(Latham) Moniteau County R-V Schools

Location: Latham, MO
Enrollment: 64

Latham

PSRS member/employees: 7
PEERS member/employees: 5
Principal: Tanya Brown
County: Moniteau

Rising Up from the Ashes

The elementary school in the small central Missouri community of Latham was severely damaged by fire on December 15, 2010, just before the winter break. It was a strange twist of fate – the school had been built in the 1920's on the site of an even older schoolhouse that was also destroyed by fire.

The main school building was a total loss. But as they had in the past, the community rallied around the school. After the fire, the question was raised whether the small elementary school of around 60 students should take the opportunity to consolidate into the neighboring California, MO school district. The resounding answer was no. They would rebuild.

Students returned to school on time the following January 3, holding class and operating out of two local churches until March when mobile classrooms were put in place. Equipment and school supplies were donated by many in the local and surrounding communities.

Initially, the goal was to have the school rebuilt and in use by the beginning of the 2011-2012 school year, but negotiations with the district's insurance company delayed that goal. Their perseverance eventually paid off, and the district broke ground December 5, 2011 on a new building, which was completed and ready for students and staff at the start of the 2012-2013 school year.

INVESTMENT SECTION

LETTER FROM TOWERS WATSON

TOWERS WATSON

1191 Second Avenue
Suite 1400
Seattle, WA 98101-2933

T +1 206 343 6000

towerswatson.com

November 15, 2012

To the Members of the Board:

Fiscal year 2012 was marked by continued volatility in the markets and a divergence in performance between domestic and foreign stocks. In the U.S., negative news such as the debt ceiling debate, the MF Global bankruptcy, mixed job growth data, and decelerating GDP growth caused market declines. However, further quantitative easing and a lower unemployment rate led U.S. stocks into positive territory for the year. In Europe, an adverse employment picture, declining GDP growth, and further risk of contagion from Greece and Spain outweighed the ECB's efforts to inject capital into the system as international equity stocks ended the year considerably negative. What has been a hindrance to the equity markets has been a boon to the fixed income world. Most fixed income sectors outperformed equities as investors underwent a flight to safety. Longer dated U.S. government bonds returned over 30%. Looking forward to the coming year, all eyes are on the looming "fiscal cliff" in the U.S. and the uncertain resolution of the Eurozone crisis.

The total fund return for the fiscal year ended June 30, 2012 was 1.9% for PSRS and 1.6% for PEERS, trailing the policy benchmark return of 3.1%. The PSRS fiscal year returns for Public Credit and Safe Assets were strong at 8.5% and 7.2%, respectively (8.1% and 7.2% for PEERS). PSRS Private Risk assets returned 8.9% vs. 7.6% for its benchmark (9.0% vs. 7.6% for PEERS). The total fund performance was hurt by an overweight allocation to Public Equity assets and an underweight allocation to Safe Assets.

Towers Watson is continuing to work with the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri in evaluating the overall structure and individual managers in the U.S. and non-U.S. public equity spaces. We are looking to evaluate potential public equity managers that can add alpha.

We at Towers Watson have enjoyed our relationship with the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri and are looking 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 26, 2012

To the Members of the Systems:

On behalf of the PSRS/PEERS Board of Trustees and the internal investment staff, I present the following report on the Systems' investments for the fiscal year ended June 30, 2012.

The end of this fiscal year marks just over three years since the market lows experienced during the financial crisis of 2007-2009. The strength in the investment markets since that time has helped generate substantial gains for the Systems as the three-year annualized fund performance ended June 30, 2012 was 11.9% for PSRS and 11.6% for PEERS. The investment data within this year's financial report highlights the results since the market recovery (that is, performance over the last three years).

Key Points

As you review the financial information in this report, we believe it is important to be aware of the following points for the period ended June 30, 2012:

- The fiscal year 2012 total fund performance was 1.9% for PSRS and 1.6% for PEERS;
- The PSRS and PEERS investment returns for fiscal year 2012 were above the public fund median, finishing in the 35th percentile (better performance than 65% of the public fund universe). The Systems generated the investment returns while taking less risk than 70% of comparable public funds;
- Total PSRS/PEERS investment expenses (including accrued performance based fees) for fiscal year 2012 were 0.81%, or 81 cents for every $100 managed. The investment returns reported throughout this publication are partially net of these fees. The investment returns net of all fees and expenses were 1.7% for PSRS and 1.4% for PEERS;
- Total Systems' assets have increased through investment earnings by $8.7 billion over the last three years;
- The majority of the Systems' primary asset categories (U.S. Public Equity, Credit Bonds, Global Public Equity, Hedged Assets, Safe Assets, and Private Risk Assets) generated returns in excess of established policy benchmarks for the three-year period;
- The PSRS/PEERS investment staff and external investment managers added value of over $260 million above the policy benchmark over the last three years, net of all fees and expenses;
- The Systems have taken less risk than the policy benchmark (as measured by standard deviation) and less risk than the majority of comparable public funds over all time periods;
- Investment performance throughout this report is calculated using a time-weighted rate of return based on market values; and

Location 3210 W. Truman Blvd. / Jefferson City, MO 65109 **Mail** P.O. Box 268 / Jefferson City, MO 65102 **Phone** (573) 634-5290
Toll Free (800) 392-6848 **Email** psrspeers@psrspeers.org **Member Services FAX** (573) 634-7934 **Employer Services FAX** (573) 634-7911

- The total invested assets of both PSRS and PEERS were approximately $30.6 billion on June 30, 2012, making the combined entity larger than all other public retirement plans in the state of Missouri combined, and the 45th largest defined benefit plan in the United States.

Fiscal Year 2012: In Review

The PSRS/PEERS Board of Trustees has embraced a philosophy to institute a disciplined and diversified investment portfolio. This approach has been implemented over the past several years by the PSRS/PEERS investment staff as the portfolio has expanded into multiple asset classes in addition to stocks and bonds. In this fiscal year, the PSRS/PEERS stock portfolios suffered below average returns while allocations to Safe Assets (U.S. Treasuries) and Private Risk Assets (real estate and private equity) were additive to the total fund investment returns.

U.S. stocks ended the fiscal year with modest returns as the broad U.S. equity market (as measured by the Russell 3000 Index) increased 3.8%. In contrast, international equity markets (as represented by the MSCI ACWI ex-U.S. Index) sustained double digit losses of -14.6%, weighed down by heightened risks of Greek and Spanish debt insolvency. The marked divergence between U.S. and international equity markets was most pronounced for several reasons: first, much of Europe fell into recession, while the U.S. posted moderate economic growth for most of the year. Second, investors remained concerned that policy actions in Europe have not been sufficient to reduce government debts and restore economic growth. Finally, interest rates in the most troubled European countries remained high, causing investors to worry about whether governments could service their debts. The PSRS/PEERS investment returns in fiscal year 2012 were diminished due to international stock exposure. However, the Systems maintained a significant overweight to U.S. stocks (relative to non-U.S. stocks) for the entire fiscal year, which provided meaningful value to the overall PSRS/PEERS returns.

The diversification benefits of the Systems' allocation to Safe Assets proved desirable in fiscal year 2012 as investors seeking safety from the sovereign debt crisis in Europe poured money into bonds, including U.S. Treasuries. The Safe Assets class provided solid returns for the fiscal year as the category moved 7.2% higher for both PSRS and PEERS. Similarly, the Systems' diversification into Private Risk Assets provided substantial return benefits in fiscal year 2012. The Systems began building private investment portfolios (including private equity, private credit and private real estate) in 2003 in order to generate long-term returns superior to the public markets, take advantage of market inefficiencies, and increase diversification. The nature of private investing requires a process of portfolio construction that takes years to develop. This is particularly true for a plan with the substantial assets of PSRS/PEERS. Over the years, the Systems have continued to build on this successful investment platform that serves as an alternative to traditional public markets. Today, the Systems have invested almost $4.8 billion in Private Risk Assets. In total, the Private Risk Assets portfolios moved 8.9% and 9.0% higher, respectively, for PSRS and PEERS versus the benchmark of 7.6% for fiscal year 2012.

Fiscal Year 2013: An Uncertain Landscape

The Systems achieved strong investment returns over the last three years due, in part, to a significant market recovery and a diversified asset allocation across global financial markets. Looking forward as we move through fiscal year 2013, the investment landscape is more uncertain throughout the world. In the near term, as discussed previously, the Eurozone debt crisis remains a headwind to international growth. Closer to home, the U.S. also has pressing financial problems. Specifically, the 'fiscal cliff' could reduce U.S. growth immediately due to mandated tax increases and spending cuts. Additionally, the U.S. will be dealing with a trillion-dollar deficit, declining savings rates and continued high unemployment levels for the foreseeable future.

LETTER FROM THE CHIEF INVESTMENT OFFICER (continued)

These uncertainties reinforce the Systems' application of the fundamental principles in the management of the investment portfolio:

- Focus on the long-term investment horizon which requires discipline and patience,
- Balance the long-term investment strategy of PSRS/PEERS with shorter term views as market dynamics change, and
- Manage risk by maintaining adequate liquidity and balancing the portfolio for the heightened possibility of market inflection points.

The PSRS/PEERS investment portfolio remains grounded in three primary categories: Safe Assets, Public Risk Assets and Private Risk Assets. As the markets dictate, the composition of each category has shifted over time. The Safe Assets composite ensures that adequate liquidity is available to meet all PSRS and PEERS benefit payments and cash needs for an extended period of time, regardless of the economic environment. As we have reached historically low interest rates, the Systems have reduced the allocation to Safe Assets in fiscal year 2013. PSRS and PEERS continue to maintain adequate liquidity but a portion of the Safe Assets portfolio has been re-allocated to higher return seeking investments.

The Systems will advance the plan to build portfolios within the Private Risk composite with the belief that private equity and private credit can produce returns in excess of the expected public market returns. Furthermore, the PSRS and PEERS allocation to private real estate is expected to provide consistent income that offers a premium over traditional fixed income investments. Finally, the Systems maintain a substantial allocation to Public Risk Assets. The point of emphasis in this category most recently has been to reduce the overall volatility while also searching for higher growth opportunities. Thus, the portfolio is balanced between an emphasis on stable U.S. equities and lower volatility hedge funds with an overweight allocation to emerging market equities. We continue to expect outsized growth in emerging market economies, particularly relative to the U.S. and other developed markets.

Under the support and guidance of the Board of Trustees, I am confident that the investment program at PSRS/PEERS will provide the Systems with an excellent opportunity to achieve solid investment returns over future economic and capital market environments. Most importantly, I believe the portfolio is well-positioned to ensure that all members receive the financial security they have earned through their hard work and dedication.

Respectfully,

Craig A. Husting, CFA
Chief Investment Officer

INVESTMENT POLICY SUMMARY

The Board of Trustees of the Public School Retirement System of Missouri and Public Education Employee Retirement System 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[1].

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.[2]

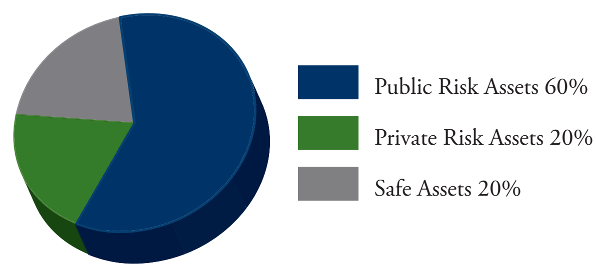
In order to achieve this rate of return, the Systems have developed a portfolio that is prudently invested across a broad array of assets that reflects the long-term nature of the Systems' pension obligations. The principles of diversification, risk control, and competitive rates of return provide the 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 long-term 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] *Based on a twenty-year average for fiscal years 1992-2012.*

[2] *The real rate of return is the rate by which the long-term total return exceeds the long-term inflation rate. The Board of Trustees 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, 2012 was 2.5% per annum.*

Roles and Responsibilities

Board of Trustees

It is the responsibility of the PSRS/PEERS Board of Trustees 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 that 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 consultant for the Private Equity and Private Credit programs, 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 contribution rates.

The long-term policy allocation as of June 30, 2012 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% - 25%
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%**	**10% - 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 asset 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 strategic benchmark return and the policy benchmark return. This difference captures the value added by internal staff through sub-asset class strategic decisions relative to the Board's broad policy allocation decisions. A strategic benchmark return greater than the policy benchmark return reflects value added through the allocation decisions. A strategic benchmark return less than the policy benchmark return reflects losses to the fund's performance based upon strategy decisions.

Implementation Decisions

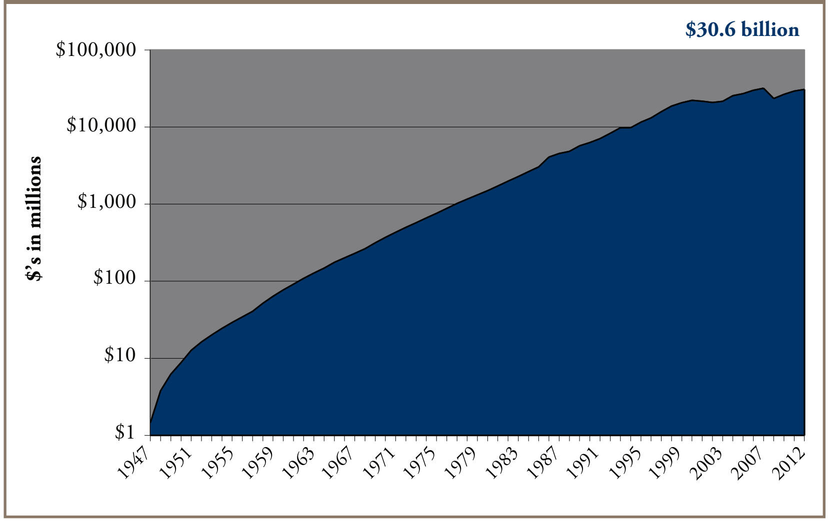
Implementation decisions are manager selection choices made by the internal staff with the approval of a consultant(s) and the Director. The value added through these manager selection decisions is measured by the difference between the actual portfolio return and the strategic benchmark return. An actual portfolio return greater than the strategic benchmark return reflects value added through these manager selection decisions. An actual portfolio return less than the strategic 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.

