Systems to accept market risk in other portions of the total fund portfolio.

The statistical table below indicates that the Systems have taken less risk than the Policy Benchmark (as measured by standard deviation) over all time periods, while achieving higher returns; indicating strong risk-adjusted performance. Additionally, the Systems' portfolios have a beta of less than 1.0 relative to the Policy Benchmark over longer time periods, indicating less market volatility. Most importantly, the Safe Assets portfolio exhibits a beta of zero relative to the world stock index (MSCI All Country World Index), indicating no correlation to risk assets. This statistic supports one of the primary objectives of Safe Assets: diversification for other risk assets in the total fund.

Top 10 Holdings and Characteristics

The following table displays the characteristics of the Systems' Safe Assets program as of June 30, 2011 with comparisons shown to the Barclays Capital Intermediate U.S. Treasury Index. Additionally, the top 10 Safe Assets holdings as of June 30, 2011 are shown in the table on the following page.

Safe Assets Performance



Safe Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	3.6%	5.9%	6.1%
Annualized PEERS Return	3.7%	5.9%	6.1%
Annualized Policy Benchmark Return*	3.4%	5.0%	5.6%
Excess return†	0.2%	0.9%	0.5%
Annualized Standard Deviation of Composite**	2.8%	4.1%	3.7%
Annualized Standard Deviation of Policy Benchmark**	3.0%	4.3%	3.8%
Beta to Policy Benchmark**	0.94	0.95	0.96
Beta to MSCI All Country World Index**	-0.04	0.02	0.00

**The Safe Assets Policy Benchmark is composed as follows: 72% Barclays Capital Treasury Intermediate, 20% Barclays Capital U.S. TIPS 1-10 Yrs., and 8% Barclays Capital Treasury Long Term.*

†PSRS excess return relative to the Safe Assets Policy Benchmark.

***Risk statistics are calculated on the PSRS portfolio but are indicative of the PEERS portfolio.*

Safe Assets Characteristics

Characteristics	June 30, 2011 Combined Systems*	June 30, 2011 Barclays Capital Intermediate U.S. Treasury Index
Number of Securities	76	166
Average Coupon	2.6%	2.5%
Yield to Maturity	1.2%	1.3%
Average Maturity (Years)	5.3	4.2
Duration (Years)	4.5	3.9

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

Safe Assets - Top 10 Holdings		
Top 10 Largest Holdings* June 30, 2011	**Combined Market Value**	**% of Total Safe Assets**
United States Treasury Note, 1.25%, 10/31/15	$ 218,275,077	4.3%
United States Treasury Note, 2.75%, 10/31/13	202,786,500	4.0%
United States Treasury Note, 3.25%, 12/31/16	197,336,664	3.8%
United States Treasury Note, 2.375%, 10/31/14	196,391,591	3.8%
United States Treasury Note, 0.75%, 12/15/13	185,085,094	3.6%
United States Treasury Note, 2.25%, 1/31/15	184,198,161	3.6%
U.S. Treasury Inflation Protected Security, 0.625%, 4/15/13	155,869,072	3.0%
United States Treasury Note, 2.125%, 5/31/15	152,462,619	3.0%
United States Treasury Note, 2.0%, 4/30/16	151,086,263	2.9%
United States Treasury Note, 3.0%, 9/30/16	143,027,119	2.8%
TOTAL	**$ 1,786,518,160**	**34.8%**

** Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Investment Advisors

NISA Investment Advisors managed the Safe Assets program as of June 30, 2011. The following table lists the firm's management by investment style.

Safe Assets Investment Advisor			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2011**	**% of Total Market Value**
NISA Investment Advisors	U.S. Treasuries	$ 4,232,716,467	13.7%
NISA Investment Advisors	U.S. TIPS	979,886,113	3.2%
Total		**$ 5,212,602,580**	**16.9%**

**Includes manager cash.*

PRIVATE RISK ASSETS CLASS SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Private Risk assets had a market value of approximately $4.0 billion, representing 13.0% of total assets.

Investment Program Description

The allocation to Private Risk investments is viewed as a separate asset class for inclusion in the Systems' overall investment portfolios. The process of building the Systems' Private Risk program and fully funding the target allocation is expected to occur over a period of several years. Additional new investments will be necessary beyond the initial start-up period in order to maintain the long-term 20.0% target allocation. The three programs within the Private Risk Assets composite are Private Equity, Private Real Estate and Private Credit. Each program within the Private Risk allocation is a separate multi-manager composite that is treated generally as a single portfolio. Each program serves a specific and distinct role within the overall Private Risk Composite and also within the overall total plan allocation. Over time, the Private Risk Composite serves as a long-term vehicle to supply the underlying beta exposure to a portfolio of private assets.

Investments in Private Risk Assets differ substantially from the Systems' public markets asset classes (Public Risk Assets and Safe Assets) in part because they are typically very long-term in nature, not publicly traded, relatively illiquid, and offer the potential for substantially higher returns (along with a commensurate level of risk). The illiquid nature of Private Risk Assets can result from the form of the asset or security itself, or it can be a function of the investment structure being utilized (e.g., a limited partnership).

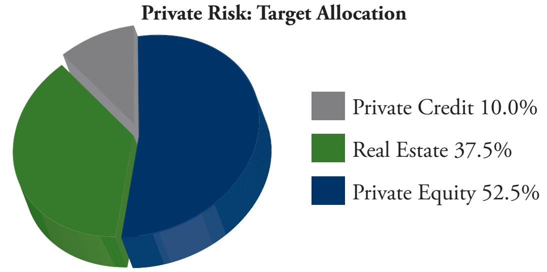
Due to the fact that Private Risk Assets are not publicly traded, there is no readily available, unbiased pricing source for these investments. Thus, interim period valuations are difficult to ascertain, and are, to a great degree, subjective in nature. Consequently, pricing and performance measurement prior to realization of gains are less reliable than in the traditional publicly traded asset classes. The Systems continually monitor the valuation policies and procedures utilized for such investments.

Structure

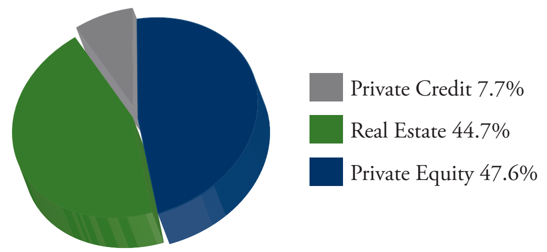
As of June 30, 2011, 47.6% of the PSRS/PEERS Private Risk assets were invested in the Private Equity program, 44.7% in the Private Real Estate program, and 7.7% in the Private Credit program. Each of these programs is discussed in more detail on the following pages.

Private Risk Assets Allocation

Private Risk: Target Allocation



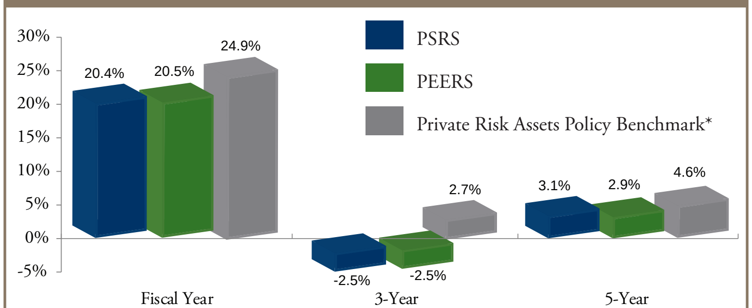
Private Risk: Actual Allocation



Performance

The total returns for the PSRS and PEERS private risk portfolios were 20.4% and 20.5%, respectively, compared to the Policy Benchmark return of 24.9% for the fiscal year ended June 30, 2011. For the three- and five-year time periods, both PSRS and PEERS underperformed the Policy Benchmark as noted below. The longer-term underperformance relative to the Policy Benchmark was due primarily to the private real estate portfolio. The Systems' real estate assets experienced significant downward pressure during the credit crisis of 2008 and 2009.

Private Risk Assets Investment Returns



Private Risk Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	20.4%	-2.5%	3.1%
Annualized PEERS Return	20.5%	-2.5%	2.9%
Annualized Policy Benchmark Return*	24.9%	2.7%	4.6%
Excess return†	-4.5%	-5.2%	-1.5%

**The Private Risk Assets Policy Benchmark is composed as follows: 52.5% Russell 3000 Index, 37.5% NCREIF Property Index, and 10.0% Merrill Lynch High Yield Master II.*

†PSRS excess return relative to the Private Risk Assets Policy Benchmark.

PRIVATE EQUITY PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Private Equity assets had a market value of approximately $1.9 billion, representing 6.2% of total assets.

Investment Program Description

The Private Equity asset class is comprised of investment opportunities not typically included within the public equity and fixed income markets. Private Equity investments provide financing for start-up companies, private middle market companies, firms in financial distress and public and non-public firms seeking buyout financing. Private Equity investments can be classified into three basic sub-asset class categories:

- Venture Capital,
- Buyouts, and
- Debt-Related.

Investments in the sub-asset classes can be made in the U.S. or foreign countries. In total, the allocation to Non-U.S. Private Equity investments will not exceed 40.0% of the overall Private Equity target allocation. The risks associated with Private Equity will be viewed both in isolation and within the context of the entire fund.

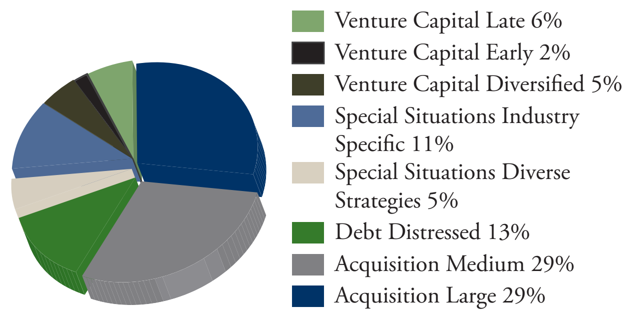
Structure

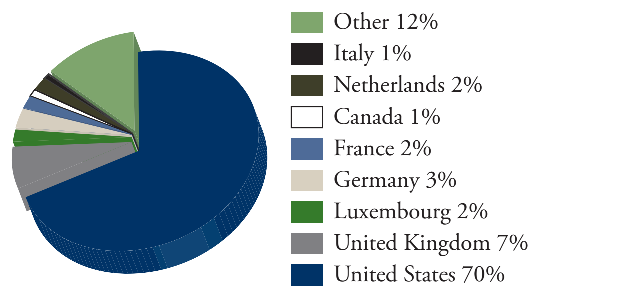
As of June 30, 2011, the combined PSRS/PEERS Private Equity assets committed* for investment were $3.4 billion. The market value of funds that have been drawn down and actually invested as of June 30, 2011 was approximately $1.9 billion, representing 6.2% of total assets. The Systems' private equity investment commitments that have not yet been funded were approximately $1.5 billion as of June 30, 2011.

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 target allocation to Private Equity is 10.5%. However, as of June 30, 2011, the actual allocation for the Systems was just 6.2% because 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, 2011 from both strategy and country perspectives.

Private Equity Asset Class and Geographic Diversification





Market Overview

Most private equity funds produced strong returns in fiscal year 2011, following the run-up in public equity markets and due to a favorable 'exit' market for private equity backed companies. Opportunistic private equity investments made during the 2008 and 2009 crisis also started to generate liquidity during the year.