TOTAL FUND REVIEW

The Systems' total invested assets were $30.6 billion as of June 30, 2012. There has been a consistent and long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965, as shown in the graph.



Investment Performance[1]

PSRS and PEERS earned returns of 1.9% and 1.6%, respectively, for fiscal year July 1, 2011 through June 30, 2012. The PSRS and PEERS returns net of all fees and expenses were 1.7% and 1.4%, respectively.

As illustrated in the tables below, within the respective PSRS and PEERS investment portfolios, Public Credit returned strong absolute returns of 8.5% and 8.1%, Private Risk Assets provided diversification to the portfolio with returns of 8.9% and 9.0%, and Safe Assets provided substantial liquidity and returned 7.2% for each fund. Each of these asset classes strongly contributed to the total fund returns for PSRS and PEERS and provided diversification from global public equities. Global equity markets experienced a turbulent year due to European credit concerns and fears of a slowing global economy.

PSRS Total Fund Performance

Assets	Total Return	Weighted Contribution*
U.S. Public Equity	3.2%	0.9%
Public Credit	8.5%	0.7%
Hedged Assets	-0.1%	0.0%
Global Public Equity	-12.5%	-2.2%
Public Risk Assets	**-0.9%**	**-0.6%**
U.S. Treasuries	7.2%	1.0%
U.S. TIPS	7.6%	0.1%
Safe Assets	**7.2%**	**1.1%**
Private Equity	8.2%	0.6%
Private Real Estate	10.3%	0.7%
Private Credit	4.8%	0.1%
Private Risk Assets	**8.9%**	**1.4%**
Total PSRS	**1.9%**	**1.9%**

PEERS Total Fund Performance

Assets	Total Return	Weighted Contribution*
U.S. Public Equity	3.4%	1.0%
Public Credit	8.1%	0.7%
Hedged Assets	-0.8%	-0.1%
Global Public Equity	-12.4%	-2.3%
Public Risk Assets	**-1.0%**	**-0.7%**
U.S. Treasuries	7.2%	1.0%
U.S. TIPS	7.6%	0.1%
Safe Assets	**7.2%**	**1.1%**
Private Equity	8.2%	0.4%
Private Real Estate	10.5%	0.7%
Private Credit	5.1%	0.1%
Private Risk Assets	**9.0%**	**1.2%**
Total PEERS	**1.6%**	**1.6%**

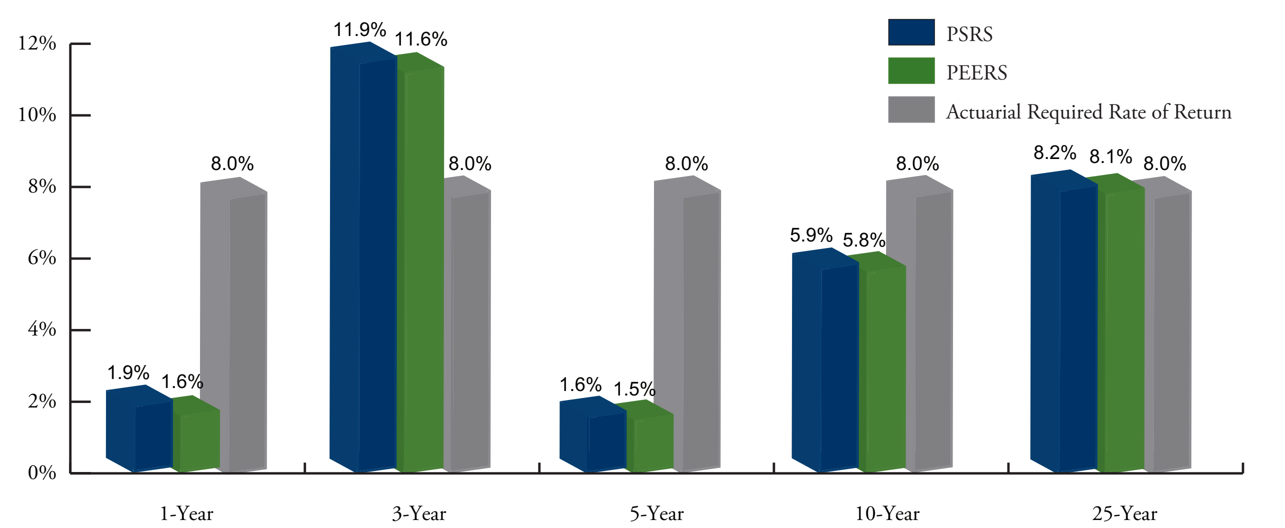
**Percentages have been adjusted to reflect compounding effects and changes in asset weights.*

[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 year and a real rate of return of at least 5.5% per year. The investment returns of the last two fiscal years reflect the volatility and complexity in global markets. The PSRS and PEERS total investment returns for the current fiscal year are 1.9% and 1.6%, respectively, compared to the prior fiscal year returns of 21.8% for PSRS and 21.4% for PEERS. The global markets bottomed during the severe credit crisis of the late 2000's in March 2009. In the three-year time period since the global equity crisis, investment earnings have exceeded $8.7 billion with three-year returns significantly exceeding our long-term investment objective. Additionally, as the table indicates, the 25-year annualized total returns of 8.2% for PSRS and 8.1% for PEERS exceed the long-term return objective of 8.0%.

Total Fund Returns

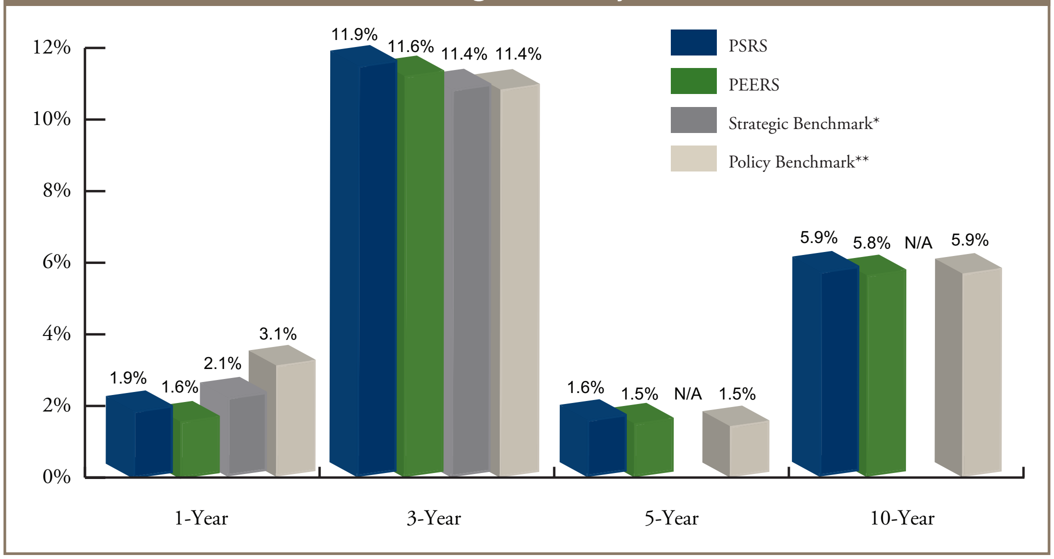


In order to determine if the Systems' shorter-term and long-term objectives are being achieved, the Board also utilizes three benchmarks by which the Systems' progress may be judged: (1) performance relative to a **policy benchmark** (defined set of broad market indices that reflects the Systems' long-term 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. Internal staff and investment implementation decisions have created excess performance of approximately $260 million (net of all fees and expenses) for the Systems since the global market bottom in 2009.

The PSRS and PEERS total fund returns have exceeded the policy benchmark in five of the last seven fiscal years, an indication that internal staff and active investment management have added value to the Systems. It is important to note that during that timeframe, internal staff navigated some of the most volatile market conditions in history.

Actual Returns vs. Strategic and Policy Benchmark Returns



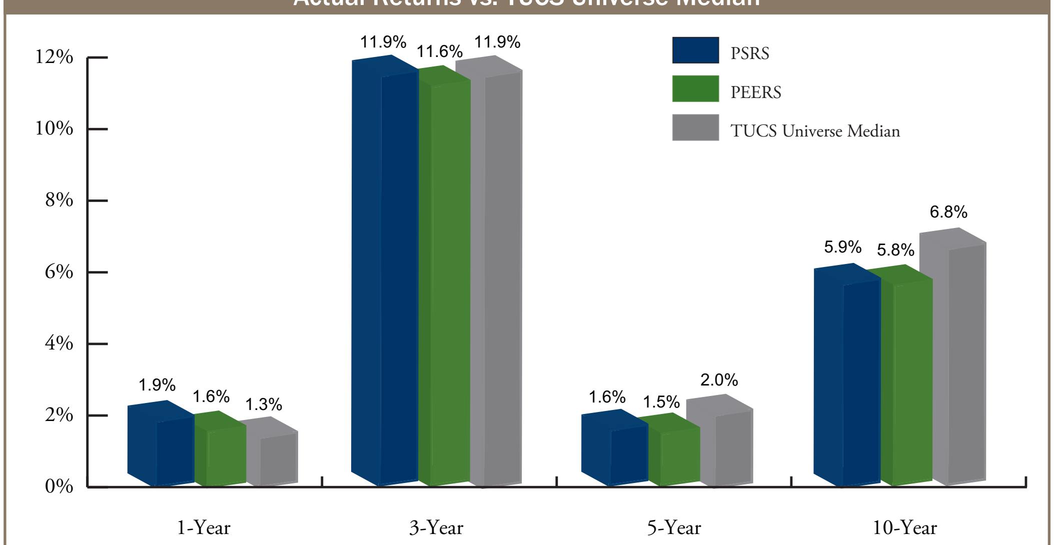
**As of June 30, 2012: 42.9% Russell 3000 Index, 15.8% MSCI All Country World ex-U.S. Free Index, 16.5% Barclays Capital Credit Intermediate Index, 14.3% Barclays Capital Treasury Blend, 7.4% NCREIF Property Index, 1.7% Barclays Capital U.S. TIPS 1-10 Year Index, and 1.4% Bank of America Merrill Lynch High Yield Master II Index. Strategic Benchmark data is not available for periods dating back five years or more.*

***As of June 30, 2012: 40.5% Russell 3000 Index, 16% Barclays Capital Treasury Blend, 15% MSCI All Country World ex-U.S. Free Index, 15% Barclays Capital Intermediate Credit 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 total PSRS and PEERS returns for the one-year time period exceeded the median return of other large public funds. PSRS' and PEERS' total returns for the three-, five- and 10-year time periods were at or marginally below the public fund median return primarily due to asset allocation and risk tolerance differences. The 2012 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

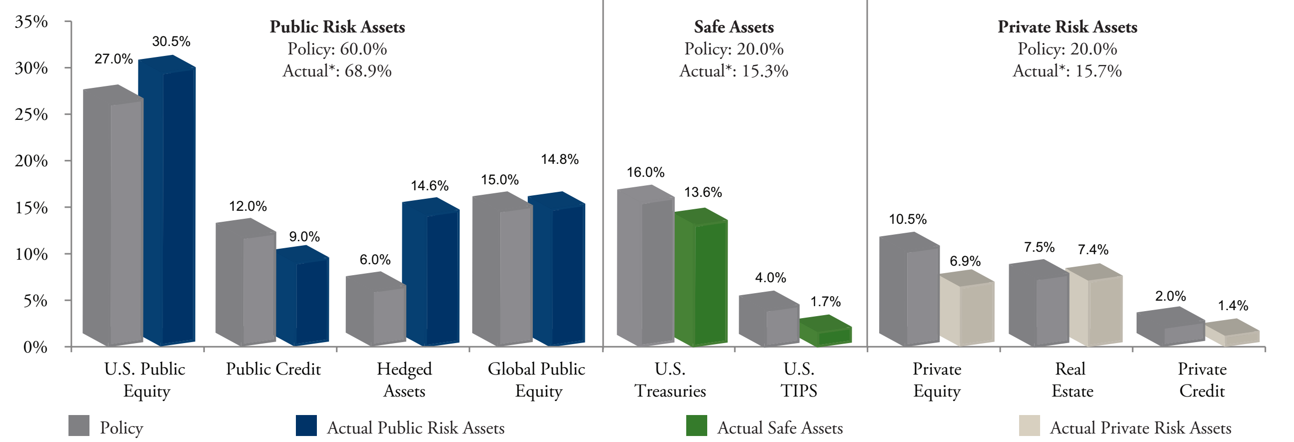


Asset Allocation: Actual Versus Target

The Board's broad policy allocation target as of June 30, 2012 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. Public Equity was 27% as of June 30, 2012. The Board made no changes to the policy targets during fiscal year 2012.

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.

Total Fund Asset Allocation: Actual* vs. Target



**Actual assets include 0.1% invested in cash and cash equivalents and securities lending collateral that is not reflected in the chart above.*

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, 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 all time periods, while achieving higher returns over longer time periods, thereby 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 (ACWI World Index) is approximately 0.50. This signifies that the Systems' portfolios move up or down approximately half as much as the world stock index.

Total Plan Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	1.9%	11.9%	1.6%	5.9%
Annualized PEERS Return	1.6%	11.6%	1.5%	5.8%
Annualized Policy Benchmark Return*	3.1%	11.4%	1.5%	5.9%
Annualized Strategic Benchmark Return**	2.1%	11.4%	N/A	N/A
Excess return†	-1.2%	0.5%	0.1%	0.0%
Annualized Standard Deviation of Composite***	10.3%	9.1%	11.5%	9.3%
Annualized Standard Deviation of Policy Benchmark***	11.4%	9.7%	13.1%	10.3%
Beta to Policy Benchmark***	0.90	0.93	0.87	0.89
Beta to MSCI All Country World Index***	0.47	0.49	0.52	0.51

**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 five- and 10-year returns are not available.*

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

†PSRS excess return relative to the total plan policy benchmark.

PUBLIC RISK ASSETS CLASS SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Public Risk assets had a market value of approximately $21.0 billion, representing 68.9% of total assets.

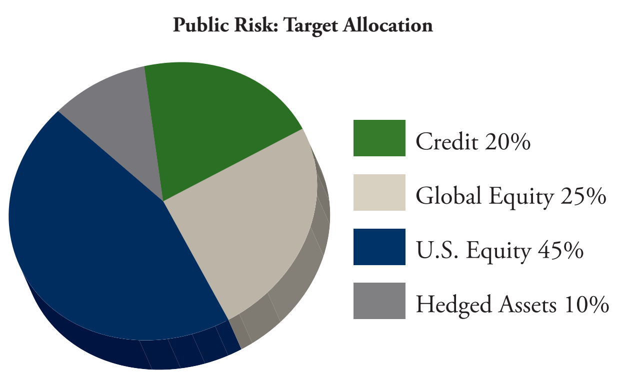
Investment Program Description

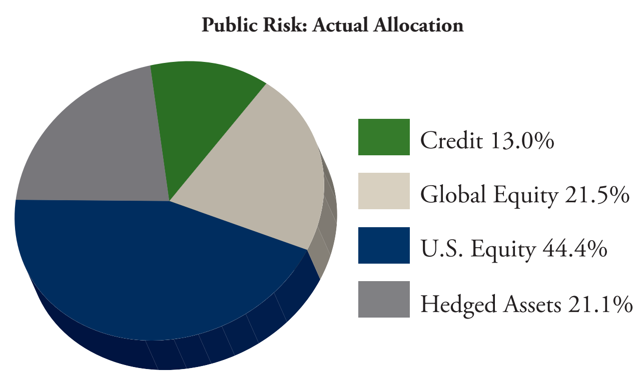
The Board adopted an asset allocation policy at the June 8, 2009 Board of Trustees' meeting that includes a broad allocation to Public Risk Assets. The four programs within the Public Risk Asset composite are U.S. Public Equity, Public Credit, Hedged Assets and Global Public Equity. Each program within 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, 2012, 44.4% of the Systems' Public Risk assets were invested in the U.S. Public Equity program, 21.5% in the Global Public Equity program, 13.0% in the Public Credit program and 21.1% in the Hedged Assets program. Each of these programs are discussed in more detail on the following pages.

Public Risk Assets Allocation





Market Overview

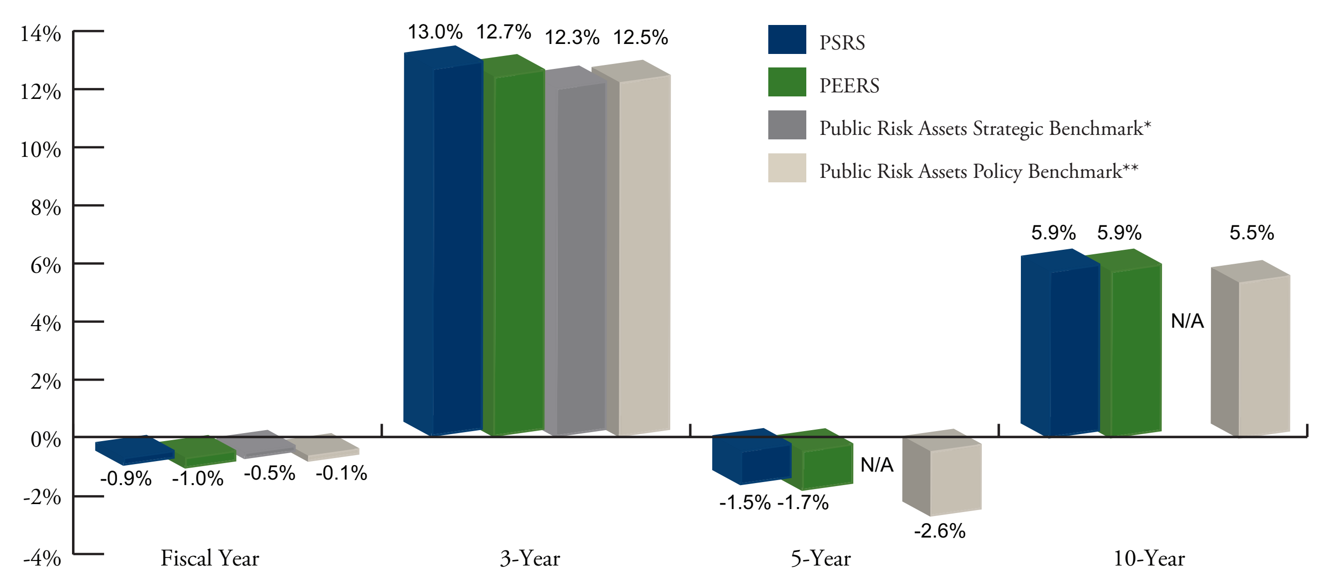
The global markets provided overwhelming evidence that the complexity and volatility seen during the financial crisis of 2008 and 2009 are still present in some capacity. Global stocks struggled during the fiscal year due to the Eurozone sovereign debt crisis, escalating fears of slowing global growth and U.S. debt ceiling debates. The Russell 3000 Index (broad measure of the U.S. stock market) was up 3.8% for the year and the MSCI All Country World ex-U.S. Index (broad measure of the international stock markets) declined 14.6%. Bond market yields and credit spreads decreased during the fiscal year, leading to stable returns for the Public Credit benchmark (Barclays Capital Intermediate Credit Index) of 6.2%.

[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 -0.9% and -1.0%, respectively, compared to the benchmark return of -0.1% for the fiscal year ended June 30, 2012. For the three-, five- and 10-year time periods, both PSRS and PEERS significantly outperformed the benchmark as noted below.

Public Risk Assets Performance



The table indicates that the Systems have taken less risk than the policy benchmark (as measured by standard deviation) while achieving higher returns over longer time periods, thereby indicating strong risk-adjusted performance. Additionally, the Systems' portfolios have a beta of less than 1.0 relative to the policy benchmark over all time periods shown, indicating less market risk.

Public Risk Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	-0.9%	13.0%	-1.5%	5.9%
Annualized PEERS Return	-1.0%	12.7%	-1.7%	5.9%
Annualized Policy Benchmark Return*	-0.1%	12.5%	-2.6%	5.5%
Annualized Strategic Benchmark Return**	-0.5%	12.3%	N/A	N/A
Excess return†	-0.8%	0.5%	1.1%	0.5%
Annualized Standard Deviation of Composite	15.5%	13.4%	17.8%	15.3%
Annualized Standard Deviation of Policy Benchmark*	16.1%	13.6%	18.6%	15.7%
Beta to Policy Benchmark*	0.96	0.99	0.96	0.97
Beta to ACWI World Index	0.71	0.73	0.81	0.85

**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 five- and 10-year returns are not available.*

***The public risk assets policy benchmark is composed as follows: 50% Russell 3000 Index, 25% MSCI ACWI ex-U.S. (Net), 25% Barclays Credit Intermediate.*

†PSRS excess return relative to the Public Risk Assets policy benchmark.

U.S. PUBLIC EQUITY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS U.S. Public Equity assets had a market value of approximately $9.3 billion, representing 30.5% 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

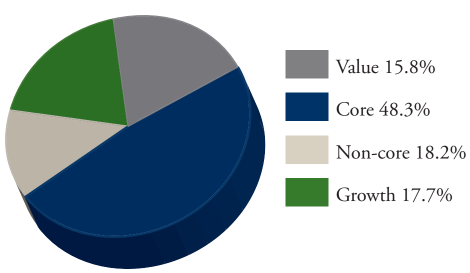
As of June 30, 2012, 33.5% of the PSRS/PEERS U.S. Public Equity composite was passively managed. The remainder of the portfolio was actively managed and diversified across a broad array of capitalization ranges and investment styles, including the Small Cap Alpha Pool (S-CAP) and the Alpha Overlay program. 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.

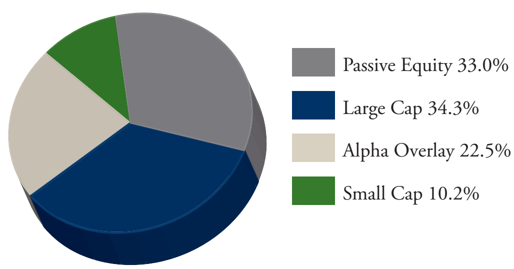
The pie charts depict the U.S. Public Equity portfolio by presenting the current style structure of the portfolio as well as the allocation by composite and market sector.

U.S. Public Equity Allocations: Style and Composite

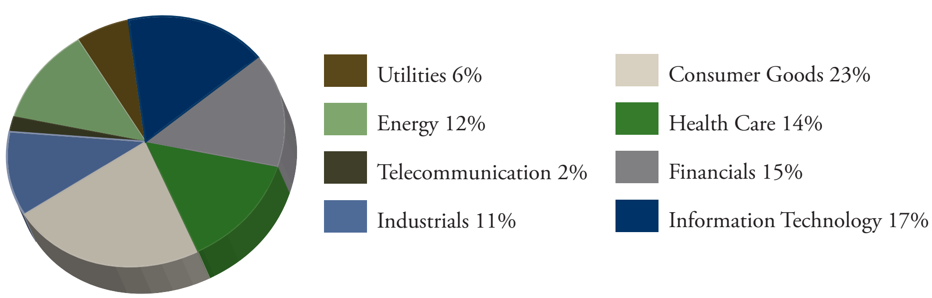
Style Allocation
June 30, 2012



Composite Allocation
June 30, 2012



U.S. Public Equity Market Sectors



Market Overview

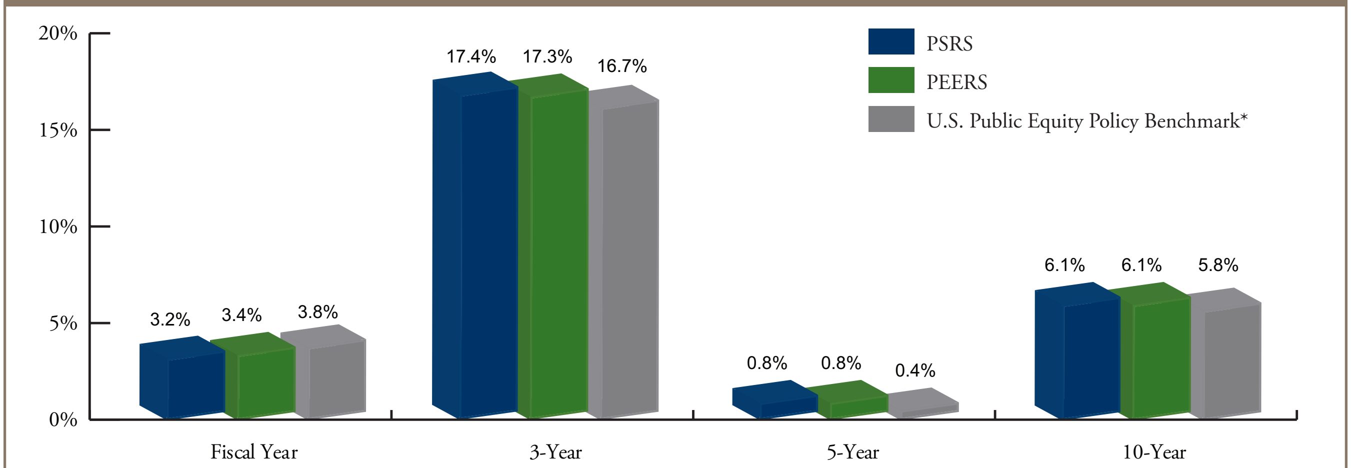
The U.S. stock markets had a difficult year across both market capitalization and styles as the broad measure of the U.S. stock market (Russell 3000 Index) only increased by 3.8%. Small-cap stocks (Russell 2000 Index) decreased by 2.1% for the year with large-cap growth stocks (Russell 1000 Growth Index) outperforming large-cap value stocks (Russell 1000 Value Index) with a return of 5.8% compared to 3.0%.

The fiscal year provided overwhelming evidence that the complexity and volatility seen during the financial crisis of 2008 and 2009 are not gone. Stocks in the U.S. struggled during the year due to U.S. debt ceiling debates, fears of historically high unemployment, a continued slow housing market and developments in the Eurozone.

Performance

The total returns for the PSRS and PEERS U.S. Public Equity programs were 3.2% and 3.4%, respectively, compared to the benchmark return of 3.8% for the fiscal year ended June 30, 2012. Active management strategies detracted from performance for the year. PSRS' and PEERS' U.S. Public Equity composites underperformed their benchmark by 60 and 40 basis points, respectively. 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. For the three-year time period, both PSRS and PEERS have outperformed the benchmark in excess of 60 basis points.

U.S. Public Equity Performance



U.S. Public Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	3.2%	17.4%	0.8%	6.1%
Annualized PEERS Return	3.4%	17.3%	0.8%	6.1%
Annualized Policy Benchmark Return*	3.8%	16.7%	0.4%	5.8%
Excess Return†	-0.6%	0.7%	0.4%	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.