Overall investment activity in both U.S. and European private equity markets increased considerably in fiscal year 2011. A large number of attractive opportunities existed as a result of the dislocation caused by the credit crisis and the global recession. Specifically, private equity-backed merger and acquisition (M&A) exits increased as a result of strategic acquirers with record-high cash balances opportunistically seeking acquisitions to drive growth and expand product offerings. Venture capital investment activity in fiscal year 2011 also rebounded after two consecutive years of decline. Areas of opportunity and interest in the venture market include cloud computing, mobile/wireless, social media, life sciences, and cleantech companies.

** 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.*

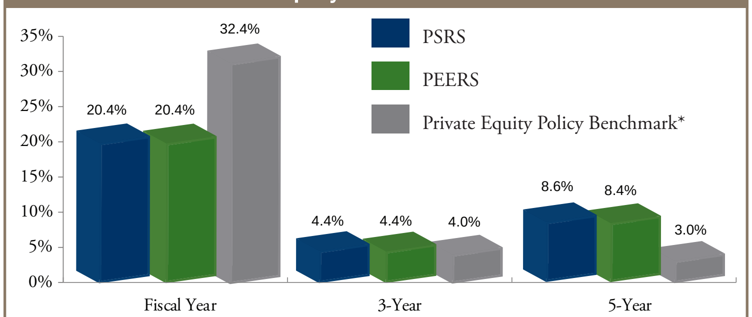
Following the end of the fiscal year, private equity market sentiment has turned cautious as a result of the volatility in public equity and credit markets. However, the overall trend in industry-wide private equity exits, performance and investment activity remains positive.

Performance

The total returns for both the PSRS and PEERS Private Equity programs were 20.4% compared to the Policy Benchmark return of 32.4% for the fiscal year ended June 30, 2011. The underperformance for the one-year time frame was due solely to the pricing and performance methodology utilized for private assets. The Systems utilize a liquid benchmark (Russell 3000 Index) to measure an illiquid (private equity) asset class. Thus, there will be significant performance differences over short time periods in volatile markets.

Due to the long-term nature of the asset class, the performance of a private equity portfolio can be more appropriately judged over a longer timeframe. As the table indicates, the PSRS and PEERS Private Equity portfolios have produced strong absolute returns of 8.6% and 8.4% respectively, over the last five years. Additionally, as expected, the Private Equity asset class has provided a significant premium over public markets as the PSRS and PEERS Private Equity portfolios outperformed the Policy Benchmark by 560 and 540 basis points, respectively, for the five-year timeframe ended June 30, 2011.

Private Equity Investment Returns



Private Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	20.4%	4.4%	8.6%
Annualized PEERS Return	20.4%	4.4%	8.4%
Annualized Policy Benchmark Return*	32.4%	4.0%	3.0%
Excess return†	-12.0%	0.4%	5.6%

**The Private Equity Policy Benchmark is the Russell 3000 Index.*

†PSRS excess return relative to the Private Equity Policy Benchmark.

Investment Advisors

As of June 30, 2011, PSRS and PEERS had committed to 56 separate partnerships with 37 firms within the Private Equity asset class. Some partnerships have not called capital for investment as of June 30, 2011. In fiscal year 2011, PSRS and PEERS committed to five new partnerships for $240 million.

Private Equity Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
Blackstone Capital Partners V	Acquisition - Large	$ 17,620,717	0.1%
Carlyle Europe Partners III	Acquisition - Medium	24,077,226	0.1%
Carlyle Partners IV	Acquisition - Large	24,035,344	0.1%
Carlyle Partners V	Acquisition - Large	23,100,805	0.1%
Centerbridge Capital Partners	Acquisition & Debt	23,331,011	0.1%
Centerbridge Capital Partners II	Acquisition & Debt	3,689,217	0.0%
CVC European Equity Partners IV	Acquisition - Large	19,927,495	0.1%
CVC European Equity Partners V	Acquisition - Large	14,820,188	0.0%
CVC European Equity Tandem Fund	Acquisition - Large	13,489,460	0.0%
Exponent Partners II	Acquisition - Medium	10,948,172	0.0%
First Reserve Fund XI	Acquisition - Energy	22,210,000	0.1%
First Reserve Fund XII	Acquisition - Energy	16,104,000	0.1%
Genstar Capital Partners V	Acquisition - Medium	7,344,421	0.0%
GTCR Fund IX	Acquisition - Medium	30,566,797	0.1%
Hellman & Friedman Capital Prtnrs VI	Acquisition - Large	30,803,049	0.1%
Kelso Investment Associates VIII	Acquisition - Medium	10,922,543	0.0%
KKR 2006 Fund	Acquisition - Large	29,610,519	0.1%
KRG Fund IV	Acquisition - Medium	16,722,197	0.1%
Lexington Capital Partners VI-B	Secondary Fund	107,662,496	0.3%
Lexington Capital Partners VII	Secondary Fund	50,832,827	0.2%
Madison Dearborn VI	Acquisition - Large	7,859,805	0.0%
Montagu III	Acquisition - Medium	17,342,090	0.1%
Montagu IV	Acquisition - Medium	2,493,621	0.0%
Nordic VII	Acquisition - Medium	16,732,193	0.1%
New Enterprise Associates XIII	Venture Capital	12,260,352	0.0%
Oak Investment Partners XIII	Venture Capital	4,784,209	0.0%
OCM Principal Opportunities Fund IV	Debt - Distressed	38,368,327	0.1%
OCM Opportunities Fund VII	Debt - Distressed	23,610,923	0.1%
OCM Opportunities Fund VIIb	Debt - Distressed	10,391,739	0.0%
Odyssey Investment Partners IV	Acquisition - Medium	10,513,681	0.0%
Onex Partners II	Acquisition - Medium	26,513,716	0.1%
Onex Partners III	Acquisition - Medium	7,894,989	0.0%
Pantheon Global Secondary Fund III	Secondary Fund	107,591,366	0.4%
Pantheon Global Secondary Fund IV	Secondary Fund	16,405,519	0.1%
Pathway Capital Management	Fund-of-Funds (A)	391,669,132	1.3%
Pathway Capital Management	Fund-of-Funds (B)	218,043,818	0.7%
Pathway Capital Management	Fund-of-Funds (C)	187,604,941	0.6%
Paul Capital Partners IX	Secondary Fund	43,033,384	0.1%
Permira IV	Acquisition - Large	19,248,830	0.1%
Providence Equity Partners VI	Acquisition - Media	28,253,477	0.1%
Quantum Energy Partners V	Acquisition - Energy	345,040	0.0%
The Resolute Fund II	Acquisition - Medium	11,786,157	0.0%
Silver Lake Partners III	Acquisition - Technology	20,192,852	0.1%
Spectrum Equity Investors VI	Acquisition - Medium	2,439,424	0.0%
TA XI	Acquisition - Large	5,004,539	0.0%
TCV VI	Venture Capital	13,790,977	0.0%
TCV VII	Venture Capital	18,564,228	0.1%
Thoma Cressey Fund VIII	Acquisition - Medium	25,177,085	0.1%
TPG Partners V	Acquisition - Large	14,675,393	0.0%
TPG Partners VI	Acquisition - Large	13,205,015	0.0%
Wayzata Opportunities Fund	Debt - Distressed	21,137,753	0.1%
Wayzata Opportunities Fund II	Debt - Distressed	39,300,292	0.1%
Wind Point Partners VI	Acquisition - Medium	17,761,499	0.1%
Wind Point Partners VII	Acquisition - Medium	9,108,879	0.0%
Total		**$ 1,900,923,729**	**6.2%**

**Market values as reported by the Systems' Private Equity 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, 2011, the net asset values utilized were cash flow adjusted through June 30, 2011.*

PRIVATE CREDIT PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Private Credit assets had a market value of approximately $308 million, representing 1.0% of total assets.

Investment Program Description

Investments in Private Credit are similar to Private Equity investments in that they are typically very long-term in nature, not publicly traded, relatively illiquid, and offer the potential for substantially higher returns (along with a commensurate level of risk). The Private Credit portfolio also differs from the Private Equity portfolio, and is a separate and distinct composite within Private Risk Assets. The Private Credit asset class is comprised primarily of debt-related investments that provide a current yield along with equity participation (usually warrants) referred to as an 'equity kicker.' Primary strategies are distressed debt, bankruptcy restructurings, mezzanine debt, bank loans, and other credit-driven or debt-related investment strategies. Investments can be made in the U.S. or foreign countries. In total, the allocation to Non-U.S. Private Credit investments will not exceed 40.0% of the overall Private Credit target allocation. The risks associated with Private Credit will be viewed both in isolation and within the context of the entire fund.

Structure

As of June 30, 2011, the combined PSRS/PEERS Private Credit assets committed* for investment were $728.7 million. The market value of funds that have been drawn down and actually invested as of June 30, 2011 was approximately $308.1 million, representing 1.0% of total assets. The Systems' private credit investment commitments that have not yet been funded were approximately $330 million as of June 30, 2011.

The objective for the Systems' allocation to private credit is to achieve returns that are higher than those attainable in the public 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.

** 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 Overview

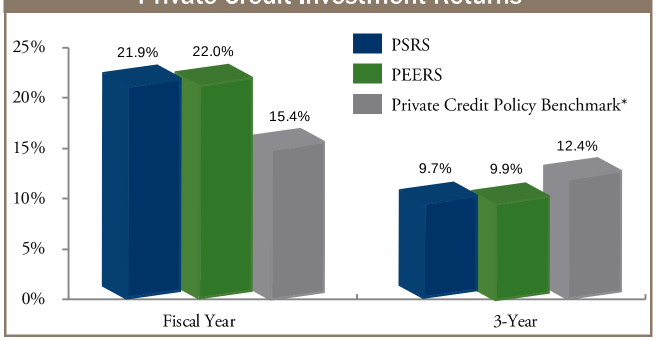
A rally in the prices of leveraged loans and high-yield bonds drove the strong absolute performance of private credit funds in fiscal year 2011. Specifically, many of the partnerships that were funded at the peak of the financial crisis in 2008 and 2009 experienced exceptional performance. However, post-crisis, there is somewhat of a diminished opportunity set in the private credit markets. The traditional distressed debt world is a fraction of what it was in 2009. For example, the dollar value of distressed debt was $39 billion at the end of the fiscal year versus $398 billion in December of 2008. Additionally, the default rates on U.S. high yield bonds have declined from 11.5% in November 2009 to 2.3% in June 2011. As such, the Systems did not commit to new private credit partnerships in the second half of fiscal year 2011. Potential areas of future opportunity could include Europe, out-of-favor asset rich industries and smaller credits.

Performance

The total returns for the PSRS and PEERS Private Credit programs were 21.9% and 22.0%, respectively, compared to the Policy Benchmark return of 15.4% for the fiscal year ended June 30, 2011. As shown in the table and graph below, the PSRS and PEERS annualized Private Credit composite returns outperformed the Policy Benchmark by 650 basis points and 660 basis points, respectively.

For the three-year time period, both PSRS and PEERS underperformed the Policy Benchmark by 270 basis points and 250 basis points, respectively. As discussed previously, private assets are more appropriately evaluated over longer timeframes.

Private Credit Investment Returns



Private Credit Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	21.9%	9.7%
Annualized PEERS Return	22.0%	9.9%
Annualized Policy Benchmark Return*	15.4%	12.4%
Excess return†	6.5%	-2.7%

**The Private Credit Policy Benchmark is the Merrill Lynch High Yield Master II Index.*
†PSRS excess return relative to the Private Credit Policy Benchmark.
The Private Credit Program was established in December 2007, so a five-year return is not available.