Statistics

The table displays the statistical characteristics of the PSRS/PEERS U.S. Public Equity program as of June 30, 2012 with comparisons shown to the portfolio's policy benchmark (Russell 3000 Index).

U.S. Public Equity Characteristics

Characteristics	June 30, 2012 Combined Systems**	June 30, 2012 Russell 3000 Index
Number of Securities	1,509	2,993
Dividend Yield	2.1%	2.1%
Price-to-Earnings Ratio	16.2	15.2
Avg. Market Capitalization	$78.7 bil.	$90.5 bil.
Price-to-Book Ratio	2.4	2.1

***Includes only actively managed separate accounts.*

U.S. Public Equity - Top 10 Holdings		
Top 10 Largest Holdings* June 30, 2012	**Combined Market Value**	**% of Total U.S. Public Equity**
Apple, Inc.	$85,437,448	0.9%
Exxon Mobil Corp.	65,015,401	0.7%
Chevron Corp.	58,647,239	0.6%
JP Morgan Chase and Co.	58,283,348	0.6%
Pfizer, Inc.	47,141,421	0.5%
Philip Morris International, Inc.	45,906,439	0.5%
Amgen, Inc.	45,220,379	0.5%
Lorillard, Inc.	41,378,332	0.5%
Wells Fargo and Co.	39,322,698	0.4%
Microsoft Corporation	38,050,472	0.4%
TOTAL	**$524,403,177**	**5.6%**

** Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with 13 external investment advisors who manage 22 portfolios that comprise 77.6% of the U.S. Public Equity portfolio. The remaining 22.4% of the portfolio is in the Alpha Overlay program described in the next section.

In fiscal year 2012, passive index assignments were moved to BlackRock Investment Management and a diversified beta assignment was added with NISA Investment Advisors. AllianceBernstein Institutional Management was terminated from a Large-Cap Growth assignment.

U.S. Public Equity Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
Analytic Investors	Structured Large Cap Value	$ 289,670,112	0.9%
Analytic Investors	U.S. Low Volatility Equity	738,613,118	2.4%
AQR Capital Management	Large Cap 140/40 Core	333,415,751	1.1%
Aronson + Johnson + Ortiz	Active Large Cap 130/30 Value	237,998,395	0.8%
Aronson + Johnson + Ortiz	Active Large Cap Value	409,500,456	1.3%
Blackrock - Russell 1000 Index Fund	Passive Russell 1000 Index	1,767,510,403	5.8%
Blackrock - Russell 1000 Growth Index Fund	Passive Russell 1000 Growth Index	424,703,972	1.4%
Blackrock - S&P 500 Index Fund	Passive S&P 500 Index	461,188,831	1.5%
Martingale Asset Management	Active Large Cap 130/30 Growth	194,594,183	0.6%
NISA Investment Advisors	Diversified Beta	430,868,374	1.4%
Westwood Management	Active Large Cap Value	378,771,523	1.2%
Westwood Management	Master Limited Partnerships	210,799,572	0.7%
Zevenbergen Capital	Active All Cap Growth	408,499,666	1.3%
S-CAP: Allianz	Active Micro Cap Growth	87,072,344	0.3%
S-CAP: AQR Capital Management	Active Small Cap Value	148,483,133	0.5%
S-CAP: Chartwell Investment Partners	Active Small Cap Value	155,430,068	0.5%
S-CAP: Columbus Circle	Active Small Cap Growth	133,645,151	0.4%
S-CAP: Next Century Growth Investors	Active Small Cap Growth	93,066,590	0.4%
S-CAP: Next Century Growth Investors	Active Micro Cap Growth	12,450,312	0.0%
S-CAP: NISA Investment Advisors	Russell 2000 Exposure	121,449,905	0.5%
S-CAP: Thomson, Horstmann & Bryant	Active Small Cap Core	145,890,679	0.5%
S-CAP: Thomson, Horstmann & Bryant	Active Micro Cap Core	54,947,842	0.2%
Small Cap Alpha Pool (S-CAP) Subtotal		**952,436,024**	**3.3%**
Total		**$ 7,238,570,380**	**23.7%**

**Includes manager cash.*

ALPHA OVERLAY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Alpha Overlay allocation had a market value of approximately $2.1 billion, representing 6.8% 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, 2012, 25.1% of the PSRS/PEERS Alpha Overlay composite assets were passively managed by NISA Investment Advisors using S&P 500 total return swaps to attain equitization. An additional 71.1% of the portfolio was actively managed across a diversified range of multi-strategy and market neutral hedge fund mandates. The remaining 3.8% of the portfolio was actively managed by Zevenbergen Capital in a long-only mandate. During the fiscal year ended June 30, 2012, two additional assignments were added with existing advisor Och-Ziff Capital Management. Two additional assignments were also added with Stark Investments and Renaissance Institutional Management. No managers were eliminated. The chart below displays the specific investment advisor exposure within the composite as of June 30, 2012.

Alpha Overlay Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Value
Algert Coldiron Investors	Multi-Strategy Market Neutral	$ 121,494,184	0.4%
Analytic Investors	Japan Market Neutral	33,939,876	0.1%
AQR Capital Management	Multi-Strategy	102,794,725	0.3%
Bridgewater Associates	Multi-Strategy	218,640,927	0.7%
Carlson Capital Management	Multi-Strategy	155,656,441	0.5%
Davidson Kempner	Multi-Strategy	232,459,152	0.8%
NISA Investment Advisors	S&P 500 Exposure	526,235,045	1.7%
Och-Ziff	Multi-Strategy	116,274,874	0.4%
Och-Ziff Asia	Multi-Strategy	14,891,931	0.0%
Och-Ziff Europe	Multi-Strategy	17,422,506	0.0%
Renaissance	Equity Long/short	150,503,094	0.5%
Stark Investments	Equity Long/short	31,035,711	0.1%
UBS O'Connor	Global Market Neutral	138,284,262	0.5%
UBS O'Connor	Multi-Strategy	155,922,791	0.5%
Zevenbergen Capital	Active All-Cap Growth	79,307,381	0.3%
Total		**$ 2,094,862,900**	**6.8%**

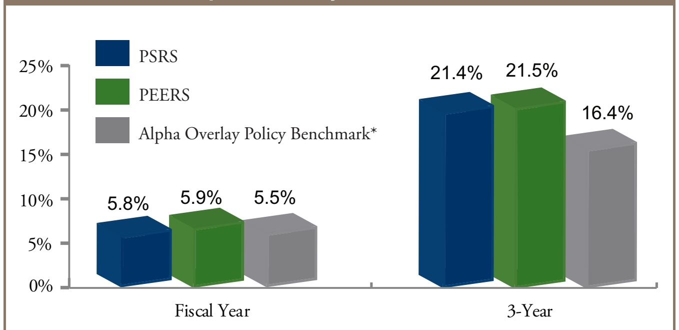
** Includes manager cash.*

Performance

The total returns for PSRS' and PEERS' Alpha Overlay programs were 5.8% and 5.9%, respectively, compared to the benchmark return of 5.5% for the fiscal year ended June 30, 2012. As shown in the table and graph below, the PSRS and PEERS annualized Alpha Overlay composite returns substantially exceeded the benchmark while maintaining a risk profile (standard deviation and beta) similar to that of the benchmark over longer periods of time.

For the three-year time period, PSRS and PEERS outperformed the benchmark by 500 basis points and 510 basis points, respectively.

Alpha Overlay Performance



Alpha Overlay Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	5.8%	21.4%
Annualized PEERS Return	5.9%	21.5%
Annualized Policy Benchmark Return*	5.5%	16.4%
Excess return†	0.3%	5.0%
Annualized Standard Deviation of Composite	16.8%	16.0%
Annualized Standard Deviation of Policy Benchmark*	18.2%	16.1%
Beta to Benchmark*	0.92	0.99

**The Alpha Overlay policy benchmark is the S&P 500 Index. Five- and 10-year returns are not available due to the age of the asset class.*

†PSRS excess return relative to the Alpha Overlay policy benchmark.

GLOBAL PUBLIC EQUITY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Global Public Equity assets had a market value of approximately $4.5 billion, representing 14.8% of total assets.

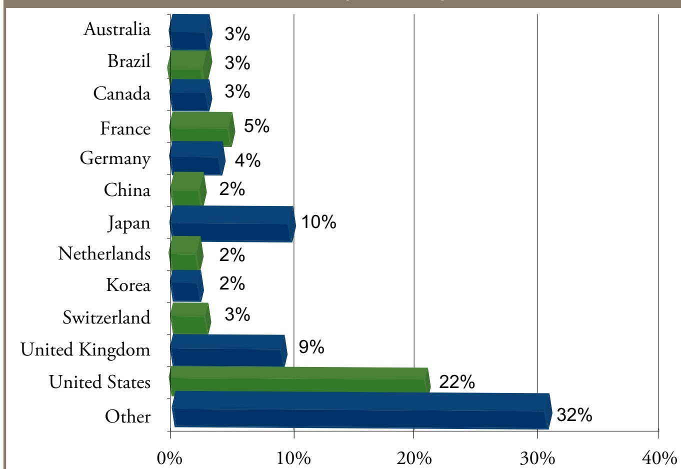
Investment Program Description

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 the performance and volatility of the asset class over the short-term, however, over the long-term the effect from currency is expected to be neutral.

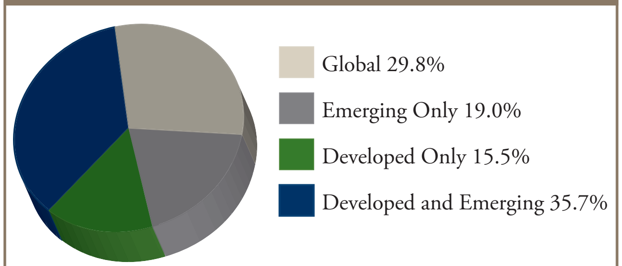
Structure

As of June 30, 2012, 16.5% 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 pie chart indicates broader exposure by investment mandate while the bar graph displays the specific country exposure within the composite.

Global Public Equity Country Allocation



Global Public Equity Allocation



Global Public Equity - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2011	Combined Market Value	% of Total Global Public Equity
Samsung Electronics Co. Ltd.	$ 36,401,724	0.8%
AstraZeneca PLC	29,661,981	0.7%
Roche Holdings AG	23,588,475	0.5%
HSBC Holdings	22,976,219	0.5%
GlaxoSmithKline	22,759,949	0.5%
Nestle SA	21,764,491	0.5%
Rio Tinto PLC	21,425,561	0.5%
WPP Plc	21,224,093	0.5%
Linde AG	20,483,873	0.4%
Bayer AG	19,735,382	0.4%
TOTAL	**$240,021,748**	**5.3%**

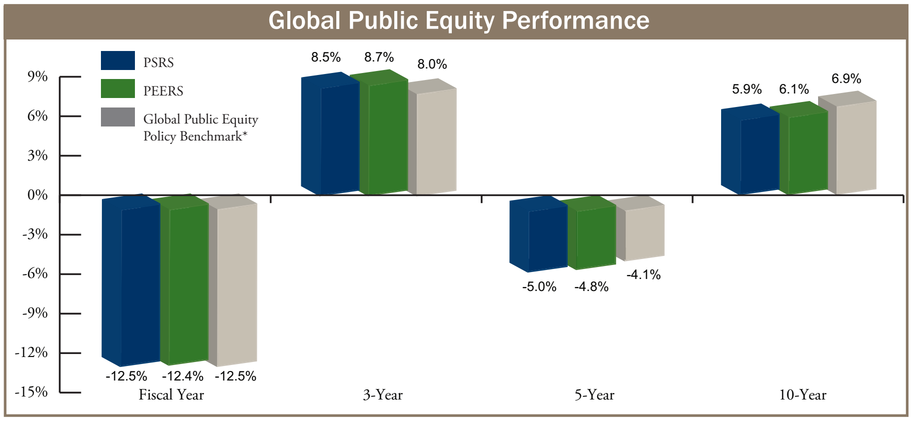
** Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Market Overview

The global stock markets had a turbulent year across market capitalization ranges and in both developed and emerging countries. The broad measure for developed global markets (MSCI EAFE Index) decreased 13.8%, emerging markets (MSCI EM Index) decreased 16.0% and global stocks (MSCI World) declined 5.0%.

The sovereign debt crisis in the Eurozone and escalating fears of slowing global growth, particularly in China, proved to be very challenging for both global stocks and emerging markets during the fiscal year.



Performance

The total returns for the PSRS and PEERS Global Public Equity programs were -12.5% and -12.4%, respectively, compared to the benchmark return of -12.5% for the fiscal year ended June 30, 2012. As shown in the graph and table, the PSRS and PEERS annualized Global Public Equity composite returns were in-line with the benchmark. Global low volatility mandates provided strong absolute and relative returns for the fiscal year.

For the three-year time period, PSRS and PEERS outperformed the benchmark by 50 basis points and 70 basis points, respectively. The Systems' five- and 10-year returns slightly underperformed the benchmark.

Global Public Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	-12.5%	8.5%	-5.0%	5.9%
Annualized PEERS Return	-12.4%	8.7%	-4.8%	6.1%
Annualized Policy Benchmark Return*	-12.5%	8.0%	-4.1%	6.9%
Excess Return†	0.0%	0.5%	-0.9%	-1.0%

**The Global Equity policy benchmark is composed as follows: 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 Equity policy benchmark.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with 15 external investment advisors who manage 17 portfolios within the Global Public Equity portfolio. In fiscal year 2012, a new emerging market assignment was added with Acadian Asset Management and the passive assignment was moved to BlackRock Investment Management. An active global manager and two active international managers were terminated.