Investment Advisors

As of June 30, 2011, PSRS and PEERS had committed to 11 separate partnerships with 9 firms within the Private Credit asset class. Some partnerships have not called capital for investment as of June 30, 2011. In fiscal year 2011, PSRS and PEERS committed to two new partnerships for $90 million.

Private Credit Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
Avenue Capital Group Fund V	Debt - Distressed	$ 12,884,847	0.0%
Caltius IV	Debt - Mezzanine	1,550,148	0.0%
Centerbridge Special Capital Partners	Debt - Distressed	51,101,206	0.2%
Encap Fund VII	Acquisition - Energy	24,748,161	0.1%
Encap Fund VIII	Acquisition - Energy	2,001,121	0.0%
Indigo Capital V	Debt - Mezzanine	14,199,955	0.1%
Lone Star Real Estate Fund II	Debt - Distressed	1,168,544	0.0%
OCM Opportunities Fund VIII	Debt - Distressed	24,617,282	0.1%
Pathway Capital Management	Funds-of-Funds	167,556,644	0.5%
TA Subordianted Debt Fund III	Debt - Mezzanine	8,266,987	0.0%
Total		**$ 308,094,895**	**1.0%**

**Market values as reported by the Systems' Private Credit 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, 2011, the net asset values utilized were cash flow adjusted through June 30, 2011.*

PRIVATE REAL ESTATE PROGRAM SUMMARY

As of June 30, 2011, the combined PSRS/PEERS Private Real Estate assets had a market value of approximately $1.8 billion, representing 5.8% of total assets.

Investment Program Description

The Real Estate allocation is intended to provide exposure to a diversified portfolio of institutional quality private real estate investments that will provide meaningful, consistent returns, and act as a hedge against inflation and as a diversifier to the overall PSRS and PEERS investment portfolio. The specific objectives of the real estate allocation will be to optimize yield and return, preserve capital and enhance portfolio value across market cycles. The risks associated with Private Real Estate will be viewed both in isolation and within the context of the entire fund.

Structure

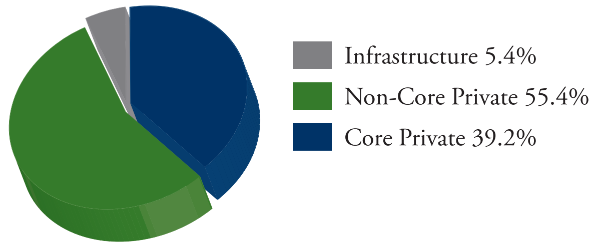
As of June 30, 2011, the combined PSRS/PEERS real estate assets committed* for investment were $2.4 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2011 was approximately $1.8 billion, representing 5.8% of total assets. The Systems' real estate investment commitments that have not yet been funded were approximately $541 million as of June 30, 2011.

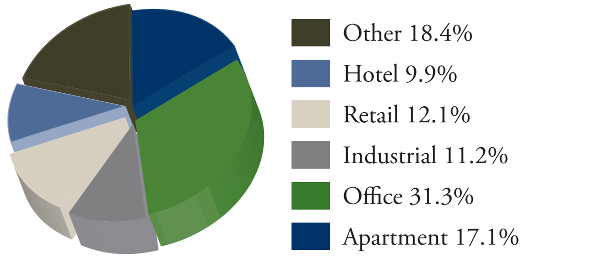
Within the overall real estate allocation, the Systems have established a 55% target allocation to non-core real estate and a 45% allocation to core private real estate. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise or skill to mitigate the business and leasing risk that may be associated with individual investments. Non-Core investments have greater associated volatility compared to Core investments. Core investments include existing, substantially leased, income-producing properties located principally in metropolitan areas that exhibit reasonable economic diversification.

The pie charts above indicate the current allocation to real estate investment strategies utilizing the market value of the Systems' invested real estate assets and 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.*

Private Real Estate Diversification





Market Overview

Real estate values declined significantly in the United States in 2008 and 2009 as a result of the global financial crisis. Since that time, real estate markets have improved, suggesting a market recovery is underway. As such, the private real estate Policy Benchmark, the NCREIF Property Index ("NPI"), increased 16.7% in fiscal year 2011.

The last 12 months have seen very encouraging returns from real estate generally, aided in many countries by government support in the form of quantitative easing and low interest rates. The real estate recovery continues to be driven by strong capital flows and the stabilization of real estate fundamentals, rather than absolute improvements in net operating income. Although the majority of the improvement has largely been driven by the apartment sector, other property types also appear to be stabilizing. However, the longer-term prognosis is for a weaker than expected recovery in fundamentals given real estate's high correlation to GDP.

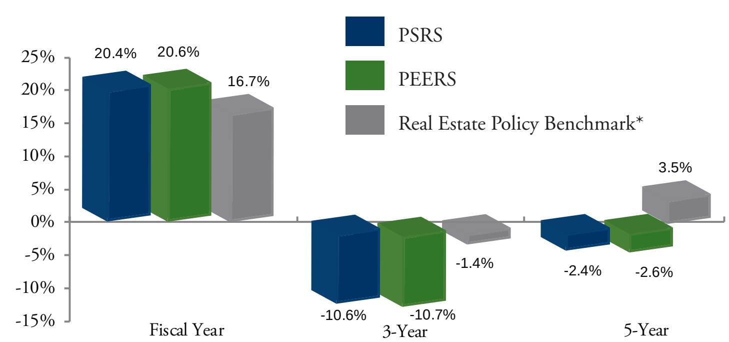
PSRS and PEERS maintain a sizable allocation to high-quality, stabilized real estate assets (core) held in primary markets due to the secure income return. Additionally, the Systems have an allocation to non-core assets to participate in the distressed sector of the real estate market. PSRS and PEERS will continue to focus their real estate efforts going forward on primary markets, which offer better entry pricing, and avoid most activity in secondary or tertiary markets where underlying fundamentals, and employment, remain weak.