Global Public Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
Acadian Asset Management	Active Emerging Markets	$ 109,757,132	0.4%
AllianceBernstein Institutional Mgmt.	Active Intl. Value	298,952,004	1.0%
Analytic Investors	Active Global	442,032,409	1.4%
AQR Capital Management	Active Intl. Core	355,759,488	1.2%
Arrowstreet Capital	Active Emerging Markets	129,839,000	0.4%
Arrowstreet Capital	Active Global	517,023,870	1.7%
Blackrock - MSCI ACWI ex-US Index	Passive Intl. Core	418,916,651	1.4%
Esemplia Emerging Markets	Active Emerging Markets	253,539,420	0.8%
INVESCO Global Asset Management	Active Intl. Value	369,499,698	1.2%
MFS Investment Management	Active Intl. Core	540,474,971	1.8%
Neon Capital Management	Active Emerging Markets	49,948,575	0.2%
NISA Investment Advisors	EAFE Swaps	328,491,367	1.1%
Rock Creek Group	Active Emerging Markets	314,618,300	1.0%
T. Rowe Price Associates	Active Global Growth	374,037,790	1.2%
Transition Accounts	Transition Accounts	13,692,748	0.0%
Total		**$4,516,583,423**	**14.8%**

** Includes manager cash.*

PUBLIC CREDIT PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Public Credit assets had a market value of approximately $2.7 billion, representing 9.0% of total assets.

Investment Program Description

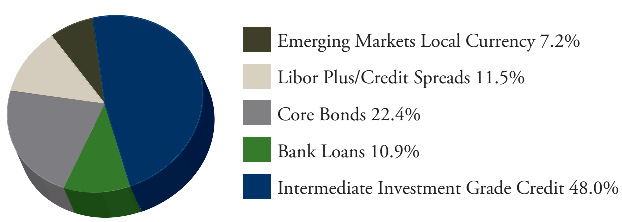
The Public Credit program is designed to provide a source of income and capital appreciation for PSRS and PEERS while creating substantial diversification to the total plan with a low correlation to other asset classes. Most securities in this program exhibit high liquidity. Specific investments can 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 U.S. 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, 2012, the Public Credit composite was actively managed and diversified across high quality corporate bonds, bank loans and non-dollar currencies of both developed and emerging countries. The Systems' internal staff eliminated the allocation to mortgage backed securities during the current fiscal year, in favor of increasing non-dollar bonds and emerging currencies. The pie chart below presents the strategy allocation of the Systems' Public Credit assets as of June 30, 2012.

Public Credit Strategy Allocation



The target allocation for the Public Credit program is 12.0% 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 48% 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 positively impacted by a sharp decline in Treasury yields during the fiscal year as investors fled risky assets. A weakening economic recovery helped fuel a flight to quality favoring U.S. government bonds. Specifically, the yield on the 10-year Treasury decreased from 3.16% on June 30, 2011 to 1.65% on June 30, 2012.

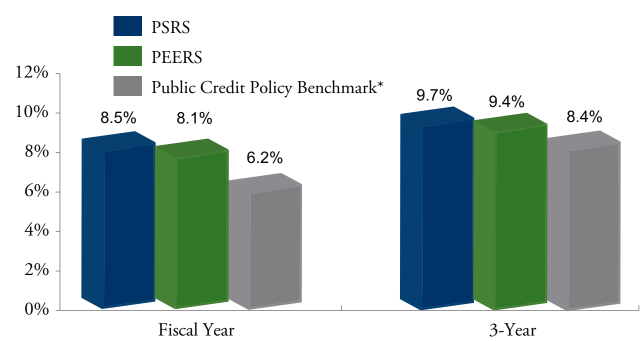
Investment grade credit corporate bonds (Barclays Capital Intermediate Credit Index) increased 6.2% for the year while a broader measure of the U.S. bond market (Barclays Capital Aggregate Index) increased 7.5%. High yield, or lower quality, bonds (Citigroup High Yield Index) increased 7.7% for the year with global bonds (Barclays Capital Global Bond Index) increasing 2.7%, while emerging market bonds (JP Morgan Emerging Market Bond Index) decreased 3.7%.

Performance

The total returns for the PSRS and PEERS Public Credit programs were 8.5% and 8.1%, respectively, compared to the benchmark return of 6.2% for the fiscal year ended June 30, 2012. As indicated in the table and graph on page 67, both PSRS and PEERS also significantly outperformed the benchmark for the three-year time period.

Active management strategies (manager selection decisions) contributed significantly to the positive performance of the Public Credit portfolio. The NISA Corporate Credit accounts benefited from a longer duration strategy due to declining interest rates over the fiscal year. The NISA Corporate Credit accounts provided strong absolute and relative returns for the fiscal year, moving 16.7% higher, relative to the benchmark of 6.2%. However, the investment manager alpha within the composite was reduced by declining emerging market currencies during the year.

Public Credit Performance



Public Credit Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	8.5%	9.7%
Annualized PEERS Return	8.1%	9.4%
Annualized Policy Benchmark Return*	6.2%	8.4%
Excess Return†	2.3%	1.3%

**The Public Credit policy benchmark is the Barclays Capital Intermediate Index.*

†PSRS excess return relative to the Credit policy benchmark.

The Public Credit program was established in December 2008, so five- and 10- year returns are not available.

Top 10 Holdings

The following table displays the top 10 Public Credit holdings as of June 30, 2012.

Public Credit - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2012	Combined Market Value	% of Total Public Credit
PIMCO Developing Local Markets Fund	$ 198,052,609	7.2%
PIMCO Short Term Floating NAV II Fund	103,240,979	3.8%
United States Treasury Strip, 0.0% 8/15/40	88,576,680	3.2%
United States Treasury Note, 1.75%, 5/15/22	80,368,124	2.9%
United States Treasury Strip, 0.0% 5/15/40	66,951,189	2.4%
United States Treasury Note, 0.875%, 4/30/17	52,620,866	1.9%
United States Treasury Bill, 0.0% ,9/20/12	47,992,320	1.8%
Fannie Mae TBA, 4.0%, 8/13/2042	46,636,726	1.7%
Fannie Mae TBA, 4.0%, 7/12/2042	45,761,460	1.7%
Petrobras International Finance Note, 5.375%, 1/27/21	35,625,687	1.3%
Total	**$ 765,826,640**	**27.9%**

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

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with three external investment advisors who manage five portfolios in the Public Credit portfolio. In fiscal year 2012, an actively managed mortgage assignment with BlackRock Financial Management was terminated. No manager assignments were added.

Public Credit Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
NISA Investment Advisors	Corporate Credit	$ 1,318,458,099	4.3%
Oaktree Bank Loans	Senior Bank Loans	298,145,429	1.0%
Pacific Investment Management Co.	Core Plus	614,613,838	2.0%
Pacific Investment Management Co.	LIBOR Plus	314,880,374	1.0%
Pacific Investment Management Co.	Developing Local Markets	198,052,609	0.7%
Total		**$ 2,744,150,349**	**9.0%**

**Includes manager cash.*

HEDGED ASSETS PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Hedged Assets portfolio had a market value of approximately $4.5 billion, representing 14.6% of total assets.

Investment Program Description

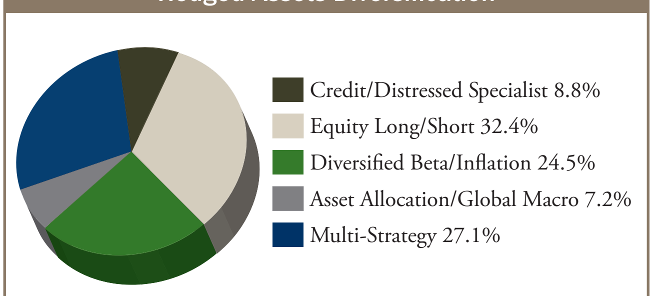
The Hedged Assets program's objective is to provide diversification to the total portfolio and reduce volatility within the Public Risk composite. The purpose of this program is to enhance the overall risk/return profile of the Public Risk composite through the inclusion of specialized investment strategies 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 its hedge fund consultant. Albourne is an independent global advisory firm focused mainly on hedge funds. 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 Systems' 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 into Multi-Strategy Managers, Asset Allocation/Global Macro, Diversified Beta/Inflation, Credit/Distressed Specialists and Equity Long/Short. Multi-Strategy managers include those focused on event-driven, credit and relative value. The Systems manage the Hedged Assets portfolio to a blended 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

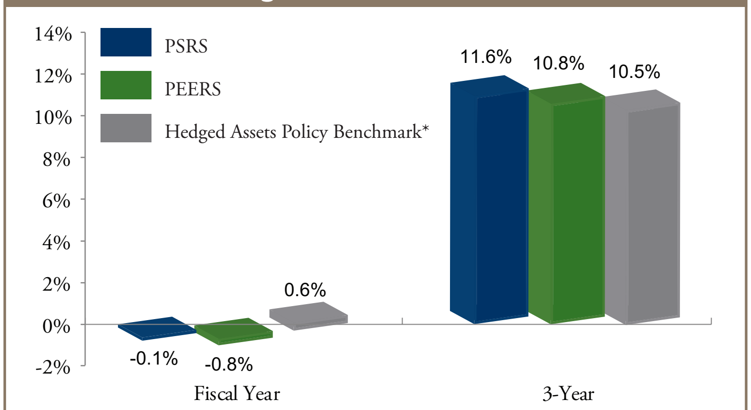


Performance

The total annualized returns on the PSRS and PEERS Hedged Assets portfolios for the fiscal year were -0.1% and -0.8%, respectively. As the table indicates, the Hedged Assets program continued to assume less than one-half of the volatility of the world stock index (MSCI All Country World Index) and achieved a beta of approximately .39 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, PSRS and PEERS outperformed the benchmark by 110 basis points and 30 basis points, respectively. The longer term performance was accomplished with a volatility of 7.7% versus the volatility of the MSCI All Country World Index at 18.3% (a volatility level of approximately 40% of that of the equity index). The beta of the portfolio over this time period was only .39.

Hedged Assets Performance



Hedged Assets Fiscal Year Statistical Performance	Fiscal Year Return	Standard Deviation	Beta
Annualized PSRS Return	-0.1%	8.9%	0.38
Annualized PEERS Return	-0.8%	9.1%	0.39
Annualized Policy Benchmark Return*	0.6%	11.9%	0.55
Annualized S&P 500 Return	5.5%	18.2%	0.82
Annualized MSCI AC World Index Return	-6.5%	21.7%	1.00

Hedged Assets 3-Year Statistical Performance	3-Year Return	Standard Deviation	Beta
Annualized PSRS Return	11.6%	7.7%	0.39
Annualized PEERS Return	10.8%	7.7%	0.39
Annualized Policy Benchmark Return*	10.5%	9.9%	0.54
Annualized S&P 500 Return	16.4%	16.1%	0.86
Annualized MSCI AC World Index Return	10.8%	18.3%	1.00

**The Hedged Assets policy benchmark is composed as follows: 50% Barclays Credit Intermediate, 25% MSCI ACWI ex U.S. (Net), and 25% Russell 3000 Index.*

The first investment in the Hedged Asset composite was funded in January 2007, so five- and 10-year returns are not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with 19 external investment advisors who manage 29 portfolios.

PSRS and PEERS added one investment mandate with Nisa Investment Advisors to the portfolio during fiscal year 2012.

Hedged Assets Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
AQR Absolute Return Fund	Multi-Strategy	$ 102,794,725	0.3%
AQR Diversified Beta Fund	Diversified Beta/Inflation	280,583,685	0.9%
AQR Real Asset Fund	Multi-Strategy	99,782,030	0.3%
Bridgewater All Weather	Equity Long/Short	285,391,486	0.9%
Bridgewater Inflation Pool	Diversified Beta/Inflation	173,686,744	0.6%
Bridgewater Pure Alpha II	Asset Allocation/Global Macro	54,261,449	0.2%
Bridgewater Pure Alpha Major Markets	Asset Allocation/Global Macro	264,516,595	0.9%
Brookside Capital	Equity Long/short	3,668,214	0.0%
Carlson Black Diamond	Multi-Strategy	112,716,733	0.4%
Davidson Kempner	Multi-Strategy	113,918,175	0.4%
Davidson Kempner	Distressed Debt/Credit	112,910,249	0.4%
GoldenTree Asset Management	Distressed Debt/Credit	278,239,319	0.9%
Highbridge Asia	Multi-Strategy	614,248	0.0%
Indus Capital Partners	Equity Long/Short	174,793,843	0.6%
Karsch Capital Management	Equity Long/Short	140,902,557	0.5%
Karsch Capital Management	Equity Long/Short	200,912,896	0.7%
Maverick Capital	Equity Long/Short	145,460,970	0.5%
NISA Investment Advisors	Diversified Beta/Inflation	302,300,391	1.0%
NISA Investment Advisors	Diversified Beta	250,970,566	0.8%
Och-Ziff Domestic Partners	Multi-Strategy	116,274,874	0.4%
Och-Ziff Europe	Multi-Strategy	32,356,082	0.1%
Och-Ziff Asia	Multi-Strategy	134,027,381	0.4%
Owl Creek Overseas Fund	Multi-Strategy	114,616,158	0.4%
Paulson and Company	Multi-Strategy	44,314,007	0.1%
Pershing Square	Equity Long/Short	196,348,218	0.6%
Renaissance	Equity Long/Short	279,505,747	0.9%
Stark Investments	Equity Long/Short	57,637,749	0.2%
UBS O'Connor	Multi-Strategy	112,909,541	0.3%
York Capital	Multi-Strategy	264,321,290	0.9%
Total		**$4,450,735,922**	**14.6%**

**Includes manager cash.*

SAFE ASSETS CLASS SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Safe Assets had a market value of approximately $4.7 billion, representing 15.3% of total assets.