Performance

The total returns for the PSRS and PEERS Private Real Estate programs were 20.4% and 20.6%, respectively, compared to the Policy Benchmark return of 16.7% for the fiscal year ended June 30, 2011. As shown in the table and graph below, the PSRS and PEERS annualized Private Real Estate composite returns outperformed the Policy Benchmark by 370 basis points and 390 basis points, respectively.

For the three-and five-year time periods, both PSRS and PEERS underperformed the Policy Benchmark as noted below. This was due to significant downward pressure on real estate valuations during the credit crisis of 2008 and 2009.

Real Estate Investment Returns



Real Estate Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	20.4%	-10.6%	-2.4%
Annualized PEERS Return	20.6%	-10.7%	-2.6%
Annualized Policy Benchmark Return*	16.7%	-1.4%	3.5%
Excess return†	3.7%	-9.2%	-5.9%

**The Real Estate Policy Benchmark is the NCREIF Property Index.*

†PSRS excess return relative to the Real Estate Policy Benchmark.

Investment Advisors

As of June 30, 2011, PSRS and PEERS had committed to 43 separate partnerships with 26 firms within the Private Real Estate asset class. Some partnerships have not called capital for investment as of June 30, 2011. In fiscal year 2011, PSRS and PEERS committed to one new partnership for $75 million.

Real Estate Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2011	% of Total Market Value
Alinda Infrastructure Fund I	Infrastructure	$ 46,064,308	0.2%
AMB Alliance III	Non-Core - Private	40,037,637	0.1%
AMB Japan Fund I	Non-Core - Private	37,391,894	0.1%
AEW Core Property Fund	Core - Private	68,485,819	0.2%
Blackstone R.E. Partners V	Non-Core - Private	34,449,984	0.1%
Blackstone R.E. Partners VI	Non-Core - Private	77,273,618	0.3%
Brockton Capital II	Non-Core - Private	3,706,009	0.0%
Carlyle Europe Real Estate Partners III	Non-Core - Private	40,858,817	0.1%
Carlyle Realty V	Non-Core - Private	45,817,593	0.1%
CBRE Fund IV	Non-Core - Private	5,639,934	0.0%
CBRE Partners US Value 5	Non-Core - Private	82,830,472	0.3%
CIM Fund III	Non-Core - Private	33,022,802	0.1%
CIM Urban REIT	Non-Core - Private	35,079,662	0.1%
Colony Investors VIII	Non-Core - Private	32,240,500	0.1%
CPI Capital Partners Europe	Non-Core - Private	13,345,551	0.0%
Dune Real Estate Fund I	Non-Core - Private	16,703,975	0.1%
Forum Asian Realty Income II	Non-Core - Private	41,948,437	0.1%
Guggenheim Structured R.E. III	Non-Core - Private	21,194,984	0.1%
Heitman Value Partners	Non-Core - Private	17,146,289	0.1%
Heitman Value Partners II	Non-Core - Private	19,248,907	0.1%
JPMorgan Strategic Property Fund	Core - Private	219,825,360	0.7%
LaSalle Asia Opportunity Fund II	Non-Core - Private	11,742,848	0.0%
LaSalle Asia Opportunity Fund III	Non-Core - Private	26,938,211	0.1%
LaSalle Income & Growth IV	Non-Core - Private	14,530,006	0.0%
LaSalle Income & Growth V	Non-Core - Private	62,776,567	0.2%
LaSalle Japan Logistics Fund II	Non-Core - Private	11,192,897	0.0%
LaSalle Property Fund	Core - Private	34,349,285	0.1%
Lone Star V	Non-Core - Private	15,225,014	0.0%
Lone Star VI	Non-Core - Private	45,558,970	0.1%
Lone Star Real Estate Fund	Non-Core - Private	16,201,004	0.1%
Macquarie Infrastructure Partners	Infrastructure	49,463,587	0.2%
MSREF V International	Non-Core - Private	8,417,634	0.0%
Morgan Stanley Prime Property Fund	Core - Private	229,521,221	0.7%
NREP Real Estate Debt Fund	Non-Core - Private	5,194,700	0.0%
Noble Hospitality Fund	Non-Core - Private	19,058,272	0.1%
Principal Enhanced Property Fund	Core - Private	29,380,223	0.1%
Prudential PRISA Fund	Core - Private	117,643,643	0.4%
Prudential PRISA II Fund	Non-Core - Private	56,454,605	0.2%
RREEF America REIT III	Non-Core - Private	22,023,419	0.1%
Starwood Hospitality Fund	Non-Core - Private	25,269,710	0.2%
Westbrook R.E. Fund VII	Non-Core - Private	20,928,927	0.1%
Westbrook R.E. Fund VIII	Non-Core - Private	29,312,824	0.1%
Total		**$ 1,783,496,119**	**5.8%**

**Market values as reported by the Systems' Private Real Estate 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, 2011, the net asset values utilized were cash flow adjusted through June 30, 2011.*

U.S. Public Equity Broker Commissions Report

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
Goldman Sachs and Company	41,621,127	$1,370,324,510	$ 714,106	$ 0.02
Credit Suisse Securities, LLC	23,183,729	803,853,683	416,564	0.02
Morgan Stanley Co. Incorporated	36,645,191	924,406,150	396,727	0.01
Jefferies and Company, Inc.	15,530,199	992,001,713	308,315	0.02
Instinet, LLC	16,605,436	410,324,278	304,321	0.02
Citigroup Global Markets, Inc.	27,215,097	682,736,412	296,421	0.01
JP Morgan Chase	15,261,146	483,756,767	276,866	0.02
Deutsche Bank	30,950,260	798,594,689	265,717	0.01
Barclays Capital Inc.	18,744,560	660,217,947	254,154	0.01
Merrill Lynch, Pierce, Fenner and Smith, Inc.	20,246,442	482,921,184	249,112	0.01
Investment Technology Group, Inc.	21,574,331	736,588,774	244,664	0.01
Piper Jaffray	7,025,877	264,934,220	229,736	0.03
Deutsche Bank	9,645,595	262,814,486	200,207	0.02
UBS Securities, LLC	6,935,039	195,670,763	185,266	0.03
Liquidnet, Inc.	11,166,544	303,563,687	163,918	0.01
Weeden and Co.	7,247,845	162,356,153	145,266	0.02
Other (<$120,000)	130,601,645	3,330,128,627	2,937,800	0.02
Total	**440,200,063**	**$12,865,194,043**	**$ 7,589,160**	**$ 0.02**

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
Goldman Sachs and Company	4,067,628	$ 140,552,047	$ 76,510	$ 0.02
Credit Suisse Securities, LLC	2,668,405	88,532,269	48,877	0.02
Morgan Stanley Co. Incorporated	3,551,453	87,712,002	39,931	0.01
Jefferies and Company, Inc.	1,629,469	107,686,904	33,167	0.02
Citigroup Global Markets, Inc.	2,752,450	69,451,565	30,543	0.01
JP Morgan Chase	1,437,933	45,504,442	30,234	0.02
Merrill Lynch, Pierce, Fenner and Smith, Inc.	1,713,888	41,371,277	29,416	0.02
Instinet, LLC	1,602,084	41,259,381	28,665	0.02
Barclays Capital Inc.	1,716,693	60,916,525	25,160	0.01
Deutsche Bank	2,505,551	64,687,472	24,401	0.01
Investment Technology Group, Inc.	2,021,561	70,639,229	23,125	0.01
Piper Jaffray	680,473	25,976,942	22,161	0.03
Pershing	1,067,581	29,449,189	22,075	0.02
UBS Securities, LLC	732,767	20,386,459	19,473	0.03
Weeden and Co.	778,164	17,592,692	14,417	0.02
Liquidnet, Inc.	1,001,310	28,028,097	13,671	0.01
Bear Stearns & Co.	521,436	16,486,375	12,015	0.02
Other (<$12,000)	12,523,350	312,892,556	283,069	0.02
Total	**42,972,196**	**$1,269,125,423**	**$ 776,910**	**$ 0.02**

Global Public Equity Broker Commissions Report

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
Morgan Stanley Co. Incorporated	113,389,153	$ 677,191,698	$ 563,326	8.3
Merrill Lynch, Pierce, Fenner and Smith, Inc.	91,079,807	531,946,476	490,800	9.2
JP Morgan Chase	64,185,123	442,104,161	466,739	10.6
Credit Suisse Securities, LLC	89,064,258	412,970,030	460,611	11.2
Goldman Sachs and Company	74,355,710	576,515,474	459,719	8.0
UBS Securities, LLC	54,505,620	280,526,226	324,843	11.6
Deutsche Bank	54,970,715	377,079,373	324,479	8.6
Pershing	29,301,281	196,882,321	280,588	14.3
Citigroup Global Markets, Inc.	31,415,462	213,202,703	243,164	11.4
Macquarie Securites Limited	37,250,235	109,412,521	173,822	15.9
Nomura Securites International Inc.	13,954,701	116,051,095	148,754	12.8
Barclays Capital Inc.	9,547,899	88,830,895	126,644	14.3
Instinet, LLC	39,663,462	265,609,970	119,168	4.5
Other (<$100,000)	177,022,212	1,238,133,714	1,357,120	11.0
Total	**879,705,638**	**$5,526,456,657**	**$ 5,539,777**	**10.0**

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
Morgan Stanley Co. Incorporated	12,071,738	$ 66,292,844	$ 55,789	8.4
Goldman Sachs and Company	9,287,168	72,682,425	53,054	7.3
Merrill Lynch, Pierce, Fenner and Smith, Inc.	9,661,695	57,163,838	51,048	8.9
JP Morgan Chase	6,468,541	46,527,464	48,252	10.4
Credit Suisse Securities, LLC	8,389,064	41,829,329	47,052	11.2
Deutsche Bank	6,570,178	41,380,369	34,614	8.4
UBS Securities, LLC	4,818,346	28,405,928	33,096	11.7
Pershing	3,155,468	19,133,860	27,136	14.2
Citigroup Global Markets, Inc.	3,573,016	22,825,475	25,258	11.1
Macquarie Securites Limited	3,946,264	11,496,028	18,209	15.8
Nomura Securites International Inc.	1,449,828	11,744,309	15,013	12.8
Instinet, LLC	5,310,169	29,968,880	13,369	4.5
Barclays Capital Inc.	995,187	9,369,115	13,174	14.1
Other (<$10,000)	18,899,242	129,408,833	142,307	11.0
Total	**94,595,904**	**$ 588,228,697**	**$ 577,371**	**9.8**