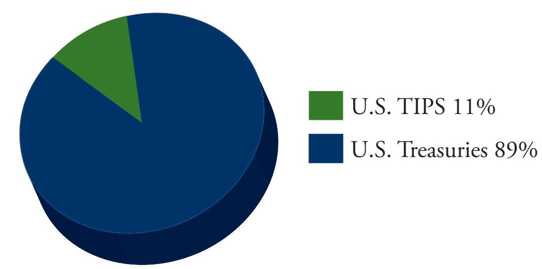
Investment Program Description

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 U.S. TIPS 1-10 Year Index.

Structure

As of June 30, 2012, 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, 2012.

Safe Assets Sector and Composite Allocations



Market Overview

The Systems' Treasury and TIPS allocation provided strong absolute returns during the year. Strong performance was attributed to downward pressure on yields and a flight to quality due to growing uncertainty over global economic recovery. The yield on the 10-year Treasury note decreased from 3.16% on June 30, 2011 to 1.65% on June 30, 2012.

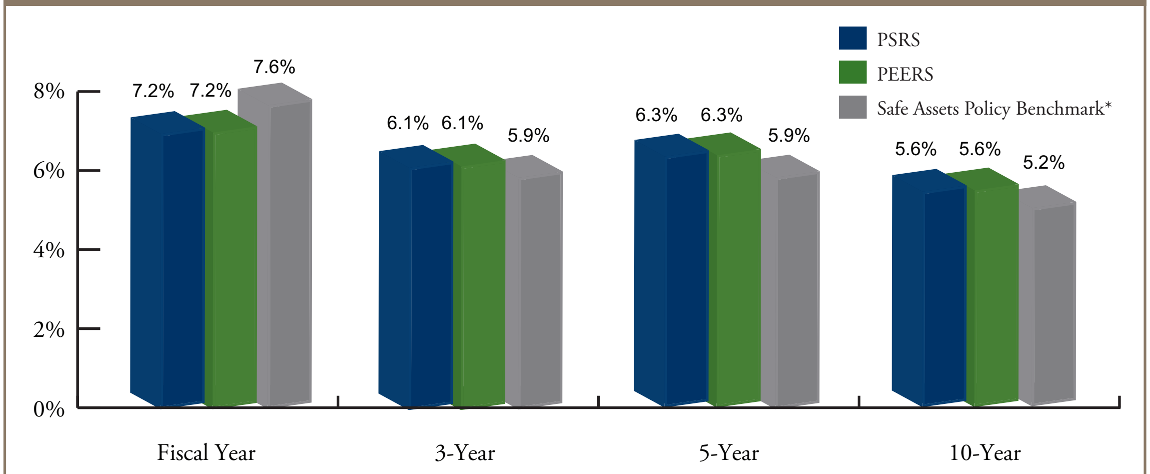
Performance

The total returns for the PSRS and PEERS Safe Asset portfolios were 7.2% for both Systems, compared to the benchmark return of 7.6% for the fiscal year ended June 30, 2012. The Safe Assets portfolio provided safety and strong absolute returns to the Systems in a year of global volatility.

For the three-year time period, both PSRS and PEERS outperformed the Safe Assets benchmark by 20 basis points. Both Systems also outperformed the Safe Assets benchmark by 40 basis points for the five- and 10-year time periods.

The absolute return of the Safe Assets portfolio is relatively modest over longer 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 Systems' internal staff continues to maintain an underweight to Safe Assets due in part to historically low yields on both U.S. Treasuries and TIPS and due to better expected risk-adjusted returns going forward within the Public Risk program.

Safe Assets Performance



Safe Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	7.2%	6.1%	6.3%	5.6%
Annualized PEERS Return	7.2%	6.1%	6.3%	5.6%
Annualized Policy Benchmark Return*	7.6%	5.9%	5.9%	5.2%
Excess return†	-0.4%	0.2%	0.4%	0.4%
Annualized Standard Deviation of Composite	3.2%	3.1%	3.8%	3.7%
Annualized Standard Deviation of Policy Benchmark*	3.1%	3.3%	3.9%	3.8%
Beta to Policy Benchmark*	1.02	0.95	0.96	0.98
Beta to ACWI World Index	-0.09	-0.08	-0.01	-0.02

**The Safe Assets policy benchmark is composed as follows: 80% Barclays Capital Treasury Blend and 20% Barclays Capital U.S. TIPS 1-10 Yrs. Index as of June 30, 2012.*

†PSRS excess return relative to the Safe Assets policy benchmark.

The table indicates that the Systems have taken less risk than the Policy benchmark (as measured by standard deviation) over longer 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 Asset portfolio exhibits a beta of approximately 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 statistical characteristics of the Systems' Safe Assets program as of June 30, 2012 with comparisons shown to the Barclays Capital Intermediate U.S. Treasury Index. Additionally, the top 10 Safe Assets holdings as of June 30, 2012 are shown in the table below the characteristics.

Safe Assets Characteristics

Characteristics	June 30, 2012 Combined Systems*	June 30, 2012 Barclays Capital Intermediate U.S. Treasury Index
Number of Securities	75	180
Average Coupon	2.4%	2.1%
Yield to Maturity	0.7%	0.7%
Average Maturity (Years)	5.8	4.1
Duration (Years)	5.1	3.9

Safe Assets - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2012	Combined Market Value	% of Total Safe Assets
United States Treasury Note, 1.25% , 10/31/15	$ 240,767,032	5.1%
United States Treasury Note, 0.0%, 7/12/12	236,895,262	5.0%
United States Treasury Note, 3.50%, 05/15/20	227,810,747	4.9%
United States Treasury Note, 0.25%, 02/28/14	216,179,272	4.6%
United States Treasury Note, 2.75%, 10/31/13	211,329,962	4.5%
United States Treasury Note, 2.375%, 10/31/14	209,264,905	4.5%
United States Treasury Note, 2.0%, 04/30/16	167,352,936	3.6%
United States Treasury Note, 3.0%, 09/30/16	159,451,625	3.4%
United States Treasury Note, 2.125%, 05/31/15	148,284,631	3.2%
United States Treasury Note, 0.75%, 12/15/13	142,099,264	3.0%
TOTAL	**$1,959,435,636**	**41.8%**

**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, 2012. 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, 2012	% of Total Market Value
NISA Investment Advisors	U.S. Treasuries	$ 4,164,943,022	13.6%
NISA Investment Advisors	U.S. TIPS	523,557,957	1.7%
Total		**$4,688,500,979**	**15.3%**

**Includes manager cash.*

PRIVATE RISK ASSETS CLASS SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Risk assets had a market value of approximately $4.8 billion, representing 15.7% 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.

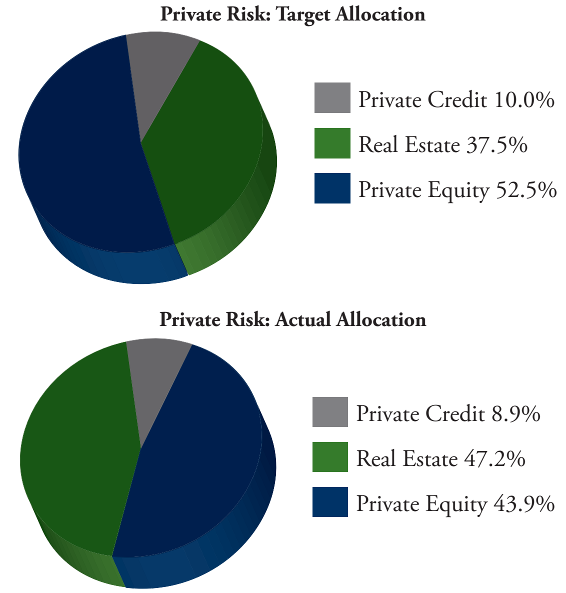
Investments in Private Risk Assets differ substantially from the Systems' public markets asset classes (Public Risk Assets and Safe Assets) in part because they are typically very long-term in nature, not publicly traded, relatively illiquid, and offer the potential for substantially higher returns (along 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, pricing and performance measurements 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, 2012, 43.9% of the PSRS/PEERS Private Risk assets were invested in the Private Equity program, 47.2% in the Private Real Estate program, and 8.9% in the Private Credit program. Each of these programs is discussed in more detail on the following pages.

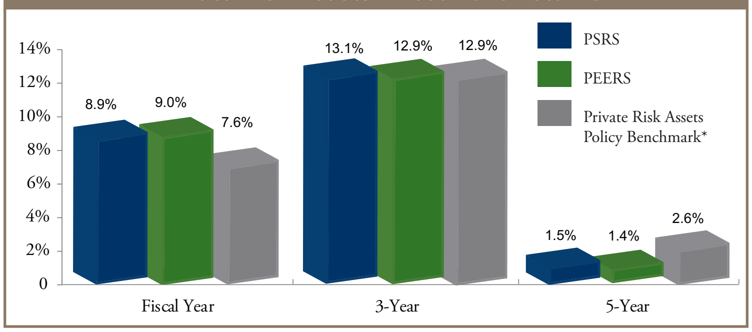
Private Risk Assets Allocation



Performance

The total returns for the PSRS and PEERS private risk portfolios were 8.9% and 9.0%, respectively, compared to the benchmark return of 7.6% for the fiscal year ended June 30, 2012. For the three-year time period, PSRS outperformed the benchmark by 20 basis points while PEERS' performance equaled the benchmark. For the five-year time period, both PSRS and PEERS underperformed the benchmark as noted below. The longer-term underperformance relative to the 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	8.9%	13.1%	1.5%
Annualized PEERS Return	9.0%	12.9%	1.4%
Annualized Policy Benchmark Return*	7.6%	12.9%	2.6%
Excess Return†	1.3%	0.2%	-1.1%

**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 Index.*

†PSRS excess return relative to the Private Risk Assets policy benchmark.

The Private Risk Assets composite was established more recently, so 10-year returns are not available.

PRIVATE EQUITY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Equity assets had a market value of approximately $2.1 billion, representing 6.9% 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.

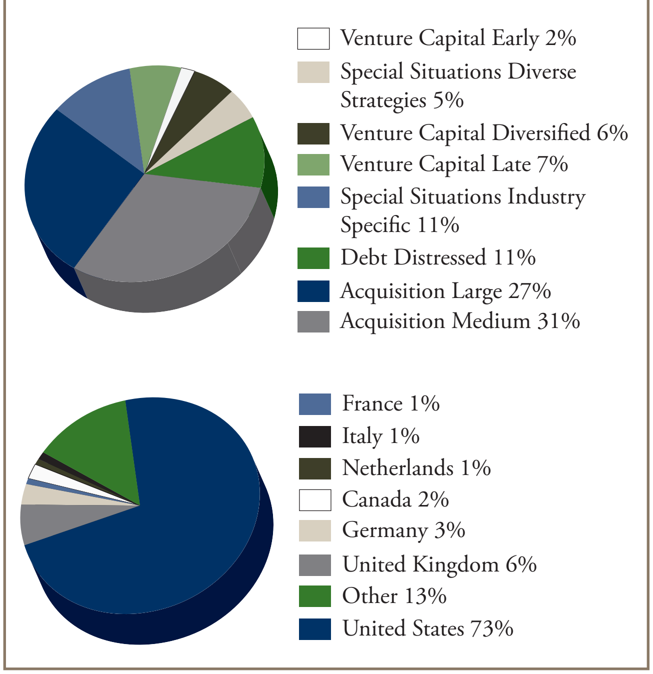
Structure

As of June 30, 2012, the combined PSRS and PEERS Private Equity assets committed* for investment were $3.8 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2012 was approximately $2.1 billion, representing 6.9% of total assets. The Systems private equity investment commitments that had not yet been funded were approximately $1.4 billion as of June 30, 2012.

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, 2012, the actual allocation for the Systems was just 6.9% 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, 2012 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 2012, due to a continued favorable 'exit' market for private equity-backed companies. Robust private equity-backed merger and acquisition exits resulted in record-high distributions for many private equity investors during the year and helped underpin the industry's continued strong performance. Opportunistic private equity investments made during the 2008 and 2009 crisis continued to generate liquidity during the year.

The U.S. private equity markets generated high levels of overall investment activity during fiscal year 2012. However, global private equity markets noted a decrease in overall investment activity over the same time period. Private equity-backed merger and acquisition (M&A) exits remained at high levels, particularly through sales to strategic acquirers, despite the dampening effect that volatility and uncertainty have had on buyer confidence.

** 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.*

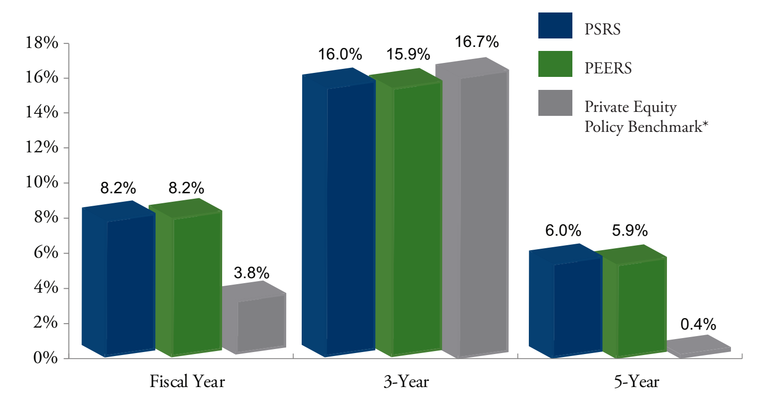
Performance

The total return for both the PSRS and PEERS Private Equity programs was 8.2% compared to the benchmark return of 3.8% for the fiscal year ended June 30, 2012.

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. 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.