Investment Summary as of June 30, 2011					
				Percent of Total Fair Value	
Asset Type	PSRS Fair Value	PEERS Fair Value	Combined Funds	FY 2011	FY 2010
Public Risk Assets					
U.S. Public Equity	$ 8,418,980,353	$ 880,577,720	$ 9,299,558,073	30.2%	27.9%
Global Public Equity	4,857,038,793	535,667,505	5,392,706,298	17.5%	17.1%
Public Credit	2,371,335,107	277,382,532	2,648,717,639	8.6%	10.0%
Hedged Assets	3,848,345,039	395,925,669	4,244,270,708	13.8%	9.6%
Total Public Risk Assets	**19,495,699,292**	**2,089,553,426**	**21,585,252,718**	**70.1%**	**64.6%**
Safe Assets					
U.S. Treasuries	3,831,761,556	400,954,911	4,232,716,467	13.7%	16.2%
U.S. TIPS	885,896,163	93,989,950	979,886,113	3.2%	4.3%
Total Safe Assets	**4,717,657,719**	**494,944,861**	**5,212,602,580**	**16.9%**	**20.5%**
Private Risk Assets					
Private Real Estate	1,636,570,749	146,925,370	1,783,496,119	5.8%	4.4%
Private Equity	1,756,185,585	144,738,144	1,900,923,729	6.2%	5.5%
Private Credit	285,263,908	22,830,987	308,094,895	1.0%	1.3%
Total Private Risk Assets	**3,678,020,242**	**314,494,501**	**3,992,514,743**	**13.0%**	**11.2%**
Securities Lending Collateral	(26,752,053)	(2,290,236)	(29,042,289)	-0.1%	0.0%
Cash & Equivalents*	64,522,517	5,695,658	70,218,175	0.1%	3.7%
Total Investments*	**$ 27,929,147,717**	**$2,902,398,210**	**$30,831,545,927**	**100.0%**	**100.0%**
Reconciliation with financial statements					
Total from above	$ 27,929,147,717	$ 2,902,398,210	$ 30,831,545,927		
Accrued payable for investments purchased	3,956,370,759	401,631,911	4,358,002,670		
Accrued income payable	1,105,026	142,035	1,247,061		
Accrued receivable for investments sold	(1,927,700,680)	(209,549,833)	(2,137,250,513)		
Accrued income receivable	(64,224,855)	(7,233,238)	(71,458,093)		
Securities lending collateral	26,752,053	2,290,236	29,042,289		
Short-term investments designated for benefits	(57,906,737)	(5,086,284)	(62,993,021)		
Statement of Plan Net Assets	**$29,863,543,283**	**$3,084,593,037**	**$32,948,136,320**		

**Managers may hold cash or cash equivalents as part of an active management strategy. Cash or cash equivalents held as part of an active management strategy are not separately listed.*

*** Total Investments includes accrued income and securities lending collateral as of June 30, 2011.*

Investment Expenses for the Fiscal Year Ended June 30, 2011

Investment Managers	PSRS	PEERS	Total
Investment Management Fees			
NISA Investment Advisors - Core	$ 2,636,177	$ 286,777	$ 2,922,954
NISA Investment Advisors - TIPS	673,871	69,568	743,439
Safe Assets Fees	3,310,048	356,345	3,666,393
BlackRock Financial Management - Mortgages	452,796	76,958	529,754
NISA Investment Advisors - Corporate	768,178	82,661	850,839
Oaktree Bank Loans	1,247,541	84,330	1,331,871
Pacific Investment Management Company	5,648,115	670,726	6,318,841
Public Credit Fees	8,116,630	914,675	9,031,305
Alliance Capital Management	783,526	94,909	878,435
Analytic Investors, LLC	735,901	70,388	806,289
AQR Capital Management -140/40	856,581	76,381	932,962
Aronson & Johnson & Ortiz	1,755,782	153,785	1,909,567
Martingale Asset Management	832,249	54,590	886,839
State Street Global Advisors	620,810	68,897	689,707
Westwood Management	2,588,966	227,236	2,816,202
Zevenbergen Capital	954,305	92,894	1,047,199
U.S. Public Equity Fees	9,128,120	839,080	9,967,200
Alliance Bernstein Institutional Management	2,451,777	248,627	2,700,404
Analytic Investors, LLC - Global Low Vol	534,429	56,895	591,324
AQR Capital Management	1,667,889	198,770	1,866,659
Arrowstreet Capital	2,488,286	264,689	2,752,975
Artio Investment Management	1,406,768	150,982	1,557,750
Esemplia	1,911,775	193,292	2,105,067
INVESCO Global Asset Management	932,875	103,845	1,036,720
McKinley Capital Management	1,594,743	166,914	1,761,657
MFS Institutional Advisors	1,734,373	177,411	1,911,784
Neon Capital Management	1,091,644	121,294	1,212,938
State Street Global Advisors-ACWI EX. US GIMI PROV	425,146	37,041	462,187
The Rock Creek Group	256,615	28,513	285,128
T. Rowe Price International, Inc.	1,648,082	173,263	1,821,345
Global Public Equity Fees	18,144,402	1,921,536	20,065,938
Allianz	929,195	80,815	1,010,010
AQR Capital Management	613,140	69,315	682,455
Chartwell Investment Partners	504,274	54,398	558,672
Columbus Circle	831,508	69,342	900,850
NISA Investment Advisors	169,624	12,788	182,412
Next Century Growth Investors	1,089,131	115,993	1,205,124
Thomson, Horstmann & Bryant	1,203,573	126,985	1,330,558
S-Cap Fees	5,340,445	529,636	5,870,081
Alpha Overlay Fees	37,651,710	3,608,583	41,260,293
Hedged Assets Fees	102,216,013	10,536,379	112,752,392
Private Real Estate Fees	32,034,804	2,774,182	34,808,986
Private Credit Fees	24,398,876	2,126,591	26,525,467
Private Equity Fees	80,809,559	7,975,985	88,785,544
Commission Recapture Income	(63,401)	(7,532)	(70,933)
Investment Management Expense	321,087,206	31,575,460	352,662,666
Custodial Services			
State Street Bank & Trust Co.	313,404	30,996	344,400
JP Morgan Chase, NA	357,703	35,377	393,080
Custodial Fees	671,107	66,373	737,480
Investment Consultants			
Albourne America, LLC	364,000	36,000	400,000
Frank Russell Co.	307,816	37,102	344,918
Pathway Consulting	1,845,290	160,460	2,005,750
Risk Metrics - ISS	50,050	4,950	55,000
R.V. Kuhns and Associates, Inc.	38,824	3,840	42,664
Towers Watson	56,875	5,625	62,500
Townsend	318,500	31,500	350,000
Investment Consultant Fees	2,981,355	279,477	3,260,832
Staff Investment Expenses	1,783,415	1,129,272	2,912,687
Total Investment Expenses	$ 326,523,083	$ 33,050,582	$ 359,573,665