As the table below indicates, the PSRS and PEERS Private Equity portfolio has produced strong absolute returns 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 benchmark by 560 and 550 basis points, respectively, for the five-year timeframe ended June 30, 2012.

Private Equity Investment Returns



Private Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	8.2%	16.0%	6.0%
Annualized PEERS Return	8.2%	15.9%	5.9%
Annualized Policy Benchmark Return*	3.8%	16.7%	0.4%
Excess Return†	4.4%	-0.7%	5.6%

**The Private Equity policy benchmark is the Russell 3000 Index.*

†PSRS excess return relative to the Private Equity policy benchmark.

The Private Equity program was established in March 2003, therefore 10-year returns are not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had committed to 62 separate partnerships with 39 firms within the Private Equity asset class. In fiscal year 2012, PSRS and PEERS committed to seven new partnerships for $230 million. Additionally, the Systems received total distributions from the private equity partnerships in excess of $386 million in fiscal year 2012.

Private Equity Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
BC European IX	Acquisition - Medium	$ 4,757,084	0.0%
Blackstone Capital Partners V and VI	Acquisition - Large	20,119,794	0.1%
Canaan Partners IX	Venture Capital	1,168,594	0.0%
Carlyle Europe Partners III	Acquisition - Medium	27,873,231	0.1%
Carlyle Partners IV and V	Acquisition - Large	44,573,637	0.1%
Centerbridge Capital Partners I and II	Acquisition & Debt	35,923,552	0.1%
Centerbridge Capital Special Credit Partners II	Debt - Distressed	4,000,000	0.0%
CVC European Equity Partners IV and V	Acquisition - Large	32,435,544	0.1%
CVC European Equity Tandem Fund	Acquisition - Large	10,806,509	0.0%
Encap VIII Co-Investors	Acquisition - Energy	3,361,690	0.0%
Exponent Partners II	Acquisition - Medium	12,076,208	0.0%
First Reserve Fund XI and XII	Acquisition - Energy	47,556,773	0.2%
Genstar Capital Partners V	Acquisition - Medium	8,616,925	0.0%
GTCR Fund IX and X	Acquisition - Medium	48,806,167	0.2%
Hellman & Friedman Capital Partners VI and VII	Acquisition - Large	33,846,828	0.1%
Kelso Investment Associates VIII	Acquisition - Medium	15,862,354	0.1%
KKR 2006 Fund	Acquisition - Large	31,959,678	0.1%
KRG Fund IV	Acquisition - Medium	14,966,212	0.0%
Lexington Capital Partners VI-B and VII	Secondary Fund	159,636,074	0.5%
Madison Dearborn VI	Acquisition - Large	7,454,236	0.0%
Montagu III and IV	Acquisition - Medium	20,937,773	0.1%
Nordic VII	Acquisition - Medium	20,288,440	0.1%
New Enterprise Associates 13 and 14	Venture Capital	28,641,585	0.1%
Oak Investment Partners XIII	Venture Capital	11,609,820	0.0%
OCM Principal Opportunities Fund IV, VII and VIIb	Debt - Distressed	56,526,548	0.2%
Odyssey Investment Partners IV	Acquisition - Medium	15,991,387	0.1%
Onex Partners II and III	Acquisition - Medium	28,773,720	0.0%
Pantheon Global Secondary Fund III and IV	Secondary Fund	118,871,763	0.4%
Pathway Capital Management	Fund-of-Funds	908,380,546	3.0%
Paul Capital Partners IX	Secondary Fund	52,663,975	0.2%
Permira IV	Acquisition - Large	21,662,359	0.1%
Providence Equity Partners VI	Acquisition - Media	31,995,924	0.1%
Quantum Energy Partners V	Acquisition - Energy	2,212,673	0.0%
The Resolute Fund II	Acquisition - Medium	17,421,498	0.1%
Silver Lake Partners III	Acquisition - Technology	16,980,116	0.1%
Spectrum Equity Investors VI	Acquisition - Medium	4,022,502	0.0%
TA XI	Acquisition - Large	9,837,082	0.0%
TCV VI and VII	Venture Capital	38,507,384	0.1%
Thoma Cressey Fund VIII	Acquisition - Medium	23,922,480	0.1%
TPG Partners V and VI	Acquisition - Large	32,465,557	0.1%
Wayzata Opportunities Fund I and II	Debt - Distressed	52,206,182	0.2%
Wind Point Partners VI and VII	Acquisition - Medium	24,960,784	0.1%
Total		**$ 2,104,681,188**	**6.9%**

**Market values are 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, 2012, the net asset values utilized were cash flow adjusted through June 30, 2012.*

PRIVATE CREDIT PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Credit assets had a market value of approximately $425 million, representing 1.4% 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, 2012, the combined PSRS/PEERS Private Credit assets committed* for investment were $727.4 million. The market value of funds that had been drawn down and actually invested as of June 30, 2012 was approximately $425 million, representing 1.4% of total assets. PSRS/PEERS' Private Credit investment commitments that had not yet been funded were approximately $198.7 million as of June 30, 2012.

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 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 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.*

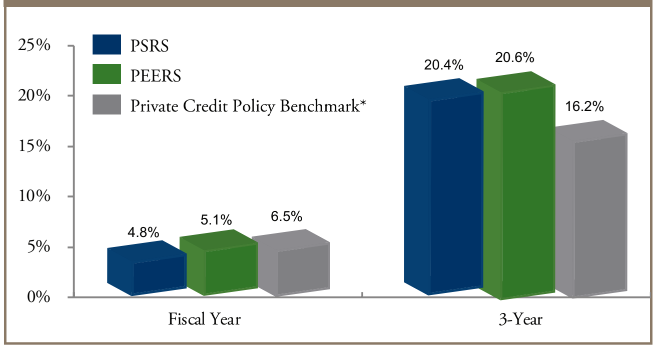
Market Overview

The prior fiscal year drove strong absolute performance for Private Credit funds due to a rally in the prices of leveraged loans and high-yield. Specifically, many of the partnerships that were funded at the peak of the financial crisis in 2008 and 2009 experienced exceptional performance. However, the Private Credit partnerships were not immune to the fiscal year 2012 volatility of global markets and risk aversion sentiment.

Performance

The total returns for the PSRS and PEERS Private Credit programs were 4.8% and 5.1%, respectively, compared to the benchmark return of 6.5% for the fiscal year ended June 30, 2012. For the three-year time period, PSRS and PEERS outperformed the benchmark by 420 basis points and 440 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	4.8%	20.4%
Annualized PEERS Return	5.1%	20.6%
Annualized Policy Benchmark Return*	6.5%	16.2%
Excess Return†	-1.7%	4.2%

**The Private Credit policy benchmark is composed as follows: 100% 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 five- and 10-year returns are not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had committed to 11 separate partnerships with nine firms within the Private Credit asset class. No new commitments were made to the Private Credit asset class during fiscal year 2012.

Private Credit Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
Avenue Capital Group Fund V	Debt - Distressed	$ 7,360,711	0.0%
Caltius IV	Debt - Mezzanine	3,528,110	0.0%
Centerbridge Special Capital Partners	Debt - Distressed	53,381,888	0.2%
Encap Fund VII	Acquisition - Energy	24,406,033	0.1%
Encap Fund VIII	Acquisition - Energy	14,221,931	0.0%
Indigo Capital V	Debt - Mezzanine	17,613,942	0.1%
Lone Star Real Estate Fund II	Debt - Distressed	19,749,329	0.1%
OCM Opportunities Fund VIII	Debt - Distressed	33,670,817	0.1%
OCM Opportunities Fund VIII b	Debt - Distressed	12,391,723	0.0%
Pathway Capital Management	Funds-of-Funds	222,974,083	0.7%
TA Subordianted Debt Fund III	Debt - Mezzanine	15,599,400	0.1%
Total		**$ 424,897,967**	**1.4%**

**Market values are 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, 2012, the net asset values utilized were cash flow adjusted through June 30, 2012.*

PRIVATE REAL ESTATE PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Real Estate assets had a market value of approximately $2.3 billion, representing 7.4% 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 portfolios. 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

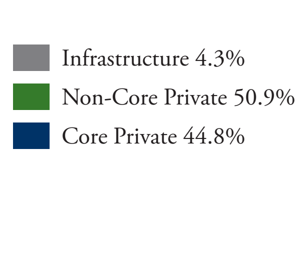
As of June 30, 2012, the combined PSRS/PEERS Real Estate assets committed* for investment were $2.9 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2012 was approximately $2.3 billion, representing 7.4% of total assets. PSRS/PEERS' Real Estate investment commitments that had not yet been funded were approximately $555 million as of June 30, 2012.

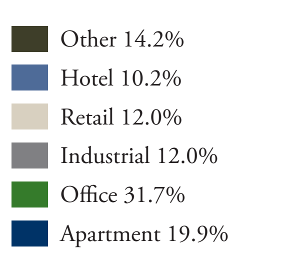
Within the overall Real Estate allocation, the Systems have established a 55% target allocation to Non-Core Real Estate and a 45% allocation to Core Private Real Estate. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise 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 mainly in metropolitan areas that exhibit reasonable economic diversification and growth.

The following pie charts 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 benchmark, the NCREIF Property Index ("NPI"), increased 12.0% in fiscal year 2012.

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. Net operating income has improved, however, the recovery appears to be coming increasingly fragile due to downward pressure on some lease renewal rates. Apartments and hotels are leaders in terms of improved demand and pricing power. Job growth combined with historically low supply should produce a moderate improvement in commercial real estate fundamentals in the coming quarters.

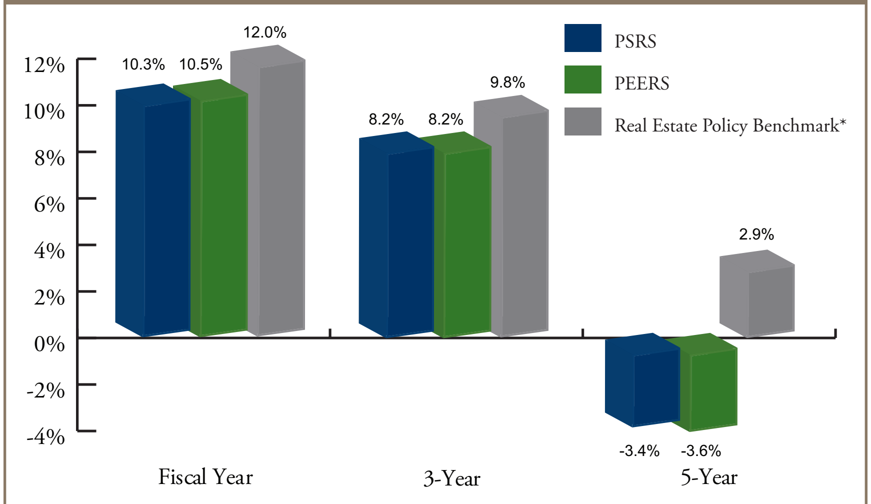
PSRS and PEERS maintain a sizable allocation to high-quality, stabilized Real Estate assets (Core) held in primary markets due to the secure income return. Additionally, the Systems have an allocation to Non-Core assets to participate in the distressed sector of the Real Estate market. PSRS and PEERS will continue to focus 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 program were 10.3% and 10.5%, respectively, compared to the benchmark return of 12.0% for the fiscal year ended June 30, 2012.

For the three- and five-year time periods, both PSRS and PEERS underperformed the 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	10.3%	8.2%	-3.4%
Annualized PEERS Return	10.5%	8.2%	-3.6%
Annualized Policy Benchmark Return*	12.0%	9.8%	2.9%
Excess Return†	-1.7%	-1.6%	-6.3%

**The Real Estate policy benchmark is the NCREIF Property Index.*

†PSRS excess return relative to the Real Estate policy benchmark.

The Real Estate Program was established in April 2004, so a 10-year return is not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had committed to 45 separate partnerships with 27 firms within the Private Real Estate asset class. In fiscal year 2012, PSRS and PEERS committed to four new partnerships totaling $400 million. Additionally, the Systems received total distributions from the real estate partnerships in excess of $165 million in fiscal year 2012.

Real Estate Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
Alinda Infrastructure Fund I	Infrastructure	$ 45,720,582	0.2%
AMB Alliance III	Non-Core - Private	43,799,151	0.2%
AMB Japan Fund I	Non-Core - Private	35,346,622	0.1%
AEW Core Property Fund	Core - Private	75,675,976	0.2%
Blackstone R.E. Partners V, VI and VII	Non-Core - Private	146,265,198	0.5%
Brockton Capital II	Non-Core - Private	9,291,423	0.0%
Carlyle Europe Real Estate Partners III	Non-Core - Private	50,035,479	0.2%
Carlyle Realty V and VI	Non-Core - Private	68,760,253	0.2%
CBRE Fund IV and US Value 5	Non-Core - Private	72,114,722	0.0%
CIM Fund III	Non-Core - Private	50,559,060	0.2%
CIM Urban REIT	Non-Core - Private	37,084,129	0.1%
Colony Investors VIII	Non-Core - Private	21,573,614	0.1%
CPI Capital Partners Europe	Non-Core - Private	11,683,830	0.0%
Dune Real Estate Fund I	Non-Core - Private	13,765,984	0.0%
Forum Asian Realty Income II	Non-Core - Private	40,055,452	0.1%
Guggenheim Structured R.E. III	Non-Core - Private	17,952,467	0.1%
Heitman Value Partners I and II	Non-Core - Private	71,553,024	0.2%
JPMorgan Strategic Property Fund	Core - Private	241,680,532	0.8%
LaSalle Asia Opportunity Fund II and III	Non-Core - Private	42,731,603	0.2%
LaSalle Income & Growth IV and V	Non-Core - Private	81,164,931	0.3%
LaSalle Japan Logistics Fund II	Non-Core - Private	16,825,054	0.1%
LaSalle Property Fund	Core - Private	61,803,039	0.2%
Lone Star V and VI	Non-Core - Private	52,378,577	0.2%
Lone Star Real Estate Fund	Non-Core - Private	10,216,978	0.0%
Macquarie Infrastructure Partners	Infrastructure	51,269,485	0.2%
MSREF V International	Non-Core - Private	6,885,740	0.0%
Morgan Stanley Prime Property Fund	Core - Private	259,570,258	0.8%
NREP Real Estate Debet Fund	Non-Core - Private	6,282,202	0.0%
Noble Hospitality Fund	Non-Core - Private	56,080,909	0.2%
Principal Enhanced Property Fund	Core - Private	32,955,013	0.1%
Prudential PRISA Fund	Core - Private	130,010,498	0.4%
Prudential PRISA II Fund	Non-Core - Private	64,592,858	0.2%
RREEF America REIT III	Non-Core - Private	26,358,225	0.1%
Starwood Hospitality Fund	Non-Core - Private	23,863,864	0.1%
UBS Trumbull Property Fund	Core - Private	212,071,233	0.7%
Westbrook R.E. Fund VII and VIII	Non-Core - Private	73,132,850	0.2%
Total		**$2,261,110,815**	**7.2%**

**Market values are reported by the Systems' 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, 2012, the net asset values utilized were cash flow adjusted through June 30, 2012.*

U.S. Public Equity Broker Commissions Report

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
Credit Suisse Securities, LLC	22,536,109	$ 842,187,336	$ 564,528	$ 0.03
Jefferies and Company, Inc.	15,887,187	957,567,418	445,995	0.03
Capital Institutional Services, Inc.	12,459,499	380,779,293	443,874	0.04
Goldman Sachs and Company	18,104,591	776,339,184	400,809	0.02
Morgan Stanley Co. Incorporated	24,715,583	811,540,772	353,479	0.01
Pershing	12,538,727	398,701,800	297,557	0.02
Citigroup Global Markets, Inc.	22,898,238	697,829,481	291,317	0.01
Deutsche Bank	36,016,095	925,010,028	270,486	0.01
JP Morgan Chase	18,398,237	533,128,664	249,031	0.01
Merrill Lynch, Pierce, Fenner and Smith, Inc.	27,301,092	672,614,819	231,287	0.01
Weeden and Co.	20,234,950	689,057,830	205,863	0.01
Instinet, LLC	12,723,133	330,124,904	201,797	0.02
Barclays Capital Inc.	10,289,266	347,947,398	184,132	0.02
Liquidnet, Inc.	14,432,120	424,073,344	166,812	0.01
SG Securities	18,889,218	532,466,413	150,835	0.01
Investment Technology Group, Inc.	14,604,736	468,112,278	150,812	0.01
UBS Securities, LLC	4,706,566	165,792,267	136,333	0.03
Other (<$120,000)	105,838,408	2,940,934,917	2,429,317	0.02
Total	**412,573,755**	**$ 12,894,208,146**	**$ 7,174,264**	**$ 0.02**

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
Credit Suisse Securities, LLC	2,397,297	$ 91,321,686	$ 62,093	$ 0.03
Capital Institutional Services, Inc.	1,437,719	42,437,519	51,476	0.04
Jefferies and Company, Inc.	1,757,864	106,416,707	48,633	0.03
Goldman Sachs and Company	2,023,714	83,452,468	42,926	0.02
Morgan Stanley Co. Incorporated	2,427,090	79,995,376	41,916	0.02
Pershing	1,402,937	44,444,168	33,239	0.02
Citigroup Global Markets, Inc.	2,268,231	70,545,131	29,883	0.01
JP Morgan Chase	1,939,057	55,579,817	27,168	0.01
Deutsche Bank	3,611,830	88,994,164	26,610	0.01
Merrill Lynch, Pierce, Fenner and Smith, Inc.	3,143,521	70,864,848	25,712	0.01
Instinet, LLC	1,408,140	36,237,921	22,913	0.02
Weeden and Co.	2,017,736	70,473,490	20,819	0.01
Barclays Capital Inc.	979,697	31,727,757	19,635	0.02
Investment Technology Group, Inc.	1,507,826	49,010,975	16,143	0.01
UBS Securities, LLC	522,364	18,453,865	15,087	0.03
Liquidnet, Inc.	1,284,797	37,465,066	14,351	0.01
SG Securities	1,580,089	45,296,451	13,401	0.01
Sanford C. Berstein and Company	638,838	24,395,032	12,286	0.02
Other (<$12,000)	10,531,073	288,558,829	234,302	0.02
Total	**42,879,820**	**$ 1,335,671,270**	**$ 758,593**	**$ 0.02**

Global Public Equity Broker Commissions Report

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (Basis Points)
JP Morgan Chase	49,585,279	$ 281,642,472	$ 327,039	11.6
Instinet, LLC	68,496,419	549,790,985	293,458	5.3
Goldman Sachs and Company	42,230,598	263,483,808	276,904	10.5
Credit Suisse Securities, LLC	50,904,857	221,351,584	254,316	11.5
Merrill Lynch, Pierce, Fenner and Smith, Inc.	87,481,105	308,393,939	252,418	8.2
Deutsche Bank	65,097,980	405,573,679	250,690	6.2
Morgan Stanley Co. Incorporated	66,112,858	337,855,219	243,737	7.2
UBS Securities, LLC	26,611,104	163,119,310	242,998	14.9
Citigroup Global Markets, Inc.	17,556,821	144,777,139	150,227	10.4
Macquarie Securites Limited	25,562,102	65,377,529	110,068	16.8
Other (<$100,000)	179,880,350	1,135,239,686	1,105,502	9.7
Total	**679,519,473**	**$3,876,605,350**	**$3,507,357**	**9.1**

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (Basis Points)
Instinet, LLC	9,466,004	$ 71,095,097	$ 38,649	5.4
JP Morgan Chase	5,540,817	28,120,080	35,127	12.5
Goldman Sachs and Company	4,822,765	27,171,517	30,054	11.1
Merrill Lynch, Pierce, Fenner and Smith, Inc.	10,567,764	36,145,680	30,015	8.3
Deutsche Bank	7,771,882	50,026,549	29,642	5.9
Credit Suisse Securities, LLC	5,229,849	25,862,312	29,249	11.3
UBS Securities, LLC	2,985,478	18,481,235	27,133	14.7
Morgan Stanley Co. Incorporated	7,364,996	34,376,536	25,066	7.3
Citigroup Global Markets, Inc.	2,189,407	15,613,197	17,003	10.9
Macquarie Securites Limited	2,859,513	7,662,737	12,481	16.3
Pershing	836,745	6,731,973	10,521	15.6
Other (<$10,000)	18,202,521	116,611,429	114,024	9.8
Total	**77,837,741**	**$ 437,898,342**	**$ 398,964**	**9.1**

Investment Summary as of June 30, 2012

Asset Type	PSRS Fair Value	PEERS Fair Value	Combined Funds	Percent of Total Fair Value FY 2012	Percent of Total Fair Value FY 2011
Public Risk Assets					
U.S. Public Equity	$ 8,431,381,514	$ 902,051,766	$ 9,333,433,280	30.5%	30.2%
Global Public Equity	4,057,087,611	459,495,812	4,516,583,423	14.8%	17.5%
Public Credit	2,469,285,778	274,864,571	2,744,150,349	9.0%	8.6%
Hedged Assets	4,031,545,826	419,190,096	4,450,735,922	14.6%	13.8%
Total Public Risk Assets	**18,989,300,729**	**2,055,602,245**	**21,044,902,974**	**68.9%**	**70.1%**
Safe Assets					
U.S. Treasuries	3,740,174,961	424,768,061	4,164,943,022	13.6%	13.7%
U.S. TIPS	470,577,145	52,980,812	523,557,957	1.7%	3.2%
Total Safe Assets	**4,210,752,106**	**477,748,873**	**4,688,500,979**	**15.3%**	**16.9%**
Private Risk Assets					
Private Real Estate	2,048,406,188	212,704,627	2,261,110,815	7.4%	5.8%
Private Equity	1,943,852,120	160,829,068	2,104,681,188	6.9%	6.2%
Private Credit	392,944,813	31,953,154	424,897,967	1.4%	1.0%
Total Private Risk Assets	**4,385,203,121**	**405,486,849**	**4,790,689,970**	**15.7%**	**13.0%**
Securities Lending Collateral	(24,429,356)	(2,092,307)	(26,521,663)	-0.1%	-0.1%
Cash & Equivalents*	74,830,583	10,306,063	85,136,646	0.2%	0.1%
Total Investments*	**$ 27,635,657,183**	**$2,947,051,723**	**$30,582,708,906**	**100.0%**	**100.0%**
Reconciliation with financial statements					
Total from above	$ 27,635,657,183	2,947,051,723	$30,582,708,906		
Accrued payable for investments purchased	4,515,652,935	484,229,148	4,999,882,083		
Accrued income payable	271,912	55,051	326,963		
Accrued receivable for investments sold	(1,573,449,536)	(158,184,669)	(1,731,634,205)		
Accrued income receivable	(126,151,204)	(9,397,060)	(135,548,264)		
Securities lending collateral	24,429,356	2,092,307	26,521,663		
Short-term investments designated for benefits	(74,784,210)	(10,286,335)	(85,070,545)		
Statement of Plan Net Assets	**$30,401,626,436**	**$3,255,560,165**	**$33,657,186,601**		

**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, 2012.*

Investment Expenses for the Fiscal Year Ended June 30, 2012

Investment Managers	PSRS	PEERS	Total
Investment Management Fees			
NISA Investment Advisors - Core	$ 2,935,495	$ 327,439	$ 3,262,934
NISA Investment Advisors - TIPS	383,670	42,568	426,238
Safe Assets Fees	3,319,165	370,007	3,689,172
BlackRock Financial Management - Mortgages	88,994	12,891	101,885
NISA Investment Advisors - Corporate	813,557	88,295	901,852
Oaktree Bank Loans	1,302,167	89,511	1,391,678
Pacific Investment Management Company	3,381,506	463,684	3,845,190
Public Credit Fees	5,586,224	654,381	6,240,605
Alliance Capital Management	354,057	47,677	401,734
Analytic Investors, LLC	1,040,619	105,522	1,146,141
AQR Capital Management -140/40	1,046,518	95,574	1,142,092
Aronson & Johnson & Ortiz	1,199,423	104,434	1,303,857
BlackRock Investment Management	125,884	17,344	143,228
Martingale Asset Management	784,775	34,564	819,339
NISA Investment Advisors	25,007	3,018	28,025
State Street Global Advisors	153,434	17,528	170,962
Westwood Management	2,603,912	236,616	2,840,528
Zevenbergen Capital	916,245	90,427	1,006,672
U.S. Public Equity Fees	8,249,874	752,704	9,002,578
Acadian Asset Management	137,517	15,354	152,871
Alliance Bernstein Institutional Management	1,155,090	135,832	1,290,922
Analytic Investors, LLC - Global Low Vol	763,439	89,598	853,037
AQR Capital Management	1,231,876	140,317	1,372,193
Arrowstreet Capital	2,434,105	269,712	2,703,817
Artio Investment Management	677,081	84,698	761,779
BlackRock - ACWI EX US	163,356	15,670	179,026
Esemplia	1,334,161	140,513	1,474,674
INVESCO Global Asset Management	928,587	108,133	1,036,720
McKinley Capital Management	614,682	81,544	696,226
MFS Institutional Advisors	1,723,868	176,335	1,900,203
Neon Capital Management	358,140	39,516	397,656
NISA Investment Advisors	16,782	2,414	19,196
State Street Global Advisors-ACWI EX. US GIMI PROV	119,456	10,406	129,862
The Rock Creek Group	2,015,824	223,977	2,239,801
T. Rowe Price International, Inc.	1,481,143	175,850	1,656,993
Global Public Equity Fees	15,155,107	1,709,869	16,864,976
Allianz	601,456	48,216	649,672
AQR Capital Management	622,831	70,635	693,466
Chartwell Investment Partners	532,315	57,390	589,705
Columbus Circle	779,245	61,864	841,109
NISA Investment Advisors	107,257	6,001	113,258
Next Century Growth Investors	882,168	89,673	971,841
Thomson, Horstmann & Bryant	1,089,955	114,584	1,204,539
S-Cap Fees	4,615,227	448,363	5,063,590
Alpha Overlay Fees	32,084,173	3,126,676	35,210,849
Hedged Assets Fees	58,889,402	5,997,709	64,887,111
Private Real Estate Fees	29,298,522	2,701,019	31,999,541
Private Credit Fees	11,938,442	1,020,071	12,958,513
Private Equity Fees	57,986,173	5,104,151	63,090,324
Commission Recapture Income	(365,375)	(34,679)	(400,054)
Investment Management Expense	226,756,934	21,850,271	248,607,205
Custodial Services			
State Street Bank & Trust Co.	29,666	2,934	32,600
JP Morgan Chase, NA	351,891	34,802	386,693
Custodial Fees	381,557	37,736	419,293
Investment Consultants			
Albourne America, LLC	364,000	36,000	400,000
Pathway Consulting	1,845,290	160,460	2,005,750
Risk Metrics - ISS	40,950	4,050	45,000
R.V. Kuhns and Associates, Inc.	13,650	1,350	15,000
Towers Watson	341,250	33,750	375,000
Townsend	318,500	31,500	350,000
Investment Consultant Fees	2,923,640	267,110	3,190,750
Staff Investment Expenses	2,283,985	1,456,683	3,740,668
Total Investment Expenses	$ 232,346,116	$ 23,611,800	$ 255,957,916